

Are We Witnessing the Resurrection of Bitcoin?

Bitcoin is back. The pioneering cryptocurrency has shown clear signs of recovery in the last months, moving from \$3,715 in January this year to nearly \$12,000 today.

This has come as a surprise to those who thought that Bitcoin was slowly but steadily dying out. Earlier this year, Bitcoin's prospects didn't look very good. After peaking in December of 2017, Bitcoin price went down by 80 percent, making Bitcoin investors lose billions of dollars. At the time, I wrote an [article](#) asking if we were witnessing the end of the Bitcoin era. Are we now witnessing the resurrection of Bitcoin?

It should be noted that this price surge was never outside the realm of possibility. After all, Bitcoin has shown [high price volatility](#) since 2012. Yet this renewed interest in Bitcoin reveals a few things about the nature and prospects of the king of cryptocurrencies.

First, Bitcoin isn't a bubble. A bubble [requires](#) that the asset in question have a fundamental value from which to deviate. The dotcom bubble of 2000 occurred because tech stock prices rose above fundamentals (i.e., expected profits discounted at the appropriate cost of capital). When the bubble burst, stock prices returned to be in line with corporate profits.

However, Bitcoin looks more like a rollercoaster. Its frequent price swings suggest that investors are clueless about its theoretical price. Therefore, by definition, Bitcoin cannot be considered a bubble.

Second, Bitcoin hasn't accomplished the objective for which it was created: to become a widely-used digital form of money. In

fact, Bitcoin isn't money *sensu stricto* as it doesn't fulfill the classical functions of money. Bitcoin is [hardly used](#) as a medium of exchange, it cannot be considered a reliable store of value due to its price volatility, and it isn't an efficient unit of account for the same reason.

What is then the future of Bitcoin? In my view, there are two possible scenarios. In the first scenario, Bitcoin loses the confidence of the public in favor of other newer and better designed cryptocurrencies. This would push Bitcoin price down dramatically, although not all the way to zero as there will always be a [residual demand](#) for Bitcoin from cryptocurrency devotees.

The second possibility is that Bitcoin becomes a safe-haven asset where investors take refuge in times of economic distress. Were this to happen, Bitcoin would become a kind of digital gold, but much more volatile because of its limited supply. Its price would skyrocket during financial and economic crises, when investors tend to flee stock markets.

In the meantime, Bitcoin will continue to do what it has been doing since it was born in 2009: to serve as an investment vehicle for speculators in search of quick capital gains.

—

[Image Credit: Flickr-BTC Keychain, [CC BY 2.0](#)]