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Bitcoin Is Not an Investment

DIGITAL CURRENCY

There's nothing wrong with taking a flyer on a cryptocurrency, but before you do so, you need to understand that you are not investing, **you are speculating**. You are buying an asset with no capacity to generate income or produce growth. Appreciation depends upon demand for an intangible perception of value.

You need to approach your decision to own Bitcoin, Ethereum, Dogecoin or any of the expanding array of digital currencies knowing you can lose much or all of your purchase money. Cryptocurrency is trip to Las Vegas where no one knows the odds. Borrowing money to invest in digital currency can turn a loss into an even greater disaster.

On the other hand, you will be a beta tester in one of the great banking experiments of our time. While Bitcoin investing with the goal of becoming wildly rich is pure speculation, the block chain technology behind digital currency has the potential to revolutionize banking. We already see this occurring to some degree in fiat-collateralized stablecoins. A fiat currency such as the US dollar, the euro, or the yen, theoretically backs each stable-value cryptocoin in circulation. The word theoretical is used because verification of the "real money" backing stablecoins is unregulated.

Tender, the largest of the stablecoin providers pegs its "coin" against the U.S. dollar with the objective of maintaining a 1-to-1 ratio in terms of value. By avoiding volatility, the stablecoin sector aims to allow cryptocurrency to be a store of value rather than a risky investment.

Like all cryptocurrencies, however, stablecoins rely on the faith of users and traders to maintain their value. This is the great risk of digital currency. It requires belief in its validity as a measure of value. There is no Federal Reserve to loan money to prop up reserves in a crisis, nor a government to step up and guarantee the value of the currency. A tremor in the belief system can cause an avalanche.



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