



Bitcoin Mania

Dear Dr. Per Cap:

Is Bitcoin a smart investment? Just a few years ago one Bitcoin was worth less than \$10 and now it's trading for over \$50,000.

Signed,

FOMO Native

Dear FOMO Native

This is *the \$50,000 question* and I honestly don't know the answer. Bitcoin mania seems to be taking over the world as more investors, businesses, and governments keep piling in. Is it the currency of the future – or just another overinflated asset bubble waiting to pop? Think flash in the pan like Beanie Babies or New Coke.

The biggest challenge with investing in Bitcoin is to understand what it is and what it's supposed to be. In theory it's a digital version of physical cash that unlike debit cards and other cashless payment systems is decentralized. Meaning it's not controlled or regulated by a government.

Bitcoin and other digital or cryptocurrencies really gained interest following the last big financial crisis in 2008. When disillusionment in governments and the financial system, in which currencies can be manipulated and money is created through loans and credit, soared.

This all seems to make sense but it's not really how Bitcoin is actually working. A legitimate currency offers stability and broad acceptance. When Bitcoin has wild daily price swings of 30% or more, that's not ideal for someone who wants to use it to buy groceries and pay the light bill. And while more businesses, such as Tesla and Paypal, are accepting Bitcoin for payments it still represents just a tiny fraction compared to transactions made with good old fashioned greenbacks.

So what you have is more of a commodity powered by supply and demand. Many people have extra cash to invest because they weren't spending during lockdowns. Tack on three rounds of stimulus payments, low interest rates, and a wave of investor optimism that believes we've finally turned the corner on the pandemic.

This inspires people to buy Bitcoin faster than miners, people who use computers to verify Bitcoin transactions, put coins into circulation. So the explosion in the price of Bitcoin probably isn't being fueled by genuine faith in its value as a currency.

But then again you never know. In ten years we might be using Bitcoin to pay for everything from hamburgers to houses, so I'm certainly not going to laugh it off as a big joke.

I just heard about a guy the other day working in Indian Country who bought bitcoin for less than \$20. He's now made enough to never work another day. However, he's a techie who understands Bitcoin and its risks better than most people. He's also better able to manage and protect his digital wallet – software that's used to access the blockchain, an online database that contains the payment history of every bitcoin in circulation and proof of who owns them.

And that's what's really scary about Bitcoin. For every person who has made a fortune trading or mining Bitcoin, there's a bunch of people who've lost their tails or had their digital wallets robbed or hacked. And with no financial institution backing any Bitcoin transactions or regulators overseeing the blockchain, an investor has no recourse when bad stuff happens.

I offer the same advice I give for all high risk, momentum driven investments. Do your homework and approach it more like gambling than investing. Definitely don't wager more on Bitcoin than you can afford to lose.

Ask Dr. Per Cap is a program funded by First Nations Development Institute with assistance from the FINRA Investor Education Foundation. For more information, visit www.firstnations.org. To send a question to Dr. Per Cap, email askdrpercap@firstnations.org.