Warren Buffett Slams Bitcoin: Is He Right This Time?

Description

Last month, Warren Buffett tore into **Bitcoin** (CRYPTO:BTC) at the **Berkshire Hathaway** annual meeting. His longest tirade on crypto to date, it included a number of provocative claims:

- Bitcoin doesn't produce anything.
- "Nobody" is short Bitcoin.
- "I wouldn't pay $25 for all the Bitcoin in the world."

It was a bold set of claims, and it didn't go unnoticed. Shortly after Berkshire's annual meeting, crypto fans took to **Twitter** to talk about how wrong Buffett was. For the most part, they used their usual arguments about supply caps, mining, fiat, and so on. But thanks to this year's poor economy, they had another point to bring up: *inflation.*

U.S. inflation is running at about 8% this year, and it isn't slowing down. This point was made to highlight the value of Bitcoin as an inflation hedge that might rise again, as opposed to the USD, which loses value almost every single year.

Is Bitcoin an inflation hedge?

The idea that Bitcoin is an inflation hedge is pretty simple.

Fiat currency has an unlimited supply, while Bitcoin has a limited supply, so Bitcoin should gradually come to be worth more than fiat if demand for both is the same. Over the long run, this has held true. However, Bitcoin hasn't saved investors from inflation this year. Down 39% against the dollar, it is being "inflated" far worse than the greenback is. That doesn't necessarily mean that Bitcoin isn't an inflation hedge. Over the extreme long term, it has indeed appreciated faster than the CPI has. But it isn't directly positively correlated with inflation the way that, say, gold is.

Intrinsic value

One of Warren Buffett's biggest problems with Bitcoin, and with crypto in general, is the fact that it has no intrinsic value. Unlike a business, Bitcoin produces no cash flows. It doesn't produce any kind of output, really. For this reason, the asset lacks fundamentals and doesn't have intrinsic value. This doesn't mean that it won't go up in price. But it does mean that an investor lacks intellectual tools with which to determine its value. An investment in it is basically a roll of the dice.

Foolish takeaway

After several years of public statements, Warren Buffett has made it clear that he doesn't like Bitcoin. Trashing its lack of output and intrinsic value, he doesn't consider it an investment-grade asset.

Does that mean that you should avoid it, too?

It really depends on how you think about investments.

If you like to invest in assets with a margin of safety, then you should definitely avoid Bitcoin. BTC has no intrinsic value, and there is no real reason why it shouldn't go to $0.

If, however, you are a big risk taker, you may do well with Bitcoin. Its price moves are essentially random from the perspective of smaller investors who can't influence the price. It would seem, then, that BTC is superior to lottery tickets, which are mathematically loaded against those who buy them. With Bitcoin, there is no built-in "disadvantage" to the buyer, nor is there any advantage. Its price moves are, for all intents and purposes, random, and there are worse bets out there than pure randomness.

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