

# Profitable INVESTING Tips

## Stock Market Investing Tips, Techniques, and Resources



## US Debt Default and Cryptocurrencies

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As of January 19, 2023, the United States government owes money in excess of its legal debt ceiling. Congress has entered into what has become a yearly game of “[chicken](#)” in which both Republicans and Democrats are competing to see who can make the other back down. Republicans want to extract legislation to reduce spending (and benefits) on programs like Social Security and Medicare while Democrats say that the debt ceiling has to do with money already spent, debts incurred, and money owed. The worst result of any game of “chicken” is when neither side backs down and two cars crash head on, the Cuban Missile Crisis turns into a nuclear war, or the US defaults on its debt and the full faith and credit of the US government turns out to be a joke. Bitcoin and the rest were supposed to be immune from things that affect traditional currencies. Are US debt default and cryptocurrencies related and, if so, how?

### What Is a Debt Ceiling Crisis?

To put things in perspective, since 1960 Congress has had to raise, extend, or change the definition of the [national debt seventy-eight times](#). The last years that the US government ran a surplus were from 1998 to 2001 which were the [last years of the Clinton administration](#) and the first year of the Bush administration when Republicans drastically cut taxes. The last time before that was in 1961. So, raising the debt ceiling has become a yearly ritual. Unfortunately, there are times, like in 2011 during the Obama Administration, when one political party or the other turns the annual ritual into a game of “chicken” to who will back down before the creditworthiness of the US government is destroyed. It is of note that as a result of these shenanigans in 2011 Standard and Poor’s downgraded US debt (Treasuries) from AAA to AA+.

### How Might US Debt Default and Cryptocurrencies Be Related?

So, this sounds like a real mess and would seem to be the kind of thing for which Bitcoin and the rest were invented. Bitcoin was supposed to be an independent financial system letting people buy and sell via the internet free of middlemen and free of excessive government interference. Theoretically, Bitcoin and then the rest were supposed to provide a safe haven in times of financial distress, a hedge against inflation, a safe way to protect assets during times of war and political unrest, and an asset class that move independently from stocks, bonds, real estate, etc. What has become clear over the last year of the [crypto winter](#) as Bitcoin made its way down successively lower [price plateaus](#) was that it tracks pretty closely with the Nasdaq except for when another major [crypto exchange goes bankrupt](#).

### Bitcoin As a Risk On Asset

Investors frequently choose investments that have the potential for greater profits than other investments do. The difference between the two types of investments is commonly that the investment with greater profit potential also comes with [greater risk](#). If you look at how Bitcoin did from early 2017 until the present you see huge swings in value that provided impressive gains for those who got in and out at the right times and

impressive losses for those whose market timing basically sucked. Thus we look at Bitcoin as a risk on asset. Now we are looking at a market that could face huge price swings up and, especially, down if the current debt ceiling game of “chicken” gets as bad as 2011, or God forbid, goes to a point where are of the “[extraordinary measures](#)” being taken by the US Treasury to move money around run out and the US actually defaults on payments of the national debt.

### How Will Bitcoin React to a Potential Debt Default?

*Yahoo Finance* has an interesting discussion of how the US Treasury moving money from one account to another, delaying payments that it can, and finding creative ways to keep the US out of default on its debts as long as possible will drive markets and, potentially, the [value of Bitcoin](#). Their opinion, like that of everyone else is that if a debt default actually happens it will be devastating for markets worldwide and, because Bitcoin has been shown to track with Nasdaq and other stock market assets, it might be hard to predict a bottom for any of them.

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