

Bitcoin: Investment Or Speculation?

Let's Talk

?People often make suboptimal decisions for a variety of reasons, including incomplete accounting of costs and benefits, partial risk understanding, and flawed assumptions regarding the probabilities of various outcomes.? -•

Boombustology: Spotting Financial Bubbles Before They Burst by Vikram Mansharamani.

The investment vs. speculation discussions with ecstatic Bitcoin buyers are a real-time study into behavioral economics. **I understand the thrill of a cryptocurrency ride.** I too, find the dizzying parabolic moves higher, cascading drops, and the shaky trading infrastructure experience fascinating. It's reminiscent of the heyday of tech stock Wild-West trading when a company like EToys launches an IPO in 1999 at \$20 bucks a share, closes at \$76 and eventually goes bankrupt in 2001. Although I personally believe cryptocurrencies and [blockchain](#) technologies will have a longer shelf life than Pets.com. However, it's time to sit *?Bitsters?* down and explain a few things. *Stop squirming and listen!* I refer to those who undertake little if any homework and at least try to comprehend [Satoshi Nakamoto's](#) vision, as *?Bitsters.* Nakamoto's is a purely mathematical

design which creates a peer-to-peer, open electronic cash system to allow payments to flow quickly without going through a financial institution. **Bitcoin was never to be an *?investment,? or a method to speculate on the moves in its price.*** That's the motivation of naive *?Bitsters,?* who have no clue how badly they may get hurt gambling on price moves and falsely convincing themselves how they'll maintain Bitcoin no matter how far its price may fall. You see, *?Bitsters,?* are venturing into uncharted techno-territory of dedicated Bitcoin *?Hodlers,?* or those who will never sell their Bitcoins; they perceive minimal value in a fiat currency. They're a freakishly smart group who speak their own language like the garbage dump freaks on the hit show *The Walking Dead*. **So *?Bitsters,? you're as human as the rest of us.*** And as a human you're plagued by overconfidence and unaware of the limitations of your own knowledge and increasingly unaware of the mis-knowledge (*look, I created a word*), of others who are affected by a similar fever for cryptocurrencies with Bitcoin being the granddaddy of them all. In other words, you're experiencing [availability heuristic](#). Frankly, as people we are hot soup of flesh, blood, experiences and mental shortcuts when it comes to making decisions. An availability heuristic is a psychological quick path which relies on immediate examples that come to mind when evaluating a topic, concept or decision. The readily available and pervasive exhilaration about Bitcoin is that the price seems to climb to astounding records every day (*hour*). Here's what I'd like to say. **Bitsters: I implore you to get a grip.** You're participating in a boom that will lead to a bust. It'll happen. I just don't have a date to share with you. • Bitcoin will survive; however, in five years with increased supply, competition from other cryptos, the inevitable scrutiny by regulatory authorities, and futures contracts (with possible buffers that will quell wild price swings), eventually Bitcoin will find an equilibrium demand price that could be much lower than it is today. Heck, every new paradigm or technology eventually goes mainstream. As it's human nature, sexy ostensibly departs. It's just part of life. The thrill dissipates. Like the internet. Sure, a gamechanger. So was electricity and radio at one time, too. Markets inevitably discover the proper footing and price for everything that trades. The price of Bitcoin is based on scarcity and demand. As it is currently scarce, (*new Bitcoins are generated by a process called ?mining,? and will stop at a total circulation of \$21 million, with 16.4 million in existence, today*), and demand is feverishly high, prices are volatile and distorted. So, I implore "*Bitsters*" to humble themselves, don't attempt to recruit others or drum on your chests like boisterous gorillas about your newfound latest hot-crypto pick. Take your ego out of the trade. Step away; be swift and anxious to take profits, convert Bitcoin into currency you can use to stock up on stuff you can buy at Walgreen's. You know, like toothpaste. **I'll reiterate: Bitcoin is NOT an investment.** The creator of Bitcoin has no mention of it as an investment in his original paper. Neither should you consider it one. As a Bitster, I implore you to remain grounded and treat your purchase as a gamble, a thrill ride through a carnival fun house. Purchase with money you can afford to lose. Nothing else. **Why are you creating rules for a medium of exchange that isn't an investment?** Bitsters I encounter attempt to wrap rules around Bitcoin like *?if it drops by 50%, I'll buy!?* I as well as they, are uncertain as to why arbitrary rules of purchase are created. In other words, Bitcoin isn't an investment; you cannot calculate its value. So, how would I or anyone else know whether a 50% haircut is a buying opportunity? I guess it makes buyers sound smart, or responsible. How is \$19,000 expensive and \$10,000 a bargain? You tell me. I have no idea. If Bitcoin is based on demand and somewhat current limited supply, why not buy it here, take a leap of faith, and pray the price goes higher? There are no price anchors in uncharted territory; when it comes to speculation one must strike when the iron or opportunity is hot and exit before it cools. Therefore, Bitcoin, as I repeat what seems to be every hour, must be considered speculation at this point. **What are my personal thoughts?** Do I personally believe cryptocurrencies are here to stay? **Yes.** Do I think increased supply, regulation, and competition from other cryptocurrencies, eventually moderate the price of Bitcoin and obliterates *?Bitsters??* Why, yes. Yes, I do. Do I love how gatekeepers (those who make the rules for the rest of us), fear cryptocurrencies and discount their future acceptance? **Absolutely.** The financial, banking and systems of Wall Street deserve dissonance. The fear and sorrow that major

financial institutions have transferred to the majority of Main Street and the bills they've stuck households with for bailouts during the Great Recession, deserves such a threat (*albeit small right now*). A vast system for open transaction; a medium of exchange that has nothing to hide is as good a nemesis as any. Who knows? In 50 years, cryptocurrencies could be mainstream. Anything is possible. Major institutions and financial pundits rail against Bitcoin because it confronts their beliefs and someday may be a formidable threat to their shadow systems. For now, it's like turning on a kitchen light and watching gatekeeper roaches scatter. As I've read recently from a Blockchain Ecosystem builder:

?For us, Bitcoin IS the end game. We cashed out alright. We cashed out of the current system forced upon us because we did not have a choice in the past. Dedicated Bitcoin holders consider fiat currency dirty money and will spend it before they do their clean version. Now we do.?

For the amateur players in Bitcoin who can't keep their emotions in check, cryptocurrency may be a tough but required lesson.