Why Is Bitcoin Near All-Time Highs? Where Does It Go From Here?

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The investing gods are once again smiling upon Bitcoin.
The recent run-up coincides with notable institutional investors putting big money into Bitcoin, while established players like Fidelity and PayPal have announced plans to give everyday consumers more options for holding and spending cryptocurrency. These developments suggest that Bitcoin is being taken more seriously in the mainstream world of finance.

“The story right now is institutional adoption,” said Stephen McKeon, associate professor of finance at the University of Oregon. “The arrival of qualified custodians and other key infrastructure has facilitated the onboarding of significant institutional capital in a way that was unfeasible just a few years ago.”

Despite Bitcoin’s recent rise, you still need to be careful. While the flagship cryptocurrency appears to be maturing, it’s still extremely volatile in both directions. For regular investors, that means you should tread lightly with this speculative asset class unless you have your fundamentals, like an emergency fund and basic retirement portfolio, covered.

**Institutional Investors See Bitcoin as an Inflation Hedge**

Paul Tudor Jones, one of the nation’s richest hedge fund investors, recently appeared on CNBC to make his case for Bitcoin, citing concerns about inflation and the Federal Reserve. While inflation remains subdued now, Tudor Jones’s Bitcoin thesis appears to rest on the development of the coronavirus crisis since early 2020.

As Covid-19 spread to Europe and then the United States, starting in late February, governments began imposing lockdowns to limit the spread of the virus. Lockdowns suppressed economic growth, sparking a global recession, and central banks stepped in to support national economies.

In the U.S., the Federal Reserve immediately cut short-term interest rates to near zero and began printing trillions of dollars to buttress the economy. These actions helped calm bond markets and revive the stock market, aided by massive spending from the CARES Act.

As the economy began to heal, Fed Chair Jerome Powell announced that the Fed would allow inflation to run a bit higher before the FOMC would contemplate raising interest rates again. The new strategy crystallized new thinking and new research at the Fed concerning weak inflation.

Powell’s reasoning was pretty straightforward: Over the last decade or more, prices have risen below the Fed’s target inflation threshold of 2%. This had the effect of slowing the growth of wages, especially for the working class, who have struggled through stagnant earnings for the better part of four decades.

“[F]ollowing periods when inflation has been running below 2%, appropriate monetary policy will likely aim to achieve inflation moderately above 2% for some time,” said Powell in a speech in August.

Enter Paul Tudor Jones and other hedge fund heavies, who began buying up Bitcoin in May in anticipation of rising inflation.
PayPal Makes Bitcoin Easier to Own and Spend

The other plank in Bitcoin ramp higher is mainstream financial services embracing the cryptocurrency. In October, online payments giant PayPal announced it would let customers buy, hold and sell a range of cryptocurrencies, including Bitcoin, as well as allow them to actually make purchases with Bitcoin at more than 26 million businesses.

PayPal isn’t alone in this newfound acceptance of Bitcoin. Earlier this year Fidelity submitted paperwork to the Securities and Exchange Commission (SEC) for the creation of a new Bitcoin fund, entitled the Wise Origin Bitcoin Index Fund I. The security will likely target accredited investors, which most Americans lack the income or net worth to qualify as. Accredited investors can also access Bitcoin and other currencies through Grayscale Investments, including its flagship fund Grayscale Bitcoin Trust. According to the Wall Street Journal, the firm’s assets under management jumped by more than $4 billion to $10 billion over the past few months.

These developments, and more like them, are part of a growing trend of regulatory and institutional acceptance of Bitcoin and other cryptocurrencies. When Fidelity announced its Bitcoin fund, for instance, it also released survey data showing that 36% of institutional investors in the U.S. and Europe already owned digital currencies, and 60% believed digital assets belonged in their portfolios.

All of this could be the moment cryptocurrency backers have been waiting for, and it suggests these virtual currencies could become a permanent fixture of your financial world soon.

Could Bitcoin Become the New Gold?

So where do we go from here? Bitcoin’s biggest cheerleaders promise that $19,000 will soon be a distant memory.

One Citibank analyst says Bitcoin could hit $318,000 by the end of next year, likening its once and future meteoric rise to the 1970s gold market. An ounce of gold was worth about $35 in the beginning of 1970, compared to a little more than $1,200 now. Part of gold’s appeal, as Paul Tudor Jones noted, is its value as an inflation hedge.

But does gold actually behave that way?

The real story is more complicated, according to Campbell Harvey, Duke professor and senior advisor to Research Affiliates. Over a time frame of hundreds of years, gold may retain its value. But over shorter periods of time, it’s highly volatile and very unpredictable.

Despite this, gold certainly fills a role as a security blanket for investors who are anxious about the state of the world. Gold’s most recent hayday, for instance, was between 2011 and 2012 when the U.S. was stumbling through its post-Great Recession recovery and the Euro Zone was teetering on the brink of currency disaster. For much of the past eight years, as stocks have zoomed, gold has been a dead weight, though.
replace gold as a safe haven.

“The Bitcoin network currently stores $350 billion,” McKeon said. “In contrast, several trillion dollars are stored in the form of gold. So, Bitcoin is still comparatively small. As the narrative around, and acceptance of, Bitcoin as digital gold grows, the network will store substantially more value. This translates to a higher price for Bitcoin since supply growth is capped at about 2% annually, and supply increases will further decline over time.”

The case, then, is that Bitcoin has much more room to grow than gold and will continue to attract big money in search of high returns in an era of low yields.

Which is fine as far as it goes. There’s a reason investors are throwing money at Tesla, for instance, making it by far the most valuable car company in the world. Investors are starved for the new, new thing.

The Final Word on Bitcoin: Buyer Beware

But normal, everyday Americans don’t really have the luxury to stomach wild price volatility and wait out years and years of negative returns on the hope that an esoteric decentralized financial product will conquer the commanding heights of finance and upend gold as the ultimate safe-haven asset. You need a steadier financial plan, like a well-diversified portfolio of low-cost index funds that has proven to make retirement possible.

If you want to scratch your Bitcoin itch, make sure you do so with a fraction of your taxable investments, in your brokerage account. The standard allocation recommended for gold has been a maximum of 10% of your total portfolio. If Bitcoin ends up as the new gold, that upper limit would still make a ton of sense.

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