

# Cybercurrencies: A Risky Choice

*Investors attracted by bitcoin & other altcoins should recognize their downsides.*

Provided by David H. Smith

**Bitcoin. Ethereum. Litecoin. Ripple.** These are just four of the cybercurrencies attracting opportunistic investors today. Are they the next big thing? Or the next big bust?

The answer to that question may vary per day, week, month, or year. These altcoins are classified as commodities, not currencies, by the Commodity Futures Trading Commission. Like all commodities, their value can quickly change.<sup>1</sup>

**This spring, a bitcoin bubble popped.** As 2017 unfolded, the value of a single bitcoin tripled, reaching more than \$3,000 in May. Just weeks later, it was down to around \$2,245, sliding roughly 25%. That tumble paled in comparison to the dive it took starting in late 2013, when its price sank from above \$1,000 to about \$200. After losing 80% of its value, the price then stayed around \$200 for nearly three years.<sup>1</sup>

**Ethereum went on an even wilder ride.** An ether was worth \$8 when 2017 started. By June, its value was hovering near \$400. In mid-July, the price slipped below \$200.<sup>2</sup>

If bitcoin and ethereum were stocks, price fluctuations like this would leave their shareholders alternately exhilarated, horrified, and exhausted. Yet, many equities investors are looking at cybercurrencies with great interest, seeing “money to be made.”

As the above examples show, money invested in these commodities can also easily be lost. Extreme volatility aside, ethical and moral issues are also complicating the acceptance of altcoins.

**Cryptocurrency may be revolutionary, but it is also shadowy.** In the opinion of the Securities and Exchange Commission, bitcoin and other little-regulated altcoins are ripe for criminal activity, particularly fraud and currency manipulation. The Treasury Department’s Financial Crimes Enforcement Network agrees.<sup>1</sup>

Cryptocurrencies have been linked to money laundering, a common practice of drug cartels. They are also convenient for online gambling operations. Does an investor really want to risk supporting these activities? Some analysts argue that these doings have been fundamental to the rise of bitcoin and ethereum.<sup>2</sup>

You may be curious to know how the Internal Revenue Service sees cryptocurrency. It defines bitcoin as a form of property, and it may end up broadly applying that definition to other altcoins.<sup>1</sup>

As more and more businesses are taking digital currency payments, altcoins will remain economically viable. Analysts at Morgan Stanley, however, see the cryptocurrency rally slowing soon unless governments start to provide federal oversight for bitcoin and its ilk.<sup>3</sup>

If you are nearing retirement and marveling over the rise of bitcoin and ethereum, take a step back and consider the risk exposure of these investments. Putting any portion of your retirement savings in such a hugely speculative commodity is perilous. If it scared you when the S&P 500 lost half its value in the bear market of 2007-09, imagine investing in a cybercurrency and seeing 25-80% of the value of your investment erode in weeks. It has happened, and it could happen again.<sup>4</sup>

Altcoins are spicing up the investment world these days, but you may be better off with a plain vanilla portfolio.

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#### **Citations.**

1 - [tinyurl.com/y8j7q8qy](http://tinyurl.com/y8j7q8qy) [6/5/17]

2 - [marketwatch.com/story/ethereum-has-lost-175-billion-in-market-value-in-4-weeks-2017-07-11](http://marketwatch.com/story/ethereum-has-lost-175-billion-in-market-value-in-4-weeks-2017-07-11) [7/11/17]

3 - [marketwatch.com/story/stay-away-from-bitcoin-its-complete-garbage-2017-06-15/](http://marketwatch.com/story/stay-away-from-bitcoin-its-complete-garbage-2017-06-15/) [6/15/17]

4 - [cnbc.com/2016/10/24/safe-investing-strategies-for-the-us-election-and-uncertain-times.html](http://cnbc.com/2016/10/24/safe-investing-strategies-for-the-us-election-and-uncertain-times.html) [10/24/16]