



# ***Harry's Take***

February 2, 2021

## **Reader Mailbag: Questions and Harry's Answers on Bitcoin**

*We receive many questions on various topics, including the direction of the markets, demographics, and interest rates. From time to time, we gather a series of questions on a topic or two and send them to all subscribers as part of our Reader Mailbag series.*

In the recently released February issue of *HS Dent Forecast*, I discuss in depth the issues around the emergence of Bitcoin and blockchain technologies. Here, I address recent, more specific reader questions.

**Q:** Is Bitcoin different from the tulip bulb mania of the 17th century? I know it has lasted longer, but are there similarities?

**A:** The first bubble in modern history before stocks was in tulip futures. Bulb costs went up to an astounding \$1 million in today's dollars in just over a year. At the time, it was the most extreme financial bubble ever on the markets. Bulbs crashed 99%+, the steepest crash ever. All bubbles are driven by human greed and by people jumping in just because something is going up. And all bubbles get really overinflated, in the case of tulips by a half million times, assuming that a bulb was worth \$2. Bitcoin is similar in that the apparent value is near zero, although the cost to produce a new coin is now estimated to be \$10,000. I show in the February issue how Bitcoin may have value that people don't see yet.

**Q:** I was watching Raoul Pal's show yesterday and was shocked to hear him say he had sold the last of his gold to buy Bitcoin. As I've said, I don't know business, but I know one should have a balanced portfolio. I know Jim Rickards does not promote Bitcoin. Could you give us your take on Pal's decision to sell all of his gold for Bitcoin?

**A:** Peter Schiff also does not promote Bitcoin. It is institutional buyers that see Bitcoin as being more like gold and as being an inflationary hedge, as it's pitched as "digital gold." That claim will become true only if Bitcoin evolves into a digital standard for a new global digital monetary system. While that is possible, Bitcoin is nowhere near that now! Some see Bitcoin as a safe haven.... Again, maybe it will be in the longer term, once it is more stable and perhaps becomes a standard for money. But now? It's the most volatile financial asset on earth. I see Bitcoin neither as an inflationary hedge nor a safe haven. I see it as the flagship of the new, growing blockchain revolution, emerging in a manner similar to that of the Internet and the dot-coms from the late 1990s forward. Bitcoin could become the standard for the blockchain revolution.

As the poster child for blockchain, Bitcoin bubbles like a super growth stock in a young, emerging new sector. Hence, I see it bubbling with stocks here, but then crashing harder! If Bitcoin does start to edge up with gold when stocks start to crash, then investors are mistaking it for an inflationary hedge. If that occurs, it will crash even further, after a peak later in 2021 into late 2022 with stocks—but on a lag, and faster. Hence, the early stages of the stock crash will be an indicator of whether Bitcoin simply crashes with stocks or crashes faster on a lag.

**Q:** Are you predicting a Bitcoin crash in early 2021 as well? If so, then what would be the best time to invest in Bitcoin?

**A:** See my answer just above. I think it most likely that Bitcoin will peak here along with stocks and then crash with them as well, only more so, as Bitcoin bubbled up more. If Bitcoin temporarily starts to act like gold due to the misperceptions of new institutional investors, it may continue to go up in 2021 and then crash even faster into late 2022, to bottom more in line with stocks. Either way, it's a bubble, and all bubbles crash.

**Q:** I am not too sure I understood your point about the Bitcoin/crypto market. Will it crash like the stock market when we enter the depression cycle?

**A:** Yes. As I described in depth in the February issue, I see Bitcoin/blockchain reacting just like the bubble around the early emergence of the dot-coms did between 1997 and 2000. The Bitcoin bubble will burst

with stocks, this time into a depression that deleverages all bubbles, except the Treasury bond bubble at first.

**Q:** Hi, Harry. I love your insights. Can you recommend how to get into Bitcoin? Thank you.

**A:** Before you try to get into Bitcoin, find someone who really understands it and then ask questions. I am surrounded by some very astute crypto friends who help me here in Puerto Rico. Many crypto investors are moving to Puerto Rico. Right now, I think it's too late to enter, as the 4-year Bitcoin cycle will end up being an exponential moon shot in a few months. It could have peaked already this cycle or it could have another great surge. It's too risky now. I see Bitcoin going back to as low as \$3,200 by late 2022. But as I said in the *HS Dent Forecast*, I would buy Bitcoin and other surviving blockchain companies after the crash and then hold them for the next global bull market into 2036–2037 as part of my tech stock portfolio.

**Q:** Hi, Harry. Is there an options market for Bitcoin that one can trade in? I'd rather buy call options when the time is right than physically purchase or go long on Bitcoin.

**A:** There are no options yet, but the Chicago Exchange trades futures on Bitcoin. My recommendation is to look at futures the most seriously after the 90%+ crash I project will happen from late 2021 into late 2022. If Bitcoin gets back to \$3,200 to \$4,100, load up the truck!

Be sure to read the latest the *HS Dent Forecast* for even more information on Bitcoin and cryptocurrencies.

Harry

Got a question or comment? You can reach us at [info@hsdent.com](mailto:info@hsdent.com).