Riding the Bitcoin Rollercoaster

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If you're looking for a lot of excitement in your investment portfolio and enjoy the panic-inducing roller coaster of rapid gains and vertiginous drops in value, consider Bitcoin. Over the last year, the coins have been valued at $30,000 last February and last July. They've been valued at more than $60,000 for part of April and much of October and November, before crashing back down in value to, currently, a little over $43,000—37.31% below the all-time high set last year. Nobody knows what tomorrow will bring; a jump in value or a 50% decline, depending on the mood of the moment. What we DO know is that there are not many components of a traditional portfolio that can lose 15% of their value in a single day or go down 50% twice in the same 12-month period.

Are Bitcoins actually investments? One way to define an investment is putting money into something tangible, ideally a company whose workers come to the office to enhance its value incrementally each day of the workweek, or a tangible asset like an apartment building or warehouse that will (like many companies) distribute cash to its investors on a regular basis. By this definition, gold is not an investment—its value depends on whatever the next person will pay for it. Interestingly, Bitcoin—and the other cryptocurrencies—are most often compared with gold as an 'investment.'

The original idea behind cryptocurrencies was to create a medium of exchange, like traditional currencies, but with a twist: there are a limited number of Bitcoins in circulation, and that number can never exceed 21 million. The new electronic currency is outside the control of central banks and their printing presses, which means that the currency cannot be debased. No government can print a bunch more Bitcoins so that they become essentially worthless, the way German marks became during the Weimer administration in Germany after World War I, and the way some worry the dollar will be if the Federal Reserve bank and the Treasury Department don't stop stimulating the U.S. economy.

In addition, Bitcoin transactions are anonymous, a feature which is welcomed by freedom lovers, but also by people who don't want the government to see their wealth for tax purposes, and by a colorful variety of international drug and weapons dealers whose banking arrangements might otherwise attract the suspicion of law enforcement officers.

There is no evidence that Bitcoin was created to be an investment, much less a get-rich-quick (or, for those caught in the numerous downdrafts, a get-poor-quick) asset class in a retirement portfolio. Buying Bitcoin and other crypto coins can fairly be defined as speculation—speculating, in this case, that somebody else will come along and pay a higher price for the coins than you did. You could argue that any investment could be defined as speculation, but when people buy a stock, they're holding a piece of a tangible asset which has a (hopefully growing) intrinsic value. No person alive can define the intrinsic value of a crypto coin, which means it's possible that Bitcoin prices will fall to zero at some point in the future. That would, of course, be very exciting, but not necessarily in a good way.

Sources:

https://www.coindesk.com/price/bitcoin/

https://www.investopedia.com/tech/what-happens-bitcoin-after-21-million-mined/

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