

Bitcoin's wild ride and what's ahead for the cryptocurrency

April 17 2018, by Thanasis Stengos

Bitcoin has been on a volatile ride in recent times, [its value rising and falling](#) like a kite caught in variable winds.

Its future will likely be as unpredictable as its past given that it's a currency propped up by risk-takers, a target of lawmakers and tied to nothing more substantial than an algorithm.

But there are certain variables and concurrent conditions that are signals worth watching when considering Bitcoin's future.

An international research team comprised of me, Theodore Panagiotidis at the University of Macedonia in Greece and Orestis Vravosinos at the Barcelona Graduate School of Economics in Spain [recently analyzed a broad spectrum of data](#) representing several years in the life of Bitcoin.

It was our attempt to reach a deeper understanding of what drives the cryptocurrency's value.

Can you really predict how investors will behave around something with so many layers of complexity —around what is essentially a [black box](#) system and the subject of so much hype?

It's not an easy task. We set out to bring a measure of predictability to the path the cryptocurrency will take.

Online buzz, gold impact Bitcoin

We looked closely at 21 variables that could potentially affect Bitcoin returns. Vital market determinants like gold and oil prices, various currency exchange rates and stock market indexes from around the world were part of the mix.

Government policy-related economic uncertainty, along with the internet search intensity of Bitcoin, were crucial areas of our research.

We took more than 2,500 observations of variables spanning a seven-year period and filtered it through what's known as a LASSO—a "least absolute shrinkage and selection operator." It's an analytical model to determine what the possible predictors, or covariates, might be.

We found that of all the many variables, the amount of online chatter about Bitcoin, along with gold returns, and uncertainty over government policy stand out as possible predictors.

Having said that, Bitcoin is a moving target that appears not to conform to any logical patterns.

In relationship to gold, Bitcoin's value tends to rise as gold rises. But will that remain consistent if the economy stumbles? In those circumstances, investors seek the safer haven of gold, American dollars and euros, entities they know to have value supported by governments and central banks. The riskier currencies, like the crypto ones, might be abandoned.

Mysterious, alluring

There are [many cryptocurrencies in circulation](#), but Bitcoin has outstripped them all in popularity, mostly because it is cloaked in mystery and because of the media attention surrounding its dramatic value fluxes.

There is a fascination with something that is new, that is technologically created and that's hard to hack. The idea of having a Bitcoin network that can evade governments is alluring to people.

We found that the general chatter and interest surrounding Bitcoin, positive and negative alike, is a main determinant of its value. We used Google and Wikipedia analytics to measure the hype.

Bitcoin as a means of exchange has been running under the radar of regulation over the entirety of its nine-year lifespan. But we cannot see that scenario continuing for long. And it seems that investors [are also mindful of the looming possibility of regulatory oversight](#) since Bitcoin's value tends to respond negatively when there is speculation about government action.

With Bitcoin and other cryptocurrencies, transactions are conducted free of taxation. We can't be sure what the nature of those transactions are, but often cryptocurrencies are used to avoid taxes or duties, or to engage in illicit commerce, which makes them even more shadowy, darkly appealing currencies.

Governments will want in on the action

It's not clear how governments will ultimately respond to this tax-free commerce, but we can be certain that they'll eventually act. Wherever there are goods and services changing hands and money is being made, [government is eager to get a piece of the action.](#)

If cryptocurrencies continue to grow and position themselves as systems that are beyond the influence of banks and the reach of government regulation, we can be sure that governments will enact national laws and take their share of the proceeds.

Many people believe that Bitcoin is going to replace the money we currently use, but we doubt it.

That's because big [government](#) will never allow it. Governments want the tax revenues, and they want control.

Once governments begin to demand access to Bitcoin transaction records, especially those carried out with mainstream businesses, it is likely that regulations will follow. Once that happens, the black box will be opened and Bitcoin's appeal as an underground tax avoidance scheme will be lost.

Bitcoin's fate is therefore highly unpredictable and dependent on what governments will do in the future. Once the cryptocurrency was taken seriously by gamblers and techies, it became volatile, and that volatility is showing no signs of abating.

What our research has shown is that with something as erratic as Bitcoin, with online chatter its main driving force rather than economic fundamentals, it would be best for investors to fasten their seatbelts and hold on tight.

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