



Should You Buy the Dip in Bitcoin Right Now?

Description

The [cryptocurrency](#) space has experienced a pullback in the last few days. At the time of writing, **Bitcoin** is trading almost 30% below all-time highs, valuing the world's most popular cryptocurrency at a market cap of US\$930 billion.

Other top cryptocurrencies, such as **Ethereum**, **Binance Coin**, and **Cardano** have also lost momentum and are down significantly from record highs. The weakness in the cryptocurrency segment can be tied to the ongoing volatility on Wall Street, where several overvalued tech stocks also fell off a cliff.

In the last week of November, Bitcoin moved lower after the Omicron variant was first detected in South Africa. Let's see if this fall in crypto prices provides investors with a buying opportunity right now.

Bitcoin poised to move higher in 2022

According to a [report from CNBC](#), the cryptocurrency decline was derivatives based and points to a temporary pullback. Blockware Solutions analyst Will Clemente explained that open interest ratios have been near record levels in the past month, which, in turn, could set up the digital assets for another bull run, similar to the one experienced in early 2021.

Bitcoin prices more than doubled in Q1 of 2021, and if the trend continues in 2022, the cryptocurrency could trade close to US\$100,000 by end of March 2022.

Alternatively, in case interest rates move higher, capital may be diverted towards fixed-income instruments such as bonds, further exacerbating the weakness in equities and the cryptocurrency space.

Cryptocurrencies are extremely volatile

The prices of Bitcoin have declined at an accelerated pace in the past decade. It fell from US\$1,150 in

April 2013 to US\$220 in August 2015. Bitcoin prices then touched US\$19,500 in December 2017 before falling to US\$3,800 in December 2018. The digital asset lost more than 50% in market value in May 2021 after China banned all crypto-related activity, including mining and exchange-based trading.

However, investors holding Bitcoin for a period of more than four years have always generated positive returns. It has created staggering wealth for long-term investors and is up almost 15,000% since November 2015.

Bitcoin remains a high-risk bet

The volatility associated with Bitcoin and the lack of regulation of this asset class implies it is a high-risk bet. But there are several publicly traded companies that now hold cryptocurrencies on their balance sheet. This widespread adoption will be a key driver of Bitcoin's long-term growth.

Bitcoin and other digital tokens aim to decentralize the financial system that is highly regulated by central banks and other intermediaries. But blockchain networks have created a trustless system where you can borrow, lend, and even trade digital assets without the need of a third-party, lowering costs significantly. Additionally, the total number of Bitcoin in circulation is limited to 21 million coins, which also makes it a hedge against inflation.

These features should increase demand for Bitcoin over time increasing its prices higher in the process. While I [remain bullish](#) on the prospects of Bitcoin in 2022 and beyond, investors should understand the high-risk nature of gaining exposure towards this asset class. You need to allocate just a small portion of your total capital (between 3% to 5%) towards Bitcoin and other major cryptocurrencies right now.

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