



Bitcoin: 3 Huge Risks to Keep in Mind

Description

Bitcoin has been one of the best-performing assets of the 21st century. Up several *million* percentage points since it was created in 2009, it has outperformed almost every other asset on earth. For this reason, many investors are eager to get in on the Bitcoin money train. BTC made early investors wealthy, maybe it can do the same for people who get in now.

Bitcoin may well continue its epic rally into the future. But there's one thing that anybody buying Bitcoin today needs to keep in mind: *risk*.

Bitcoin is nothing if not risky. Far more volatile than stocks, it has caused many an investor to lose money by panic selling. Bitcoin is down 48% this year, and this year's crash was not even close to its worst ever. It fell 80% in 2013-2015 and then again in 2018. Put simply, Bitcoin is one of the most volatile assets on the planet. That doesn't mean that it isn't going to keep rising. But it does mean that it's a risky asset — at least as measured by price swings. In this article, I'll explore three key risks that investing in Bitcoin entails, including one that is growing a lot more serious over time.

Political risk

Political risk is one category of risk facing Bitcoin holders that is only getting more severe over time. This year, we've seen Turkey ban Bitcoin, [China crack down on it](#), and U.S. regulators hint they'll start going in that direction. Each of these news stories was followed by a sharp selloff in the price of BTC, which makes sense, because if Bitcoin is banned, then it cannot be adopted by mainstream businesses. If you hold BTC, make sure you follow political developments in your country closely, because BTC is very vulnerable to new laws and regulations.

Cybersecurity risk

Cybersecurity is another huge risk factor for Bitcoin holders. If you lose your password, then your Bitcoin is gone forever. Exchanges like **Coinbase** offer recovery phrases and other such protections, but your account isn't protected like your bank account is. If you lose your wallet password and

recovery phrase, you're done.

The cybersecurity issue has a pretty obvious fix: [hold your Bitcoin through ETFs](#) like **Purpose Bitcoin ETF (TSX:BTCC.B)**. Such ETFs are staffed by financial experts and IT professionals. They are probably competent enough to ensure that their Bitcoin wallet passwords are being stored safely. In exchange for the security, you'll have to pay the fund managers a fee of about 1% per year. It's well worth it if you're not internet savvy; losing 1% of a million dollars is not nearly as bad as losing a million dollars. Also, you can hold ETFs like BTCC.B in a TFSA and avoid having to pay taxes on them. That, too, is worth more than the 1% fee you pay on the fund.

Volatility

Last but not least, there's just plain old volatility. In finance textbooks, "risk" and "volatility" are treated as synonymous. Many people have reservations with this definition, but it's an academic standard. Going by it, Bitcoin is very risky. In just 11 years, Bitcoin has had three major selloffs that have taken it down 50% or more. Smaller 10-20% crashes have been too numerous to count. If you're prone to panic selling, this is something you might want to pay attention to. No other asset class provides a rougher ride than crypto does.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

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