

# Profitable INVESTING Tips

## Stock Market Investing Tips, Techniques, and Resources



### **Borrowing Money in Cryptocurrencies**

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The US Treasury and Federal Reserve helped get the US out of the depths of the Great Recession by dropping interest rates and flooding the bond market with liquidity. One of the effects was the devaluation of the US dollar. At that time many foreign lenders offered loans denominated in dollars which borrowers jumped on. Their belief was that the dollar would be worth less when they had to pay back their loans than when they borrowed in the first place. That strategy worked for a few years until 2015 when the Fed raised rates and cut back on bond purchases. The dollar strengthened and many borrowers across the globe ended up paying back more money in their home currencies than their loans were originally worth. The same predicament could befall those today who consider borrowing money in cryptocurrencies.

### **What Is Crypto Lending?**

Crypto loans are loans of a fiat currency like the dollar but backed by a cryptocurrency. This is like a security-backed loan. You buy a car or home with the asset as collateral and then make payments over time. These types of loans are made through crypto exchanges or lending platforms. The way it generally works is that you still own your cryptocurrency but are unable to trade it or make purchases with it.

### **Risk of Borrowing Money in Cryptocurrencies**

When you borrow money and use something as collateral you typically believe that the value of the collateral will remain stable or go up over the term of the loan. This is what many believed when they took out loans denominated in dollars instead of euros or other currencies. It is also what people were led to believe in the years leading up to the Financial Crisis. Just like people were “upside down” on their mortgages when the housing market collapsed to usher in the Great Recession, so can a crypto borrower if the value of their cryptocurrency drops dramatically during the term of their loan.

### **Hold On For Dear Life**

The current wisdom in the crypto world regarding crypto loans is that you need to be in crypto for the long term to make this work. Hold on for dear life is a phrase often repeated on crypto forums in this regard. If you have sufficient assets in other investments and can weather the storm of a 50% drop in bitcoin such as happened after November or 2021 you are expecting a resurgence and eventual riches. If you choose to borrow with your crypto as collateral you can do that if you are not going to need those assets for any financial emergencies.

### **How Much Should You Borrow With a Crypto Loan?**

If you do not want to lose your crypto used as collateral for a loan you need to look at how badly the market can fall from the point at which you take out a loan. It might be tempting to take out a loan when Bitcoin has

surged to a new high but you need to remember that after a surge upward Bitcoin and the rest are perfectly capable of losing fifty percent. Depending on where you are in the cycle the best course of action is probably to borrow no more than 50% of your crypto value if you believe you are in a trough and no more than 25% if you think you are at a peak.

### **Can You Make Money Borrowing Crypto?**

If you tend to be successful timing the market in Bitcoin, Ethereum, and the rest, you could make money with crypto loans. In the last three years Bitcoin has tripled, quintupled, and then doubled in three separate bull markets. If you had timed your loan correctly you could have paid off the loan and had money to spare in each case.

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