

CryptoWatch

## Goldman issues a warning on bitcoin—and an even bigger warning on Ethereum

Published: Jan. 23, 2018 at 11:09 a.m. ET

By [Ryan Vlastelica](#)

Goldman quotes historian on 'tulip bubble': 'Our descendants doubtless will laugh at the human insanity of our Age'



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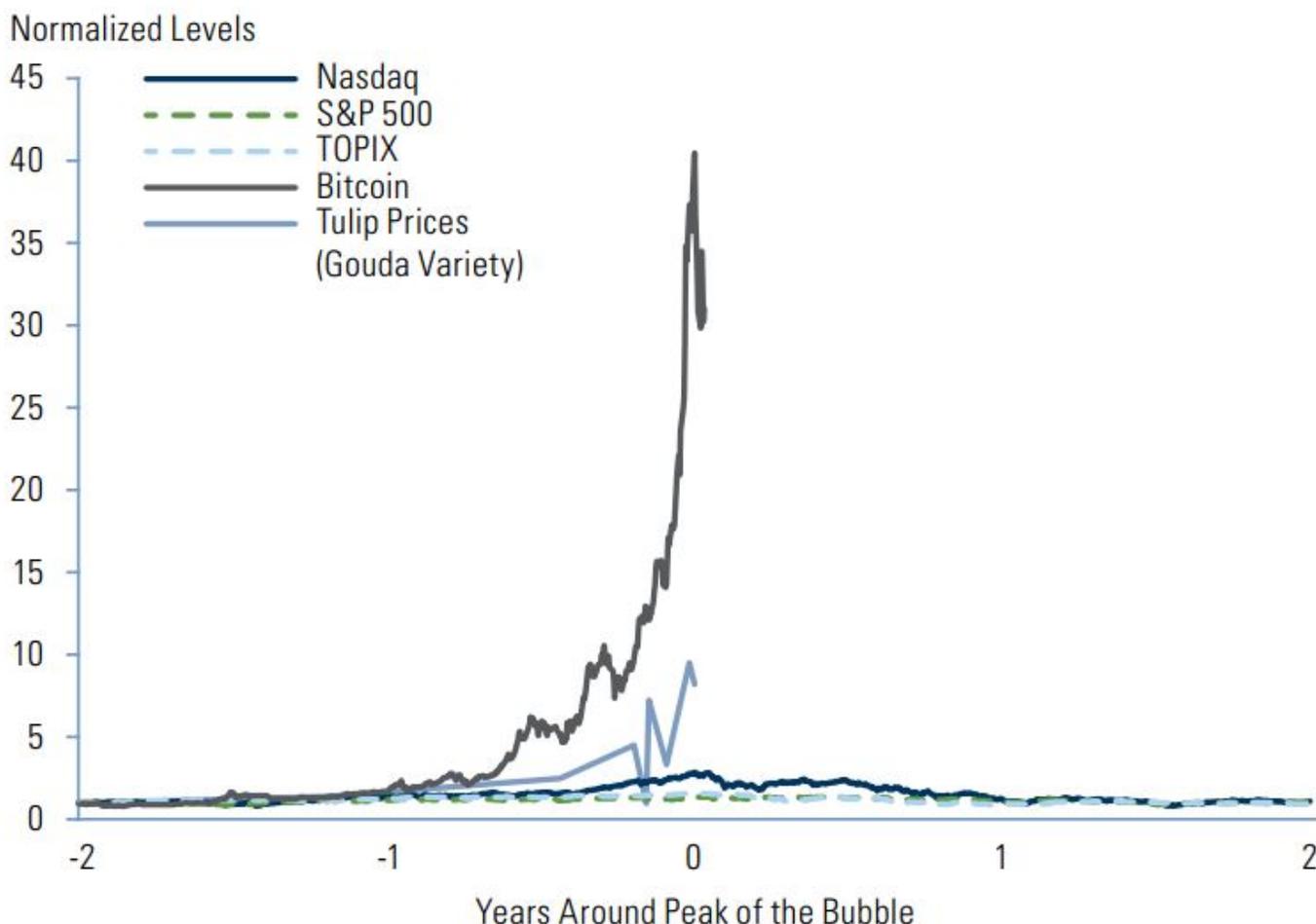
[BTCUSD](#) **+2.46%** [HIVE](#) **+28.88%** [RIOT](#) **+3.72%** [UBIA](#) **-2.22%** [GBTC](#) **+8.95%**

The chorus of bitcoin bears is growing louder by the day.

The latest to issue a stern warning against the world's largest digital currency is Goldman Sachs's investment management division, which wrote that there is "no doubt" that the cryptocurrency's astronomical rise over the past year "has pushed it into bubble territory."

The firm added that bitcoin's "meteoric rise in a short time has dwarfed the rise seen during the dot-com bubble." They added: "We also believe that cryptocurrencies have moved beyond bubble levels in financial markets, and even beyond the levels seen during the Dutch 'tulipmania' between 1634 and early 1637."

Both the equity and tulip bubbles are dwarfed by the price moves in bitcoin.



Data through December 31, 2017.

Source: Investment Strategy Group, Datastream, Bloomberg, Peter M. Garber, "Famous First Bubbles: The Fundamentals of Early Manias," 2000, MIT Press, Cambridge MA. Anne Goldgar, "Tulipmania: Money, Honor, and Knowledge, in the Dutch Golden Age," 2007, University of Chicago Press, Chicago. E.H. Krelage, "Bloemenspeculatie in Nederland. De Tulpomanie van 1636-'37 en de Hyacintenhandel van 1720-'36," 1942, P.N. Kampen & Zoon, Amsterdam."

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Bitcoin **BTCUSD, +2.46%** last traded at \$10,900.77, up 1.2% on the day. The digital currency, maintaining one of its most notorious qualities, has been incredibly volatile in 2018, seeing massive swings on a near daily basis. Over the past year, bitcoin has risen by a factor of more than 10, although it

has also dropped significantly. After closing 2016 under \$1,000, it subsequently soared throughout most of last year, peaking near \$20,000 in December before turning sharply lower.

The volatility of the market, along with a lack of regulation, was cited by the Securities and Exchange Commission as reasons why it was unlikely to approve an exchange-traded fund related to bitcoin soon.

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Other digital currencies have seen similar moves over the past year, both up and down. Ripple, which is currently the third-largest cryptocurrency, went from trading under one penny a year ago to more than \$3.30 in early January. It subsequently shed more than half of that gain, and is currently trading around \$1.37. Ether, which runs on the Ethereum blockchain, was trading around \$10 a year ago. It surged above \$1,330 in mid-January, but last traded Tuesday at \$992.68.

Goldman is not the first analyst to deem crypto the biggest bubble in history, and it sees ether as a potentially larger one than even bitcoin. When Ether's price move is compared against stocks, tulips, and bitcoin, the scale of the other rises essentially disappears in comparison, a fact Goldman called "astonishing."

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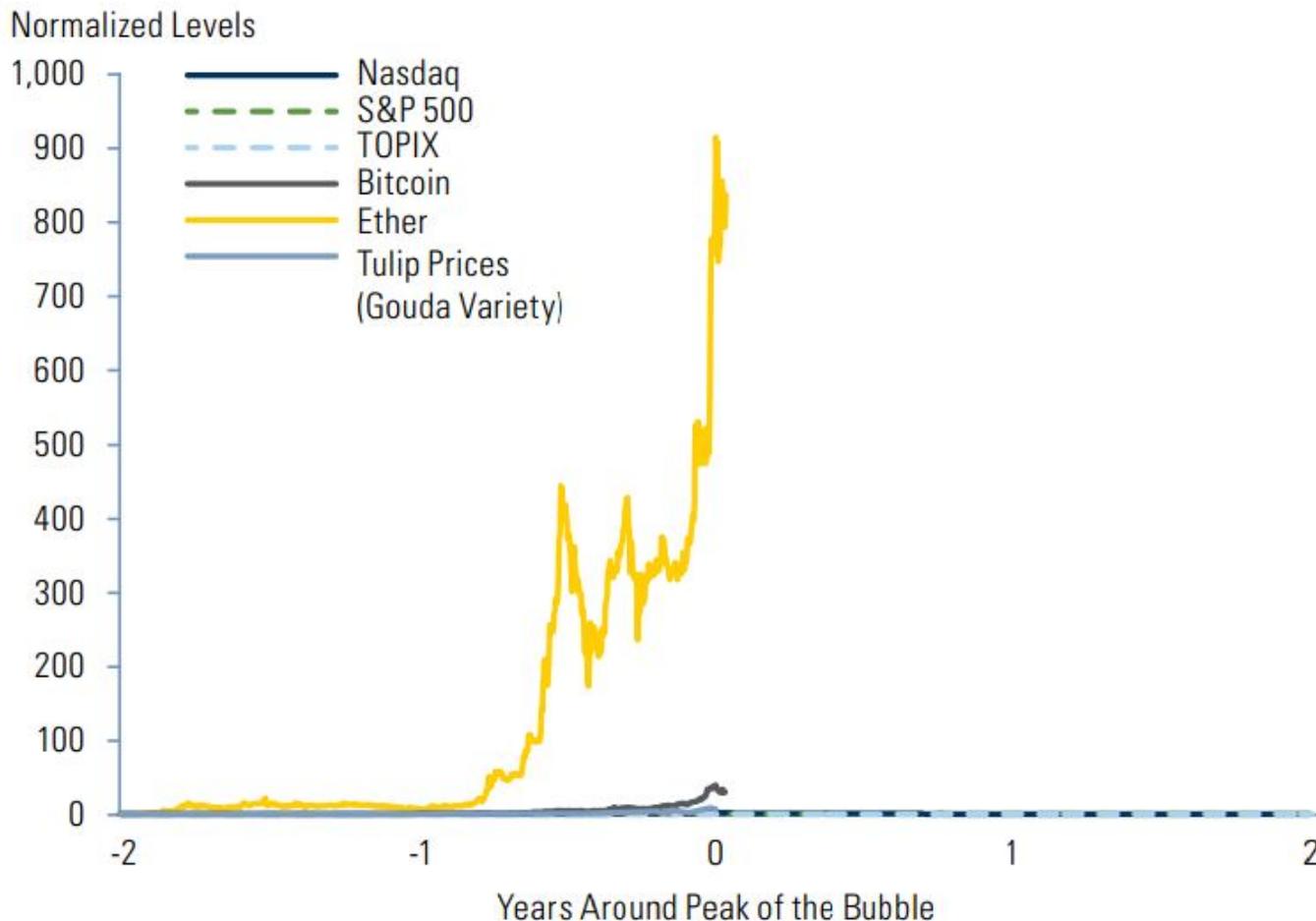
"While we do not know if bitcoin or any other cryptocurrency will double or triple from prevailing prices, we do not believe that these cryptocurrencies will retain their value in the long run in their current incarnation," it wrote to clients.

Despite Goldman's pessimism, the investment bank is reportedly weighing a new trading operation dedicated to bitcoin and other digital currencies.

In another sign of the crypto universe's potential bubble, Goldman also noted the recent trend of companies that have seen their stock prices soar after they announce initiatives related to blockchain or even simply change their name to include the term.

The following chart, derived from FactSet data, shows the spikes that are seen after such announcements—as well as the heavy downside volatility that has tended to subsequently occur. The securities in the chart include: Hive Blockchain Technologies Ltd. **HIVE**, **+28.88%**, Riot Blockchain Inc. **RIOT**, **+3.72%**, Blockchain Worldwide PLC UK:BLOC, Long Blockchain Corp. US:LBCC, UBI BlockChain Internet Ltd. **UBIA**, **-2.22%**, and the Bitcoin Investment Trust **GBTC**, **+8.95%**.

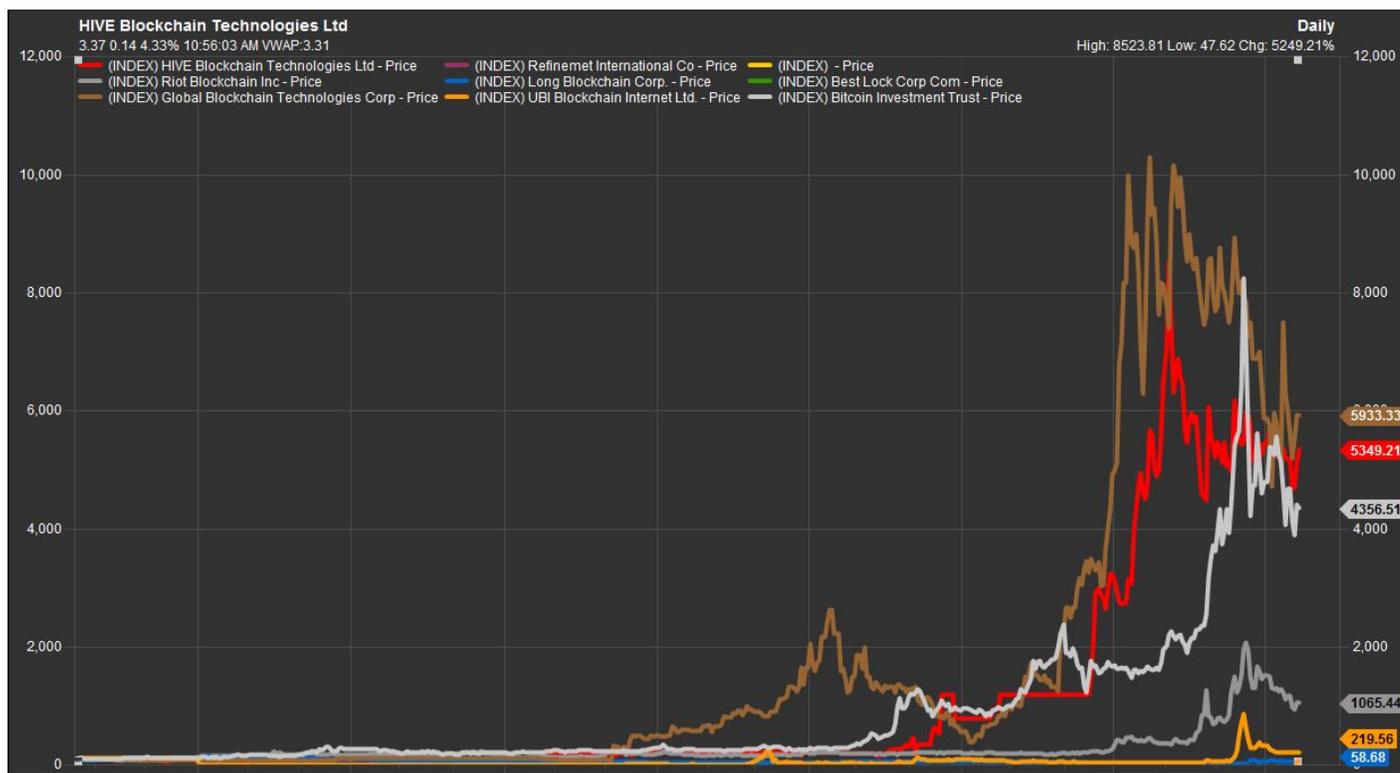
Compared with ether's price move, those of equities, tulips and bitcoin are barely visible.



Data through December 31, 2017.

Note: Exhibit uses December 19, 2017 as Ether's recent peak.

Source: Investment Strategy Group, Datastream, Bloomberg, Peter M. Garber, "Famous First Bubbles: The Fundamentals of Early Manias", 2000, MIT Press, Cambridge MA. Anne Goldgar, "Tulipmania: Money, Honor, and Knowledge, in the Dutch Golden Age", 2007, University of Chicago Press, Chicago. E.H. Krelage, "Bloemenspeculatie in Nederland. De Tulpomanie van 1636-'37 en de Hyacintenhandel van 1720-'36", 1942, P.N. Kampen & Zoon, Amsterdam."



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Such stock moves, Goldman wrote, recalled a quote by the Dutch historian Theodorus Schrevelius. After the tulip bubble burst, Schrevelius wrote that “our descendants doubtless will laugh at the human insanity of our Age, that in our times, the tulip flowers have been so revered.”

**See also:** [Ignore the ‘blockchain gimmicks’ say the men behind the new blockchain ETFs](#)

[Like UBS](#) and [HSBC Global Research](#) before it, Goldman did express some interest in blockchain, which is the decentralized ledger technology that underpins bitcoin and other cryptocurrencies. On a blockchain, so-called miners solve complex computational problems to validate transactions on the network, and are rewarded with bitcoin or other such coins. Because of the way it is structured, it does not require the participation of any kind of middleman—just as bitcoin doesn’t have the backing of a government or central bank—and it is nearly impossible for transactions on the blockchain to be forged.

**Related:** [Why a dot-com-style collapse in bitcoin won’t kill blockchain](#)

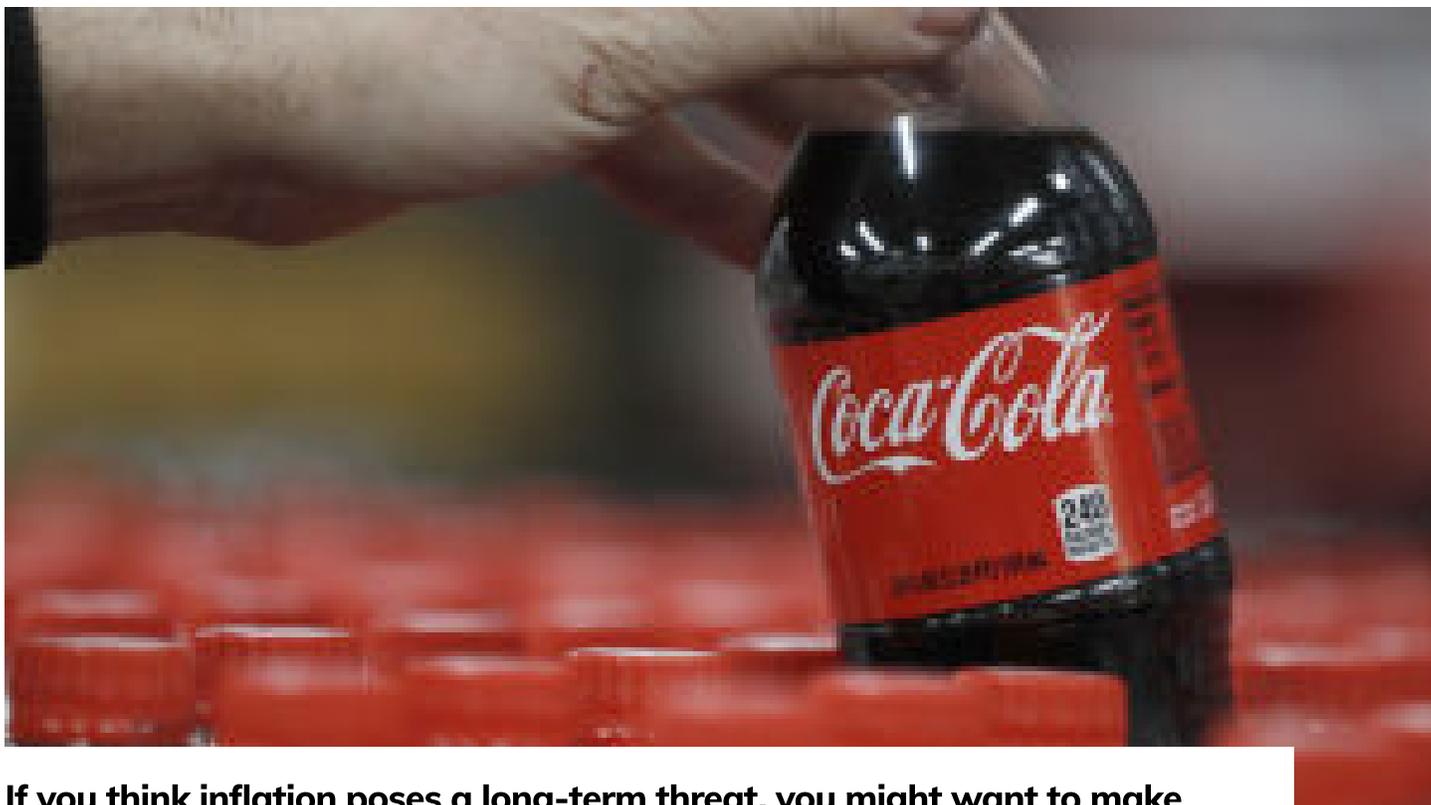
“We think the concept of a digital currency that leverages the blockchain technology is viable given the benefits it could provide: ease of execution globally, lower transaction costs, reduction of correction since all transactions could be traced, safety of ownership, and so on,” Goldman wrote. “But bitcoin does not provide any of these qualities.”

Goldman has weighed how effective bitcoin is for the various purposes that its advocates argue it can serve. Ultimately, it concluded that bitcoin is too volatile to function as a store of value, and too inefficient to replace traditional currencies as a means of transferring value. However, it suggested

cryptocurrencies could be a viable alternative in frontier markets, where traditional services of money are inadequately supplied.

Read: [The big bitcoin question: What is it good for, and where?](#)

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