

The Cryptocurrency Conundrum

It's more important than ever to be aware of your risk tolerance.

Provided by DSA Financial Group

Recently, you may have seen a number of major cryptocurrencies fall thanks to a continuing sell-off that began last week. In fact, over \$250 billion was lost in the crypto market alone.¹

It may be tempting to view this as another volatile moment in the crypto markets, but there's more at work here than a temporary trend towards selling.

Prior to this moment, over 50% of the world's cryptocurrency was mined in China using custom-built computers with a high hashrate. Hashrate, or the rate at which calculations can be performed, is a crucial factor for those who "mine" cryptocurrency. The higher the hashrate, the more calculations that can be completed per second, and the more cryptocurrency that can be mined.²

However, these super-powered machines also require a phenomenal amount of power—enough to overload local infrastructure in some cases.³

This has led to China directing its electric companies to cut power to major crypto-mining operations across the country. The question is, why now? There may be multiple reasons, but the Chinese government has claimed that it's acting now because of concerns around crypto's volatile price, concerns over electricity use, and cryptocurrency's potential use for money laundering and illegal dealings.⁴

With all of this in mind, it's more important than ever to be aware of your risk tolerance if you're thinking about exploring cryptocurrency. Cryptocurrency is not a currency at all. It's a speculative asset class that is not appropriate for everyone. Only people with a high-risk tolerance should consider cryptocurrency assets.

Like other alternative assets, cryptocurrency can be illiquid at times, and its current values may fluctuate from the purchase price. Cryptocurrency assets can be significantly affected by a variety of forces, including government decisions, economic conditions, and simple supply and demand.

Give us a call today if you have any questions about the above, or just want to chat. We're always here to help!

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Citations

1. CNBC.com, May 19, 2021
2. Theverge.com, June 23, 2021
3. Visualcapitalist.com, 2021
4. Reuters.com, May 21, 2021