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3-31-2022

## Cryptocurrencies: A Craze or Crazy?

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### Recommended Citation

Veenstra, J. L. (2022). Cryptocurrencies: A Craze or Crazy?. Retrieved from [https://digitalcollections.dordt.edu/faculty\\_work/1378](https://digitalcollections.dordt.edu/faculty_work/1378)

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## Cryptocurrencies: A Craze or Crazy?

### Abstract

"The craze of Bitcoin and the headlines of massive gains test the diligence and patience of investors."

Posting about the benefits and pitfalls of cryptocurrencies from *In All Things* - an online journal for critical reflection on faith, culture, art, and every ordinary-yet-graced square inch of God's creation.

<https://inallthings.org/cryptocurrencies-a-craze-or-crazy/>

### Keywords

In All Things, cryptocurrencies, fads, investments, capital

### Disciplines

Christianity | Finance and Financial Management

### Comments

*In All Things* is a publication of the [Andreas Center for Reformed Scholarship and Service at Dordt University](#).

# Cryptocurrencies: A Craze or Crazy?

Jesse Veenstra

**March 31, 2022**

The rise of cryptocurrency, driven by the popularity of the first and largest crypto—Bitcoin—is one of the biggest stories in finance, investing, and mainstream media. Even the Super Bowl can't escape the Crypto craze, with multiple advertisements airing during the big game.

In 2021, Pew Research found 86% of Americans have heard about cryptocurrency, 16% have personally invested in it, and males aged 18-29 trade cryptocurrency at a much higher rate.<sup>1</sup>

Nearly every day, I read articles, blogs, and tweets from financial experts either touting the revolutionary nature of these investments or calling it a fraud, a scam, or a massive bubble that will crush the casual investor. This morning I opened the Wall Street Journal to the headline "Getting Past the NFT Monkey Business" with the article describing \$3 billion a month in NFT transactions on OpenSea, the eBay for crypto goods. Crypto's cousin, non-fungible tokens (NFTs), joined the crypto party in 2020.

We need to address a few main questions regarding cryptocurrency and NFTs, especially as Christian investors.

## **Questions to Ask**

First, what is cryptocurrency and how is it used?

Everyone seems to give a different explanation for Bitcoin (and other cryptocurrencies) in our economy. Satoshi Nakamoto (a pseudonym) created and deployed the first decentralized cryptocurrency, calling it Bitcoin. Bitcoin acts as a network-based digital currency that is exchanged exclusively electronically. To understand the decentralized nature of Bitcoin, we can compare it to the internet. No one person, organization, or government controls the internet. The open-source nature of the internet and Bitcoin provide opportunities for anyone to access and transact on the platforms.

In short, Bitcoin<sup>2</sup> allows two parties to complete a financial transaction electronically and anonymously without disclosing any private information to third parties. While removing a "third-party" may save on transactional costs in the exchange, the potential for adverse consequences increases. A trusted third party lowers the risk of fraud and theft from bad

actors. It provides valuable expertise in the financial system for both parties, leading to higher confidence in the exchange. Additionally, the anonymity in cryptocurrency opens the door to greater brokenness and societal harm with illegal transactions (drugs, weapons, human trafficking).

Let's consider a second question: Is Bitcoin a good investment?

Before answering this question, I'll explain what I view as an investment.

Investment requires taking a financial risk with the hope of future returns through dividends or capital gains. For stocks, companies pay a portion of their profits as dividends. In real estate, the cash flows from rents deliver income. Returns from capital gains come from the appreciation of the asset. Unlike investing, when all parties can gain wealth, gambling is a zero-sum game—simply a transfer of money from one party to another. Investing in Bitcoin, to me, seems comparable to gambling—hoping the price keeps going up until I sell.

Bitcoin pays no dividends. You can't earn interest from Bitcoin. And it won't pay a dividend or interest in the future. So, the only opportunity for positive investment returns would be if the price rises. When we only invest thinking the asset will continue to rise in the future, the likelihood of a bubble (and subsequent pop) increases, and now we are gambling, not investing.

Third, since Bitcoin is not viable as an investment asset, what about as a currency?

One of the critical components of money is its use as a means of payment. As a means for payment, Bitcoin fails to match the efficiency of traditional fiat currency. Further, Bitcoin lacks price stability, a foundational element of conventional money.

Fourth, is Bitcoin Gold 2.0—a better hedge against market downturns and inflation?

Historically, when investors become uneasy with the financial markets and downturns occur, investments shift to gold. Bitcoin supporters contend that it provides safety against market downturns because of its scarcity in recent months and years. However, recent research indicates that Bitcoin moves similarly (albeit more drastically) to the overall market and does not provide the same hedging benefits as gold.

Final question: Am I investing in Bitcoin because I believe it is an investment, or am I concerned about missing out on the "next big thing"?

The psychological aspect of investing plays a much more significant role than many experts or academics want to admit. Many investment decisions are based on either groupthink or the fear of missing out. Investments lacking intentionality, thoughtful research, and understanding drift into gambling.<sup>3</sup> Far too often, I start to question, "Why do I want to jump into the next

craze?” (Think GameStop of 2021). Of all the questions to ask yourself, this is the hardest to answer honestly.

## **Christian Investing**

When I invest in a company’s stock, I turn my money over to them, hoping they provide a product or service that benefits the economy. Stock purchases provide companies the resources to build plants, add jobs, produce innovative products, and solve new economic problems. Quality investments create wealth for investors, businesses, customers, and society, without losers. It’s not a zero-sum game. Investing in companies that advance the common good and advance the Kingdom of God through their products and services brings me great joy.

Let me explain using a couple of examples. If I purchase stock in Microsoft, I invest money in the company. Microsoft uses my investment to hire more employees and produce computer programs like Excel that give millions of people the tools to be more productive and successful in their careers and lives. Microsoft uses my investment (and those of millions of others) to generate profits, and in turn, I receive dividends and capital gains from their success. Second example. When I save money at my local bank in a deposit account or through a certificate of deposit, the bank uses my funds to offer home mortgages or car loans to customers. In this example, I earn interest on my deposits, the bank earns interest on their loan, and the borrower can purchase something they need, like a home or car. Again, all parties in this system win.

Often, we don’t view investing as an *act of service*, but it is when we practice intentionality in our investment decisions. When a Christian invests in companies that aspire to ethically innovate, create, manufacture, and provide excellent products and services that empower people and society to thrive, we live out a piece of our cultural mandate. Further, an intentional approach to investing stewards our God-given financial gifts.

God calls us to invest—with our money, time, and resources. Jesus gives the parable of the Talents, Joseph stores up grain in Egypt, and Psalms, Proverbs, and Ecclesiastes each talk about saving and investing. Scripture also speaks to intentionality, wisdom, and patience with investing. Proverbs 27:12 says, “the prudent see danger and take refuge, but the simple keep going and pay the penalty,” and Proverbs 21:5 says, “the plans of the diligent lead to profit as surely as haste leads to poverty.” The craze of Bitcoin and the headlines of massive gains test the diligence and patience of investors.

We want to experience the same “success” of those buying Bitcoin, but at what cost? Renowned investor Peter Lynch’s most famous piece of investing advice, “invest in what you know,” is a foundation of my investment approach and the primary reason I won’t invest in Bitcoin now. Despite reading countless papers and articles, I don’t understand enough about

the long-term viability of bitcoin as a currency, store of money, or as an asset. If I'm to take the stewardship of my money seriously, I should understand my investments.

Although I've written strongly against investing in cryptocurrency, I understand the simplicity in society of utilizing Bitcoin as a digital currency and its role in our modern economy. I also contend that a Bitcoin holding investment may be acceptable for some investors. However, my investment approach and risk tolerance lead me to other investments. For now, given a choice between tangible assets that produce goods and services *benefiting* creation, and a potential currency bubble of Bitcoin, I'll steer clear of the craze.

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*This article is part of our ongoing series: **Living with Intentionality**. Our lives are a series of decisions of how best to love others, care for our creation, seek good, prevent harm, and glorify God. We will highlight these articles where fellow believers make very intentional choices that can expand our imagination for what the Christian life—and the life of the mind—can accomplish.*

1. Perrin, A. (2021, November 11,). 16% of Americans say they have ever invested in, traded or used cryptocurrency. *Pew Research Center* <https://www.pewresearch.org/fact-tank/2021/11/11/16-of-americans-say-they-have-ever-invested-in-traded-or-used-cryptocurrency/>
2. For simplicity and consistency, I lump all cryptocurrencies into Bitcoin for the rest of the article.
3. For excellent discussion contrasting gambling and investing, check out Dr. John Visser's work. <https://inallthings.org/lotteries-and-gambling-vs-investing/?highlight=visser>