Should You Invest in Bitcoin?

Description

Bitcoin has been having a rough month. From April 30 to May 30, it fell 41% in price. A number of theories have been offered to explain the selloff, such as T**esla** banning Bitcoin sales,China banning banks from offering Bitcoin and whale accounts dumping large quantities.

Ultimately, nobody knows exactly why Bitcoin moved the way it did over the past month. The bigger question is whether now is the time to invest. When a high-quality asset goes down in price, that provides the opportunity to profit on the upswing. Bitcoin certainly looks like it's in that boat right now. But is it actually such a high-quality asset that you can count on it to rise again?

Bitcoin is extremely volatile

The first thing you need to know about Bitcoin is that it has always been volatile. Since topping $100, it has fallen 80% on two occasions, from 2013 to 2015 and in 2018.

The crash we've seen this year has been nowhere near as bad as those were. In the early days, Bitcoin would go up and down 10% in price on almost a daily basis. So, the recent volatility doesn't mean Bitcoin is finished. It is, frankly, typical for the asset class that Bitcoin belongs to (cryptocurrency).

Some real concerns

While Bitcoin's recent volatility doesn't mean it's finished, there are some real concerns with BTC overall. Among other things, it still isn't widely used for legal transactions and is widely used for illegal activities, like the recent $5 million extortion attack on a U.S. pipeline. Companies that have tried to start accepting Bitcoin have in many cases reversed course. Tesla is one example and the Valve Corporation is another.

Broadly, it doesn't look like Bitcoin is going to be the future of money. In a recent article, Paul Krugman noted many issues with Bitcoin's mainstream adoption, ultimately concluding that it is not a significant contributor to *legal* business activities. He also noted that "bubbles" can last an extremely long time, and that Gold has been gaining in value for 100 years despite no longer being used as a currency.

Foolish takeaway

If you're concerned about Bitcoin's volatility but still want to invest, there is one thing you definitely *can* do:

Supplement any Bitcoin you buy with a much larger position in an index fund like the **iShares S&P/TSX 60 Index Fund** (TSX:XIU). It's pretty common for portfolio managers to put 90% of their money in passive investments like XIU, and 10% in more speculative stuff. Having a portfolio that's 10% Bitcoin and 90% index funds would seem to fit with this strategy.

XIU is just one index fund among many that you could include in your portfolio. With 60 stocks, high liquidity, and a low 0.16% fee, it's pretty good. But ideally, you'd have a mix of Canadian stocks, U.S. stocks, global stocks, and a variety of bonds in there too. All of that together would be 90% of your portfolio if you followed the strategy I'm describing. The remaining 10% could be things like Bitcoin, "hot stocks," and precious metals. Not a bad way to play it *mostly* safe while still having a bit of fun. And if you did this, you could realize a positive return eventually even if your BTC climbed to $0.

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