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Cryptocurrencies can be the new-age tulip mania bubble: Mazhar Mohammad of Chartviewindia.in

The most curious and talked about asset class in the investing world today is cryptocurrencies.

For some, it is the dirtiest investment instrument ever seen whereas others consider it to be a means to achieve 'Financial Moksha' in a very short period of time.

It is believed that Bitcoin - the first digital currency - was issued by Satoshi Nakamotu in 2009. Interestingly, the name of the issuer emerged as a pseudonym and no one to date knows who the person is.

The first transaction was recorded on January 12 when Satoshi sent 10 Bitcoins to Hal Finney a US-based Cryptographer who was worried about the ability of governments and big corporation to snoop on citizens and started working on protecting the privacy of individuals.

But the real transaction was recorded on May 22, 2010 when one Laszlo Haneycz bought two pizzas (worth $30) by exchanging 10,000 bitcoins.

However, taking into account the complex structure, technology involved and design of the product it is also believed that it can be the work of an anonymous group of individuals working collectively with the name of Satoshi Nakamotu.

After reading a White Paper - Bitcoin: A Peer to Peer Electronic Cash system submitted by Satoshi Nakamotu, I personally believe that his intentions in creating Bitcoin are to facilitate online peer to peer payments without the involvement of a third party.

And he seems to have come out with this proposal in response to the global financial crisis of 2008 as the finance world is completely relying on banks to clear all financial transactions as intermediaries.

His main intention seems to be to avoid this third-party intermediary by directly facilitating online payments from one person to another.

So, people who were frustrated and believed that the existing financial system failed them started considering his proposal of Bitcoin as some sort of alternative currency that can protect the value of their assets at all times.

In this process to avoid the problem of double-spending, that is using the same digital coin to fraudulently make multiple purchases he proposed a chained network of owners who owned that digital coin in the past and present.

This technology became popular as blockchain and believed to be capable of creating wonders in the finance world if harnessed in the right areas. As this system of payments eliminates intermediaries it also protects the privacy of individuals as both parties to the transaction remain anonymous.

In course of time as greed took over the crypto space and both Satoshi Nakamotu and his original philosophy of Bitcoin disappeared.

Unfortunately, perhaps owing to its feature of anonymous transactions without any intermediary it became popular with the drug mafia for money laundering.

In October 2013 when the FBI seized Silk Road then 144,336 Bitcoins were recovered from its kingpin Ross Ulbricht. Another popular myth associated with cryptocurrencies was busted when Japan-based Mt. Gox an early Bitcoin Exchange (just like commodity exchanges) filed for bankruptcy in 2014 with an admission that it lost 850,000 Bitcoins out of which 750000 belongs to investors.

In this regard, the main promise of Bitcoin was that when Bank fails depositors lose money but when you possess money in Digital coins savers or investors will not lose money when that institution fails. In this case, exactly the opposite thing happened to what Satoshi believed.

By some estimates, this exchange accounted for 70 percent of total Bitcoin turnover. Recent Initial Coin Offerings (ICOs) either turning out to be pump and dump schemes or scams.

Coindesk research points out that nearly 50 percent of the ICOs are failing in the initial 4 months of the issue itself.

All these things seem to have damaged the good intentions of Satoshi Nakamoto to build an alternate payment system without an intermediary.

Besides, Bitcoin or any other cryptocurrency can never replace existing money as digital currencies lack some basic features. For instance, money acts as a store of value but Bitcoin is highly volatile and yet times can end up losing 50 percent of value in a very short span of time.

Similarly, money is universally accepted but still, Bitcoin transactions are among a few groups of people and it is not yet accepted as a payment mechanism by all. Unlike money, digital currencies can't be legally enforceable.

Moreover, the craze with which the prices are skyrocketing in the crypto space is taking me back to the historical memories of the first-ever recorded stock market bubble, famous as the Tulip mania bubble in the Amsterdam stock exchange of Netherlands way back in the 16th century.

Tulips are beautiful flowers that were imported, for the first time, by the Europeans from Turkey. Because of its beauty, it soon became a symbol of prestige with the affluent class in Europe.

The response was so overwhelming that the country started neglecting industry by embracing trading in Tulips. By 1636 the demand for Tulips was so high that a regular market for their sale was established in Amsterdam Stock Exchange.

All professional traders plunged into the action and everybody who started making money as prices were going up and up above the sky for the next 12 months.

It was estimated that Tulips were trading 6 times higher than the average persons annual salary.

But when the bubble burst in 1637 the prices were back to square one from where they were originally importing.

In the digital currency space, similar madness is visible as investors are not clear about what they are exactly betting on. It has no intrinsic value and yet to be recognised as an alternate payment mechanism.

No one knows how prices are being driven to astronomical levels by the crazy investors where prices may not sustain for a longer period. Some corporate is making insane demands that such currencies should form part of the Balance Sheet.

If corporates are allowed to own digital currencies then it may lead to systemic risk as well owing to the highly volatile nature of this emerging asset class where the bubble seems to be building and awaiting a regulatory crackdown.