

FOUR FACTORS THAT ARE PUSHING INVESTORS INTO BUYING BITCOINS

Relevant for: Indian Economy | Topic: Issues relating to Mobilization of resources incl. Savings, Borrowings & External Resources

[Bitcoin](#) proved itself to be the star of 2020, multiplying its value four times over since the start of the year. After a brief dip in March 2020, the cryptocurrency has surged forward, breaking its previous all-time high of around \$20,000 per bitcoin in 2017 to cross the \$34,000 mark in the first week of January 2021. Investors who entered at the very peak of the last rally find themselves with a 50% return in just three years.

However, investors whom *Mint* spoke to build a case for bitcoin apart from just momentum. In this piece, we look at the reasons for their interest in the cryptocurrency.

A substitute for gold

[Gold](#) rose around 27% in 2020. It has been a traditional favourite among Indian households, but its return has been far outstripped by the four-time rise of bitcoin in 2020.

As a result, some investors are considering to shift a small part of their portfolios from gold to bitcoins. Amit Kumar Gupta, a New Delhi-based portfolio manager at Adroit PMS, a [Sebi](#)-registered portfolio management firm, asked clients to shift from gold to bitcoin in August 2020. Since then, the cryptocurrency has roughly quadrupled in value in rupee terms, handsomely beating the yellow metal (which has stayed flat) as well as the equity markets (Nifty is up around 25% since August).

Gupta hasn't withdrawn his clients' money from bitcoin since then, but is keeping a close watch on the cryptocurrency. "We started buying bitcoin for our HNI (high networth individual) clients in August. Our model portfolio for moderate risk clients is 70-30-10 in equities, debt and gold. We asked clients to move the gold allocation to bitcoin. There was more comfort among family offices and HNI clients outside India on this shift. Within India, we went as per the client's comfort level. We think that institutional adoption will move bitcoin higher in the coming years," said Gupta.

Global interest

In October 2020, PayPal, a payments provider in the US, allowed investors to hold cryptocurrency in their wallets. Other US companies like Microstrategy also parked a portion of their treasuries in it in 2020. "The Grayscale Bitcoin trust for example has gone from \$2 billion AUM (assets under management) to \$20 billion in a year," said Gupta.

Even sceptics are changing their views partly. "I was very skeptical of bitcoin in 2017. However, this year, the institutional acceptance of bitcoin has changed my mind. I invested around 5% of my savings in it in August, in a staggered manner. I will pull out my initial capital but let my profits remain. I also see it as a substitute for gold," said Thakkar, 25, a Mumbai-based asset management professional, who declined to provide his first name.

Scarcity of supply

The supply of bitcoins is restricted to 21 million. Around 18 million bitcoins have already been

mined and are in circulation. Unlike fiat currencies like the dollar or the rupee, this supply cannot be increased by any government or central bank, a fact that gives great comfort to crypto investors.

Such investors are uncomfortable with the surge in money printing by central banks during the covid-19 pandemic, which draws them to bitcoin. The balance sheet of the US Federal Reserve has jumped from \$4 trillion to around \$7 trillion in 2020, a 75% growth in a single year, expanding the supply of dollars at a rapid pace.

Acceptance

Gokul, 28, a Chennai-based financial services professional, who did not want to reveal his last name, entered bitcoins in July after a friend living in Turkey introduced him to the cryptocurrency. "Initially, I didn't know about the Supreme Court judgment. I entered in July when the bitcoin price was around 7 lakh and my investment has gone up around four times," he said.

In March 2020, India's Supreme Court quashed a Reserve Bank of India (RBI) ban on bitcoin-related payments, setting the stage for the revival of cryptocurrency investment in India.

Bitcoin investors also tend to have a background in technology. Thakkar said that his degree in engineering allows him to understand the concept of blockchain and the innovations happening within decentralised finance. "This is something my dad who is also in financial services doesn't get," said Thakkar.

It is difficult to estimate the sheer size of the bitcoin investor base in India. Nischal Shetty, chief executive officer of WazirX, India's largest cryptocurrency exchange, estimated a user base of 5 million in September 2019, much of it from the previous 2017 boom. This figure cannot be verified, but there is strong evidence of a growing investor base since the March verdict. Google search data shows a sharp spike in searches for bitcoin in December, with searches at a 12-month high (but well below their 2017 peak).

Experts, however, remain skeptical. "I would not recommend bitcoin for three reasons. First, the Indian government has not recognized or regulated it. Second, there is no underlying asset generating cash flows unlike say a stock or bond. Third, the investor base in it is still very small and it's very volatile," said Kalpesh Ashar, founder, Full Circle Financial Planners and Advisors, a Sebi-registered investment adviser .

As Mint [wrote](#), ultra high networth investors can treat bitcoin as a punt and not an investment if they are comfortable with volatility. Retail investors should stay away if they don't understand the product.

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