

The bitcoin bubble has burst. Time to buy the dip or get out?

The cryptocurrency's price has more than halved in 2022. It's had blips before but could this be the end asks
Lily Russell-Jones

Bitcoin, the world's most popular cryptocurrency, has shed about 56 per cent of its value since the start of the year. This week it was trading at about \$20,200 — less than a third of its November 2021 peak of almost \$69,000.

As inflation soars and governments across the world raise interest rates, bitcoin and other cryptocurrencies have not proved to be the safe-haven asset many hoped they would be. Instead, cryptocurrencies have fallen just like other assets that boomed over the past decade such as growth and tech stocks.

Does this point to the death of bitcoin, or is it just a blip?

■ Sell: it's going to zero

Some financial analysts are sceptical that bitcoin will ever recover from its recent price spiral. Wild price swings have led to bitcoin being declared dead multiple times in its 13-year history. The billionaire investor Warren Buffett has been saying bitcoin is a bubble since 2017, while in May the president of the European Central Bank, Christine Lagarde, said that cryptocurrencies were “worth nothing”.

“I would not be surprised to see bitcoin back in the \$3,000 to \$5,000 range,” said Phillip Streible of Blue Line Futures, a US brokerage firm. “I think crypto is a fad that has hung around a little bit longer than it should have.”

For years financial regulators have predicted that a price crash could be coming. The Financial Conduct Authority (FCA), the City watchdog, has warned that investors should be

prepared to lose all the money they invest in crypto assets.

The main accusation against cryptocurrencies is that they are difficult to price because they are unbacked assets with no intrinsic value. Fluctuations in price — which can be incredibly volatile — are driven by sentiment.

The counter to this is that bitcoin is a store of value, comparable to gold. There will only ever be a fixed number of bitcoins in existence because only a limited number can ever be “mined”, which should mean it has scarcity value. Sceptics would argue that it is still worth nothing in the real world — few places will accept it as a currency you can spend.

“It's a speculative asset, not a currency,” said Steve Hanke, an economics professor at Johns Hopkins University. “It does not have any of the characteristics of a currency and it is very rarely used in any kind of transaction, except for illegal activities.”

“I think bitcoin's fundamental value is probably close to zero. The only way you can take its price to the moon is if demand keeps increasing. My view is that demand will eventually evaporate. There will be superior cryptocurrency that wipes bitcoin off the map.”

■ Buy the dip

Not everyone agrees that bitcoin's future value is so precarious. Backers say its scarcity gives it an inherent value, which will only increase. Only 21 million bitcoins will ever exist and every four years the supply of new coins is halved, adding to its scarcity.

In the 18 months after bitcoin underwent a halving event in 2016, its price rocketed from \$663 to \$19,428. A year later it had fallen below \$3,500. A similar rise and fall occurred in the months after its latest halving in May 2020. The next bitcoin halving is expected to take place in 2024.

If you believe that bitcoin moves in this four-year cycle, the current price dip is a buying opportunity.

Financial influencer Hugo Biolchini, 24, has put between \$2,000 and \$5,000 a month into stocks and cryptocurrencies since the start of the year.

Biolchini, who has more than 15,000 followers on the trading platform eToro, is taking advantage of “dollar cost averaging” whereby you invest the same amount regularly, meaning you buy more of an asset when it is cheap and less when it is expensive. “I continue to buy cryptocurrencies every two weeks or every month and make it a habit,” he said.

Biolchini has invested about \$45,000 into cryptocurrencies including bitcoin, ethereum and cronos over the

past three years. He first bought bitcoin when it was \$3,400 in February 2019 after spotting that it was 83 per cent below its 2017 peak. “I saw that as an opportunity,” he said. “I decided to buy so I could reap the benefits when the next bull market came.”

By November 2021 he had invested \$10,000 into bitcoin and his stake had grown in value to \$65,000. Now he is hoping to repeat his success after the next bitcoin halving event: “The



halving is one thing that will drive cryptoasset prices higher in the future. If I stay patient I can make a lot of money without really doing a lot of work.”

■ Spread your bets

While bitcoin gets much of the attention, there are plenty of other cryptocurrencies to choose from.

“The market is more diversified than ever before and bitcoin makes up the minority of the market today,” said Ben Dean of the investment firm Wisdomtree. “Historically, crypto markets worked on a cyclical basis, mostly because it was driven by bitcoin, but the market looks very different now.”

There are somewhere between 13,500 and 21,500 cryptocurrencies, according to industry estimates — bitcoin accounts for about 40 per cent of the market’s overall value. Dean thinks the current market rout, dubbed the

Crypto Winter, will be a period of consolidation for the industry when weaker crypto outfits will collapse and stronger competitors will strengthen their position.

The cryptocurrency market as a whole is worth \$979 billion. Stablecoins, a type of cryptocurrency pegged to the value of real-world currencies such as the dollar, now account for about 15 per cent of that total. Ethereum, the second largest cryptocurrency, has a market share of over 17 per cent, according to CoinMarketCap data.

“The argument that ‘bitcoin is dead’ has been made many times before,” said Dean. “But it is no longer possible to talk about the market as a whole just by looking at bitcoin’s price. I see very few signs that the whole ecosystem is going to disappear. It’s really a question of which spaces might thrive and why.”

Diversifying out of coins into other crypto assets is another option and investors have shown interest in new uses for blockchain technology. Last year NFTs — digital tokens that record the ownership of assets such as digital images, music and videos on a blockchain — became a \$40 billion market, according to the research firm Chainalysis.

However, scams and joke currencies such as dogecoin remain prevalent. Anyone considering buying cryptocurrency should do thorough research and be aware that crypto assets are not reg-

ulated by the FCA. This means investors are unlikely to receive any compensation if their money is lost or stolen.

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Hugo Biolchini buys crypto regularly

