

Is Bitcoin the new gold?

By [Wiehann Olivier](#)

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Bitcoin has soared again in recent months - along with some of its cryptocurrency peers, such as Ethereum - making this very modern form of investing a very 'hot' topic at the moment. The seemingly ever-increasing price of Bitcoin leaves the world holding its breath once again - as we did at the end of 2017 - waiting in anticipation for the apparent bubble to burst.



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The volatility of cryptocurrency prices continued to contradict weekly analysis and projections from the start of December last year. Bitcoin has broken through several thresholds and psychological barriers reaching a new record high of over \$41,000. What was interesting is that Bitcoin, and other cryptocurrencies, were not nearly as topical as they were when it set its previous record high of \$19,500 at the end of 2017. This has naturally raised the question as to why there was such a significant increase in the price of cryptocurrencies, and who was responsible for it."

In response to the increased investment in cryptocurrencies, the Financial Sector Conduct Authority (FSCA) has also published a draft declaration on crypto assets as a financial product in terms of the Financial Advisory and Intermediary Services Act of 2002 (FAIS) for comment.



FSCA takes first steps in the regulation of crypto assets

Desiree Reddy 24 Nov 2020



During 2017's crypto boom. There is a direct correlation in the Bitcoin price and the number of Google searches for Bitcoin. "This caused us to believe that this bull run was mostly attributable to retail investors. Obviously at the end of 2020, one would have expected to see the same trend, but something was different: there was a sudden increase in the Bitcoin price sparked by an announcement that PayPal had decided to adopt Bitcoin in late October 2020.

This laid the foundation for what was to come. In December 2020, we witnessed yet another bull run, resulting in Bitcoin becoming a \$1tn market cap asset. However, this time the increase in the value of Bitcoin was driven by institutional investors – the likes of the likes of Skybridge Capital and Mass Mutual – rather than retail investors.

Institutions' reasons for investing in Bitcoin vary, but they are often motivated by the need to manage their clients' risk, and to hedge them against the devaluation of certain asset classes which include local and foreign fiat currencies. This is similar to the way that investors would invest in gold, to hedge themselves against a devaluation of fiat currencies and other asset classes.

“ The Covid-19 pandemic has created an almost perfect storm ”

Governments and central banks around the world are under pressure to put policies in place, and make certain controversial decisions to best manage their economy. But without a doubt, not everyone would agree with these decisions. This created a motive for investors and institutions to move their wealth away from regulated currencies and asset classes to a freer market.

Essentially, Bitcoin has become the digital equivalent of gold – the two share several similar and advantageous characteristics.”As in the case of gold, Bitcoin is scarce, interchangeable, divisible but also more durable and portable than gold and expected to be more broadly accepted. Its limitation is that the cryptocurrency is not yet trusted to be a store of value to the same extent that the general public trusts gold. That said, the mass adoption of Bitcoin is growing. Gold has some industrial use, but it gets its value from others believing it has value –value therefore becomes reflexive in the same manner that people will believe gold or a fiat currency has intrinsic value if others believe it to also have value.

Once this inherent belief in something's value is diminished, any bubble associated with it is said to burst or result in hyperinflation, which have been witnessed several times in recent history. This exact same principle applies to Bitcoin: once more people believe in Bitcoin being a store of value due to its shared and improved characteristics to gold, it will ultimately lead to an increase in demand and an increase in its value. If that inherent belief disappears, the bubble will burst.

Interesting views on where the Bitcoin price is expected to end up continue to be a source of debate. The market cap of gold is currently trading at around \$10tn, but there is only expected to be around 21-million Bitcoin in circulation according to its protocol. As a result, the two are not quite equal – perhaps, yet. Based on the hypothetical replacement of gold by Bitcoin the price of one Bitcoin could be estimated to be around \$470,000. This could be argued as an extremely optimistic view, but if Bitcoin took only half of the market cap of gold, it would still end up at around \$235,000. US-based bank JP Morgan recently said that [Bitcoin has the potential to reach \\$146,000 in the long-term](#), as it competes with gold as an asset class.

Long-term investment

The common mantra of "it's about time in the markets and not timing the markets" applies in this case. Bitcoin has had several bubbles, none of which have burst, over more than a decade with each bubble increasing its value. It is notable that with each fall in the price subsequent to a peak, the lowest subsequent value in a cycle increases from the previous as awareness increases.

If an investor had bought Bitcoin at its famous peak in 2017, held onto it even though it had lost 70% of its value, that

investor would have almost doubled his investment value going to show that Bitcoin is a long-term investment and could be even more valuable in the future.

Whether investors make short term gains from the volatility of Bitcoin or want to appreciate their capital from long term investment perspective it remains extremely important to understand one's risks, diversify and make informed decisions.

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