Will the FTX Crypto Exchange Collapse?

By: www.ProfitableInvestingTips.com

The crypto world was shocked just days ago when one of the largest crypto exchanges, FTX, looked to the biggest crypto exchange in the world, Binance, for a **buyout** according to *The New York Times*. Struggling with a huge surge of withdrawals, FTX was running out of cash. The crypto industry feared another meltdown in prices across the board due to contagion. The crypto world up at the top is a very interconnected entity where **one bankruptcy leads to another**. Early reports said that Binance and FTX had reached a deal but that seemed to have fallen through and then Bitcoin and the rest took a dive. Bitcoin hit $15,757 before recovering to $16,483. Will the FTX crypto exchange collapse and, if so, will it take more of the crypto world down **another step down** in crypto winter or worse.

Binance Says Not So Fast to FTX Deal

The crypto world was first shocked and then reassured when it heard that FTX had gone to Binance for a buyout which would save the company and save the crypto community a lot of trouble. Then the next shocker came. **Binance pulled out** of the deal with FTX according to *The Times*. Binance said it was simply a matter of the company doing its due diligence in backing out of the deal. Their conclusion was that FTX's problems are beyond Binance's capacity to remedy. FTX represents billions of dollars in crypto value and as one of the largest exchanges its potential bankruptcy poses one more threat to the crypto world as we have come to know it. The safety of assets held by exchanges like FTX is a major issue with **regulators** who will likely have a larger say in the crypto world going forward. As important or more so, mainstream investors are totally unimpressed with the lack of investment security in the crypto world.

Crypto Today Versus Banks in the 1930s

Today's meltdown of the crypto industry with crypto winter or ice age and the demise of major crypto companies reminds those with a sense of history of the 1929 stock market crash, Great Depression, and **wave of bank failures**. During the Roaring 20s the stock market was on a tear as investors could borrow 90% in order to buy stocks. Banks were among those who borrowed with deposits to speculate in the market. As we have noted previously, the 1929 stock market crash was actually a series of crashes that went on through 1932 by which time 90% of previous market value was gone. 650 US banks failed in 1929, 1300 by the end of 1930 and 9000 by the end of the Great Depression. Part of Roosevelt's New Deal Legislation included regulations prohibiting banks from speculating in stocks and Federal Deposit Insurance that protected and still protects the majority of bank deposits. Crypto businesses that have gone under have been highly leveraged which led to spectacular profits in good times and financial disaster in bad times. For crypt to truly become a mainstream investment vehicle there will need to be regulation similar to what banks are subject to protect customers/depositors and prohibit dangerous business practices by those institutions.

Will FTX Come Back or Go Out of Business?

It does not look good for FTX, which appears to have about an $8 billion shortfall to make up. As noted by *CoinDesk*, FTX is **one of two businesses** owned and run by Sam Bankman Fried. FTX is the crypto token business and Alameda is the crypto trading company. Unfortunately, about $8 billion of Alameda's assets are simply FTX token loaned from the other company. This is the crux of the FTX problem and the main reason why Binance is not going to risk its own business to bail them out. If FTX can find credit it may survive, but only in a substantially reduced form.

Is This a Crypto Avalanche?

When an unstable snowfield on a mountain lets go it typically loosens snowfields, rocks, trees, and anything else in its path. A valid concern for crypto investors is that there is too much leverage and too much instability in the unregulated crypto world. Much of the crypto world was based on the belief that Bitcoin and the rest could only go up. As inflation continues, the Federal Reserve steadily raises interest rates, recession looms, and stocks slide, crypto is slipping from a crypto winter to a **crypto ice age** and periodic crypto avalanches will be taking over-leveraged companies down the mountainside in succession. Even for those who believe in an eventual crypto comeback this is probably a good time to take some of one's remaining crypto assets and convert them into cash until the problems affecting the larger economy get fixed and new regulations make crypto investing more rational and safer.

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