

# Profitable INVESTING Tips

## Stock Market Investing Tips, Techniques, and Resources



### How Stable Are Stablecoins?

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Bitcoin and other cryptocurrencies can be great for investing or trading, provided that your market timing is good. Because Bitcoin and its smaller crypto brothers and sisters are so volatile, they are not really suitable for the purpose for which Bitcoin was invented, which was as a medium of exchange. A crypto variant that is meant to remedy the volatility problem is the stablecoin. With values tied to fiat currencies like the US dollar, gold, other cryptocurrencies, or controlled by internal algorithms, these cryptocurrencies are designed to maintain a steady value making them suitable as mediums of exchange. But how stable are stablecoins really?

### What Is a Stablecoin?

A stablecoin is a cryptocurrency that runs on a blockchain. Unlike Bitcoin which can fluctuate wildly, a stablecoin is designed to maintain a steady value. Thus, stablecoins are not used for long term investment or for trading. Rather you can use a stablecoin for buying and selling things and especially for purposes like borrowing via a cryptocurrency in the world of [decentralized finance](#) (Defi). Stablecoins seek to maintain a steady value by holding dollars in reserve, holding a commodity like gold, linking to another cryptocurrency, or using a computer program (algorithm) that changes the internal “rules” of the system in order to modify how the cryptocurrency is traded. The success and failure of stablecoin algorithms in maintaining a stable stablecoin value is what brings us to ask the question, how stable are stable coins?

### The Collapse of TerraUSD

On May 9, 2022 the TerraUSD blockchain and its associated cryptocurrency Luna depegged from the US dollar. The system suffered a spectacular collapse during the same week that Bitcoin suffered a 25% reduction in value and the Nasdaq fell by more than 10%. The TerraUSD stablecoin was meant to maintain a value equal to \$1 but fell to pennies. Pundits are predicting the fall of every other algorithmic stablecoin. Is the programmatic “death spiral” experienced by TerraUSD something that is likely for the rest of stablecoins that use computer programs to maintain stable value? Or was it a unique programming flaw that can be analyzed and remedied?

### Why Use Algorithms Instead of Dollars or Gold for Stablecoin?

The easy answer is that it can be cheaper to put together a computer algorithm than come up with a few million in dollars or gold. The process has an upfront cost but people start paying dollars for your TerraUSD you pay off the upfront cost, cover your operating expenses, and count your profits. The rationale for the TerraUSD and Luna system was that TerraUSD would remain stable while Luna “absorbed” the volatility. The fact of the matter is that when the prospect of runaway inflation, a prolonged war in Ukraine, interminable lockdowns in China gumming up the supply chain, and Fed rate increases threatening a recession caused a market panic, it overwhelmed the system taking down TerraUSD along with the Nasdaq and Bitcoin.

## **Stablecoins With Dollar Reserves**

While TerraUSD was falling off the earth TrueUSD and Tether maintained their dollar parity. Both carry dollar reserves instead of relying solely on a computer algorithm to manipulate crypto trading. So, are these stablecoins stable and reliable? One should notice that Tether was in trouble with the State of New York earlier in 2022 for lying about its dollar reserves. It was fined eighteen and a half million dollars and suspended along with its sister exchange, Bitfinex due to “illegal” activities. The company covered up nearly a million losses but, not to worry, the net worth of the company went from thirty-five billion to fifty-eight billion as this was going on due to increased circulation.

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