3 Reasons to Avoid Bitcoin for the Next Few Months

Description

Bitcoin was the first in the most exciting asset class in the last decade. When it comes to Bitcoin, 2021 was just as action-packed as the last few years. The crypto reached new heights this year, but it's ending the year on a bad note.

However, Bitcoin's unflattering performance at the end of 2021 is not the only reason you might not want to go near this particular asset for the next few months. There are other reasons as well, and three of them stand out from the others.

Reason #1: China's Bitcoin crackdown

Up until a few months ago, China was by far the largest Bitcoin mining country. But the government's crackdown on mining operations is triggering more restrictions in the region. Russia is coming down hard on Bitcoin trading as well.

The U.S. surpassing China to become the largest Bitcoin mining country might seem like a win by Bitcoin enthusiasts and optimists. But the situation should also be seen as the second-largest global economy distancing itself from a potentially liable asset permeating its economy.

The same "prudent" approach should be taken with associated assets like the **Bitcoin Fund** (TSX:QBTC.U). The fund has already tracked Bitcoin's recent fall quite faithfully, dropping 24.5% in response to Bitcoin's 28% drop from its recent peak. That's a characteristic of this fund. It offers a relatively toned-down version of the underlying asset's growth and falls, as suggested by its last 12-month growth of 69% compared to Bitcoin's 114%.

The main difference is that you can put it in registered accounts — something you can't do with Bitcoin directly.

Reason #2: Uncertainty in the crypto market

Uncertainty and volatility are the norms in the crypto market. But it has gotten worse lately. China's crackdown on crypto is one element. Another element (pushing the market from the opposite direction) is that institutional investors are finally taking Bitcoin seriously. But this leads to a consolidation of the asset, and if few major Bitcoin holders dump a lot of assets in the market at once, it will disrupt the supply-demand balance for a long time.

This would impact Bitcoin miners like **Bitfarms** (TSXV:BITF), which is currently spending about $8,922 on mining one Bitcoin. And that's apart from the operational expenses of running a business built solely around Bitcoin. If the value of Bitcoin falls to $10,000 or lower, the company might start spending more on mining the crypto than it would be worth.

However, that's the worst-case scenario, and such a massive drop in Bitcoin would most likely be triggered by major global restrictions or a radical change in the crypto market, which cannot be anticipated as of now.

Reason #3: Minimal contrarian value in 2022

The correction the TSX recently experienced, most likely triggered by the newly arising fear of the new variant of COVID, has pushed the market down to very realistic levels. The froth is going away, which indicates the arrival of a true organic recovery. Unfortunately for Bitcoin, this would significantly undermine its value as a contrarian asset class.

Foolish takeaway

It's important to understand that while it's a good idea to avoid Bitcoin (or tech stocks connected to Bitcoin) for the next few months, you shouldn't ignore this asset class outright. If it falls to a four-digit price tag on mere speculation, it might be a golden opportunity to buy it for its explosive growth potential.

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adamothman