Bitcoin Slumps: Should You Buy, Sell, or “HODL?”

Description

Volatility is the trademark trait of cryptocurrencies like Bitcoin. Day traders love this trait, but long-term investors … not so much. The volatility and unpredictable nature of cryptocurrencies like Bitcoin makes them shaky long-term holdings, especially now, when Bitcoin has supposedly reached near its new normal “high.” If it keeps hovering between US$40,000 and US$60,000, the high-risk, high-reward equation wouldn’t really work immensely well for new buyers.

The case for selling

If you’d bought Bitcoin anytime in 2020, you could sell it for a profit. But selling rewarding crypto like Bitcoin for a double-digit gain doesn’t make sense, unless you are cleaning house. However, the further you go, the sweeter the profit margin becomes. If you’d bought crypto during the market crash, when it fell below US$6,000, you would still be sitting on over 700% gains.

As a relatively lucky investor, if you’d bought Bitcoin when it had a four-digit price tag, and you stand to make decent gains, even if you sell now, it might be a good idea to go for a partial sell. Selling 50% of your stake will free up a decent amount of capital, and you can reinvest it in Bitcoin (or other cryptos) during the next sizeable slump.

The case for “HODLing”

Holding on to your Bitcoin holdings makes sense, especially if you bought high. But even if you bought relatively low, like when it was trading at US$20,000, you can turn in a neat profit if it reaches $100,000 — i.e., five times the capital.

And even if you bought it too low and you can still earn a sizeable profit if you sell now, go with “HODLing (holding on for dear life).” That’s because the chances of Bitcoin falling below US$10,000 (without ample warning) are quite low compared to the chances of it reaching new heights. If you hold, you will have a choice between selling for relatively low profit and selling for massive gains (a meagre chance of losing money).

The case for buying

This is not a very strong case, realistically speaking. Bitcoin is trading for a bit lower than US$50,000 right now. Its chances of reaching US$100,000 are good but not great. And the odds of reaching half-a-million USD are quite low. Directly investing in crypto might not be a great idea, but investing in crypto stocks can magnify the gains and potentially give you a little bit more time before taking a dive (unlike the crypto itself).

Bitfarms (TSXV:BITF)(NASDAQ:BITF) is dual-traded and has extensive mining operations in North America. Its strong points include a clean-energy-fueled mining operation (hydro-powered), which shields its mining from any prospective environment-related hurdles. It also has a low cost of operation. Mining one Bitcoin currently costs the company US$9,000, which is less than one-fifth of the current value of the Bitcoin.

The stock has tracked the value of Bitcoin relatively faithfully, thanks to its direct exposure as a miner. Its 12-month growth is over 1,600%, and that’s when the stock is already down 24% from its yearly peak. The current movement is downward and might continue until Bitcoin’s upward momentum becomes apparent. That turning point would be the ideal time to buy.

Foolish takeaway

Tech stocks are volatile in general, but crypto stocks go way beyond the normal volatility levels. But the principle of buying low and selling high still holds. If you can buy Bitcoin (or associated assets) when its value drops beyond a certain level and keep it for long enough, you are likely to make a decent profit. But buying now in anticipation of 100% gains is an investment decision that should be taken after significant consideration.

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