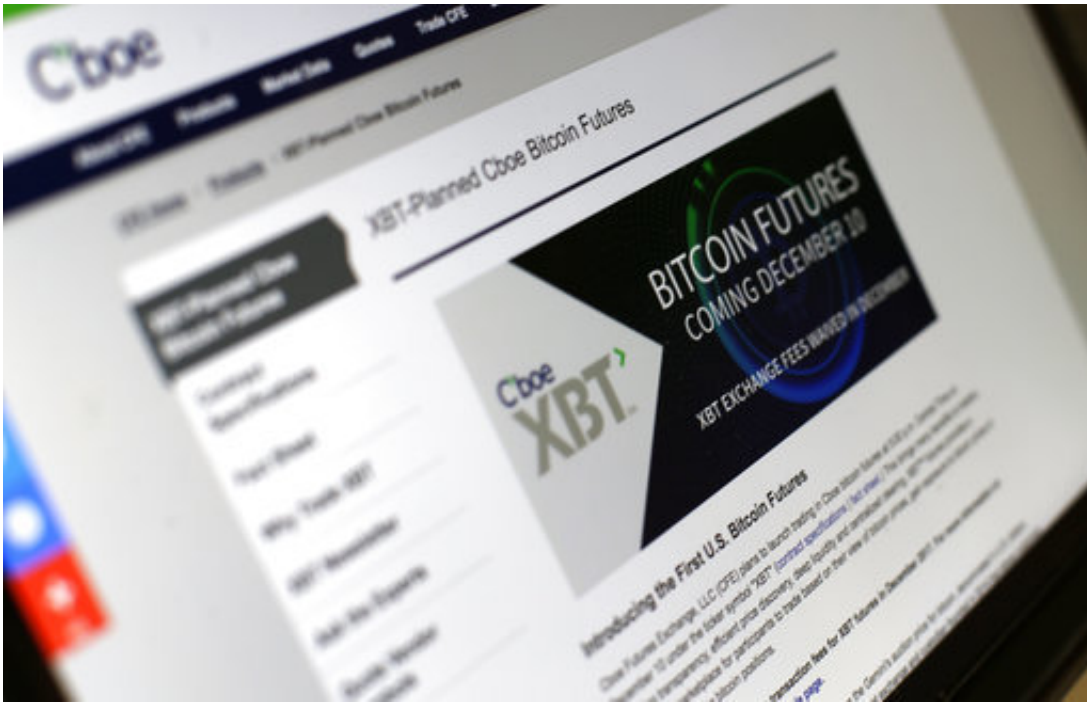


# As bitcoin soars, warnings of a bubble proliferate

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This Friday, Dec. 8, 2017, photo shows the Chicago Board Options Exchange website announcing that bitcoin futures will start trading on the CBOE on Sunday evening, Dec. 10. Bitcoin futures will start trading a week later on the Chicago Mercantile Exchange. (AP Photo/Kiichiro Sato)

Is bitcoin in a bubble?

The price of [bitcoin](#) has been soaring this year, and last week alone it jumped from \$11,000 to well over \$17,000, according to Coindesk. It

started the year below \$1,000.

That rocketing level of appreciation smells a lot like an irrational investor mania to many economists and financial pros, the kind that sent prices for unprofitable startup internet companies soaring in the dot-com boom. Those prices eventually came crashing down.

"We saw this in the 1990s," says Barry Ritholtz, chairman and chief investment officer of Ritholtz Wealth Management. "Any of those things sound familiar? 'This is unique, this will change everything?'"

Like many others in finance, Ritholtz expects the bitcoin bubble to pop. The only question is when. "Some people think it's early days, some people think it's late," Ritholtz said. "We'll find out in the not-too-distant-future who is right."

Robert Shiller and Joseph Stiglitz, two Nobel-prize winning economists who've seen their share of speculative manias, recently have called bitcoin a bubble. Stiglitz went so far as to tell Bloomberg TV that bitcoin should be "outlawed."

Bitcoin was created in hopes it would become a new kind of currency that people could use outside of the traditional banking system, without backing from any country or central bank. It was also supposed to operate outside of government oversight, which has raised concerns that it will be a haven for criminals.

Unlike traditional currencies, bitcoin doesn't have a country backing it, a [central bank](#), interest rates, or a long history of exchange rates against other currencies, making it extremely difficult to place a value on. Its value is tied only to what people believe it's worth at any given time.

Despite the growing interest, bitcoin still is not widely accepted in stores

to buy merchandise, and you can't deposit it at a bank. One of the problems with using it as a currency is that its value keeps bouncing around, sometimes very suddenly.

"We have seen bitcoin more as a speculative investment rather than an equivalent to cash," says J. Craig Shearman, spokesman for the National Retail Federation, the world's largest trade association of retailers. "Even if it were a foreign currency, you need to dependably know what the exchange rate is, and bitcoin doesn't meet any of those tests."

Backers of bitcoin say it's about time for a new kind of currency that can be exchanged in private and secure ways. Its promoters include internet entrepreneurs Cameron and Tyler Winklevoss.

This week mainstream financial markets are for the first time allowing investors to make future bets on the direction of bitcoin, but bitcoins themselves will continued to be traded only on private exchanges, which are mostly out of reach of regulators.

Mark Fratella, a teacher who lives in Elmhurst, Illinois, bought some bitcoin "for the novelty of it" back when it was worth \$700 or \$800.

Fratella is holding onto his bitcoin, and buying a little more from time to time. He's also buying other cryptocurrencies, such as Ethereum and Litecoin. He's heard the talk of a bitcoin bubble.

"But I have also seen a few analysts talk about how, in the grand scheme of things, there are a relatively low amount of people into bitcoin and there is a huge potential for growth," he said. With the futures trade starting, Fratella thinks people who have been leery of its decentralized, deregulated nature will start buying into it too.

The futures also give investors the opportunity to "short" bitcoin—that is

bet that its price will go down—which presently is very difficult to near impossible to do.

While the value of bitcoin itself may be inflated, even some of its biggest critics say that the technology that's behind bitcoin has promise. That technology is called blockchain. It's a kind of digital ledger that securely records transactions and prevents the same bitcoin from being spent twice.

Jamie Dimon, the head of JPMorgan Chase, has called bitcoin "a fraud" that will eventually "blow up." But Dimon also said he thought the blockchain technology was "good" and could be used to make transactions faster and easier.

For now, people keep buying bitcoin, even with all the talk of a bubble. To Ritholtz, it's a combination of the novelty of bitcoin, the built-in scarcity of it—only 21 million of them will ever be created—and the psychology of [people](#) being attracted to assets whose prices appear to keep going up.

"One of the first rules of investing is, only invest in things you understand," Ritholtz said. "If you want to speculate in a cryptocurrency and you don't understand it, you might get lucky for a while but those sorts of speculations don't work out well."

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