THE INVESTMENT IN CRYPTOCURRENCIES: A QUEST FOR EARNINGS LOST

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ABSTRACT. The bitcoin, as well as many other digital currencies, are known as "cryptocurrencies". The bitcoin and other cryptocurrencies provide the ability to make fast, secure and low-cost payments between users without the need of bank intervention or other centralised payment systems.
Cryptocurrencies are volatile assets with daily price changes of often up to 10%. Of course, as investors know, high awards are the result of taking a high risk. However, there is no need to invest more money in cryptocurrencies than what one can afford to lose.

Key words: bitcoin, cryptocurrencies, investments

ИНВЕСТИЦИИТЕ В КРИПТОВАЛУТИ – В ТЪРСЕНЕ НА ИЗГУБЕНАТА ДОХОДНОСТ

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РЕЗЮМЕ. Биткойнът, както и множеството други дигитални валути, са известни като „криптовалути". Биткойнът и останалите криптовалути предлагат възможността да се правят бързи, сигурни и нискоразходни разплащания между потребителите без нужда от намесата на банката или друга централизирана система за разплащане.
Криптовалутите са волатилен актив, като дневни ценови изменения в рамките на 10% не са редки явления. Разбира се, както инвеститорите знаят, високите награди са резултат от поемането на висок риск. Не бива обаче да се инвестират в криптовалутите повече средства, отколкото можем да си позволим да загубим.

Ключови думи: биткойн, криптовалути, инвестиции

Introduction

It is believed that the Bitcoin was created by Satoshi Nakamoto who presented his invention on 31st October 2008 in a document called "The Bitcoin: User-to-Consumer Electronic Cash System". What is more interesting is that the name is most likely an alias behind which an unknown person or people who originally created a bitcoin are hiding. In 2016, the Australian entrepreneur Craig Wright identified himself as "Mr. Bitcoin" which was widely accepted by members of the Bitcoin community.

The financial history of the Bitcoin dates back to 22nd May 2010 when someone first made a purchase by using a bitcoin to buy a pizza. What is more interesting is that it cost 10,000 bitcoins and this is the first public transaction with the virtual currency for something in the real world. This day is known as "Bitcoin pizza day." Since then, the use of the bitcoin and its worth has grown steadily and to date, those $ 10,000 would cost more than $ 80 million. Last year, for the first time ever, the bitcoin rose above the price of gold and since then, it has continued to go up [1]. The bitcoin has now reached a stable value on the financial scene, ranging from $ 8,000 per bitcoin. Competition in the world of cryptocurrencies is now between the so-called "Altcoin", like "lightcoin", "bitcoin gold", "bitcoin cash", etc. (the total number of cryptocurrencies is currently over 1650, which are traded on more than 12,000 exchanges). However, it is quite controversial to say that Bitcoin does not hold a monopoly position on the crypto-market. So far, it has over 47% market share.

The Bitcoin / BTC /

The Bitcoin is a digital currency, also known as the "cryptocurrency", which is based on the fact that cryptography is used to secure payments - a distribution database or a so-called "block chain". The abbreviation of the bitcoin is simply BTC. The same principle is used in the US dollar abbreviation, where USD is abbreviated from US Dollar and EUR is abbreviated for Euro. The bitcoin can also be linked to other currencies. In this case, CFD contracts on the bitcoin, in dollars, may have the abbreviation BTC/USD. The Bitcoin offers the ability to make fast, secure and low cost user-to-consumer payments without the need for bank intervention or other centralised payment systems. Systematic transactions occur directly between users' digital wallets and are verified in block chain. Transactions are digitally signed with a unique "personal key" which is proof that the orders come from the digital wallet's owner.

The maximum number of bitcoins that exist is 21 million. There are no prices for their storage because digital resources do not occupy physical space, regardless of quantity. They call it a "pocket Swiss bank account".

There are already many things you can buy in bitcoin - apart from pizza! For example: general consumer goods, video games, gift cards, travel, food, cars. You can make donations and be involved in charity, as well as buy from online and offline stores. There are more places where the virtual currency is being used as a means of payment. According to data at www.coindesk.com, in 2015, the number of traders taking bitcoins exploded. Many of them are online marketers, but the number of traditional chains that are beginning to accept payments with bitcoin increases. The list of organisations hosting bitcoins continues to grow [1].

The bitcoin is a volatile asset, with daily price changes of up to 10% not uncommon. Of course, as investors know, high awards are the result of taking a high risk. However, we should not invest in a bitcoin that we cannot afford to lose [1].

Block chain and bitcoin mining

Block chain is a decentralised public registry for all the bitcoin transactions that have ever been made. A number of transactions form a database unit called a "block." Each block contains information about the previous block, as well as each transaction - information about the previous transaction, thus the chain (block chain) allows for complete transparency of payments. The block chain of bitcoins presents a revolutionary infrastructure for storing financial data that is accessible to everyone, completely transparent and developed using open source that does not belong to any organisation or person. Instead, block chain technology and its support are done by millions of computers that verify transactions and add them to blocks. Collectively verified transactions cannot be altered or deleted so that bitcoins are final and undisputed [1].

When a new block is created in the block chain, it is rewarded with 12.5 bitcoins, which happens every 10 minutes. This is a reward for the so-called "bitcoin digging process." The prize is to use electrical and computer power to support the network, and many people and specialised companies all over the world are included in the bitcoin mining. The system generates new bitcoins automatically, self-regulating the speed of process so that there is no danger of circumventing the rules and speeding up the process of creating new bitcoins with greater investment in mining hardware and more for electricity bills. The remuneration for block creating will slowdown in 2020, with a slowdown every four years, until the number of bitcoins generated reaches 21 million, which means that the bitcoin has a fundamental reason to increase its value - its limited number.

Scepticism of banking systems around the world

Sceptical views prevail in countries and global banking systems on the stability of the bitcoin and on the issue of national cryptography issued by the country's central bank. Negative views on this issue are expressed by Russia, Japan, India, England, Switzerland, and others. According to an online survey conducted by the analytical company D-CYFOR, almost two-thirds of UK residents do not support the idea of a national cryptocurrency issued by the central bank. People are still cautious and generally pessimistic about the future of the digital currency. More than 60% of respondents believe that within half a year the bitcoin will either lose value or lose its full value [3]. In an official statement, the Central Bank of Japan said it would not create a national cryptocurrency because it sees a threat to the traditional financial system. According to Massayoshi Amaya, the bank's deputy director, the digital currency backed by the Central Bank will change the system, but it will not necessarily maintain its financial stability [5]. The CBDC may pose a threat to financial stability and its release does not imply tangible benefits. This was stated by the Member of the Board of the Swiss National Bank (BNS) Andrea Mehler, CoinDesk wrote. Mehler emphasizes that the BNS is opposed to the concept of CBDC, which is being studied by a number of central banks around the world. "To ensure an effective system of retail cashless payments, a central bank's digital currency is unnecessary, which will hardly give any advantage but will cause countless risks to financial stability," she said, adding that cryptocurrencies are not comparable to money [4].

The Bitcoin - Current and Future Financial and Economic Problem

Every single currency can collapse and the world has witnessed this over and over again. Due to hyperinflation, currencies lose their value in a very short period of time, and we can give an example with Bulgaria and the hyperinflation in 1997. The same happened with the German mark in 1920 or with the Zimbabwean dollar in 2008. In theory, problems and constraints of a technical nature, as well as political events and decisions, can have a strong negative impact on the bitcoin. However, there are no serious threats to the devaluation of digital currencies at this time, and the good thing is that the battleship is "immune" to inflation because of its limited amount [6].

There is a limit of deals which can be processed for a definite period of time as increasing the transaction limit would mean a delay in payments. For years, there have been disputes over capacity among the developers of the Bitcoin and the problem has not yet been resolved. Transactions are currently being executed via “blocks” and the maximum size which can be processed for one block is one megabyte. Some of the developers insist on the enlargement of this size because of the increasing capacity of the network. [7].

Not all countries accept the bitcoin trade with the lust. The governments all over the world do not prove the fact that virtual currency’s consumers are anonymous ant it causes fears of criminal activity and money laundering [7].

Opinions on the currency are opposite. According to some, it will continue to go up, while others say it is a balloon that will burst. The situation is very reminiscent of the "technology bubble" since 2000. There are a large number of block-related technology projects, with new ICO (Primary Block Deals) coming out every day. This is a type of IPO but connected to block chain technology. These projects are funded by the investment community through tokens that are bought with bitcoin and other key cryptocurrencies [1]. Of course, like any industry, 90% of projects will fail in the performance of working products, probably not after a very long time. We may witness a serious number of bankruptcies in the sector. It is quite possible that the value of the bitcoin is currently "too hot" due to the serious investments related to the ICO, so if there is a balloon in the bitcoin or not, we will only understand if it bursts [1].

The trade with the cryptocurrencies has shaken so much that more than half of the world-known exchanges have closed their doors for new consumers! According to the message left by each of them, the closure of new registrations is the only way to solve the problem and allow people who have registered so far to trade without having any difficulty or delayed work on the site.

Many people who have been trading stocks, gold, oil for many years have started trading with cryptocurrencies.

Can they be monitored and can it be avoided when taking a big risk for an investment? It is hard to say, but definitely nothing in the world of the crypt is safe and risk is taken! It's true that with an investment of $ 100, while the currency is 5 cents, we can buy (dig) 2000, wait for it to be 1, 5, even 10 dollars a share and make a big amount of money; but the chance to lose must always be calculated, same as the amount invested that is not a problem to be lost.

There are world-class analysts involved in reporting to crypto-dealers. There are people using methods such as "Pump and Dump" which, with the large audience of followers they hold, easily obtain artificial pumping of a certain cryptocurrency, then naturally follows a sharp decline and a correction in its price.

The information provided gives grounds for the following conclusions

1. Bitcoin is a virtual currency artificially created not so much for speculative purposes, but to make fast, secure and low-cost consumer-to-consumer payments, without the intervention of banks or any centralised payment system. Its market value is subjective because it is not secured by any assets.
2. The use of Bitcoin in financial and economic activity has no positive effects, while negative ones such as tax evasion, circumvention of the SWIFT banking system, money laundering, and others are present and can cause serious damage to the economy.
3. The lack of collateral agreements determines the temporary nature of the Bitcoin. The real problems for the financial world will come with its devaluation. As a result, global financial shocks are expected, accompanied by economic crises similar to those of the 1920s and of 2008.
4. The macroeconomic approach teaches that the market price of each good (and variations) is determined by the ratio between supply and demand. The limited supply of cryptocurrencies, and in particular the bitcoin, on the one hand, and the increasing demand for the same (for the reasons set out below) predetermine their high cost. The total market capitalisation of cryptocurrencies is about $ 300 billion.

The reason for the high demand for cryptocurrencies is the lost profitability from the trading of securities and other traditional assets. The profitability of these markets has sharply declined over the past decade. If during the last century and the beginning of the new millennium even small investors could rely on a good return (from dividends and rising share prices and asset prices - gold, oil, etc.), as a result of the global financial and economic crisis of ten years ago, and the transient domination of the US dollar as a world currency, instability has permanently settled on this type of market (and in the global economy as a whole). That is why more and more investors are turning their eyes on new assets in the face of cryptocurrencies.

Conclusion

Whether the bitcoin and the other cryptocurrencies are a balloon, we will only understand if it bursts; It cannot be predicted if it is a financial pyramid whose collapse is ahead or if it is the future world currency. In the past few years and at the moment, this is a developing risk process in which to invest and win. Expectations are for lasting price stability in the bitcoin as well as for treating it as a true investment asset. The fact that regulators are still trying to introduce rules in this market is also a red signal. It is still unclear to what extent prices are influenced by manipulative practices.

In the next decade, two development scenarios are expected. In the one case, cryptocurrencies will collapse and this will seriously impact humanity and the global economy. The optimistic option, which is rather utopian, is that the bitcoin and the cryptocurrencies will continue to develop and the price and scale of the cryptocurrency will continue to grow. Cryptocurrencies remain a financial and economic mystery of the present and will continue to be such in the near future.

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