What Cryptocurrencies Are Inflation Proof?

By: www.ProfitableInvestingTips.com

The strongest argument for holding a cryptocurrency long term is that it is not a fiat currency issued by a government that can, and does, routinely print more money. By creating more of a standard currency a government dilutes its value. Horror stories about this happening include the German Weimar Republic in the 1920 where eventually it took a wheelbarrow of Deutschmarks to buy a loaf of bread. Argentina has had to change its currency five times over the last century and Venezuela has experienced similar hyperinflation. The buying power of the one US dollar in 1970 is equal to 7.31 today according the CPI Inflation Calculator. But, what cryptocurrencies are inflation proof? Not all of them have limits on how many may be mined or produced.

The Eventual Number of Bitcoins Is Fixed

Bitcoin is the best example of how a cryptocurrency can be inflation proof. The code for mining Bitcoin includes an eventual limit of 21 million for how many there can be, ever. Thus no one will ever mine more Bitcoins to start a war, increase social benefits in order to stay in political office, or for any of the other reasons that countries open issue more currency. Bitcoin has its own issues such as being very volatile and in the near future being subject to more regulations as noted in our article about Biden executive order regarding the future of US money and payment systems. But, its built-in limit makes it inflation proof when compared to government-issued currencies. With inflation hedges in mind, what cryptocurrencies are inflation proof besides Bitcoin?

Cryptocurrencies With Limits

According to Earthweb the “top” cryptocurrencies with limited supply are Bitcoin, Binance coin, Cardano ADA, Ripple XRP, Avalanche AVAX, Algorand ALGO, and Litecoin LTC. Two others are Stellar and Chainlink. It should be noted that Ethereum is the second cryptocurrency after Bitcoin in market cap and has no set limit. If your concern is strictly one of avoiding the corrosive effects of inflation on your wealth it makes sense to limit your cryptocurrency purchases to those with hard and fast limits.

What Determines the Value of a Currency?

Currency has value in relation to what we can buy with it. The foreign currency market (Forex) is where currencies of the world are traded. The value of one currency versus another is based on the relative strength the two economies, interest rates in the two countries, and expectations about the relative purchasing power of the two currencies. If one country, like Argentina or Venezuela, is busy printing money to pay its bills its currency will fall in value against the other currency. Such, in theory, is the relationship between a currency like the US dollar and Bitcoin where the US may be printing money while Bitcoin has a fixed maximum. Right now the US has its worst inflation in forty years which weakens the dollar bit by bit. However, the Federal

Reserve has started to raise interest rates which typically makes the currency more valuable in the Forex market. The US economy is coming back from the Covid recession which makes the US currency attractive for investing in the economic recovery. The fact that Bitcoin and other cryptocurrencies have fixed limits would seem to make them somewhat inflation proof but their valuation in relation to the greenback will also depend on factors like the US economy, interest rates, the health of the US stock market, and overall stability in the world as the Russian invasion of Ukraine and sanctions play out as well as whether or not Covid-19 comes under a semblance of control.

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