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Why Choose to Invest in Cryptocurrency?

Bitcoin, Ethereum and popular altcoins all belong to highly volatile asset class, and you may be wondering if it's worth investing in cryptocurrency. Here are the reasons why people do and why they stay.

Everyone has their own agenda for making crypto investments, whether quickly, intentionally or slowly over time. Investing in cryptocurrencies seems like a breeze compared to day trading heavyweights who buy and sell assets during stock market trading hours (as opposed to profiting in the decentralized financial world where there is no time limit). For young consumers, crypto seems inevitable for our social media-driven future.

"A lot of people thought at first dogecoin was a literal joke," said Randi Hipper, an 18-year-old influencer known as Miss Teen Crypto, in a late 2021 conversation with CoinDesk. "But then people like [Tesla CEO] Elon Musk started tweeting and it got serious. Then [entrepreneur] Mark Cuban got in and started accepting DOGE for payment for the [Dallas Mavericks pro basketball team]. DOGE is serious now."

But most crypto investors aren't only in it for popular meme coins like dogecoin. In fact, everyone from hobby traders to institutional investors like JPMorgan Chase are starting to see cryptocurrency, Web 3 and the metaverse as an opportunity-filled trifecta.

Ahead, we introduce a few common reasons why people get hooked into crypto but, more importantly, why they stay.

Speculative Investment

Perhaps the most common reason why people invest in cryptocurrency is to speculate on the price in the hope the asset will be worth more in the future.

Everyone from Twitter thought leaders to institutional wealth managers have made guesses as to when bitcoin will hit $100,000. Adding a speculative sprinkling of crypto to one’s portfolio – somewhere between 1% and 10% – is a common way of gaining exposure to volatile yet potentially lucrative assets while protecting the rest of your money.

In the past decade, we’ve seen the meteoric rise in the value of coins like bitcoin and ether (the native cryptocurrency of the Ethereum blockchain) as well as many others. While the rates of return may not match the growth that has occurred over the past few years, many investors are still bullish on the growing place of cryptocurrency in our world.

If you believe in the crypto industry, in other words, making calculated speculative investments is a way to put your money into the future you hope to see.

Just be sure to take a holistic view: “If you need 90% of your assets to live a comfortable retirement, we manage 90% and you take 10%,” says Michelle Brownstein, a certified financial planner and senior vice president of the Private Client Group at Personal Capital. Brownstein often recommends that her clients protect the bulk of their retirement portfolios. Most qualified fiduciaries would make a similar recommendation in order to help clients mitigate emotional decision-making and taking on too much risk.

“That’s trying to find that happy medium,” she says.

Investing In Cryptocurrency As An Inflation Hedge

Known as “digital gold,” bitcoin specifically was known as an inflation hedge for years thanks to its built-in scarcity. Minting of bitcoin will stop once the number of coins in circulation reaches its hard cap of 21 million. Due to rapid mainstream adoption, bitcoin's value is projected to grow as demand increases.

"It's a hedge against inflation because there can't be any more of it," Gemini's Dave Abner told CoinDesk in December. "I actually think the biggest thing driving prices is probably sentiment around fears of inflation and diversification of portfolio holdings. It's not about it becoming a currency that people will use in their daily life."

However, not all cryptos are treated equally. While bitcoin has scarcity coded into its algorithm, other coins are inflationary, meaning there is never going to be a maximum amount minted. Dogecoin, for instance, falls into this category: 10,000 new doge tokens enter circulation every minute, and will continue to do so in perpetuity (unless developers step in to cap the supply.)

Invest In Cryptocurrency As a Store Of Value

While volatile cryptos like bitcoin aren't the best holders of stable value, there does exist a type of coin designed for just that very thing: stablecoins.

Stablecoins are crypto assets pegged to fiat currency or other types of assets. They are starting to be used as currency more and more with the help of crypto rewards cards and digital DeFi wallets. People worldwide can transfer money instantly to friends, family or even fellow gamers in a digital world like Splinterlands and Skyweaver.

That said, all cryptos hold value of some kind, even if it's hard to predict. Once you buy, sell and/or trade your crypto on an exchange to someone, you can store it in either a hot wallet or cold storage device until you want to use it. Even if it's offline, its value will continue to mature or fall based on the market.

Participate In Decentralized Banking

A big reason why people love crypto is for the decentralized ethos of peer-to-peer, permissionless banking. Onboarding a new generation of consumers to a digital economy of algorithmic money theoretically eliminates the need for central banking institutions, along with their fees and oversight.

In particular, smart contracts make such a decentralized world possible. Their instructions are enacted according to a coded, open-source algorithm that everyone can see on blockchain.

However, the U.S. government, along with governments abroad, is keeping a close eye on blockchain developments, leaving some to question how long crypto can actually remain decentralized. President Joe Biden just announced he will sign an executive order in March 2022 outlining the federal government's potential regulatory changes.

Invest Now To Be Part Of Future Technological Infrastructure

Despite crypto's reputation for being the Wild, Wild West, most can recognize blockchain's potential as a new technological infrastructure that will one day have real-world value, as laptops, iPhones and cloud storage do already.

"When you think about the technology behind crypto – blockchain technology – there's a ton of other applications for it," says Michelle Brownstein, a certified financial planner and senior vice president of the Private Client Group at Personal Capital. "So maybe it is the future of some other industry no one's even thought of yet."

For instance, the enterprise blockchain company CasperLabs launched in 2018 to further research and development based on Ethereum's smart contract technology. Built off the original specifications designed by Ethereum developers, the Casper Network blockchain was developed to scale crypto technology for widespread enterprise use, according to Medha Parlikar.

"What my co-founders and myself realized is there really wasn't a blockchain built for businesses," Parlikar says. "Enterprises and organizations are really beholden to regulatory bodies, investors and customers. The Casper protocol is positioning itself as a big stepping stone to help companies kind of go from where they are to transitioning through to implementing and adopting blockchain. We believe that through that process, consumers will ultimately reap the benefits of that."

According to Parlikar, blockchain technology has the potential to help businesses maintain more secure records, protect customer privacy when handling sensitive information and verify identity more seamlessly.

Sources in the blockchain space also claim the tech can solve headaches across multiple industries and be instrumental in creating better processes for uses like voting access, supply chain transparency, reservations, concert ticket and VIP membership communities, identity protection and more. Investors with the right risk appetite and desire to support burgeoning projects may therefore want to get in on the action by purchasing tokens from a specific project, company, application or ecosystem they believe will be relevant in five to 10 years.

But as with any individual stock purchases – let alone an asset as volatile as crypto – financial planners like Brownstein still recommend caution: “You don’t necessarily have to be in [crypto] today to meet your financial goals,” she says.

Invest In Cryptocurrency To Make Passive Income

Learning to buy and hold crypto in what are known as [DeFi](#) positions can result in passive income yields.

Through lending, staking, pooling, and trading, decentralized finance (DeFi) investors can earn interest for allowing their crypto to be part of the overall ecosystem. You typically have to “lock” it up for a time period in order to earn periodic interest on your positions, but DeFi strategies are popular among people with the time and discretionary cash needed to participate.

Returns vary widely between platforms, but users can earn 3% to 14% APY by staking leading cryptocurrencies. In some cases, specific DeFi investment strategies, collectively known as “yield farming,” can result in significantly higher rates.