Bitcoin Bears: 2 Reasons It Could Lose 50% This Year

Description

It wouldn’t be much of a stretch to say that Bitcoin has been the most famous global investment asset in 2021. The crypto reached new heights and sustained a growth run for far longer than it managed to in the past. Its successful rise can be attributed to a few factors, most significant of which would be institutional investors’ attention and the culture of HODLing.

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But the glorious growth phase is coming to an end, it seems. The value of Bitcoin has dropped to about 13% in the last two weeks, and even though it’s climbing again, it’s speculated that the crypto might come down by about 50% before 2020 ends.

Reason #1: Cashing out on top

Bitcoin is still substantially high compared to what it was last year, and for people who bought it when it was still trading at a four-digit price, it’s an amazing time to realize pretty hefty gains. Many crypto investors might try and liquidate at least part of their crypto holdings. And it’s not something we might only see with short-term investors.

Long-term HODLers might also start shedding some of their Bitcoin investments, not just to realize the amazing gains it has accumulated but also to create liquidity to buy Bitcoin when it’s available at a discount.

Reason #2: Capital gains tax hike

In the U.S. there is a growing fear of long-term capital gains taxation going to an unbearably high new ceiling of 43.4% for assets held for more than a year. If this tax rate is imposed, it might spell doom for a lot of investment assets, especially crypto, where there is a higher chance of realizing robust short-term gains. Investors might start dumping Bitcoin to realize their gains before the new tax is imposed.

Most of the top Bitcoin investors (both individuals and institutional) are from the U.S., and if a sell-off starts there, it might trigger a worldwide sell-off.

Buying the dip

If you are planning on buying the dip, albeit via a more affordable asset, consider investing in **Galaxy Digital Holdings** (TSX:GLXY). The company offers indirect exposure to Bitcoin, and it has already started to dip along with Bitcoin. The stock is down 17% from its April peak. Another reason to consider buying Galaxy and not the underlying asset is that the company might offer you magnified gains.

The stock grew almost 3,000% in the last 12 months, significantly more than Bitcoin itself. And unlike other blockchain companies focused on mining and with most of the asset base dedicated to a specific job, Galaxy offers financial solutions associated with Bitcoin. That's a model it will be able to replicate with other digital currencies as well, with relative ease.

Foolish takeaway

Is the era of Bitcoin over? Not likely, but that doesn't mean we can't see a dip of 50% or more. That's actually not abnormal, considering asset volatility and historical cyclical pattern. But if the U.S. capital gain tax rate is actually raised to the proposed number and other countries start to follow suit, the next Bitcoin spike might arrive a bit later than expected.

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