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Stock Market Investing Tips, Techniques, and Resources



Cryptocurrencies as Safe Haven Investments

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When a crisis threatens, investors tend to flock to safe havens. Historically this has meant changing weaker foreign currencies into the US dollar, Swiss franc, British pound, or yen for those who wish to stay in cash. Likewise, investors seeking a safe haven have often purchased US Treasuries. Within the stock market, rotation to value stocks and out of growth stocks is often seen as a flight to safe havens or safety. Today there is a new option when a crisis threatens, cryptocurrencies as safe haven investments.

Printing Money Versus Mining Bitcoin

When governments start running out of money they very commonly start to print more. The German Weimar Republic famously printed so many Deutschmarks that it eventually took a wheelbarrow full of bank notes to buy a loaf of bread. Such is the case today in Venezuela which reissued currency on October 1, 2021 taking away 6 zeros as the bolivar was worth just one millionth of its pre-Chavez and Maduro value. Argentina has famously followed the same path several times over the years. The same issue threatens the value of even the major fiat currencies. On the other hand, there is a cap on the eventual number of bitcoins that will be mined. The code underlying bitcoin will allow for 21 million bitcoin of which 19 million have been mined already. Because the system keeps reducing how many can be mined it will take until 2040 to reach 21 million.

Cryptocurrencies Are Not National Currencies

If bitcoin were a national currency we might doubt that the cap on mining would stay in place. National contingencies being what they often are, the party in power will find a way to create money out of thin air in order to deal with issues of the day and stay in power. Because no nation controls cryptocurrencies like bitcoin the cap will stay in place making bitcoin and others immune to the problem of printing money for emergencies. Also, because Bitcoin and others are not national currencies they are not hurt when the economy of any given nation goes into debt, recession, or war. Central banks in countries like China manipulate their currencies for economic advantage. The market in cryptocurrencies like Bitcoin may be volatile but not due to central bank manipulation.

Long Term Versus Short Term Safe Havens

The point of putting your assets into a safe haven in times of crisis is to protect your wealth. While Bitcoin has many features that protect it from governments and central banks it can be quite volatile over the shorter term. Although some cryptocurrencies like TFL, NYC, CAPP, LET, and PINK have been less volatile than Bitcoin on a day by day basis, all of them have experienced roughly the same percentage decline in value as Bitcoin from the last November 2021 crypto peak until the current February 2022 trough. Thus, one could jump into cryptocurrencies as a safe haven only to see one's assets diminished by a short term plunge in crypto prices.

However, if you are looking for a longer term safe haven, which is usually the case, all of the factors that we have mentioned apply to cryptocurrencies as safe haven investments.

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