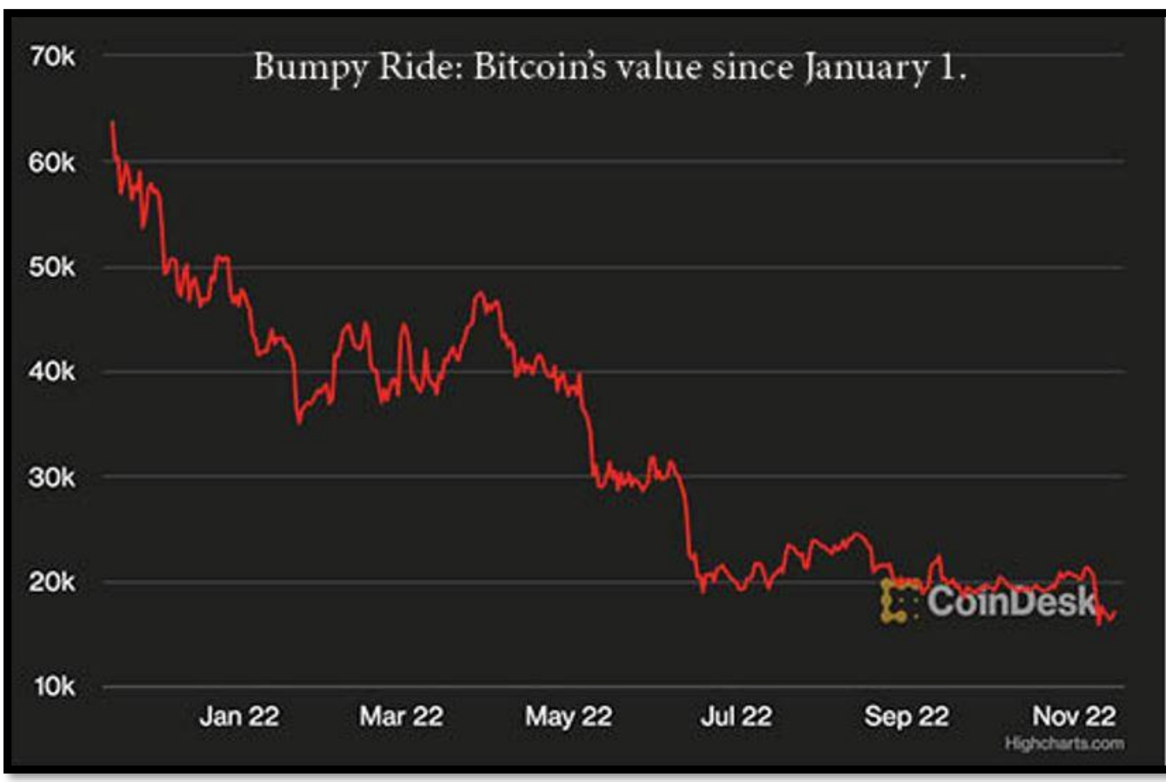
Crypto Collapse

November 18, 2022

A little more than a week ago, the conventional wisdom in the cryptocurrency 'investment' world was that the safest place to start buying Bitcoins and other virtual currencies was something called the FTX exchange. FTX was the safe-for-beginners destination for buying and selling 'assets' that were basically manufactured out of thin air. In fact, one of them, called FTT, was a digital token that was manufactured by the computers at FTX itself.

That, of course, was before FTX filed for bankruptcy, before it was learned that the company was using customer funds to prop up a related company's hedge fund trading operation without permission. (The hedge fund, Alameda Research, has also filed for bankruptcy.)



In the process, an estimated $30 billion of crypto 'assets' have vanished, and the FTT coins have dropped 90% of their value, apparently on their way to zero. This confirms what many traditional investors have long believed: that the cryptocurrency market is made up of purely speculative assets. But the larger question is whether this signals a rush to zero for Bitcoin, Ethereum, Dogecoin and a few hundred other virtual tokens that have been circulating in the darker shadows of the investor world. And if billions of dollars are wiped out of investor balance sheets, what will be the impact on the more traditional investment markets?

So far, the FTX collapse has caused few ripples outside the crypto world, in part because the financial marketplace has never been an active participant in it. Banks are not collateralizing loans in Bitcoin, very few mutual funds have allocated investor money in cryptocurrencies and most publicly traded businesses have declined to accept virtual tokens in return for their goods and services. That means that any impact will come from suddenly cash-strapped (mostly younger) retail investors who might have to liquidate their stock holdings to make up for their speculative losses from the FTX collapse and a potentially wider drop in crypto values.

Sources:

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