Is Bitcoin the Store of Value Everyone Thought?

Description

There are many different reasons why investors choose to invest in cryptocurrencies. However, for many investors, **Bitcoin** (CRYPTO:BTC) is the first choice for a number of reasons.

There's the fact that this digital currency happens to be the first ever created. Bitcoin's following is massive, and this is an asset that has shown impressive price appreciation over 13 years.

And then there's the massive adoption of Bitcoin as legal tender. Whether we're talking about governments or businesses, Bitcoin has seen impressive uptake from the general public. Indeed, even the strongest proponents of Bitcoin may not have seen this coming.

However, one of the key investment theses behind Bitcoin is this token's potential as a store of value. In fact, an analyst from **Goldman Sachs** has suggested that Bitcoin could take some market share away from gold and other safe-haven assets.

Let's dive into whether this theory holds water.

What makes Bitcoin so attractive as a store of value?

Bitcoin has got no practical applications like oil or gold. Yet due to several key attributes, it has intrinsically emerged as a store of value. Some of these key parametres include fungibility, scarcity, and divisibility.

Admittedly, oil and gold are scarce. Additionally, these commodities are labour intensive and costly to extract. That said, this same scarcity argument can be made with Bitcoin. And Bitcoin maxis continue to make this point, given that this digital token's supply is capped at 21 million. It's expected there will be no Bitcoin mining after the year 2140.

There is a possibility that impurities in oil and gold can lower their fungibility, although they are “generally fungible.” However, Bitcoin is “always fungible” — a single Bitcoin cannot be counterfeited and is identical to another.

Lastly, a store of value must be divided easily into smaller portions. This is to facilitate value transfer in a more precise manner. While oil and gold lack this property significantly, Bitcoin is indeed infinitely divisible.

So, what’s the bearish argument?

Bitcoin prices have remarkably remained relatively immune to the price action in the broader stock market, over its history. This low correlation (long-term correlation of Bitcoin to stocks is around zero) has enticed some investors to consider this a low-correlation asset. Assets with betas near zero or even below zero are viewed as market hedges.

However, since the onset of the pandemic, Bitcoin and many other cryptocurrencies have started trading at a very high correlation to riskier equities. This high correlation makes such a store of value argument difficult, particularly when everything is crashing.

Now, it’s worth noting that bonds are in the same boat. There really isn’t an asset class that hasn’t declined this year (except for cash). Accordingly, perhaps this is how all assets (other than commodities) will perform in the near term.

That said, there’s significant doubt with respect to the ability of Bitcoin to maintain its “store-of-value” title.

Bottom line

I’m of the view that Bitcoin really isn’t a store of value. All cryptocurrencies are intended to provide some value, and be valued according to the value created in a given ecosystem. This seems to me to be more of a business model argument to hold Bitcoin, for those bullish on the blockchain technology underpinning this token.

Time will tell how well Bitcoin holds up relative to the U.S. dollar and other benchmarks. For now, the fact that this token is underperforming in these volatile times is cause for concern. Indeed, 2022 will be an interesting year to watch how BTC performs from here.

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