INVESTORS EDGE

# Small stake in Bitcoin could bring rewards

## Things have changed since a December 2017 column

*"What the wise man does in the beginning the fool does in the end."*
*— Warren Buffett*

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Three years ago, I wrote to you about the then white-hot investment Bitcoin. When my article was published in December 2017, Bitcoin had recently skyrocketed to an all-time high of $19,796. I warned local readers to tread carefully around a Bitcoin investment and be prepared for major volatility.

As you know, I always like to share when I'm right – and gloss over when I am wrong, which fortunately, is rare. Well, my Bitcoin article from 2017 actually has a little bit of both. Shortly after my column was penned, Bitcoin would drop sharply and eventually bottom around $4,000 – an almost 75% drop!

Now, Bitcoin is in the news again. It has had another spectacular rise, selling at the time of this writing at around $27,000 per coin. So, if you bought and actually held Bitcoin, you've had a winner.

Look, I'm not a huge fan of Bitcoin. But as we begin 2021 in a fundamentally changed world, I'll concede that the landscape for a Bitcoin investment has significantly changed in the last three years.

Let's review this.

One of the biggest differences today vs. 2017 with Bitcoin is the increased demand from institutions and highly regarded professional investors. Many billionaires and hedge fund managers now hold significant investments of Bitcoin. This may be due to the fact that Bitcoin now has a regulated, functioning derivatives market, is accessible at many major brokerage firms, and offers an increased level of liquidity and security to its investors.

In fact, COVID-19 has accelerated the trend towards digital currencies, as online shopping has skyrocketed around the world. In November, PayPal, the largest provider of online and digital payments, announced they would allow digital currencies, i.e. Bitcoin, to be used on their payment networks. Square, Paypal's leading competitor, has even made a direct investment in Bitcoin, and lists it as an asset on its balance sheet.

In other words, Bitcoin is no longer that mysterious, decentralized dark web currency that required super computers to access.

It has become — dare I say — an almost mainstream commodity.

Finally, Bitcoin is viewed by many as a hedge against rising inflation, and could even eventually replace gold as the traditional inflation hedge.

This could be significant.

The pandemic has forced many nations, especially the U.S., to dramatically increase their debt, which has the direct effect of eroding the purchasing power of the dollar.

Bitcoin, by its original design, has a finite supply of coins that may help it retain its store of value.

Remember that in essence, Bitcoin is an electronic currency that removes the middleman typically involved in financial transactions such as banks or credit institutions.

**PROCESSED BY BLOCKCHAINS**

Transactions through cryptocurrencies are processed by blockchains, computerized records that link one Bitcoin to another based on a payment between two different parties.

Like gold, there is no real way to value what Bitcoin is worth. It is, in fact nothing more than a socially agreed upon convention as a store of value.

At the time of this writing Bitcoin is up nearly 300% year to date and over 30% in December alone. I am reminded of the "greater fool theory:" I buy an asset not because it is a good value, but because I believe there will be a greater fool that will be willing to pay a higher price on an already overvalued investment.

This almost always ends badly.

Readers wanting to take a bite of Bitcoin can buy it directly through Coinbase, or through the Grayscale Bitcoin Trust (ticker symbol GBTC) which mirrors the performance of Bitcoin, and is available at many brokerage firms.

I think a small position in your portfolio is perfectly fine — just please don't bet the farm.

My recommendation today is the same as three years: caveat emptor.

Switching gears, to review, I made 16 stock picks in my 2020 columns; 15 are positive, with only CME Group down, approximately 14%.

I still like the stock and would not sell it now. The total return, from the time of each writing, had my stock picks up 24.2%.

I hope you bought what I recommended.

Good luck to all of us in 2021!

*Jim Burns, a chartered financial analyst, is president of J.W. Burns & Co. The opinions expressed here are his and do not necessarily reflect those of The Post-Standard. Readers should do research before deciding on an investment. Contact him at jburns@jwburns.com*