
Crypto Trading: Risk Awaits. Proceed With Caution!

### Description

If you've been on social media at all lately, you've probably read a bit about cryptocurrency, and the money people have made (and lost) trading it. It's unavoidable at this point. Since its launch at a price of less than $0.01, **Bitcoin** (CRYPTO:BTC) has risen as high as $60,000. Its return over its lifetime has been well over a million percent. Lately, BTC has been showing weakness. But if you pull back and look at the entire decade, Bitcoin has outperformed almost every other asset you can think of.



So, it's natural to be tempted by cryptocurrency. Many people have gotten rich trading it, and that fact hasn't changed since Bitcoin's creation. While BTC is no longer creating millionaires out of thin air, smaller cryptocurrencies are always being created and delivering "moon-shot" gains. Just last year, we saw **Shiba Inu Coin** rise millions of percentage points. So, people are still getting rich off crypto, despite what recent price charts may indicate.

But before you run out and buy cryptocurrency, it's important to keep the risks in mind. Although cryptocurrency offers big potential returns, the risks are just as big. In this article, I will explore the main risks facing cryptocurrency investors today and explain why anyone deciding to buy crypto has to proceed with caution.

## Crypto volatility is extreme

In academic finance theory, risk is synonymous with volatility. Many people disagree with this idea, but it's one we can work with.

Going by the "risk-equals-volatility" definition, cryptocurrency is extremely risky. Bitcoin has fallen more than 50% countless times. It fell more than 80% at least twice — in 2018 and in the 2013-2015 period. Last year, Bitcoin saw many extreme swings up and down, despite it having become a "mature" asset at that point. So, crypto is very volatile and probably always will be. That's one risk investors have to be aware of.

## Regulation

A more “concrete” risk cryptocurrency faces is regulation. You can argue day and night about whether volatility is risk, but you can’t argue that being banned isn’t a risk to an asset class. China virtually banned all cryptocurrency last year, and other countries are considering various, less-extreme regulations. It doesn’t look like China-style bans are coming to North America anytime soon, but even more modest regulations could make crypto less desirable.

## Foolish takeaway

With high returns come high risk. It’s the nature of the game. Although crypto has the potential to make you rich, it can also do just the opposite.

In this respect, it doesn’t matter whether you hold crypto directly, or hold it through ETFs like the **CI Galaxy Ethereum ETF** (TSX:ETHX.B). Such ETFs give you the ability to buy and sell crypto easily on the stock market. They can also spare you capital gains taxes if you hold them in a TFSA. A fund like ETHX.B may be worth considering for these reasons. But in terms of risk, it’s in the same boat as **Ethereum** itself. So, proceed with caution, if you proceed at all.



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