



Bitcoin Down 20%: Is This the End of the 2020-2021 Crypto Frenzy?

Description

Bitcoin is once again down. Is this decline temporary or an early signal of the end of the crypto frenzy? For those who are new to crypto, there was a crypto frenzy in 2017-2018 led by Bitcoin and Ethereum. But this frenzy ended after regulators raised concerns. BTC price surged 1,088% between May and December 2017 and then came crashing down 58% in two months. Many investors burnt their hands in that crypto wave. Is history repeating itself, or it is different this time?

What factors influence Bitcoin prices?

BTC and other cryptocurrencies are unregulated currencies not issued by a central bank or backed by a government. Hence, crypto prices are unaffected by monetary policy and economic growth. Then what factors influence BTC prices?

Bitcoin is a speculative investment, and it is the investors' sentiments and the media coverage that mainly drives its price. Other factors, like demand-supply dynamics, availability, and alternative coins, also impact BTC's price, but even they depend on Bitcoin's popularity.

For instance, BTC's price more than doubled in February when Elon Musk [revealed](#) his company **Tesla's** US\$1.5 billion investment in BTC. This encouraged millions of his followers to move to herd mentality and buy BTC. Another example is Dogecoin. It is called a meme currency, as it was created as a joke. Elon Musk memes drove Dogecoin higher than BTC.

Other crypto coins didn't surge the way BTC and Dogecoin surged, as they didn't get the spotlight. When crypto is popular, everyone is mining it, making it more difficult to mine. As supply slows, the high demand causes the crypto price to surge.

Is this time any different than the last time for crypto?

But this time was a little different than last time. The Toronto Stock Exchange did not allow BTC trading, but it authorized a Bitcoin ETF that can trade on the TSX. The ETF can hold BTC in virtual storage and allow investors to get exposure to the price fluctuation of this treasure trove. The ETF is perfectly legal and regulated. Moreover, large companies like

AT&T, Microsoft, and Tesla are willing to accept BTC as a mode of payment. Hedge funds started investing in BTC.

All these developments got investors, especially the critics of fiat currency, hopeful that BTC could become the global currency of the future. But the crypto is still exposed to regulatory crackdown due to the lack of rules to control the digital currency.

Crypto gains get the attention of the CRA tax claws

What regulatory crackdown is it this time? Did you know you don't need a Social Insurance Number to open an account on a crypto trading platform? This makes it difficult for the Canada Revenue Agency (CRA) to track crypto transactions. Investors [buy and hold](#) BTC like gold, waiting for its value to surge, and then sell it in exchange for paper currency.

As BTC started gaining storage value, it got the attention of the taxman. In a federal court case win, crypto trading platform Coinsquare will provide the CRA with transaction details of its top 5-10% clients between 2014 and 2020. The CRA will use this data to identify if these traders have disclosed their crypto earnings accurately in their tax filings. Professional traders should report crypto income as business income, and investors should report crypto income as capital gains and pay tax accordingly.

The CRA will crack down on these accounts and collect tax on crypto gain.

A tax-effective way to invest in crypto

There is a high probability that the crypto frenzy might begin to fade over tax fears. But there is also a possibility that BTC could become the future global currency. There is no harm in investing 1% or less of your portfolio in **Purpose Bitcoin CAD ETF** ([TSX:BTCC.B](#)) in your Tax-Free Savings Account (TFSA).

- The ETF will give you exposure to BTC price fluctuations for less than \$10.
- The TFSA will protect you from the CRA's tax claws.
- Just a \$100 investment won't impact your savings if you lose the entire amount if BTC crashes like in 2018.

You should be aware that there are better alternatives than BTC to make speculative bets.

CATEGORY

1. Investing
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TICKERS GLOBAL

1. TSX:BTCC.B (Purpose Bitcoin ETF)

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