

Profitable INVESTING Tips

Stock Market Investing Tips, Techniques, and Resources



How High Will Bitcoin Go?

By www.ProfitableInvestingTips.com

Bitcoin is on another rally. The one in 2019 ended in a crash. How high will bitcoin go in 2021 and then what will happen? A year ago at the start of 2020 bitcoin was valued at \$7,347 and today it has risen to \$31,646. The bulk of the rally has been since October 2020 when bitcoin sold for just over \$10,000. This is similar to 2017 when it finished September in the \$4,000 range and nearly passed \$20,000 in December. The questions today are not only how high will bitcoin go but how will it fall again. Bitcoin enthusiasts need to remember that following the \$20,000 peak of the cryptocurrency three years ago it eventually fell to the \$3,600 range!

What Determines the Price of Bitcoin?

The *Bitcoin.com* site simply states that [supply and demand drive the price of bitcoin](#). But, what drives demand for bitcoin besides the belief that its price will rise? Investopedia broadens the explanation by noting that Bitcoin is not a stock that produces profits or a currency that is backed by a central bank. They list these reasons for variation in bitcoin price.

- The supply of bitcoin and market demand for it
- The cost of producing a bitcoin through the mining process
- The rewards issued to bitcoin miners for verifying transactions to the blockchain
- The number of competing cryptocurrencies
- The exchanges it trades on
- Regulations governing its sale
- Its internal governance

While this list gives us more information, the crucial part for bitcoin price is demand and the belief that bitcoin is destined to rise in price. Is that likely to be true or will this rally turn out to be another [pump and dump](#) that robs latecomers of their money?

Will Bitcoin Hit \$100,000?

The Irish Times reports a prediction that [bitcoin will hit \\$100,000](#) before the end of the year. Unfortunately, the “prediction” is being made by the CEO of Luna which is a London-based cryptocurrency exchange. Marcus Swanepoel bases this assessment on “current trends.” If we apply same logic to Tesla which has gone from \$90 a share a year ago to \$740 a share today, we would predict a price of $8 \times \$740 = \$5,920$ a share by next January. Any long term investor knows that markets, equities, and currencies rise and fall. Anyone who experienced the rise and fall of bitcoin in 2017 dearly wished they had taken a little “off the table” as bitcoin hit its peak and certainly before it fell back to the \$3,500 range. Although bitcoin could eventually reach \$100,000 its history of ups and downs is such that a bit of caution is advisable.

How Much to Invest in Bitcoin?

History has shown two things with bitcoin. Its price rises over time and rallies are followed by corrections. A long term investor may choose to put some money into bitcoin and wait. A short term investor may try to time the market to reap spectacular rewards. In each case, how much to invest in bitcoin needs to be considered. How much should not be a dollar amount but rather a percentage of your investment capital. Due to the potential volatility of bitcoin, the money you invest should not be money that you may need in the short term.

Is Bitcoin a Scam?

There are, indeed, bitcoin scams and risks with some bitcoin exchanges where you could lose all of your assets due to hacking. However, there are people who have gained impressive wealth so having an interest in bitcoin is a rational thing. The scam part of bitcoin, in our opinion, is the hype generated by bitcoin exchanges and others who stand to profit from rises in the bitcoin price. This is especially important because all that an investor can do is speculate about price rises as there are not quarterly financial reports, products, or services to analyze in making your investment decisions.

Reclaiming Your Bitcoin Profits

Bitcoin is very popular but the total value of all bitcoin is around \$500 billion. By comparison the total market cap of all US companies traded on US exchanges is \$36 trillion and the total value of currencies traded daily on Forex markets is about \$6.6 trillion. Since bitcoin has only now come to the \$500 billion range, it has been “small potatoes” for the regulators. Bit by bit that is changing. As we noted recently, the [IRS bitcoin trap](#) will force every US taxpayer to pay capital gains on realized bitcoin earnings. Payment of capital gains taxes will be due if you cash out and put the money in the bank or if you pay for something with bitcoin (as was the original purpose of bitcoin).

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