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Sound investing is about building, not speculating

Why cryptocurrency isn't suitable for most investors

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Investing is not easy. It takes discipline and a lot of patience. Most people work hard for their money, and it usually takes many years of saving to accumulate enough to feel financially secure. Those savings not only need to earn enough to generate cash flow to fund your lifestyle but also need to grow to maintain that lifestyle once inflation is factored in.

Investing in established businesses and in real estate have been great ways to build and maintain wealth. Owning a diversified portfolio of companies as well as owning a real estate portfolio has the potential to generate the income you need to fund your lifestyle as well as grow your assets to keep pace with inflation.

There is often the temptation to speculate in other opportunities that may work out for a period but often end up with losses. Cryptocurrencies are one example of a speculative investment. They are highly speculative, and more people will lose money in them than make money.

In 2020, Bitcoin shot up from under $10,000 to over $60,000 by the fall of 2021. It was reported daily about the riches some people were making. The media reported and continues to report the price of Bitcoin. Some companies went so far as to start holding Bitcoin on their balance sheet as a substitute for cash.

Big-name investors who never believed in Bitcoin threw in the towel and took on positions. Politicians announced that they would support legislation to regulate crypto to protect investors, which further gave some confidence in the speculative investment. All the factors seemed to support Bitcoin, but from November 2021 to the recent lows, losses amounted to more than 70 percent of the peak valuation.

There are recent reports of pension funds losing tens of millions from poorly timed speculation in cryptos.

Examining crypto risks

Cryptos are speculative and not suitable for most investors. It is impossible to fully understand the risk of speculating in Bitcoin or other cryptos. Cash held in U.S. banks is Federal Deposit Insurance Corp.-insured. Even investments held in U.S. brokerage accounts have Securities Investor Protection Corp. There is no protection for owners of cryptos. And, unfortunately, there have been many instances of hackers getting into holders' wallets to rob their accounts. Billions of dollars in value have been lost this way.

Moreover, some investors store their Bitcoin in electronic vaults that only they have the password for. If that password is lost, there is no bank to call to reset the password. The funds have not been stolen, but if you cannot access your vault, the value is lost nonetheless. Considering all the trouble with owning cryptos and their uncertain future, the U.S. Department of Labor earlier this year made statements discouraging cryptos from being included in retirement accounts.

Currencies around the world are traded by people who specialize in such things. Factors such as economic strength and interest rates influence the value of each currency against the others. There is some logic in their trading decisions. Cryptos don't seem to follow any logic in their daily fluctuations, and the volatility can be extreme. For example, a group of cryptos that called themselves "stable coins" proved to be anything but stable when one of them recently lost more than 90 percent of its value in just days.

Measuring what's real

When investing in a business by owning shares of that company or investing in real estate, we can measure the revenues the business brings in or the rental income being collected. The expenses to run the business or operate a property are known.

Most companies have multiple, consecutive years of data available, so we can understand their financial histories and make a reasonable prediction of how those businesses may fare in the future.

Real estate assets also have an operating history to analyze for making an informed decision before investing in them. As a serious investor, you require financial information on which to base your decisions. That is investing! It's all about learning and applying relevant facts in your decision-making.

Of course, no one can predict the future with exact precision, but a publicly traded company that has been consistently profitable and growing its dividend for many years can be reasonably expected to continue the trend. We can look at management and market conditions, and form reasonable expectations about the opportunities and challenges to future earnings.

Speculative investments don't have history to drawn on. A select few work out for those who invest early, but those that buy in later based on emotion usually lose, as in the case of Bitcoin.

What makes the headlines can be informative, but it can also be hyped up to generate excitement. I would rather miss out on an investment like the cryptos during their good times, so that I don't have to suffer the losses in the bad times.

Investing doesn't need to be exciting on a day-to-day basis, and companies that are not in the daily news are often the best ones to own for more consistent returns. True wealth isn't something we can simply grab or seize with good timing, but rather something we build over time. NHBR

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