

BOOM AND BUST;

what the next year has in store for the crypto market



2021 was an exciting year – not least for digital assets. The coming year promises to be no less exciting. Many digital assets' ecosystems will be expanding significantly and regulators will be watching closely.

Next month we'll be looking at cryptos from an academic's viewpoint, but first we wanted to hear the opinions of a broker. Here, Michael B. Bußhaus, Founder and Managing Director of justTRADE gives us his analysis.

Bitcoin has had a turbulent year. Its performance was predominantly influenced by two decisive events: the crypto ban in China and the admission to trading of the first Bitcoin ETF at a US stock exchange.

In June, the news that China would finally ban the mining and trading of digital assets put the entire crypto market under heavy pressure. But it soon became apparent that Bitcoin miners, who keep the currency network running and generate new Bitcoins, would find a new home. The United States had already opened up to the mining market, accounting for around 35 percent of the total mining capacity by that time. Surely one reason why the price of the popular crypto asset stabilised within a few weeks of the correction.

Bitcoin was certainly able to benefit from the first future-based Bitcoin ETFs, as the price subsequently reached a new all-time high. And the rising inflation rate is likely to have supported Bitcoin as well. The US bank JP Morgan advised its investors to seek Bitcoin instead of gold as protection against rising inflation, but it remains to be seen whether the virtual asset will actually prove to be a sustainable protection against inflation. Investors should pay particular attention to Bitcoin's volatility, which is around five times that of gold.



Ethereum could usurp Bitcoin in the coming year

The performance of Bitcoin is subject to numerous influencing factors – hence its development is impossible to seriously and reliably forecast. However, it is not disputed that Bitcoin's success is increasingly overshadowed by the immense energy consumption that the mining of the cryptocurrency requires. Even though miners often use excess electricity from renewable energies, the demand for electricity is rising sharply. There are two reasons for this: on the one hand, the number of transactions is increasing significantly due to the popularity of the crypto-pioneer. On the other hand, the halving, which takes place every four years, reduces the speed at which new Bitcoins are generated. Effectively, generating a constant volume of Bitcoins will take an increasing amount computing power and energy.

Bitcoin's main competitor, Ethereum, also relies on the energy-intensive proof of work process, in which the network is maintained by the computing power of miners. In contrast to Bitcoin, the second most important crypto-asset in the market is changing its technology to the much more energy-efficient Proof of Stake process in the course of an update. The computing power of miners will then become negligible. The update, called Ethereum 2.0, has already begun and should be completed within the next year. After the upgrade, the blockchain should not only be faster and cheaper, but also much more efficient. Thanks to faster transaction rates and falling network costs, Ethereum, the current top dog in the lucrative and rapidly growing DeFi area, should then expand its lead in this sector even more.



Cardano and Polkadot are expanding their ecosystem

The crypto universe has a lot more to offer aside from Bitcoin and Ethereum. For example, Cardano's blockchain is already based on the Proof of Stake process – thus being significantly more environmentally friendly than Bitcoin and Ethereum. At the same time, the system is currently scaling better than Ethereum, i.e. the Cardano blockchain allows more transactions per second. As part of the September update, smart contracts were introduced on Cardano's blockchain, too. With this, the platform could soon enter the lucrative DeFi market.

Just like Cardano, Polkadot is also preparing to integrate decentralised applications into its own blockchain, to get more users on board and thus massively expand the ecosystem. As opposed to Cardano, Polkadot is a protocol that ensures the compatibility of different blockchains with each other and enables its users to start and operate their own blockchains.



Doge and Shiba Inu: fun currencies with potential?

Finally, it is worth taking a look at the dog race of the two fun tokens; Dogecoin and Shiba Inu. Although both tokens made a name for themselves through rapid growth in 2021, investors should be aware of the risks of the so-called meme currencies. In contrast to Cardano and Polkadot, Doge and Shiba do not serve any application purpose; they are popular mainly because of their entertainment value. In Internet communities such as Reddit, Doge and Shiba have a comparatively large fan base – but these fans can quickly jump onto the next fun coin. In short: absolute caution is advisable here.

The "Squid Game Coin" case also shows that investors should be extremely vigilant. The token didn't only nick the name from the successful Netflix series "Squid Game", but also the funds of its investors. After making big promises, the token-developers ran away with the money for the expansion of the "project" shortly after its introduction. The short-lived token turned into a total loss for its investors.

Suspense continues

Boredom is unlikely be a problem for the crypto market in 2022, quite the contrary. Numerous projects that have been in development for years are entering their final phase and will be seeking partnerships with established players in the market. In addition, digital assets are becoming increasingly important as an asset class; more and more investors are adding cryptos to their portfolios for diversification and Bitcoin & Co are now reaching the financial market mainstream thanks to the first ETF approvals in the USA. Digital assets regulation won't come to a standstill in the coming year either. It can be assumed that American and European regulators will scrutinise the crypto market much more closely. In order to avoid deterring potential investors, the new German government should take a clear position regarding the market for digital assets.

About the author

Michael B. Bußhaus is the Founder and Managing Director of justTRADE. He was the Managing Director of Onvista Bank and, as Head of Brokerage, was responsible for the entire securities business of Comdirect Bank AG until January 2019.

About justTRADE

justTRADE is the first German online broker to offer its customers securities and crypto trading from one custody account, either mobile via iOS and Android or via the desktop browser and at an order commission of €0 (plus standard market spreads). Over 500,000 securities can be traded – stocks, ETFs, ETCs, certificates, warrants, leverage products and wikifolio index certificates both on-venue via three stock exchanges (LS Exchange, Quotrix and Tradegate Exchange) and over the counter via four trading partners (Citi, Société Générale, UBS and Vontobel).

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today to discuss how the seamless market access that our venue provides, can help to grow your retail client business.

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