



What is Bitcoin?

Bitcoin is a global digital currency that is not backed by any central organisation or government. It is the largest and best known cryptocurrency – a digital asset based on cryptography that acts as a medium of exchange like traditional currencies.

Bitcoins are created by a process called mining but like any other asset they can be traded and exchanged for money, goods or services.

By October 20th, Bitcoin's market capitalisation – the price of one Bitcoin multiplied by the number in circulation - stood at more than \$100bn, making it bigger than Goldman Sachs.

A rapid rise...



Bitcoin's value has surged since its inception, with prices rising especially quickly in 2017 as speculators buy up the currency. At the start of the year it was trading below \$1,000 but has risen fivefold as efforts were made to

improve transaction processing speeds. On September 2nd Bitcoin climbed above \$5,000 for the first time and by October 20th had breached \$6,000.

...but a volatile one

Bitcoin volatility is well known. With no underlying fundamentals to underpin its value and speculators overshadowing investors, price changes can be significant and swift. It has posted daily gains and losses of as much as 26% and 16% respectively.

After hitting an all-time high of \$5,013.91 on September 2nd, it rapidly plunged to under \$3,000 in the next two weeks, before again rallying hard to more than \$6,000 by October 20th, before again easing back. However with greater investor interest in Bitcoin and the underlying technology, price stability could improve.

Bitcoin competitors



Why Bitcoin and not one of the myriad other cryptocurrencies? Firstly, Bitcoin is the largest and most liquid, which makes it more appealing as a tradable security since it is easier to find buyers and sellers for any given price.

Bitcoin holds more than 50% of the total market capitalisation of all digital currencies and this may improve further since analysts have noted a rotation from some of the lesser-known cryptocurrencies into Bitcoin.

Trading vs Investing Bitcoin

There are still wide-ranging doubts about Bitcoin as an asset class. Its volatility means it is constantly being questioned as an effective store of value. Nevertheless, there is growing investor demand and increasingly Bitcoin is seen as a legitimate portion of investment portfolios.

Investing in Bitcoin requires a capital outlay and profit depends on it continuing to rise, which is not a certainty by any means. With leveraged trading products it is possible to

trade with a relatively small outlay and profit whether the price goes up or down.

Ease of access to market is another reason to trade rather than invest. Spread betting or trading Bitcoin CFDs gives you exposure to the market without the requirement for a Bitcoin wallet. Our spread bets and CFDs also mean you can trade Bitcoin in a regulated environment. At ETX you can trade Bitcoin against the USD, GBP or EUR.

Safe haven?

One reason why bulls think Bitcoin will rise is its appeal as a safe haven. There is clear evidence of investors allocating some resources to Bitcoin alongside gold.

As an alternative to cash it may be said to act rather like gold, arguably better as digital currencies can be used as a medium of exchange far more easily than for physical gold or even a gold-backed ETF.

There are many shared characteristics with gold: it is mined and most of it has already been extracted; while the price is based on sentiment and there is an opportunity cost of holding the asset. Opportunity cost may be less important to Bitcoin than gold (at present) since it is new and attracting hot flows of capital

that gold simply hasn't seen since the launch of gold-backed ETFs. However it remains an important consideration for investors.

Whilst called a currency, Bitcoin behaves more like a commodity or stock in many ways. Its numbers are capped at 21m – there are currently around 16m in circulation but mining will only ever result in 21m in existence. Scarcity is built in – unlike fiat currencies that may be devalued by increasing the supply.

This presents a fundamental reason why greater investor interest results in inflows that has driven up its value. Of course there are many alternatives to Bitcoin on the market but its pre-eminence is an important determiner of value for now.



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