What’s a Crypto Worth?

I’ll be straight with you. When it comes to Bitcoin, I got nothing.

For months, I’ve watched Bitcoin explode higher. And philosophically, there’s a lot I like about cryptocurrencies.

I like the idea of a viable currency that exists outside of government control and outside of the banking system. *I like* the fact that there is no central bank like the Federal Reserve to debase the currency, inflating away its value over time. And *I like* that Bitcoin and other cryptos – at least in theory – are anonymous.

But, back in 1998, I also *liked* the internet. That didn’t mean that it made sense to buy tech stocks with shaky business models at ludicrously high valuations.

The internet was the wild, wild west back in those days, and it showed unlimited potential. It seems almost quaint now, but back then Amazon.com was just an online bookstore, and a lot of investors who really ought to have known better considered Pets.com – with its ridiculous sock puppet mascot – to be a reasonable investment.

I don’t *know* that Bitcoin will meet the same fate as some of the high-flying tech stocks of the 1990s. But today’s crypto craze has some of the familiar characteristics of bubbles past.

One of my favorite bits of market lore is the story, possibly apocryphal, of how Joe Kennedy, the father of future president John F. Kennedy, avoided the 1929 stock market crash that preceded the Great Depression.

As the story goes, Kennedy immediately liquidated his entire portfolio after getting a stock tip from a shoeshine boy. As Kennedy saw it, if even the shoeshine boys are getting rich in the stock market, there's no one left to buy… or more accurately, no sucker left to sell to.

I haven't gotten any Bitcoin recommendations from shoeshine boys, but that's mostly because it has been *far* too long since I've taken my boots in for a proper shine. They're disgracefully scuffed up at the moment, and I really ought to have some self-respect and do something about that.

But more than a few Uber drivers and waiters I've come across have broached the subject of Bitcoin. And worse, I've had quite a few normally risk-averse investors — the proverbial widows and orphans — mention to me that they'd been dabbling in it.

This doesn't mean it's going to crash tomorrow, although last week Bitcoin topped $ 11,000 and then dropped 18% in a flash crash. I'd bet that it goes a good deal higher from here. It certainly has the momentum.

But this is far too crowded a trade for my liking. And it's hard for me to assign a "value" to cryptos like Bitcoin because there is nothing to value it against.

Is Bitcoin expensive? Or cheap?

I have no idea, and neither does anyone else, despite what they might tell you. There are no "fundamentals." They don't exist. There's no dividend… earnings… assets… There is literally nothing to tether its value to.

Of course, I've made similar arguments about gold in the past, as has Warren Buffett. According to the Oracle of Omaha, "The problem with commodities is that you are betting on what someone else would pay for them in six months. The commodity itself isn't going to do anything for you. … It is an entirely different game to buy a lump of something and hope that somebody else pays you more for that lump two years from now than it is to buy something that you expect to produce income for you over time.”

But at least in the case of gold, there are some industrial uses. And it’s ornamental. It may or may not be the one true and timeless currency (I’ll let the gold bugs debate that), but it seems to make my wife happy when I buy it for her.

And, frankly, gold bullion in your backyard is a lot more anonymous than cryptocurrency held in an online wallet (the IRS is actively pursuing Coinbase in court to get the online wallet company to reveal the wallet owners). And gold will never disappear due to hard-drive failure or a lost password.

Never mind the fact that Bitcoin isn’t really a “currency,” per se, as no one is spending it right now. Its enthusiasts are hoarding it or trading it as an investment asset, not as a spendable dollar replacement. That alone should dampen any enthusiasm that Bitcoin is blazing a trail to a new anarcho-libertarian utopia. Sorry guys. I read *Atlas Shrugged* in college too, but that’s not what’s unfolding here.

So again, I’m sitting this one out for now.

But if you’re feeling the itch to trade, go for it.

Seriously, don’t let me stop you. As I said earlier, Bitcoin and other cryptos are where the action is these days. And like all bubbles, it’s likely to go a lot higher than anyone – even most of the bulls – believes possible. Dot-com mania was no less ridiculous in the late 1990s than Bitcoin is today, but that didn’t stop a lot of people from making a lot of money.

Just be sure you don’t become a true believer and drink the Kool-Aid. If you buy Bitcoin, do so with the mentality of a trader, and don’t fall in love with it. Be willing to sell when the time comes. Have a trading system and stick to it.

Speaking of that, I was recently discussing trading systems with my friend Richard Smith, founder of TradeStops, and Bitcoin came up in conversation. Richard had some insights as to when to enter and exit a Bitcoin trade based on its historical volatility.

It won't guarantee you make money in the trade, but you can bet it will keep any losses within acceptable limits. If you'd like to hear more, click here.

And as a side note, Rodney wrote at length about Bitcoin in the December issue of *Boom & Bust* and had an interesting way to play the crypto craze. Rather than invest in Bitcoin, Rodney found a way to invest in the underlying blockchain technology, which has incredibly useful applications in finance, medicine, and real estate. And probably plenty of other places that no one has thought of yet.

Much as we still continue to benefit from the internet nearly two decades after the first wave of dot-com startups blew up, we'll likely still be benefitting from the blockchain long after Bitcoin bites the dust.

Charles Sizemore
Editor, *Peak Income*

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Charles Sizemore – Economy and Markets (Charles Sizemore)