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Crypto: Multibagger or Multibeggar

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Abstract

This journal research delves into the evolution of currency, tracing it from the barter system to the introduction of cryptocurrencies. It emphasizes the unique characteristics of cryptocurrencies, such as security, privacy, and decentralization, and the pivotal role played by blockchain technology. The research also discusses the dramatic growth and correction in the cryptocurrency market, along with factors contributing to volatility. It scrutinizes the stance of various countries toward cryptocurrency regulation, highlighting both progressive and restrictive approaches. The paper addresses investor and trader concerns, including privacy issues, technological advancements, and stability. It evaluates the major causes of the cryptocurrency market's decline in the last two years, highlighting incidents like the Terra ecosystem collapse, FTX bankruptcy, and increased regulatory scrutiny. In terms of data and analytics, the paper provides charts showcasing cryptocurrency market performance, highlighting patterns of surges, downturns, and consolidations. It observes the cryptocurrency market's current phase of consolidation, raising concerns for investors who entered during peak periods. Finally, the research acknowledges the intrinsic nature of cryptocurrencies, their immunity to government intervention, and the challenges they face in providing added value while navigating regulatory hurdles. It acknowledges the unpredictable nature of the cryptocurrency market and the divergent opinions of industry experts and billionaire investors.

Keywords: Stablecoins; Bankruptcy; Collapse; Volatility; Blockchain; Market correction.

Introduction

In the caveman era, people used the barter system, in which goods and services were exchanged among two or more people. For instance, someone might exchange seven apples for seven oranges. After people realized the barter system didn't work very well, the currency went through a few iterations: In 110 B.C., an official currency was minted; in A.D. 1250, gold-plated florins were introduced and used across Europe; and from 1600 to 1900, the paper currency gained widespread popularity and ended up being used around the world. People have been transacting with fiat currency since its inception. It has become easier to trade and transact. Following the global financial crisis of 2008, the first kind of cryptocurrency, Bitcoin, was launched in 2009. It was created by Satoshi Nakamoto (2008), an unidentified group or individual who created Bitcoin as the first digital currency enabling easier day-to-day transactions between individuals. Cryptocurrencies are digital or virtual currencies underpinned by cryptographic systems. They enable secure online payments without the use of third-party intermediaries. "Crypto" refers to the various encryption algorithms and cryptographic techniques that safeguard these entries, such as elliptical curve encryption, public-private key pairs, and hashing functions. Central to the appeal and functionality of Bitcoin and other cryptocurrencies is blockchain technology. Cryptocurrency is a sort of digital currency that allows for greater anonymity and security. People also prefer cryptocurrency because of its decentralized market structure, which means that the government cannot manipulate its value. Only on their own turf might the government legalize or prohibit the manner of acquiring or trading cryptocurrencies. In the past few years, the cryptocurrency market has experienced substantial growth, surpassing the three trillion dollar mark by the end of 2021 and accounting for about a trillion in the present 'winter' (Statista, 2023). But as of now market is corrected and the cryptocurrency market comes down to USD1.13 trillion. In the last quarter of 2017, the total market capitalization for cryptocurrencies reached a record high of over USD800 billion. it was followed by a massive correction in the market leading to significantly reduced market capitalization, which stands at under USD 100 billion. This clearly suggests that the market has experienced a bull (cryptocurrency price rising, pre-crisis) and bear (cryptocurrency price falling, crisis) market throughout this period. Over-speculation and interest from academics and those in the industry in this new financial technology are a few reasons behind this recent market phenomenon. This volatility in cryptocurrencies impacts the trust of long-term investors making investments in them. Governments and common people might also not accept it as a medium of exchange due to its high volatility. This research objective aims to employ data-driven analysis and predictive modeling to anticipate potential areas of growth within financial markets, providing valuable insights for investors and traders navigating the uncertainties of the investment world. In essence, this journal research aspires to contribute to the growing body of knowledge surrounding financial markets, offering a holistic perspective on their intricacies. Through empirical analysis and the synthesis of diverse data sources, it seeks to provide stakeholders in the financial arena with a well-rounded understanding of market behavior, thus empowering them to make informed decisions in an ever-fluctuating landscape.

Objectives

To study the past performance and patterns in the crypto market

To study investor and Trader's trust and optimism for crypto's future

To analyze global acceptance

To find out the reasons for its correction in the last 2 years

To analyze cryptocurrency's future growth

Methodology

The primary goal of this research is to conduct a comprehensive analysis of the historical performance of cryptocurrencies, spanning from their inception to the present, and subsequently, make informed predictions regarding their future acceptance. The aim is to collect pertinent data that sheds light on whether cryptocurrencies are poised to be embraced as an investment. Over the past two years, the cryptocurrency market has experienced substantial corrections, eroding trust among traders and investors. The research will explore whether asset class investors and traders can regain confidence and reinstate substantial trading volumes in the coming months. To achieve these objectives, an effort will be made to meticulously investigate and address these inquiries. Data will be sourced from a variety of reputable outlets, including prior scholarly journal research, credible news media, market charts, and official crypto exchange websites.

Literature Review

Studying past performance

Bitcoin is the oldest and shares the highest market share in the cryptocurrency market that's why the market is mostly directed same as bitcoin. Also 2nd crypto came for trade in 2011 which is why there was no index for crypto because of this we can't show in general performance of the crypto market from its initial stage. Let us see some of the worst market crashes in the history.

June 2011: Bitcoin (BTC), the only cryptocurrency that was circulating back then, had crashed from $17.50 to 1 cent. The crash occurred when an exchange called Mt. Gox, which in the early years of crypto was handling over 70% of all Bitcoin transactions, got hacked. Mt. Gox eventually filed for bankruptcy in 2014 after losing almost 750,000 of its customers' bitcoins. On other exchanges, bitcoin's low that year was around $2, and the cryptocurrency ended the year at around just under $5.

December 2013: China FUD Two years later, more people outside of the narrow crypto spectrum started paying attention to the latest "internet currency." The year 2013 was also when China made its first mark on Bitcoin: The Chinese central bank issued a warning against using Bitcoin as legal tender. The price of bitcoin dropped over 50%, from a then-all-time high of $1,200 to less than $600.

December 2017 & January 2018: But back in December 2017, when bitcoin's value topped $20,000 for the first time, traders were astounded – and many early buyers of the original cryptocurrency were suddenly very rich. But what goes up must come down. Just 12 days later, the crypto asset crashed to $12,840. And this time, it wasn't just Bitcoin that was hit by the crash. Other established crypto assets, such as Ethereum's ether (ETH) and Bitcoin Cash's BCH, lost value, too. After the last quarter of the skyrocketing rise in the market price of 2017. The burst came as a shock to many people even someone who is not a Bitcoin user. The peak of Bitcoin hit $831 billion in total market cap, after less than a month, 54% was wiped off to only $315 billion. Similarly, other altcoins' prices having the same pattern as Bitcoin, leapt from December 2017 to the beginning of January 2018 and then dropped dramatically. By the third quarter of 2018, cryptocurrencies collapsed by more than two-thirds and the eruption is scrutinized as being more destructive than the Dot-com bubble in the early 2000s.

March 2020: It's hard to forget March 2020, when the COVID-19 pandemic hit the U.S., a life-altering event in just about every way imaginable. As a result, the stock market lost 13% on

March 16, nicknamed "Black Monday," as the pandemic's potentially devastating impact on the economy suddenly became undeniable. The growing uncertainty caused a crash in crypto assets, considered among the riskiest assets of all.

Bitcoin fell by 57% to a low of $3,867 after having traded near $10,000 in the previous month. Ether, the second-largest cryptocurrency by market value after bitcoin, fell 46% that week. Eventually, on Dec. 16, 2020, bitcoin pushed past $20,000, eclipsing the previous all-time high and reaching $29,374 by the end of 2020. What started as a crash ended in a rally.

JANUARY 2022: As per reports, Bitcoin along with other digital cryptocurrencies crashed to its lowest level in the last week of January 2022 and wiped out over $ 1 trillion from the global crypto market. Other digital currencies, Ethereum, Finance Coin, and Cardano also witnessed similar meltdowns. Crypto assets such as Bitcoin have raised financial stability concerns.

May 2022: After 2021 which was arguably the most successful year for the crypto industry, the reckoning came swiftly. First came the crash of Terra, a blockchain with its own dollar-linked stablecoin, UST. The UST token was supposed to retain a value of $1, but the price came unpegged – and soon traders also lost confidence in the blockchain's native cryptocurrency, LUNA, whose price eventually would tumble 99%. The crypto market lost roughly $2 trillion in 2022. Bitcoin, one of the most popular cryptocurrencies, lost more than 60% of its value. And the implosion of FTX, a now-bankrupt crypto trading platform once valued at $32 billion, has shaken investors' confidence as the industry feels the ripple effects of the company's collapse.

As I showed you worst crisis came in the crypto market but with data, you can understand that there is not just a crisis after every market correction the price of crypto currencies rises very quickly and gives multiple bags of returns to their investors. This happens because there is high volatility in the crypto market.

Source: TradingView

Global Acceptance

Let us see what some of the highest GDP countries and the European Union put regulations on cryptocurrencies

United States of America

The U.S. Securities and Exchange Commission (SEC) has said it views cryptocurrencies as securities and will apply existing securities laws to digital assets. This is important for retail investors because it means they are obligated to report realized gains and losses from crypto investments on their annual tax forms. Failure to do so will invite the scrutiny of the Internal Revenue Service, which has vowed to crack down on crypto tax dodgers. The Commodities Futures Trading Commission (CFTC), by contrast, has classified Bitcoin and Ethereum as commodities. Cryptocurrency derivatives – most commonly, Bitcoin futures -- are legally traded on public exchanges overseen by the CFTC.

China

China classifies cryptocurrencies as property for the purposes of determining inheritances. The People’s Bank of China (PBOC) bans crypto exchanges from operating in the country, stating that they facilitate public financing without approval. Furthermore, China placed a ban on Bitcoin mining in May 2021, forcing many engaging in the activity to close operations entirely or relocate to jurisdictions with a more favorable regulatory environment. And in September 2021, cryptocurrencies were banned outright.

Japan

Japan takes a progressive approach to crypto regulations, recognizing cryptocurrencies as legal property under the Payment Services Act (PSA). Meanwhile, crypto exchanges in the country must register with the Financial Services Agency (FSA) and comply with AML/CFT obligations. Japan established the Japanese Virtual Currency Exchange Association (JVCEA) in 2020, and all crypto exchanges are members. Japan treats trading gains generated from cryptocurrency as miscellaneous income and taxes investors accordingly.

India

The Finance Bill, 2022 has proposed a new scheme of taxation of “virtual digital assets” (VDA). The Bill inter alia has proposed to insert a new section 115BBH in the Income Tax Act, 1961 which provides that where the total income of an assessed includes any income from the transfer of any VDA, the income tax payable shall be the aggregate of the amount of income tax calculated on income due to the transfer of any VDA at the rate of 30 %. However, no deduction in respect of any expenditure (other than the cost of acquisition) or allowance or set off any loss shall be allowed to the assessed under any provision of the Act while computing income from the transfer of such asset.

Also, no set off any loss arising from the transfer of VDA shall be allowed against any income computed under any other provision of the Act and such loss shall not be allowed to be carried forward to subsequent assessment year(s). The Finance Bill, 2022 has several new provisions pertaining to the new tax on virtual digital assets w.e.f. 1st April 2022. Any transfer of a virtual digital asset to a resident will attract 1 % TDS (Tax Deducted at Source).

Canada

While crypto is not considered legal tender in Canada, the country has been more proactive than others about crypto regulation. Canada became the first country to approve a Bitcoin exchange-traded fund (ETF), with several trading on the Toronto Stock Exchange. Canada classifies all crypto investment firms as money service businesses (MSBs) and requires that they register with the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC). The regulations impose limits on investors and require exchanges to register with authorities. From a taxation standpoint, Canada treats cryptocurrency similarly to other commodities.

United Kingdom

While there are no cryptocurrency-specific laws in the U.K., the country considers cryptocurrency as property (not legal tender), and crypto exchanges must register with the U.K. Financial Conduct Authority (FCA). Crypto derivatives trading is banned in the U.K. as well. There are cryptocurrency-specific reporting requirements relating to Know Your Client (KYC) standards, as well as anti-money laundering (AML) and combating the financing of terrorism (CFT). Although investors still pay capital gains tax on crypto trading profits, more broadly, taxability depends on the crypto activities undertaken and who engages in the transaction. In October 2022, the lower house of the British Parliament recognized crypto assets as regulated financial instruments.

Philippines

The Philippines' Central Bank has approved several crypto exchanges to operate as "remittance and transfer companies" in the country. The government itself is already meddling in cryptocurrency by setting up blockchain app bonds.ph with Unionbank to distribute government bonds. Unionbank has also installed a Bitcoin ATM in Makati (Metro Manila), showing how cryptocurrencies are slowly entering the mainstream in the country.

European Union

Cryptocurrency is legal throughout most of the European Union (EU), although exchange governance depends on individual member states. Meanwhile, taxation also varies by country within the EU, ranging from 0% to 50%. Recently, the EU's Fifth and Sixth Anti-Money Laundering Directives (5AMLD and 6AMLD) have come into effect, tightening KYC/CFT obligations and standard reporting requirements. In September 2020, the European Commission proposed the Markets in Crypto-Assets Regulation (MiCA)—a framework that increases consumer protections, establishes clear crypto industry conduct, and introduces new licensing requirements. It was provisionally agreed on in 2022.

Investors and Trader's Concerns

Privacy Issues: The other shortcoming of cryptocurrency lies in its open-ended ledger that can easily be a gateway to understanding someone's transacting pattern, more specifically behaviour-mining. Anyone who creates a wallet through a platform is laying a root to the origin of the transactions as to where it originated. Creation of a digital wallet requires an email ID, thus also exposing the internet protocol address of the user and, thereby the nodes. Technological Advancement: In recent years, though cryptocurrencies have gained momentum with various investors, they have not made any significant impact due to the volatility of the transactions. The fact that cryptocurrencies require various kinds of tools like wallets, computers, internet connectivity, and various other services, their usage has been restricted to only those who are technologically sound. As a result, a vast majority of the population does not have the technological know-how and hence are unable to use them. Furthermore, the complexities involved in these transactions have lessened their trust and acceptability. One of the major shortcomings is that the cryptocurrency network can validate the payment only but is unable to ensure the delivery of various products and services. Hence, buyers of products and services are helpless as the network does not at the same time, validate both sides of the transactions. Stability: The idea of a ''fiat currency'', which means currency backed by a government promise, stands in contrast to the ''commodity currency'' backed by some physical substances such as gold or silver. In today's world, most Governments have fiat currency, and the Government's promise of backing the currency gives it a legitimate existence. Coming to cryptocurrency, it too is not backed by any substance and the use of cryptocurrency does not per se bring in the required stability and security. Governments across the globe have been using the argument of the volatile nature of cryptocurrency as the reason for not recognizing it. The "Cryptocurrency and Regulation of Official Digital Currency". Whether the investor is a Value investor or a Growth Investor they believe in compounding or consistent growth. Cryptos are not backed by any other asset nor it is derived. So there is no fundamental of it and its future cannot be predicted. Though we can't say it a gambling it is kind of it. Because there is no base for investing in it. Same, privacy is a concern for Traders but as traders trade when there is high volume and high volatility it is best time for a trader. As there is always a high fluctuation in the crypto currency market it is the best place for traders to make money. But as everyone knows High reward comes with high risk, and there is also a high chance of losing money here. Government interventions, tax regimes, and regulations are also a concern for traders.

So, how does a cryptocurrency work, and what to do to safeguard our cryptocurrency?

Cryptocurrencies are based on blockchain, a distributed public ledger that keeps track of all transactions that are updated and maintained by currency holders. Cryptocurrency units are formed through a process known as mining, which involves employing computer power to solve complex mathematical problems that result in coins. Users can also purchase the currencies from brokers and store and spend them via encrypted wallets. You don't possess anything concrete if you own cryptocurrency. What you have is a key that allows you to transfer a record or a unit of measurement from one person to another without the assistance of a trusted third party.

To tackle the problem there is a need for a central coordinating agency that would enforce laws strictly and penalize entities if they do not comply with cybersecurity norms and which do not take the requisite steps and safeguards to secure cyberspace. A National Cybersecurity Cell can leverage the resources (both for the Centre and the States) so as to tackle the threats and breaches. There is a need for the government, business organizations, companies as well as other entities to create defenses against acts of cybercrime by educating their employees to be vigilant and avoid becoming vulnerable targets for cyber-criminals. There is an urgent need for strict guidelines and SOPs that can be put in place for all the entities, so as to have a proper threat analysis which would help in building increased awareness about the risk factors and make an honest analysis of a crypto broker's wallet preparedness in the event of a breach by the cyber-criminals. Apart from this, there is another way of safeguarding cryptos i.e., saving your keys in an offline hard drive.

Major causes of the crypto market downfall in the last two years

- **The collapse of the Terra ecosystem:** In May 2022, the $60 billion Terra ecosystem collapsed after the UST stablecoin lost its $1 peg. The resulting collateral damage crashed the prices of BTC and other assets and led to the bankruptcies of several crypto firms, including Three Arrows Capital, Genesis, Voyager, and others.

- **FTX bankruptcy:** In November 2022, FTX, one of the largest crypto exchanges, filed for bankruptcy after failing to cover users' withdrawal requests. The collapse of FTX, information about the firm's use of countless bad business practices, and downright criminal activity from its CEO, Sam Bankman Fried, and other executives thoroughly shook the trust of investors in crypto as a whole.

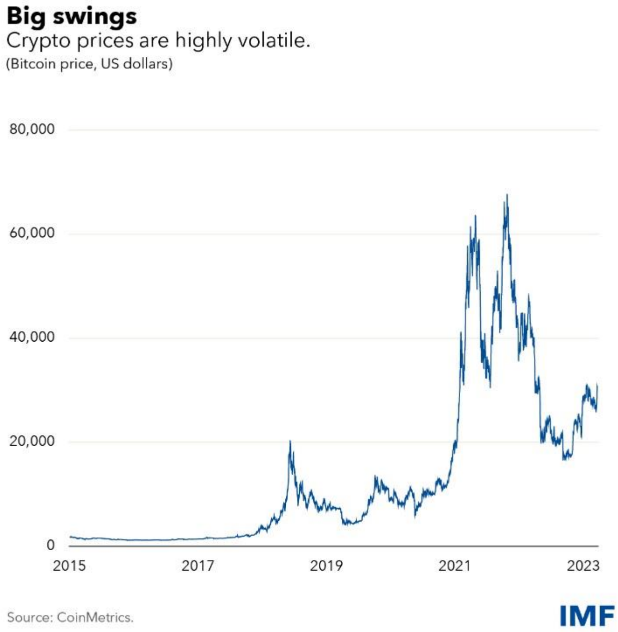
- **The collapse of crypto lending firms:** Several crypto lending firms collapsed due to the pressure of falling crypto prices, negative investor sentiment, and, in some cases, fraudulent business models. BlockFi, Vauld, Voyager, Hodlnaut, and Celsius are just some of the crypto lending firms that have closed their doors in the past year.

- **Increased regulatory scrutiny:** The US Securities and Exchange Commission has greatly expanded the list of cryptocurrencies it considers securities in the past couple of months. In addition, the SEC filed lawsuits against top crypto exchanges, including Kraken, Binance, and Coinbase, raising concerns among crypto users about how the regulatory process might play out.

The combination of macroeconomic and crypto-specific factors is mostly to blame for why the majority of cryptocurrencies are trading well below their All time highs(ATHs) from years prior. High interest rates, multi-decade high inflation, logistics problems, geopolitical uncertainty, and other issues are impacting crypto prices just as much as prices of other risk-on assets. On top of macroeconomic factors, cryptocurrency investors have witnessed several high-profile crashes within the industry.

Data Analysis

Let's scrutinize several charts to identify patterns within the realm of cryptocurrencies. Throughout the history of crypto, there have been numerous instances of significant declines. Our goal is to examine the performance and subsequent recovery following these corrections.



The given chart shows the overall performance of the crypto market. Now see cryptos' performance after every downfall and observe patterns.

In Sept 2017, after an increase of 353.22% in 119 days, then a downfall of 65.45% in 112 days occurred.

In June of 2019, their bitcoin gave an increase of 163.03%, then gave a downfall of 52.67% in 217 days.

In 2021, Bitcoin gave an upside of 380.13% in 175 days and then a downfall of 58.75% in 122 days.

This chart show index of Top 30 cryptos. In it we can see a massive rise of 780.08% in just 203 days and then a fall of 56.14% in 70 days.

In this chart we can see a rise of 149.31% in 126 days then a downfall of 74.15% in 217 days.It is evident that following significant surges in cryptocurrencies, there tends to be a subsequent decline of over 50%. Such a drop is generally deemed acceptable within the crypto market. Following this downturn, one can anticipate another upswing, resulting in a new all-time high. However, what if the cryptocurrency fails to rebound and remains stagnant at the same level for an extended period? This scenario raises concerns, particularly for investors who initially purchased the cryptocurrency at its peak..

Presently, the crypto market is experiencing this very situation. Despite a 45.05% return, it may prove unsatisfactory for those who entered the market at its highest point. With 483 days of consolidation at the same level, investors have valid reasons to worry.

Discussion

The examination of historical cryptocurrency market data reveals a recurrent pattern characterized by substantial surges followed by subsequent corrections exceeding 50%. This cyclicality, observed through instances such as the 353.22% increase in 119 days in September 2017, coupled with a subsequent 65.45% decline in 112 days, underscores a predictable volatility within the cryptocurrency landscape. Notably, these corrections are generally considered acceptable within the market, given the anticipation of subsequent upswings leading to new all-time highs. However, the current market landscape deviates from this established pattern, as evidenced by a prolonged consolidation period of 483 days at a consistent level. Investors and traders in the cryptocurrency market contend with a myriad of concerns, encompassing privacy issues, technological intricacies, and market stability. The inherent lack of intrinsic value in cryptocurrencies introduces an element of uncertainty, rendering them both a source of potential wealth and a subject of caution for investors. Looking ahead, the future trajectory of cryptocurrencies remains uncertain. While their unique characteristics render them relatively immune to governmental interference, the inherent unpredictability and susceptibility to external factors necessitate a cautious approach. The cryptocurrency market exists as a realm of contrasting narratives, with proponents forecasting new all-time highs and uncertain warnings of impending challenges. In summary, the contemporary cryptocurrency landscape is characterized by a delicate balance between potential opportunities and inherent risks, requiring sharp consideration by stakeholders.

Future

The intrinsic nature of cryptocurrency that it is not issued by any central authority, renders it immune to government intervention or manipulation. In this case, it is undoubtedly a unique characteristic that gives cryptocurrencies their most distinctive appeal. Meanwhile, it also creates enormous limitations in price prediction in the cryptocurrency market. Although cryptocurrency has the potential to become a dominant force in the global system of payments, it is required to provide distinctive added value while also addressing and surmounting a number of formidable obstacles. The future of cryptocurrency is not quite foreseeable due to various factors including large data pools, taxability of transactions, external influences, liquidity risk, limitation on trading activity, as well as formal regulatory problems. The tedious amount of unfiltered data could potentially increase the error rate and misdirect the research conclusion. As a “dependent” currency, it cannot escape being interacted with and affected by external influences such as the news and social media. Following each major crypto crash, the industry managed to emerge stronger than before. There is little reason to believe that that wouldn't be the case going forward, especially when accounting for the pace of development and user growth taking place in the blockchain industry. But top billionaire investors like Charlie Munger and Warren Buffet are completely against crypto investing. It's undeniable that cryptocurrencies have rapidly turned some individuals into millionaires and billionaires.

However, we can't dismiss the fact that they have also left many people financially distressed. The trading and investment landscape in cryptocurrencies is significantly influenced by a country's tax regulations, economic conditions, and market liquidity. During the severe cryptocurrency market downturn of 2022, contrasting narratives emerged. Some predicted cryptocurrencies would plummet to zero, while others firmly believed they represented the future and would achieve new all-time highs. Making concrete predictions about the future of cryptocurrencies remains elusive, as it hinges on market demand and requires chart analysis and an understanding of the broader economic context.

Conclusion

The journey of currency from ancient barter systems to the world of cryptocurrencies has been nothing short of remarkable. Cryptocurrencies have ushered in a new era of financial transactions, characterized by security, privacy, and decentralization, all underpinned by blockchain technology. The cryptocurrency market's history has seen spectacular growth, followed by significant corrections. The research highlights the various factors contributing to this volatility, from speculative trading to regulatory pressures. Government attitudes toward cryptocurrency vary, with some nations embracing innovation and others imposing stringent restrictions. Investors and traders in the cryptocurrency market grapple with concerns ranging from privacy issues to technological complexities and market stability. The absence of intrinsic value in cryptocurrencies adds an element of uncertainty, making them both a source of potential wealth and a subject of caution for investors. The past two years have witnessed several crypto-specific crises, leading to significant market downturns. Increased regulatory scrutiny and the collapse of major ecosystem players have tested the resilience of the crypto market. The charts presented in the research show patterns of surges, corrections, and periods of consolidation in the cryptocurrency market, underlining the cyclic nature of this space. Looking ahead, the future of cryptocurrencies remains uncertain. Their unique characteristics make them immune to government interference, but the market's unpredictability and susceptibility to external factors necessitate caution. The cryptocurrency market is a realm of contrasting narratives, with supporters predicting new all-time highs while skeptics warn of impending doom.

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