

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <https://www.djreprints.com>.

<https://www.wsj.com/articles/the-case-for-and-against-investing-in-bitcoin-11610144242>

MARKETS | JOURNAL REPORTS: FUNDS/ETFS

The Case for and Against Investing in Bitcoin

The digital currency has quintupled in value over the past year. Should you steer clear?



Although you will see bitcoin ATM shops like this one in Marseille, France, the digital currency lacks widespread usage as a medium of exchange.

PHOTO: NICOLAS TUCAT/AGENCE FRANCE-PRESSE/GETTY IMAGES

By Dan Weil

Jan. 8, 2021 5:17 pm ET



Listen to this article

6 minutes

With bitcoin trading at more than \$40,000 apiece last week—and quintupling in value over the past year—the question arises for investors: Get in or stay out?

There are plenty of reasons for caution. The virtual currency's value has soared and plunged repeatedly since its introduction in 2009. It fell 52% just from Feb. 13 to March 11 last year.

And, while bitcoin is referred to as a digital currency, it doesn't meet at least one

important criterion of a currency: It lacks widespread usage as a medium of exchange in legitimate commercial transactions. In November, digital-payment processors handled just \$269.7 million of merchant sales world-wide in bitcoin, according to research firm Chainalysis. By comparison, total U.S. retail sales registered \$546.5 *billion* in November.

SHARE YOUR THOUGHTS

Which arguments about investing in bitcoin are most persuasive to you? Join the comments below.

Many pros think individual investors should steer clear of the currency entirely. But others suggest investors would do well to consider adding bitcoin to their portfolio—but generally only as a small percentage of their overall assets.

“Making bitcoin a significant part of your portfolio would increase your risk substantially,” says Eswar Prasad, a trade-policy professor at Cornell University who is writing a book about digital currencies. “But a marginal amount seems worthwhile given recent dynamics.”

NEWSLETTER SIGN-UP

Markets

A pre-markets primer packed with news, trends and ideas. Plus, up-to-the-minute market data.

PREVIEW

SUBSCRIBE

Some of the best arguments for and against investing in bitcoin:

THE PLUSES

What bitcoin really represents is a store of value. As such, it can be used to hedge against inflation and against declines in other financial assets, such as stocks, bonds and the dollar, some industry pros say. Bitcoin has appreciated while the dollar has slid since last March.

The “store of value” role for bitcoin is similar to that of gold. “I put it in the same bucket,” says John Rekenthaler, vice president of research at investment-research firm Morningstar.

Some advocates endorse investing in bitcoin—though its volatility means timing can still be an issue—saying it will eventually stabilize and then be used more for legitimate commerce.

[PayPal](#) has said it plans to allow bitcoin to be used as a payment method starting early this year. A competitor, [Square](#), [SQ 0.82% ▲](#) also has shown interest in bitcoin commerce, and announced in October that it bought \$50 million of the asset.

Some analysts also see an upside to bitcoin's volatility. Its erratic trading keeps bitcoin's correlation with stocks and bonds low, creating diversification. "Volatility is bad if you're tapping it into the main part of your portfolio," Mr. Rekenthaler says. "But if it's on the side, that's good. That helped gold become a diversifier." He adds: "We mutual-fund owners should start to think about bitcoin. But I'm not saying the average investor should have it."

Because bitcoin is so volatile, investors don't need a lot of it to diversify a portfolio, he says. Mr. Rekenthaler reckons that a 5% allocation in bitcoin will diversify a balanced portfolio as effectively as a 25% position in the largest "alternative" mutual fund, [JPMorgan Hedged Equity \(JHEQX\)](#).

While Karim Ahamed, investment strategist at Cerity Partners in Chicago, isn't advocating for bitcoin investment at this point, his company has begun studying whether to invest. Mr. Ahamed says having a small investment in bitcoin could work much like an allocation to venture capital. "In venture capital," he says, "one in 10 investments is a home run, two to three lose money and the others about break even. The home run makes up for a lot of misses."

RELATED

[Bitcoin's Hot 2021 Continues With Move Above \\$40,000](#)

[CoinDesk Buys TradeBlock, Joining Rush for Bitcoin Analytics](#)

Bill Miller IV, a portfolio manager at Miller Value Partners and son of legendary investor Bill Miller, has about 20% of his personal portfolio in bitcoin. "It's a mistake for people not to own bitcoin," the younger Mr. Miller says.

A major appeal of bitcoin for Mr. Miller is its scarcity, he says. There is about

\$650 billion of bitcoin outstanding, compared with his estimate of about \$80 trillion for standard currencies.

“Demand is outpacing supply,” says Mr. Miller, who interprets that to mean bitcoin should keep rising and trading should remain volatile.

THE MINUSES

There is no obvious way to determine bitcoin’s fair value. Bitcoin stands as a store of value only because some investors believe it is one. “Bitcoin depends on the faith of investors and nothing more,” Prof. Prasad says. “It could equally well go to zero tomorrow if 10% of investors sold.”

Other types of investment depend on similar underlying faith. But when it comes to stocks and bonds, for instance, there are legitimate mathematical models to determine their value. Stocks produce earnings and bonds produce income, for example, which helps determine their values.

Many analysts also question bitcoin’s value as a hedge. This year, it has largely risen in tandem with stocks and bonds at a time when inflation is quiescent. In addition, no major inflation has broken out since bitcoin came on the scene 12 years ago, so it is difficult to know whether it truly guards against price increases. “You need that empirical testing,” Mr. Ahamed says.

Meanwhile, some critics question whether bitcoin’s scarcity is a selling point. That scarcity also means illiquid and volatile trading, as evidenced by bitcoin’s roller-coaster ride during its 12 years of existence.

Skeptics also challenge the view that bitcoin’s volatility can be viewed as beneficial to a portfolio for diversification purposes. “If the volatility comes just from speculation, I’m not sure I want it as an uncorrelated asset,” Mr. Ahamed says.

Mr. Weil is a writer in West Palm Beach, Fla. He can be reached at reports@wsj.com.