



Fire Sale: Should Cryptocurrency Investors Buy the Dip in Ethereum?

Description

The cryptocurrency market has taken a breather in the last month after touching record highs in November 2021. Right now, **Ethereum** ([CRYPTO:ETH](#)) is down 34% from all-time highs, valuing the world's [second-largest cryptocurrency](#) at a market cap of US\$377 million.

If you can look beyond the volatility associated with these digital tokens, the [cryptocurrency asset class](#) provides investors with an opportunity to derive multifold returns. In fact, the ETH token has risen by a staggering 422,700% in fewer than seven years. So, a \$100 investment in Ethereum in mid-2015 would be worth close to \$423,000 today.

But historical gains don't matter much to current or future investors. Further, it's extremely difficult to value cryptocurrencies, which has contributed to their volatility in the past decade. Investors need to analyze if the particular blockchain network has utility, which, in turn, will increase demand for its underlying token.

Let's see if Ethereum should be on the top of your shopping list right now.

The bull case for Ethereum

Compared to most other blockchains, including **Bitcoin**, the Ethereum network offers multiple capabilities. The Ethereum blockchain is designed to support smart contracts, which are basically self-executing contracts that do not require any intermediary or watchdog.

It's the primary reason why [Ethereum has onboarded](#) close to 3,000 projects on its network across the NFT (non-fungible token) and DeFi (decentralized finance) verticals. Further, over 40 of the top 100 networks are built on the Ethereum blockchain using the ERC-20 compatibility standard.

The Ethereum blockchain currently accounts for 75% of all dApps (decentralized applications) and 62% of total DeFi investments, making it the undisputed leader in the smart contract space.

ETH has to increase transaction speed and lower costs

While the Ethereum blockchain is extremely popular, the rapid increase in the number of users has resulted in network congestion resulting in slower transaction speeds and higher fees. In the last six months, transaction speeds have risen by 750%, which brings into question issues related to scalability.

Right now, Ethereum can process just between 15 and 30 transactions each second, which is much lower compared to **Visa**, which processes 1,700 transactions every second. Peer networks such as **Solana** and **Avalanche** also process a few thousand transactions per second.

However, the upcoming Ethereum upgrade should solve a wide variety of problems associated with the network. It will soon transition towards to proof-of-stake (PoS) mechanism from a proof-of-work (PoW) mechanism, making the network low cost and eco-friendly. The PoS mechanism allows miners to validate transactions based on their stake in the network compared to PoW that uses computing power.

The upgrade will also add 64 shard chains to the Ethereum blockchain network. These are basically additional chains that are connected to the core Ethereum chain, which results in an efficient distribution of the overall network load. The addition of the shard chains may increase throughput to 100,000 transactions per second, which solve scalability issues surrounding Ethereum.

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