

Is Now the Time to Short Bitcoin?

Matt Smith | December 19, 2017 | More on: [HIVE](#)



The Bitcoin phenomenon continues to gain considerable momentum. Since the start of 2017, its value has grown almost 20-fold to be just over US\$1,000 shy of \$20,000. There is every sign that it [could break](#) the US\$20,000 barrier before the end of 2017. The incredible, almost unheard-of level of volatility associated with Bitcoin keeps growing, despite the launch of Bitcoin futures, which many pundits claimed would reduce its volatility. It was only earlier this month when, in the space of two days, that Bitcoin lost over US\$4,000 in value to then rally and reach a new high of just under US\$20,000.

While investors continue to pile in to Bitcoin and other cryptocurrencies, there are signs that a reckoning is due, which means there could be considerable pain ahead for investors who have arrived late at the party.

Now what?

One of the key characteristics of any asset bubble is a parabolic price curve, as the [value appreciates](#) at an exponential rate.

Typically, once the curve steepens sharply, the bubble is close to ending; nevertheless, it is difficult to see that occurring in the immediate future. The growing interest of Wall Street in cryptocurrencies will fuel further investment in coming months, as will the recent launches of Bitcoin futures by **CME Group Inc.** and CBOE Futures Exchange.

There are also a range of financial institutions scrambling to launch Bitcoin exchange-traded funds, which will further boost liquidity and make it easier for investors seeking exposure to the cryptocurrency. A listed ETF would also be a far superior investment to the **Bitcoin Investment Trust** ([NASDAQOTH:GBTC](#)), because they have greater liquidity, as they are exchange listed. This would certainly help to place a floor under Bitcoin's value. Canada's **Evolve Funds Group Inc.** could be the first to launch a Bitcoin ETF after having filed a preliminary ETF with Canadian securities regulators.

Nevertheless, as the volume of Bitcoin-linked financial products grows, the risks of the bubble bursting increases, as does the amount of fallout among financial markets.

So what?

Bitcoin is shaping up as a high-risk investment, as signs grow that the bubble could burst unexpectedly, although pinpointing when is almost impossible. While Bitcoin could certainly reach US\$20,000 before the end of 2017 it is shaping up as a risky investment, and it is only a matter of time before traders and institutional investors identify a short opportunity. When they do, there is every chance that it will cause the price of Bitcoin and other cryptocurrencies to plummet.

That would be bad news for cryptocurrency-related stocks, such as crypto-miner **HIVE Blockchain Technologies Ltd.** ([TSXV:HIVE](#)). Over the last year, its stock has surged by almost 177%, and it will continue to rise for as long cryptocurrencies do, but it will plunge sharply once the bubble starts to deflate.

That moment could be fast approaching with famed short seller Andrew Left of Citron Research claiming that cryptocurrencies are a full mania. He also tweeted that he had commenced a short position in **Riot Blockchain Inc.** ([NASDAQ:RIOT](#)), a blockchain technology provider which has risen by almost 1,000% since the start of the year.

Clearly, the short sellers are getting ready to bet on a collapse in the value of cryptocurrencies.

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