WHY BITCOIN IS PLUNGING (THIS TIME)
The price of bitcoin dropped another 10 percent Tuesday, extending a decline that has sent the virtual currency down 33 percent in the past month and 46 percent in the past year.

Boom and bust cycles are par for the course for bitcoin. So far this year, there have been only three days where the S&P 500-stock index dropped more than 3 percent, with the worst being a 4 percent drop in February, says Duke University finance professor Campbell R. Harvey. “In contrast, there are seven days where bitcoin dropped more than 10 percent with the worst being 16 percent, also in February. Just for perspective, the 16 percent is the equivalent to a plunge in the Dow of 4,000 points—that would get some attention.”

“When you’ve got something with a historical track record of extreme volatility, that’s what you should expect,” Harvey says.

Much like the stock market, bitcoin has trended upward, at least on a long enough timeline. In November 2013, bitcoin jumped from just over $200 to more than $1,200 before tumbling to less than $600 the next month. Bitcoin remains far below its of more than $19,000 last December; but it still fetches more than twice what it did at the beginning of the last boom in May 2017, a mere 18 months ago. And those who bought when the currency traded at $200 or less are obviously still going to be pretty happy.
But that will be of little comfort for those that bought bitcoin when it was riding high. And there’s certainly reason for bitcoin investors to be worried this time around.

The current downturn may relate to fractures in the bitcoin community. Last year, a group of bitcoin developers created an alternate version of bitcoin, known as a “hard fork,” called Bitcoin Cash, to address technical issues in the original bitcoin. Bitcoin Cash didn’t manage to displace the original, but it did gain a number of loyal followers. But last week, Bitcoin Cash saw its own hard fork. That schism doesn’t directly affect the original bitcoin, but the further fragmenting of the community might be scaring investors.

Long term, a possibly more worrying development is a US Department of Justice investigation reported by Bloomberg Tuesday into whether last year’s record highs were the result of market manipulation. The investigation follows the publication of a paper by University of Texas professor John Griffin and his doctoral student Amin Shams suggesting another cryptocurrency called tether had been used to stabilize and manipulate the price of bitcoin last year.
there may be ways to make bitcoin less volatile. Harvey, the Duke professor, blames the volatility on the difficulty or valuing bitcoin. You can value shares in a company based on its performance, or a fiat currency based on a country’s economy and fiscal policies. But bitcoin lacks those sorts of fundamentals.

Harvey says bitcoin would be easier to value if it had more regulatory recognition, if it were more widely adopted as a method of payment, and if its transaction times, which can vary as wildly as its price, were more consistent. But there are a couple of chicken and egg problems there. One reason that bitcoin isn’t widely used as a currency is because of its volatility. That leaves bitcoin’s future as uncertain as ever.

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