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Bitcoin and gamified investments

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Bitcoin's recent surge to a new all-time high of over $70,000 has revived the debate over the volatile cryptocurrency's worth as an investment tool. While much of its recent rise seems driven by inflows from traditional financial institutions, its wide following among personal investors and rollercoaster price has seen it described as a 'gamified' investment. In this snapshot, we look at why Bitcoin has risen so sharply and examine what investment gamification actually means.

Why has Bitcoin hit an all-time high?

Much of the 45% rise in Bitcoin since the start of the year has been attributed to the January decision from the US financial regulator – the Securities and Exchange Commission – to approve Bitcoin ETFs (exchange traded funds), which have since received billions of dollars in investments.

From around $8000 at the start of 2020, Bitcoin rose to over $60,000 in April 2021 as platforms such as Coinbase and Binance captured an exuberant mood among retail investors looking to participate in the sharp financial gains. Although it subsequently dipped as low as $16,000 in 2022, the launch of ETFs this year has coincided with a massive rally, with institutional investors thought to be among those allocating a small part of portfolios to the cryptocurrency.

Originally intended as a digital alternative currency – in line with its anti-establishment ethos – Bitcoin is underpinned by the blockchain ledger technology and has unique supply dynamics which invovle an energy intensive 'mining' process in which computational work on the blockchain is rewarded with the issue of new Bitcoins.

While these innovations have attracted excitement around their potential broader applications, Bitcoin is yet to achieve wide acceptance as a currency or a store of value. The UK regulator, the Financial Conduct Authority, has indicated it would allow the creation of bitcoin-linked securities similar to ETFs, but notably also said these would only be available to professional investors and not the general public.

The reluctance to open easy routes to cryptocurrency investment perhaps reflects a perception that consumers need protecting from their speculative or 'gamified' nature.

What is gamification?

The concept of 'gamification' involves applying elements of game playing to other activities. This is relatively new in the financial sector, gaining traction over the past decade. It may incorporate features such as rewards, badges, leaderboards, competitions and other interactive features.

An early trailblazer in this area was Robinhood, a commission-free US trading platform that launched in 2013. Robinhood's easy-to-use interface and focus on simplicity appealed to a younger demographic, effectively lowering the barriers to entry to financial investment for novice traders. The app's game-like elements, such as showering confetti when a trade is completed (a feature which has subsequently been removed), helped transform the investment experience for its users.

Is gamification good or bad?

The case for – enthusiasts argue that these tools help make investing more appealing and accessible for a broader audience, and that given the need in most economies for people to save more towards their retirements and become more engaged in their investments, this is to be encouraged

The case against – critics have argued against the gamification of investing on the grounds that it trivialises an important activity, and encourages individuals to adopt a speculative or gambling mind-set to the serious business of investing.

The 'democratisation' of investing

The rise of social media and low-cost trading services over the last decade have lowered perceived barriers to investing.

Social media sites and message boards have provided hubs for people to initiate conversations, exchange investment advice, discuss market trends and – in some notable cases – collectively affect stock prices together.

One of the most influential forums is on social news website Reddit, which itself is due to float on the New York Stock Exchange this month with a valuation of $6.5 billion. A network of communities on all sorts of topics which are socially curated and promoted by site members through voting, Reddit's potential influence on financial markets came to prominence during the GameStop 'short squeeze' saga of 2021.

Members of the platform's WallStreetBets forum – which boasts around 15 million users – joined forces to challenge the negative view that many professional investors had on GameStop, a chain of video game shops. Many professional investors had taken a 'short position' in GameStop shares as they expected their value to fall. But Reddit's users thought the shares were undervalued and were able to orchestrate a sharp rise in its share price through collective buying, which lead to large losses for those with short positions.

This is just one example of the power of non-professional investors, but there have been many such 'meme stocks' which have seen significant share buying as a result of social media popularity. Within the cryptocurrency world, the mania of 2017 was driven by online speculation and FOMO (fear of missing out) amid the search for the next big crypto coin to gain traction, be it Bitcoin, Ethereum or Binance.

Understanding the risks

While the access to investing via online communities has brought about increased accessibility and engagement, it also poses significant challenges. The ability to collectively mobilise to affect financial markets may be impressive, but it can lead to a herd mentality that experts warn people to be wary of when investing. Inexperienced investors may be inclined to follow popular trends and recommendations without understanding the risks and potential rewards of doing so.

Many commentators argue that the line between investing and gambling are being blurred, potentially exposing individuals to significant financial risks.

Regulators are likely to remain watchful of the gamified elements that are being introduced into the realms of investing recognising the need to strike a balance between positive innovations which boost accessibility and engagement and the risks to individuals of non-traditional investments about which they might not know a great deal.

For a comprehensive list of common financial words and terms, see our glossary at:
https://www.liontrust.co.uk/benefits-of-investing/guide-financial-words-terms

Key Risks

Past performance does not predict future returns. The value of an investment and the income generated from it can fall as well as rise and is not guaranteed. You may get back less than you originally invested.

The issue of units/shares in Liontrust Funds may be subject to an initial charge, which will have an impact on the realisable value of the investment, particularly in the short term. Investments should always be considered as long term.

Investment in the Fund involves foreign currencies and may be subject to fluctuations in value due to movements in exchange rates. The Fund may invest in emerging markets/soft currencies or in financial derivative instruments, both of which may have the effect of increasing volatility.

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