Bitcoin Investors: How to Reduce Risk on Any Investment

Description

If you're interested in cryptocurrency, you're probably already aware that there is a lot of risk involved. As more and more cryptocurrencies are produced, investors worry they'll miss out on an opportunity. This has led to many fortunes being both won and lost in this volatile investment space.

But what if I told you there was a way to minimize risk not only with investments like Bitcoin, but any investment?

Dollar-cost averaging

Dollar-cost averaging is an investment strategy where an investor divides up the total amount they're willing to invest over a period of time towards an asset. The goal is to reduce the impact of volatility on the overall purchase of the asset. This helps the investor in several ways.

First, it means you don't have to pay everything all at once. This is great for someone who is putting savings aside to investment on a weekly or monthly basis, rather than waiting until the end of the year.

Second, the purchase occurs no matter what the asset's price, as it happens at regular intervals. So, this means you aren't waiting around for a dip or worrying about a soaring share price. You simply stick to the plan.

In action with Bitcoin

Let's put this strategy into action with Blockchain company **HIVE Blockchain Technologies** (TSXV:HIVE). The $1.8 billion cryptocurrency mining company mines and sells cryptocurrencies is a great option for investors looking to get in on Bitcoin without paying the incredibly high share prices.

Let's take a look at HIVE. Traditionally, investors look at past share growth to aid their investment decision. In the case of HIVE stock, shares are up 1,550% in the last year alone, with shares trading around $4 as of writing. Now, let's look at what investors would have done if they took the dollar-cost averaging strategy.

Let’s say you want to invest $5,000 over the next year, with weekly payments into HIVE stock. That’s a weekly investment of about $96. So, no matter what the share price, you will put $96 towards HIVE stock to use the dollar-cost averaging method. Here’s a chart that could help get you started.

Date	Share Price
Mar. 31, 2021	$3.93
Apr. 6, 2021	$5.24
Apr. 13, 2021	$5.13
Apr. 20, 2021	$4
Total	$366

Now you have invested $384. If you had invested that all on Mar. 31, you would have 97 shares worth $390 today. You made $6. If you had invested that same amount on Apr. 6, you would have 73 shares worth $293 today! That’s not so great. By using the dollar-cost averaging method, you’re instead closer to the high end at $366.

While shares are down today, you’re now seeing today’s share price as an opportunity that furthers the strategy. While you’ll buy higher sometimes, you’ll still see your shares increase in value, as the stock continues an upward trajectory. By exposing yourself to the market on a regular basis rather than in random bulks of cash, you’ll minimize the overall risk.

Bottom line

Whether it’s Bitcoin, another risky investment, or just your everyday equity, using the dollar-cost averaging strategy is great no matter what your goal. This strategy can even be used as a simple saving method to put this cash aside, and buy shares when a price falls on a dip. It’s a great tool to have in your savings arsenal to reach your investment goals now, and decades from now. As for investing in shares, using this tool can help you sleep at night, because you’ll know you haven’t made the mistake of going all-in with a poorly timed lump-sum investment.

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