

Don't get tempted by bitcoin frenzy

The price of the cryptocurrency has touched an all-time high but small investors should stay away.

Bitcoin prices have surged more than 200% this year, taking it past \$23,000 for the first time. This increase can be largely attributed to how the cryptocurrency is designed and generated. There is only a finite supply that can be virtually 'mined'. Every few years, the reward for miners is cut in half. This cuts in half the rate at which new Bitcoin is released and circulated. Knowing this, should you be buying bitcoins as well?

This supply shock adds to the dwindling supply of bitcoins, which pushes its price upward. In May 2020, bitcoin witnessed the third halving of its lifetime, which is what has propelled the current mania.

What has stoked the rally further is the widespread participation of large institutions, apart from retail investors. Limited in supply like gold, bitcoins are being seen as a protection against debasement in fiat currencies led by global central banks flooding the system with liquidity as part of massive stimulus measures. Unlike gold, the supply of bitcoin keeps shrinking, which is prompting some to even shift away from the yellow metal into the virtual currency as a better hedge. "The earlier skepticism has now been replaced by widespread acceptance and acknowledgment of bitcoin as a strong investment option," argues Sumit Gupta, Co-founder and CEO, CoinDCX.

Multiple platforms offering easy access to the cryptocurrency digital marketplace are bound to mushroom. This was seen during the crypto-wave in 2017. Most of these platforms perished as the bitcoin bubble burst. Investing in bitcoins is convenient and cheap—the minimum ticket size is as little as ₹100. However, investors should be aware of multiple red flags before considering this as an investment option.

First, there is no enforceable regulatory mechanism or backstop available in its current form. So, if an investor is buying a bitcoin on a cryptocurrency exchange, there is no guarantee that the seller actually possesses the bitcoins he claims to have. There is no clearing and settlement system and hence the exchange cannot guarantee the settlement. While the Supreme Court in March 2020 made it clear that bitcoins are not illegal, there are no existing regulations to lend the asset legitimacy. Ankur Maheshwari, CEO, Wealth Management, Equirus Capital, asserts, "The absence of any institutional framework gives no comfort about its operation."

Further, bitcoins are plagued by high volatility. The price of bitcoins fell from over \$18,000 in December 2017 to around \$3,200 in December 2018. Several investors got burnt badly. Besides, the increasing presence of cyber threats raises security concerns with cybercriminals out to scam cryptocurrency exchange users.

