Are cryptocurrencies the top-performing asset class of the decade or the world's greatest bubble?

By Sean Sanders

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In the early 1990s, when the internet was still in its infancy, there was some hesitation in adopting this new and unfamiliar technology with limited use in our personal and work lives. Today, the internet is the backbone of global industries and fuels the $11.5trn digital economy. The internet is now so native to us that it's impossible to disentangle it from our everyday lives.

Sean Sanders, founder and CEO, Revix

In my view, the potential of blockchain and cryptocurrencies are the same: some view them with scepticism, others with ignorance, but no one can question their growth. Cryptocurrencies have been the top-performing asset class over the last decade with their total market value increasing from $193bn in January 2020 to over $1.3trn today.

Bitcoin is the world's seventh-most valuable asset after its 267% return in 2020 and 55% return to date in 2021. The number of wallets containing at least 1,000 Bitcoin (~R720m) increased by 17% to reach a global high of 2,052 last year. And Bitcoin began 2021 with an all-time high of $47,066 (around R720,000) per coin, when it was announced in early February that Tesla bought $1.5bnworth of Bitcoin. Ironically, making Bitcoin more valuable than Tesla's market value. Bitcoin's astronomical 46,000% return on investment in the last decade has made it larger than Warren Buffet's Berkshire Hathaway and tech giants Samsung and Visa.

This upward price trajectory was seen within alternative cryptocurrencies in 2020 too, with Ethereum (up 890%), Chainlink (up 660%), Cardano (up 1,015%) and Polkadot (up 700%) all posting triple-digit gains over the last 12 months. Cryptocurrencies, as an asset class, experienced a 3,800% value increase over the same time period, which far outperforms the returns of the S&P 500 Stock Index, JSE Top 40 Stock Index and gold – all of which saw gains of no more than 25% year-on-year.

Building a diversified investment portfolio

This exponential growth in market value has poised cryptocurrencies as the digital gold of the fourth industrial revolution (4IR). Recent months have witnessed global institutional investors – pension, hedge and endowment funds, which historically invest in diverse asset classes including stocks, commodities and real estate – invest in cryptocurrencies to diversify their investment portfolios and spread their risk.

To be clear, these aren't the niche investments of niche firms. We're talking along the likes of Facebook, Paypal, Square, JP Morgan, now Tesla, as well as Harvard, Yale and Brown's endowments. This investment decision has legitimised cryptocurrency as an asset class beyond individual investors and has carved its place among mainstream investment strategies, while acting as a stabilising force against inflation within a volatile global economic market. In this way, these institutional investors will most likely accelerate cryptocurrencies' adoption as a mainstream payment platform or alternative store of value to traditional assets.

The holy grail of building a diversified portfolio is choosing investments across different asset classes that respond differently during economic crises. We've seen what happened with GameStop in recent weeks. Being a responsible investor means diversifying investments and not putting all one's life savings into a single investment. The responsible investor manages their risk and possible returns across a number of different asset classes, from traditional commodities to cryptocurrencies.

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Be prudent when adding cryptocurrencies to your investment portfolio for the first time. Allocate between 1-10% of your wealth to this asset class. This ensures that you have the potential to see your wealth grow as the market expands, without the risk of being overly exposed if the market pulls back.

Holding fiat currency – whether in rands, pounds or dollars – is a big risk with looming pandemic-induced inflation, which guarantees a loss on your money each year. Similarly, when it comes to risk in the cryptocurrency space, price volatility, which is characterised by daily price shifts, is greater when compared to the majority of other investment categories.

While the price of the largest cryptocurrencies are unlikely to reach zero, their asymmetric return potential – where investors could lose 100% of their funds in the worst-case scenario or make upwards of 250-1,000% if the asset class grows – makes this investment category so appealing.

Cryptocurrency bundles

Investing in a single asset class exposes you to the ups and downs of that particular investment category. Just as you wouldn't only invest in Woolworths, Shoprite or Naspers on the JSE but would rather consider the Satrix Top 40, so you should do the same within the cryptocurrency space.

Bundled investments can instantly diversify your investment portfolio with some of the best-performing cryptocurrencies. A Top 10 Bundle, for example, allows investors to invest in a bundle of the 10 largest cryptocurrencies as measured by market value and spread across 85% of the market.

Unlike investment funds, cryptocurrency investment bundles do not require an intermediary, such as a fund manager. Instead, they allow investors to invest directly into the underlying cryptocurrencies within that bundle and closely track their overall performance.

Crypto bundles use algorithms to automatically reweight and rebalance the investment portfolio each month to ensure that investors always hold the largest and most reputable cryptocurrencies. It’s never a case of only betting on one horse.

Alternative and tokenised investment classes

A library of theme-based investment opportunities is opening up across various sectors and industries thanks to the blockchain. In the near future, we’ll see a rise in theme-based investment classes, such as Artificial Intelligence, 5G technologies, biotech, renewable energy, ecommerce, sharing economy services, medical cannabis, gaming, collectors’ watches and digital artworks.

There will be also an opportunity to trade social media accounts and website URLs. Ordinary individuals will also be able to invest in successful businesspeople, researchers or academics in terms of their future earning potential, findings and registered patents. There will also be an increase in fractionalised investments, which will allow investors to own a share of a certain commodity, for example 1/1,000th of a Picasso artwork.

Increasingly, traditional stocks, such as gold, will be tokenised and placed on the blockchain, where one token represents one ounce of an insured physical gold bar stored in a vault. It's a new way for investors to get exposure to a commodity that they might have not had access to before. Furthermore, when it comes to tokens and tokenised investments, the settlement and execution happens in real time and can be withdrawn immediately, making it even more attractive.

In closing, the continuous growth of cryptocurrencies and blockchain investments has shown that this asset class is here to stay, and soon enough will become the gold standard investment strategy of the future.

ABOUT THE AUTHOR

Sean Sanders is a cryptocurrency and blockchain entrepreneur and co-founder of the investment platform Revix. He is a CFA Charterholder with a passion for fintech, blockchain and automated finance.