

# Profitable INVESTING Tips

## Stock Market Investing Tips, Techniques, and Resources



### When Will the Next Stablecoin Collapse?

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The recent collapse of the TerraUSD stablecoin sent a shock through the world of cryptocurrencies. A stablecoin is, ideally, a cryptocurrency that maintains a stable value in relation to the dollar, another currency, another cryptocurrency, or a commodity like gold. While Bitcoin and other major cryptocurrencies have created fortunes (and bankruptcies) they are too volatile for uses like loans in the world of [decentralized finance](#). Unfortunately for those invested in TerraUSD it maintained at \$1 until the last week in May of 2022 when it fell like a rock and now trades at [eight-tenths of a cent](#). This dramatic fall from grace has many asking when will the next stablecoin collapse. Now, when the new algorithmic stablecoin, USDD, drops to as low as [93 cents](#) instead of its dollar peg, the whole stablecoin idea seems in doubt.

### What Provides Stability for a Stablecoin?

There are two ways that stablecoin systems are set up to maintain stability. The surest is that system has dollar (or euro, yen, or pound sterling) reserves that exactly match the number of token in circulation. On the other end of the spectrum a stablecoin setup used a computer algorithm to manipulate trading of the cryptocurrency so that (in theory) trading always drives the price of the cryptocurrency back down to or up to the pegged price which is typically a dollar. Many stablecoins use a mix of the two approaches. The collapse of TerraUSD was blamed at least partially on the weakness of its algorithmic system. The fact that USDD uses just an algorithm to ensure stability is not especially reassuring at this moment during the general collapse of Bitcoin and other major cryptocurrencies.

### Will the Crypto Collapse Spread to All Stablecoins?

Any stablecoin that has assets like the dollar backing its value on a one to one ratio is not going to collapse like TerraUSD did or like USDD might. Properly written algorithms are likely to protect algorithmic stablecoins when market forces are mild. However, when things went bad with TerraUSD investors pulled [\\$1.6 billion out of TerraUSD](#) (Tether) in less than two days. That kind of “run on the bank” is likely to overwhelm any algorithmic system unless they simply shut down trading such as when they used to declare “bank holidays” when people started withdrawing money at every bank window in the country. The essential factor for stablecoin survival in a true crisis will be the existence of collateral. How does this work with USDD?

### Will the USDD Stablecoin Survive?

*CNBC* reports on the [USDD situation](#) and says they doubt it will collapse. The reason is that this stablecoin is not only protected by an algorithm but also by \$2 billion in bitcoin and other crypto tokens. On one hand, we think that *CNBC* is right. There will be reserves to protect the stability of this stablecoin. However, Bitcoin and other cryptocurrencies are not doing all that well right now. Bitcoin has lost half of its dollar value year to date and is hovering around the \$20,000 level in the latter half of June 2022. The Bitcoin bottom may be

substantially lower than its current price if our assumption that the market will continue to go down so long as Russia has troops in Ukraine, China persists with its interminable Covid lockdowns, and [protectionism](#) spreads across the globe.

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