Cryptocurrencies: They´re really that lucrative?

Roman Blazek[1,*]

[1] University of Zilina, Faculty of Operation and Economics of Transport and Communications, Univerzitna 1, 010 26 Zilina, Slovakia

Abstract

Research background: Cryptocurrency is a digital currency that is intended for online trading. It uses and implements the principles of cryptography to create a distributed, decentralized and secure digital currency. Virtual money is a new and promising branch of the virtual economy that brings many advantages and disadvantages in a global sense. Many people have become involved in cryptocurrency hype because high investments in this digital money have been seized during the pandemic. The rise in revenues from this digital money has gripped the world globally.
Purpose of the article: The basic purpose and chosen goal is to analyze the use of cryptomen trading during the global Covid-19 pandemic, as well as investing in these alternative sources of investment, which are gaining more attention every day precisely because of their freedom and detachment.
Methods: The article will analyze data that will be compared based on the years before the Covid-19 pandemic and during the Covid-19 pandemic. Based on these data, the investment activity of people, companies, corporations is compared.
Findings & Value added: Based on the results in the article, it was found that during the Covid-19 pandemic, the interest in investing in cryptocurrencies increased compared to the interest in investing in cryptocurrencies before the pandemic. The overall result is that people are moving to a new way of holding money, as cryptocurrencies are a new way to the future, as banks are unable to provide such returns from client deposits as cryptocurrencies, but they are associated with much greater risk.

Keywords: *cryptocurrencies; investing; alternative forms of investment; risk; return*

JEL Classification: *G11; G15; G23*

[*] Corresponding author: roman.blazek@stud.uniza.sk

1 Introduction

In 2009, a new chapter in the world of finance began to be written. It was the emergence of cryptocurrencies, specifically Bitcoin, which gradually developed a clear trend for the future, namely saving its funds in this new investment opportunity. Bitcoin has become the overall world leader in cryptocurrencies, as evidenced by the fact that its development affects all other cryptocurrencies called altcoins. The most famous altcoins include Ethereum, Litecoin, Dogecoin, Monero. According to White et al. (2020), more than 2,000 cryptocurrencies are used worldwide. This statement is no longer valid, as we already have more than 6,500 species of altcoins, the value of which depends on the value of the strongest cryptocurrency, which was, still is, and will be Bitcoin. As there are so many cryptocurrencies in the world, any participant who decides to invest their free funds in this asset has the opportunity to choose between fully emerging cryptocurrencies that offer a high degree of risk, as no one knows how to behave. the existing crypto messes that are still evolving, the market participant may monitor them and predict their further development, or may reach for absolute giants in the world of cryptocurrencies, which are expensive but the market participant is more likely not to disappear. the end, as was their beginning.

The world of cryptocurrencies is shrouded in various unknowns. It is very difficult to predict the individual situations that may occur in these markets, as they are not affected by inflation or the issuance of bonds or other instruments that affect the development of e.g. commodities in commodity markets. Crypto means follow their own rules. However, these rules can be influenced by rich people, who are the majority owners of cryptocurrencies, or even their founders. The price of cryptocurrencies is highly volatile and these reversals and fluctuations we could see e.g. at the beginning of 2021 when one statement by Elon Musk was able to create a dump value of Bitcoin and this cryptocurrency had a long time of trouble getting back to its ATH (All Time High). This negative trend was stopped again by Elon Musk, who again managed to "shoot" the value of Bitcoin to a high value. Therefore, it is very important to think carefully about whether investing in cryptocurrencies is advantageous.

The year 2020 marked us with the Covid-19 pandemic, which changed people's lives. There were various measures that restricted people, e.g. go on vacation, go to a wellness center, enjoy your favourite meal in a favourite restaurant or go on an annual, joint, multi-day trip with the whole family, etc. All these unfulfilled desires were transferred to a higher stock of investment funds of individuals, which resulted in a higher interest in new investment portfolios. Classic forward interest rates, investments in bonds or commodities were no longer so lucrative, as a huge bubble appeared, from which everyone wanted to take a piece. And that was cryptocurrency. As a result of higher free cash, people decided to invest in cryptocurrencies, which could provide them with higher profits than the above-mentioned alternatives, in a significantly shorter time frame.

The added value of this article is that it discusses one of the most popular versions of an investment asset that has appeared here in recent years. He points out that the cryptomenic world is increasingly sought after and more and more people are saving their free money in these coins.

2 Literature Review

We all know that cryptocurrencies could not function without the exchanges that people use according to the authors Makarov, Schoar (2020) for arbitration. Based on this experience, Okorie and Lin (2020) decided to develop research that takes a closer look at the use of cryptocurrencies. Their research revealed that cryptocurrencies are used to blend money and oil. However, it is very difficult to find out who uses these tools, as trading cryptocurrencies is purely anonymous. The blockchain is described in this study by Li et al. (2020), Zheng et al. (2020), Taylor et al. (2020), and Nam et al. (2021). This part with anonymity also has negative effects, for example, it supports crime and so on. governments are unable to appeal to rising crime because they are unable to identify individuals or groups as direct participants in the rising crime. This statement is also confirmed by Gonzalvez-Gallego and Perez-Carceles (2021) or Siekelova et al. (2021) in their studies.

If we want to take a closer look at crime, we can focus, for example, on the shadow economy, which Ginevicius et al. Discuss in their study. (2020), which adversely affects the overall performance of the economy. The use of this shadow economy is subsequently reflected in the financial indicators of companies, which were described in their study by the team of Kliestik et al. (2020), where the financial situation of companies can lead to bankruptcies. This view is also confirmed by Khan et al. (2020), which writes about bankruptcies in SMEs in the countries of the Czech Republic and the Slovak Republic.

An interesting study arose from the research of Bondarenko et al. (2019), who sought to determine the impact of the introduction of cryptocurrencies in Ukraine, its advantages and disadvantages for that country. The introduction of cryptocurrencies in Ukraine would, in my opinion, be very risky, as cryptocurrencies are too volatile, as evidenced by a study by Paskalov and Stoykov (2021). Despite this, the Ukrainian parliament legalized Bitcoin and so transactions got out of the gray zone. Predicting the price trend for cryptocurrencies is, in my opinion, very difficult. Xiaolei et al. (2020), who addressed this issue in their study.

But the world was hit by the covid-19 pandemic in 2020. This pandemic caused an increase in interest in cryptocurrencies, as evidenced by the increase in the value of all cryptocurrencies, but especially the value of Bitcoin, which reached new ATH levels over the months. The authors of Mnif et al. (2020) in their study confirm this statement. Bitcoin has become a great tool for securing investments. This fact was also confirmed in a study by Akhtaruzzaman et al. (2020).

Many people have tried to get rich from cryptocurrencies, as evidenced by the enrichment of Americans by up to $ 4 trillion. This fact began to be explored much more, and scientists tried to figure out how the return on investment in Bitcoin could be calculated. This idea led to a study by Liu and Tsyvinski (2020. Gaspareniene and Remeikiene (2020) tried to predict the price of gold using time series. This idea could also be used to calculate the price of cryptocurrencies, but it would only be a theoretical solution, as We know that the price of cryptocurrencies fluctuate independently.

3 Materials and Methods

Free funds of the population and households, unfavorable conditions for investing in banks, the Covid-19 pandemic and the growing hype in the area of cryptocurrencies have caused us to increase investment in the most famous cryptocurrencies such as Bitcoin, Ethereum, Litecoin, Monero, Dogecoin. All of these factories caused the average invasions of cryptocurrencies to increase by pre-pandemic and during the pandemic. The following picture shows the enormous increase in interest in cryptomens at the turn of 2020/2021.

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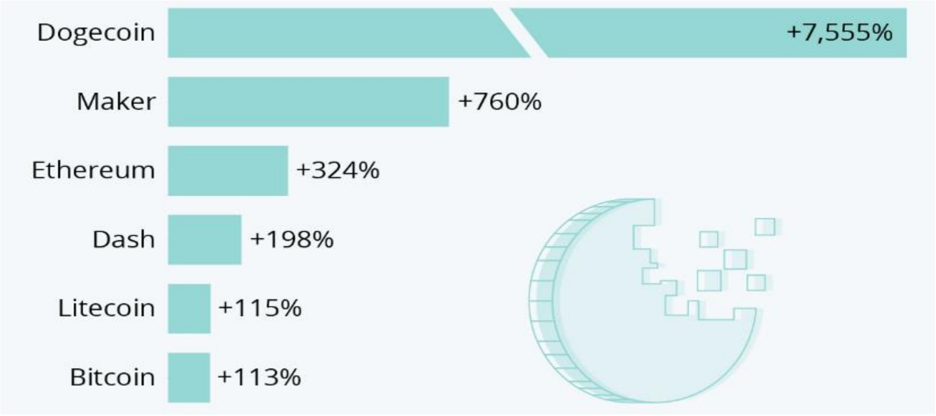

Figure 1. Overview of investing in selected cryptocurrencies

Source: processed by the author according to statista.com

Based on these facts, Bitcoin reached a new all-time high, which attacked the $ 60,000 mark. However, this rocketing growth was caused not only by free funds, but also by the statements of the richest people in the world, e.g. Elon Musk, the owner of Tesla, who connected his business with Bitcoin by buying this cryptocurrency and also introduced the possibility that people would be able to buy an electric car using this cryptocurrency.

However, the positive effects can change the negative ones, as the same person was able to reduce the price of Bitcoin to a level below $ 40,000 with a single announcement of the non-ecological mining of this currency.

These negative effects on the crypto market meant a new trend in speculative movements in the markets. Many people, therefore, took the opportunity to invest their financial resources in the cryptocurrency market in order to make a profit, which meant that many people who did not trade in the markets lost their money due to the negative effects of significant people's statements on the cryptocurrency market.

In the following picture, we see that the number of transactions has been growing rapidly in recent years. This means that the number of speculative transactions has increased, as has the number of participants in the market for these lucrative commodities.

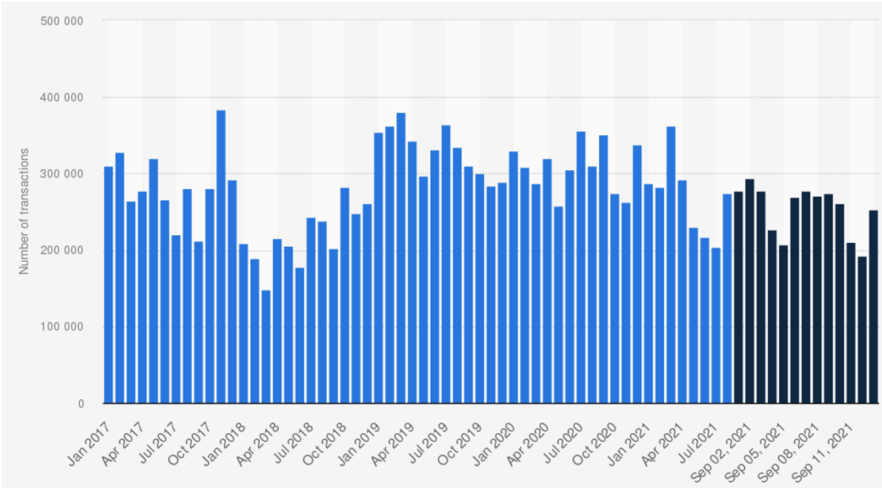

Figure 2. Number of daily Bitcoin transactions worldwide from January 2017 to September 13, 2021

Source: processed by the author according to statista.com

4 Results and Discussion

Interest in bitcoin, the largest cryptocurrency by market value, surged in the past year. Digital coins were bought by major investors, such as Tesla and MicroStrategy added bitcoin to their balance sheets, resulting in the possibility of buying Tesla through Bitcoin. This cryptocurrency later became a currency in El Salvador, which provoked considerable criticism from the population. Overall, cryptocurrencies are of great interest to investors, whether large or small or even ordinary people. They are an interesting way to keep the money. This option also offers high returns and the ever-increasing market value of Bitcoin pushes up the prices of all other altcoins, which ultimately has a positive effect on cryptocurrency holders as their money increases in direct proportion to the interest of new incoming cryptocurrency. However, new investors do not think rationally, which results in the frequent loss of all investment funds, because they focus on only one type of cryptocurrency, which is not good in today's world of cryptocurrency exchange. In my opinion, it is good if people divide their resources into several cryptocurrencies. Their investment basket should consist of the largest cryptocurrency, Bitcoin, and also Ethereum. They should then choose some interesting altcoins that can make a profit, as long-term players in cryptocurrency education as well as new investors may not be afraid to invest in new, emerging altcoins that may or may not make a quick profit. I would recommend investing money in this group, which the investor can afford to lose, or try to invest only in an interesting product, which may or may not bring the expected result.

The rapid rise in high yields has caused a great deal of trouble in the world, with the result that the cryptomenic madness has grown into a huge bubble that can burst at any time. Meanwhile, the volatility of cryptocurrencies still attracts new investors who increase the value of cryptocurrencies by investing, constantly sharing information and raising awareness. In this way, they benefit stable players in this world and also get into the so-called Pump & Dump schemes, where the new investors earn the experience. It would be very good to do similar research again as Ključnikov et al. (2020), as it is young people who are entering the world of cryptocurrencies and it would be appropriate to find out their awareness of this type of investment. Research by Kral et al. (2019) and a portfolio optimization would be created that would be suitable for novice cryptocurrency investors. In any case, many people have improved with coins last year, and more and more people are getting into the waters of cryptocurrencies every month. This can also lead to corporate fraud, as they can turn their potential profits into cryptocurrencies and thus report a much lower tax than they should. However, this could lead to various fluctuations in companies, which we can read about, for example, in Grofcikov's research (2020).

5 Conclusions

Cryptocurrencies will become increasingly important in our world, and we can already say that they are one of the most sought-after investments worldwide. The aim of the presented article was to capture the issue of cryptocurrencies in the world. As can be seen, cryptocurrencies are an increasingly important topic, as evidenced by increasing investment in individual years. As already mentioned, during the pandemic, people were more inclined to invest in these new forms of investment. One of the main reasons was the increase in the amount of money that could be invested and also the rising inflation that bypassed the cryptocurrencies.

The article is limited on the basis of obtaining the necessary information, as completely accurate data are guarded because GDPR is taken care of in the world of cryptocurrencies. The volumes of traded investments are guarded and it is very difficult to get accurate numbers. However, data collection from various statistical sites provided relevant evidence, as they directly captured the trend of investing in cryptocurrencies.

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