Should Canadians Dump Their Gold for Bitcoin?

Description

Bitcoin has been viewed by some young investors as "millennial gold." Undoubtedly, the incredible technology (blockchain) powering cryptocurrencies is remarkable and exciting. That said, just because a technology shows promise does not mean investors should rush into an asset, willing to pay whatever price the market commands at any given instance.

Beware of Doge!

Dogecoin, Bitcoin, Ethereum, and all the sort may trade at twice the price next week, only to crumble to a quarter of its value in the following week. While many people have been minted millionaires by speculating on such assets, I view such lucky crypto investors as akin to the lucky few who've won the lottery. Unless you're well versed in technical analysis, I'd argue that the tables are heavily tilted in favour of the house at these heights.

With more people and firms warming up to cryptocurrencies, some of the more serious tokens, like Bitcoin, are starting to look like a serious investment that's worthy of a small spot in one's portfolio. Could Bitcoin be the next gold? And should you ditch your precious metals stocks or bullion for such digital assets, despite their volatility and "bubble" worries?

Bitcoin: Prudent alternative investment? Or reckless speculation?

Undoubtedly, it's become cool for prior skeptics to embrace cryptocurrencies these days. Heck, even Warren Buffett held back on blasting the digital asset in his latest meeting with **Berkshire Hathaway**'s annual shareholders. The man didn't want to upset cryptocurrency investors, but don't count on him loading up on such tokens anytime soon.

Moreover, Buffett's right-hand man, Charlie Munger, didn't hold back from expressing his distaste for Bitcoin and its success. I think Munger is right to blast Bitcoin, even though he's been proven wrong thus far. In the end, I think Munger will be right. He’s seen more than his fair share of bubbles and market manias. And to him, all such “get-rich-quick” opportunities are all seen under the same light.

That said, neither Charlie nor Warren have ever been big fans of gold stocks in the first place. However, it is worth mentioning that Berkshire dabbled with **Barrick Gold** last year.

There’s no denying the similarities between gold and Bitcoin. They’re both unproductive assets with no intrinsic value. But there’s one important differentiating factor that, I believe, will never allow Bitcoin to dethrone the gold standard. Bitcoin is too correlated to the stock market when market waters get really rough. In past market crashes, Bitcoin crumbled like a paper bag, while gold did a pretty good job of holding its own.

Bitcoin has had a pretty limited track record. While it could hold up in the next market crash, I do not see sufficient enough evidence to conclude that Bitcoin or any other cryptocurrency is deserving of a spot in your portfolio as a replacement for gold.

Bitcoin smells like gold, but it doesn’t trade like gold!

Bitcoin and the like also have a propensity to crumble under their own footing. The wildly volatile asset could plunge over the weekend, and it could suffer the massive implosion suffered back in late 2017 without a moment’s notice. Of late, such negative moves in cryptocurrencies have worked in favour of gold. Could a negative correlation between gold and Bitcoin be developing?

Perhaps. As the “millennial gold” thesis sours, I suspect the demand for gold could pick up in a big way, given the profound uncertainties and the threat of higher inflation. For now, gold and its top miners like Barrick Gold will continue treading water until the next big crypto pullback that could send gold prices back above US$2,000.

Gold beats Bitcoin as a portfolio hedge in my books

Bitcoin’s run has been admirable, but I view the asset as more of a dangerous speculation than a portfolio hedge. Between gold at US$1,800 and Bitcoin at US$35,000, I’d have to go with gold every day of the week.

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