

The Long-Term Effects of the Cryptocurrencies on the Financial Market

Posted on August 31, 2019

Introduction

Looking closely at the impact of cryptocurrency in the financial market and stock market, people have been rather side-lining the likely effect that it is going to be having. Prices that one used to see for Bitcoin and other cryptocurrencies have increased. There is an element of humor with regard to the way these cryptocurrencies are perceived. The common perception among people is that they are not likely to have a meaningful impact on the financial and stock market in the long run. But if one starts to analyze the decision-making trend of some of the organizations that are in public, one can see that they have started to base their financial strategy in a manner that if there is a need, they might reap the benefit of the cryptocurrency. There is a perception that the increase in cryptocurrency is going to mean that the market will be starting to remunerate them one day. Thus there are some interesting views about the direction in which cryptocurrency is heading. In this paper, it would be seen that what are some of the long-term effects of cryptocurrencies on the financial market.

Discussion of the Literature

Looking closely at the market, the assessment can be made that people were not initially that inclined to give cryptocurrency any chance with regard to its success(Gandal& Halaburda, 2014). That has changed as the prices of the instruments known as cryptocurrencies have increased. There is a conscious effort on the part of some governments to make sure that these currencies are not being used. For instance, India has specifically asked its citizens to make sure that they do not fall into this trap of cryptocurrency(Gandal& Halaburda, 2014). The larger organizations and corporations, though, seem to be thinking otherwise. There is a large surge in the number of people who are using these currencies. There is a perception in the market that organizations that are not using cryptocurrencies are losing the advantage due to the tremendous incremental value that it is going to be offering to its users(Gandal& Halaburda, 2014).

Longfin Corporation; a New Symbol for Movement

The new symbol for this movement is probably going to be Long Fin Corporation. It is one of the organizations whose stock has rallied at about 2000 %. This development happened after they had announced that they were buying blockchain-empowered global lending solutions providers(Fry& Cheah, 2016). As soon as this press release was carried out, there was a sudden increase in their

stocks, and most of the stock markets experts were off the point that it is something that does not happen a lot(Fry& Cheah, 2016). The main reason that this surge was witnessed was how they had changed their asset policy. It is one of the clear paradigm shifts that was witnessed regarding the way the performance of the financial market was witnessed in the given period(Gandal& Halaburda, 2014).

The Surge In The Prices Of The Other Coins

One of the earlier signs that the cryptocurrency is going to stay was the instance when there was a surge in the prices of the lesser coins during the coming week(Fry& Cheah, 2016). There is a dedicated portal that goes to show the changes in the prices of these cryptocurrencies (Fry& Cheah, 2016). The evidence was there that how the price of the coins has increased(Fry& Cheah, 2016). The coins that were valued at about \$ 1 last week have witnessed a surge of about \$ 100 in the given period(Gandal& Halaburda, 2014). It was one of the drastic changes in the price, and no matter what one perceived about the legality and validity of these instruments, the key thing here was that one does not get to see such a surge in the stock market without significant effort, to say the least(Fry& Cheah, 2016). So this apparent increase in the price of the instruments was one of the key determinants with regard to the way their performance was going to stay in the market in the first place(Fry& Cheah, 2016).

Confidence Of The Investors And The Bitcoin Bubble

The market experts are of the point of view that one of the things that are taking advantage of cryptocurrency is the fact that its market perception is really strong at the moment(Fry& Cheah, 2016). They point out the fact that the surge in the prices of the cryptocurrency was not dramatic, and as a matter of fact, the effect was not witnessed until late 2017 when it was rather clear that the pace at which the economy was growing was accelerating, saying the least. So it was one of the things that were rather interesting at the given period. Thus there is a strong correlation between the performance of the economy and how the prices of cryptocurrency were working out(Fry& Cheah, 2016).

Future Prospects and Would Companies be becoming Part of the cryptocurrency Bubble

The interesting thing that needs to be looked at is how the response of the investors is going to be working out(Fry& Cheah, 2016). What the organizations need to do is to make sure that how the dot-com bubble is going to be working out in the same time period(Fry& Cheah, 2016). The historical precedent provides an interesting perspective in this regard. Looking at the previous trend and what happened during 1990, during the dot-com bubble, all the organizations had to show others that they

were serious about the commercial use of the internet(Cocco et al. 2017). Even just a press release would have gone a long way toward making sure that the prices of the stocks are increasing. The stock market and financial market is something that is highly speculative in nature, and these little announcements used to go a long way towards improving the stock value of the businesses(Cocco et al. 2017). Comparing this with cryptocurrency, it can be said that the same thing is happening these days(Gandal& Halaburda, 2014). As cryptocurrency is something that has just started to trend and has become an “it” trend, it is creating an artificial pressure of sorts for the financial decision-makers (Cocco et al. 2017). The economic impact of such a thing is larger than the market value of the cryptocurrency is going to suggest for the same period, to say the least(Cocco et al. 2017). Thus it is one of the key things that needs to be looked at with regards to the way the stock market is going to be affected by the whole incident(Cocco et al. 2017). The example of the Chanticleer comes to mind which is the operating number of Hooters franchises(Cocco et al. 2017). They announced at the start of the year how they are going to be initiating a launch and reward program that is using cryptocurrency. Its stock which had stuck between 96 % in the same period during 2012, rebounded with this small announcement which was about 20 % of the actual value(Härdle et al. 2016). Even though the whole thing sounds very promising regarding the value and utility of the cryptocurrency, it has to be noted that the financial market is heading in the same direction as it was heading towards the course of 1990. So all these things need to be taken into perspective with regard to the longevity of the cryptocurrency(Cocco et al. 2017).

Economic Theory

In this section, it will be seen how it is emerging as a possible disruptor in the global currency market and what are going to be spillover effects of the whole thing(Härdle et al. 2016). Now, it is a well-known fact that the dollar movement is something on which the financial market is standing(Cheah& Fry, 2015). The key thing that is noted here is that the United States Dollar is the reserve currency in the world. About every mainstream financial actor in the world is functioning in one way or another in the United States Dollar. So if there is going to be any change in the way global currency outlook, it is bound to have some implications for the financial and the stock market(Cheah& Fry, 2015). The advantage that the United States dollar tends to offer is that how it has some sense of centralizing the global economy(Cheah& Fry, 2015). What has happened due to the emergence of Bitcoin as well as about 1,000 cryptocurrencies being used in the world, financial transactions across the world are becoming more and more decentralized(Brito et al. 2014). When these non-centralized transactions are carried out across the world, they are not bound to have any resources on the functionality of the United States dollar(Brito et al. 2014). What it is going to do is to affect the way dynamics of the international trade are going to work out(Brito et al. 2014). There have been some conscious efforts by some of the economies to make sure that the global economy can be decentralized to a great extent(Härdle et al. 2016). Cryptocurrency seems to be the one that is doing that job at the moment in the market. It is one of the prime reasons that countries like Russia are in a hurry to make sure that they adopt this model because the centralization of the global economy that revolves around the

United States Dollar is something that they have always fought against(Brito et al. 2014).

Basic Finance Theory And How Crypto Currency Holds Up To It

The basic finance theory is about the fact that the investment and profit from the asset are going to be carried out and how the eventual decline from the asset is carried out(Härdle et al. 2016). The rationale is that if there is no way an investment is carried out and there is no profit from the decline of the price of the asset, the price is then going to be determined by the buyer, which is going to be the most optimistic one(Brito et al. 2014). If there is a perception that the cryptocurrency is overpriced, they are most likely to sell their stake and would prefer to stay out of the market(Härdle et al. 2016). On the other hand, every other person is optimistic about the likelihood of the way cryptocurrency is going to perform likely to stay in the market(Brito et al. 2014). That means that they are going to buy cryptocurrency for a higher price as compared to what is going to stay in the market(Brito et al. 2014).

Simplification of the Crowdfunding Process

One of the key things when assessing the impact of cryptocurrency is how they are going to have an impact on the way Initial Coin Offerings and their mechanisms are going to work out(Barber& Odean, 2015). The crowdfunding that is done by technological firms these days is primarily based on cryptocurrency, especially if one talks about the way start-ups are supposed to work(Härdle et al. 2016). The key reason for this usage is that the developers and the entrepreneurs are under the impression to make sure how they can convince the venture capitalists at the given period(Härdle et al. 2016). The role of angel investors is also important in this regard(Härdle et al. 2016). Businesses these days have to make sure that they are extremely fast in the way they work, and as soon as any idea is conceptualized, the idea is to make sure that the idea can be initiated and sold to prospective users(Härdle et al. 2016).

Data Description and Empirical Results

To make sure that the actual impact of the cryptocurrency in the market can be evaluated, the key thing is to make sure what sort of impact it is already having on the organizations that are already part of the market mainstream(Härdle et al. 2016). To make sure that this assessment can be carried out. In the next section, it will be seen how some of the organizations are already part of the market. The key thing that is going to be looked at here is how the performance of their stock price was after the announcement was made by them with regards to the cryptocurrency. At the same time, the general market outlook with regards to cryptocurrency is also going to be looked at. During the course of the data analysis, the effort would be carried out to make sure that how the recent surge in

the cryptocurrency has affected the financial market. To make sure that the correct evaluation of the impact of the cryptocurrency can be done, in the data analysis, some of the results of the financial market are going to be looked at after the inception of the cryptocurrency. It would be seen what happened to the stock prices of the organizations that opted for crypto currency.

Standard Deviation

To make sure that a better idea can be developed with regard to the volatility of the cryptocurrency, the idea is to make sure that the extent to which the prices are being moved is going to be looked at. What is going to be done is that the past prices would be looked at, and then, taking advantage of these prices, the average change in this price is going to be expressed in terms of the percentage. To ensure that the volatility in the financial market is being calculated in the explicit term, the daily price change and then correspondingly, the standard deviation of that change in the price would be determined. Based on these assumptions, the following are some of the changes in the price that were observed with the passage of time.

What this table goes to show is that the extent to which the variability is witnessed in the market is not that much.

Kodak

Eastman Kodak was struggling big time as far as the way they manage their stocks, and their financial position was rather weak in the market(Iwamura et al. 2014). To make sure that they diversify their asset portfolio, they opted for the purchase of cryptocurrency. Since that announcement, the Kodak shares have more than tripled their value for the same period(Iwamura et al. 2014). To make sure that they reap the advantage of this strategy completely, they doubted the level of cryptocurrency that they had at their disposal(Iwamura et al. 2014). And that has also increased their stock price by about 25 %(Barber& Odean, 2015).

Riot Block Chain

The bio equipment producer Riot Black chain also changed the way they opted for their asset management(Barber& Odean, 2015). The idea was to make sure that the business plan is set up in a manner that allows a greater investigation of the way cryptocurrencies are supposed to be carried out. The blockchain and other relevant technologies are also supposed to be taken care of at an appropriate level at this organization, but the financial position of the organization was rather weak(Iwamura et al. 2014). Again, they opted for cryptocurrency, and within three weeks, the value of their stocks skyrocketed and it increased in value by about 650 %(Barber& Odean, 2015).

Long Island Iced Tea

More or less, the same thing happened with the Long Island Iced tea. It was a little known average maker, and to rebrand themselves, they named themselves as Long Blockchain. There was a change in the business model as well and they opted for a more diversified product portfolio(Barber& Odean, 2015). The idea was to make sure that the investors were lured to make decisions with them(Iwamura et al. 2014). They also opted for the change in their asset mix by making sure that they opted for cryptocurrency(Iwamura et al. 2014). This little announcement went a long way towards making sure that there is a significant change in the way their stocks are going to work out at the same period. With that news, the stock of this little organization soared by about 200 %(Barber& Odean, 2015). The key thing that can be seen from all of these organizations is that they were in financial trouble and thus were looking for some ways through which they could change their financial position(Iwamura et al. 2014). At the same time, they also opted for the change in the business model, but the constant thing with all these organizations was that how the change in the stock value was witnessed after they had opted for the cryptocurrency(Iwamura et al. 2014). It sounds like a very promising prospect for the overall valuation of the cryptocurrency(Li& Wang, 2017). There is a hint of skepticism, though as well, among the market watchers, and the main concern is how sustainable this practice is going to be(Kazan et al. 2015). There is a lot of evidence in the past that if something was carried out and caught the imagination of the people, it does not mean(Barber& Odean, 2015). Some market experts predict that it is a small time effect, and there are a lot of other considerations that need to be looked at to have a complete idea about its effectiveness(Barber& Odean, 2015).

Summary and Discussion

As is the case with all the financial market implications, cryptocurrency is something that is here to stay(Iwamura et al., 2014). Market experts consider it as one of the biggest challenges to supremacy at the global level, and countries like Russia, which are against this centralization of the global financial market, are more than eager to make sure that they take advantage of this movement(Iwamura et al. 2014). The problem is that when one talks about the functionality of the financial market, the key implication is that how it would be made sure that appropriation of the cryptocurrency is going to be done and what are some of the long-term implications in this regard. Investors are often willing to keep going in one direction, even if it seems risky or irrational, until they're jarred. But when they are scared or shaken enough(Kazan et al. 2015). For instance, during a financial collapse, like in the global financial panic in 2007—they start looking down at their feet and notice how dangerous their strategy is. The key thing is that one can hardly go anywhere in the financial world or financial press without seeing a mention of Bitcoin(Iwamura et al. 2014).

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