

Q: What should we make of recent Bitcoin volatility?

Brian Lockhart: As Bitcoin struggles to become more mainstream and an acceptable tender for payment, people are taking note of very large volatility swings in the price of the cryptocurrency. The most reported cause of the correction in Bitcoin prices is a crackdown by the Chinese government on mining in the country. According to blockchain.com, more than 65% of global Bitcoin mining occurs in China. The latest crackdown is said to have reduced mining in China by over 90%, according to the CCP-backed newspaper Global Times. China has also pressured finance companies like Alipay to restrict trading and payments in Bitcoin. Crackdowns by the Chinese Communist Party are not that surprising -- it has happened three times in the last eight years.

The sharp retreat in prices, after doubling since the beginning of the year, caused what is technically known as a “death cross” for Bitcoin. A death cross occurs when the 50-day moving average crosses below the 200-day moving average. This technical indicator has preceded many major stock market corrections, but history suggests another likely outcome when looking at Bitcoin. A death cross has occurred seven times with Bitcoin, and the price has climbed 11% on average over the following 30 days. Trading Bitcoin is more speculating than investing, so volatility that might spook stock investors will likely feel more like a buying opportunity for owners of Bitcoin. Do not be shocked to see prices higher in the near future.

Clint Pekrul, CFA: I would not make too much of a concern about recent volatility in the cryptocurrency. If there is one certainty about Bitcoin, it's that its price movements can be quite volatile. When you think about Bitcoin, it is basically a commodity at this point. It produces no cash flow, earnings, or dividends, so it is no surprise that we experience wild price swings in the short term. Gains of 200% or 300% can easily be followed by declines of -50% or -60%. Historically, for example, Bitcoin traded around 19,000/USD around the end of 2017, and then fell to around 4,000/USD at the end of 2019. It then subsequently surged to over 60,000/USD earlier this year, but now trades at roughly 30,000/USD. If you were fortunate enough to buy Bitcoin early on you are likely still trading well above your initial cost basis and sitting on some substantial gains.

However, if you are just beginning to trade Bitcoin, I think it is important that you appreciate the volatility and understand how rapidly the value of your position can change in a very short period. Active traders actually welcome the volatility in order to make short-term profits. However, if you are simply holding a strategic position in Bitcoin, be sure you have a long-term time horizon to recoup any short-term losses.