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Opinion

The biggest bubble of all time

Pirmin Hotz

Donald Trump, Larry Fink, and even Swiss cantonal banks: Former crypto critics are now investing millions. But the system only works as long as new participants keep joining.

When you buy Roche shares, you're investing in a company founded in 1896 by Fritz Hoffmann-La Roche to develop new medicines with researchers and sell them worldwide for the benefit of countless patients. For their risk, owners are compensated with dividends and a long-term rising share price. The value of the stock has doubled and increased tenfold over time.

To make this possible, Roche had to increase its sales and profits at the same rate. What would have happened to one franc invested in Roche at its founding, assuming an average annual return of 8%? Assuming reinvested dividends, this would result in current wealth of around 20,000 francs. This is the famous miracle of compound interest.

Solely based on belief and hope

The situation is different with Bitcoin, the king of cryptocurrencies. It was created out of nothing, and buyers neither participate in entrepreneurial performance nor receive interest or dividends. When it launched in 2008, one Bitcoin cost 0.8 centimes. With a total of 21 million Bitcoins, this corresponded to a market value of 1.68 million francs. Hardly anyone was interested in the cryptocurrency at that time. Meanwhile, Bitcoin has broken through the 90,000 franc barrier, which is over eleven million times more than before.

The annual return of 160% is 20 times higher than that of Roche. The total value of all Bitcoins has increased from 0.00168 to 1,900 billion francs in less than 17 years. The question arises as to how this gigantic price increase can be justified. Do Bitcoin holders participate in the innovative potential of blockchain technology? Not at all: it's not the Bitcoiners who benefit from this, but solely the shareholders of blockchain companies. The fairy-tale rise in the Bitcoin price is based solely on belief and hope.

The crypto community has been remarkably successful in winning over once-fierce critics to their idea. US President Donald Trump, who spoke of fraud regarding Bitcoin during his first term, has transformed into an ardent supporter and notorious manipulator of cryptocurrencies. In January, he launched his own Trump coin. Driven by campaign donations in the hundreds of millions, Trump, flanked by his second-in-command Elon Musk, wants to make the USA the world's "Bitcoin superpower" and build a strategic Bitcoin reserve for the country.

Larry Fink, CEO of the world's largest asset manager BlackRock, described Bitcoin in 2017 as a means of money laundering. Then came the radical turnaround. At the beginning of 2024, BlackRock launched the first Bitcoin ETF after exerting considerable pressure on Gary Gensler, former head of the US Securities and Exchange Commission (SEC) and feared crypto opponent. Has greed clouded Larry Fink's clear judgment? Through the SEC's approval of ETFs, Bitcoin has left its shady corner and fought its way onto the terrain of traditional asset classes. The approval of ETFs was the knighthood for crypto fans.

Meanwhile, the cantonal banks of Lucerne, Zug, and Zurich, PostFinance, and numerous pension funds have jumped on the bandwagon of miraculous money multiplication. PostFinance speaks of a "democratization," an "access to the crypto market for everyone," and a "milestone in our company history."

An initiative committee even wants to stipulate in the Federal Constitution that the Swiss National Bank (SNB) must hold Bitcoin as a reserve currency. If Switzerland and other countries follow such requests in the footsteps of El Salvador and the Central African Republic, the Bitcoin price will soar to unimaginable heights according to the principle of "self-fulfilling prophecy," because the system is cleverly designed with the strict limit of 21 million coins.

One main argument for holding Bitcoin is its function as inflation protection. Indeed, the purchasing power-adjusted value of the dollar, pound, euro

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(including its predecessor currencies), and also the franc tends toward zero over the course of 100 or 200 years. Someone who put 1,000 francs under their mattress in 1850 and never invested the money in stocks, bonds, or real estate over 175 years still has about 5% of their former purchasing power today.

> "Bitcoin has established itself purely as a speculative instrument."

Exactly for this reason, funds available for the long term are invested in real assets such as Roche shares to increase them on an inflation-adjusted basis. This doesn't require cryptocurrencies, but primarily diligent people who work in companies, bring products and services to market every day, and generate added value.

Cult-like organization

The original idea of libertarian Bitcoin enthusiasts was to escape state supervision, potential state bankruptcy, and the traditional currency system. The goal was completely missed, because hardly anyone today pays for their vacation, hairdresser, car, or butcher with Bitcoin. Instead of establishing itself as a means of payment, Bitcoin has prevailed as a pure speculation instrument that, upon close examination, possesses no value, creates hardly any benefit, and fosters the illusion of getting rich quickly without work.

Bitcoin is the biggest bubble in financial history. It is reminiscent of the tulip mania in the 17th century and Ponzi or pyramid schemes. They work as long as new fans can be found who support and spread the system. The cult-like crypto community is excellently networked with armies of influencers and an increasing number of crypto conferences. It ensures that the number of believers continues to grow.

The next price target this year is the 180,000 to 200,000 dollar mark, as Luzius Meisser, board member of Bitcoin (Suisse), announced on January 16 in the Swiss TV-program "Bilanz – Standpunkte". He refers to analyses from his research department. However, one wonders what calculations this is based on, because determining a fair value is simply impossible when there is nothing to evaluate.

The greatest long-term risk threatens crypto fans through regulation, as many cybercriminals, drug dealers, and money launderers are among them. But with the appointment of Paul Atkins as the new head of the SEC, deregulation seems more likely at the moment. He is considered a friend of the crypto industry.

So the community can continue gambling frivolously. People often buy solely because prices are rising, because their neighbour has made a pile of money, because they might miss out on something by standing aside, and because they hope to find someone even crazier who will pay them more than they paid themselves – the famous "greater fool" phenomenon.

In a few years, Bitcoin is supposed to reach the million mark. If the community continues to succeed in recruiting believers in droves, and the number of crypto atheists continues to dwindle, achieving this goal is realistic, meaning the biggest bubble in financial history is far from bursting. However, this does not change the fact that the intrinsic value of all Bitcoins in the world is zero.

PIRMIN HOTZ is the founder and owner of Dr. Pirmin Hotz Vermögensverwaltungen, based in Baar.