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08:00 31 Dec 2019

Crypto 2020: predictions and investment ideas for the year ahead

The final year of the decade has been a volatile one for cryptocurrency and blockchain, encompassing wild swings in the price of the original digital token Bitcoin and the first major step for big tech into the sector with the announcement of Facebook Inc's (NASDAQ:FB) Libra cryptocurrency.

However, the next year and indeed the next decade is likely to bring many more ups and downs for the young industry, as well as for any investors that are considering dipping their toe in.

A US\$100,000 Bitcoin?

One of the more outlandish predictions for 2020 circulating among some crypto traders is that the price of Bitcoin could reach as high as US\$100,000 by the end of the year.

The sector's traders see Bitcoin's current boom and bust cycles, where its price rises and then plunges rapidly, as "over exaggerated due to the scarcity of the asset and the sheer rate of adoption", says George McDonough, managing director of blockchain investment firm KR1 PLC (LON:KR1).

"They're saying that with the previous cycles we've seen in the asset class the next 'top' would be in the US\$100,000 region if Bitcoin continues at the current adoption rate."

While the idea that Bitcoin could hit US\$100,000 seems unlikely on the face of it given the currency is currently trading at around US\$6,634, McDonough says there is some method to the madness.

"The [Bitcoin processing power] charts, new bitcoin addresses charts and transactions charts are all showing healthy recovery from the 2018 bear market", he says.

Traditional sectors get in on the act

Going into 2020, blockchain technology is expected to begin spreading beyond its original tech-focused borders and into other, more traditional industries, while what remains behind is expected to continue innovating new uses for blockchain technology.

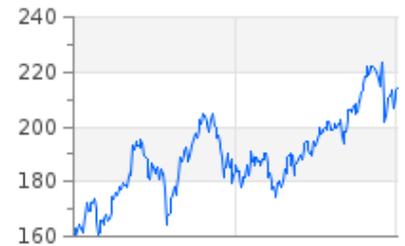
Health technology and associated uses of blockchain will become "a big area of interest in the next two to three years", says Wayne Chen, chief executive of Interlapse Technologies Corp (TSXV:INLA), which provides platforms to buy and sell cryptocurrency.

According to a **2016 report** from Deloitte, blockchain technology has the potential to increase the "security, privacy, and interoperability of health data" due to its decentralised nature, as well as providing a new model to exchange health information, making electronic medical records "more efficient, disintermediated, and secure".

Price: 217.3

Market Cap: \$619.23 billion

1 Year Share Price Graph



February 2019 August 2019 February 2020

Share Information

Code: FB

Listing: NASDAQ

52 week High Low
224.2 159.28

Sector: Online business & e-commerce

Website: www.facebook.com

Company Synopsis:

When it comes to social networking, it's wise to put your best face forward. Facebook, the social networking juggernaut, lets users share information, post photos and videos, play games, and otherwise connect with one another through online profiles.

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Chen says health joins other sectors, such as natural resources, precious metals and mining, that have also been gaining attention in the last couple of months as getting in on the blockchain act.

Decentralised finance

Other innovations worth keeping an eye on are in the growing area of development in the world of 'decentralised finance' (defi), a new monetary system built using blockchain systems.

Defi is the idea that a decentralised blockchain network of borrowers and lenders can effectively operate a financial system with the need for middlemen such as banks, avoiding fees associated with traditional banking as well as allowing those without bank accounts to access loans and other forms of credit.

Defi networks can also promote 'staking', says McDonough, referring to the practice where investors holding tokens in a blockchain network can commit those tokens to help validate transactions on the network in return for a fee, earning them passive income.

The advent of decentralised finance is also attracting mainstream attention in the form of 'stablecoins', cryptocurrency which has a value that is pegged at a set value to a stable asset or basket of assets, frequently the US dollar.

One such stablecoin is Facebook's Libra, where the social media giant plans to peg its value to a collection of stable assets including national currencies and bonds.

However, defi and stablecoins have attracted criticism from various government policymakers and central bankers, mostly due to the lack of a clear regulatory framework and their potential for use in money laundering and the stability of the global economy.

Key things to watch out for

The coming year is expected to be one of rapid change for the crypto and blockchain industry, particularly as regulators in major markets such as the US and China rush to grapple with the technology and enforce new rules against it.

Chen highlights "a significant framework" of regulations that are due to come into force in Canada next year which will make many crypto companies fall in line or face censure.

Another potential regulatory flashpoint will be cryptocurrency exchange-traded funds (ETFs), which instead of tracking stocks or other assets will instead track the performance of various digital currencies and be tradable on stock exchanges. These ETFs have the potential to remove barriers for mainstream investors to invest in crypto, as well as the potential risks of doing so.

Despite these potential hurdles, Chen is optimistic that the coming year will see "institutions from around the world acknowledge and embrace cryptocurrency" and wider use of digital currencies as a payment method.

However, the development of blockchain technology, he says, will be less clear cut as "more practically needs to be exercised for it to be actually useful".

McDonough, meanwhile, is expecting "continued major growth of defi adoption" and the implantation of advanced privacy technology such as mixnets, a method of encryption that makes communications harder to trace, in the age of mass surveillance.

Other areas to keep an eye on will be the public launch of Libra, expected in the first half of next year, which will expose most of Facebook's 2bn user base to cryptocurrency for the first time.

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