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An Evaluation of Cryptocurrency as an Investment Alternative: An Analytical Study

Priyanka Singwal
Asst. Professor, School of Management, Graphic Era Hill University,
Dehradun Uttarakhand India

Abstract
Cryptocurrency has gained significant attention in recent years as a potential investment alternative to traditional financial instruments. The findings of this research can contribute to the understanding of cryptocurrency as an investment option and provide valuable insights for investors, financial institutions, and policymakers. The implications of this study on the evaluation of cryptocurrency as an investment alternative are significant. Firstly, it provides investors with a comprehensive understanding of the characteristics and performance of cryptocurrencies, enabling them to make informed investment decisions. Moreover, the findings of this study may have implications for financial institutions, as they can use the insights to develop appropriate risk management frameworks and explore potential avenues for incorporating cryptocurrencies into their investment offerings. Lastly, policymakers can benefit from this research by gaining a deeper understanding of the regulatory challenges and opportunities associated with cryptocurrencies, aiding in the development of effective regulations to foster investor protection and market stability in the rapidly evolving cryptocurrency landscape.
Keywords: Cryptocurrency, investment, blockchain, risk and return, market analysis, regulatory framework.

Introduction

In today's ever-evolving financial landscape, where traditional investment avenues seem to be facing new challenges, cryptocurrency has emerged as a captivating and intriguing alternative. This digital form of currency, powered by cutting-edge blockchain technology, has not only revolutionized the concept of money but has also garnered significant attention from investors, technologists, and even the general public.

Cryptocurrency, such as Bitcoin, Ethereum, and countless others, has experienced remarkable growth and volatility since its inception. With its decentralized nature and promise of anonymity, it has captivated the imaginations of individuals seeking financial independence and a new era of economic possibilities. But amidst the fervor and excitement, it becomes crucial to evaluate the merits and drawbacks of cryptocurrency as an investment alternative, considering its unique characteristics and potential risks.

One of the key factors that make cryptocurrency intriguing is its potential for exponential growth. With stories of early investors turning modest sums into life-changing fortunes, it's no wonder that people are drawn to this new digital gold rush. However, it's essential to remember that this potential comes together with substantial volatility. The value of cryptocurrencies can fluctuate wildly in a matter of hours, making it a double-edged sword for those seeking stability in their investments. Another aspect worth considering is the decentralized nature of cryptocurrency. Unlike traditional financial systems, which are controlled by central banks and governments, cryptocurrencies operate on a peer-to-peer network, eliminating the need for intermediaries. This decentralization brings forth notions of empowerment, privacy, and financial freedom. However, it also raises concerns about security, regulation, and potential illicit activities, as cryptocurrencies can be used anonymously.

Furthermore, the technological foundation of cryptocurrency, known as blockchain, introduces a level of transparency and trust that traditional financial systems often lack. Blockchain's ability to record and verify transactions in a secure and immutable manner has the potential to revolutionize industries beyond finance, including supply chain management, healthcare, and even governance. But as with any nascent technology, there are hurdles to overcome, such as scalability issues, energy consumption, and the potential for technical vulnerabilities. To truly evaluate cryptocurrency as an investment alternative, it's crucial to explore the broader socio-economic implications. Cryptocurrency has the

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potential to provide financial access to individuals who are currently excluded from traditional banking systems, particularly in developing countries. It offers an alternative store of value in regions plagued by hyperinflation and political instability. However, it also raises concerns about wealth inequality, as early adopters and those with greater technical expertise often reap the most significant rewards.

As we delve deeper into the evaluation of cryptocurrency as an investment alternative, it becomes clear that a balanced and informed perspective is essential. While the potential for incredible gains exists, so do the risks and challenges that accompany this emerging asset class. Investors must carefully consider factors such as risk tolerance, diversification, and their long-term financial goals before venturing into the world of cryptocurrency. Figure 1 highlights some of the important challenges while investing in the cryptocurrency.

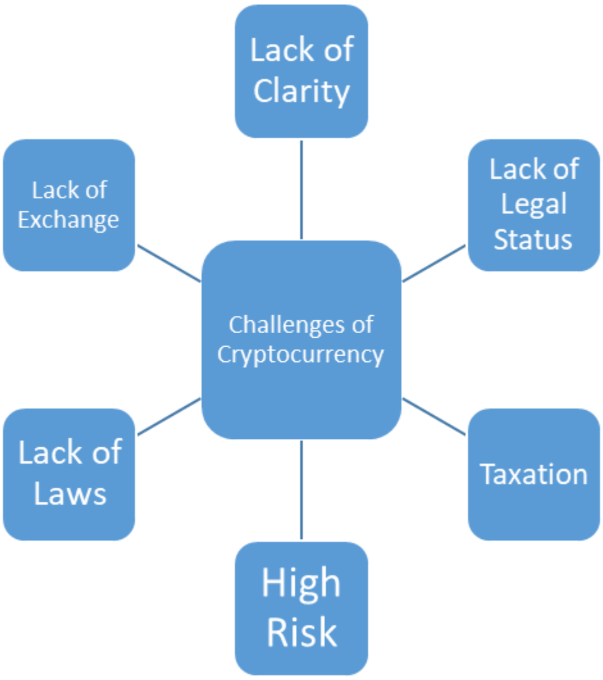

Figure 1 Important Challenges While Investing in The Cryptocurrency.

Literature Review

Hossain (2021) provides a comprehensive overview of the cryptocurrency phenomenon, spanning its historical development, current state, and prospects. It highlights the transformative potential of cryptocurrencies in reshaping traditional financial systems and explores their role as a decentralized alternative to traditional currencies. The author explores the challenges faced by cryptocurrencies, such as regulatory concerns, scalability issues, and security risks. The study concludes by emphasizing the need for further research and development to unlock the full potential of cryptocurrencies and their underlying technology.

Yussof and Al-Harthy (2018) examine the adoption and challenges of cryptocurrencies within the context of Malaysia. The authors discuss the potential benefits of cryptocurrencies, including enhanced financial inclusivity, reduced transaction costs, and increased efficiency. However, they also address concerns related to security, lack of regulation, and potential use for illicit activities. The article concludes by highlighting the need for regulatory frameworks that strike a balance between fostering innovation and safeguarding consumer interests in the Malaysian cryptocurrency market.

Inci and Lagasse (2019) explore the diverse applications and investment potential of cryptocurrencies. They discuss how cryptocurrencies can facilitate decentralized systems, smart contracts, and supply chain management, among other use cases. Furthermore, the article explores the investment opportunities offered by cryptocurrencies, including initial coin offerings (ICOs), digital asset trading, and portfolio diversification. The authors emphasize the importance of understanding the underlying

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technology, market dynamics, and regulatory frameworks for individuals and institutions considering cryptocurrency investments.

Xi et al., (2020) focuses on understanding the investment behaviors and decision-making processes of individuals participating in the cryptocurrency market. The authors highlight the volatile nature of cryptocurrency markets and the influence of social media sentiment on investment decisions. The findings shed light on the risk-taking propensity, trading frequency, and diversification strategies of cryptocurrency investors. The article emphasizes the importance of investor education, risk management, and regulatory frameworks to protect individuals from potential risks associated with cryptocurrency investments.

Mahessara and Kartawinata (2018) conduct a comparative analysis of three investment options: Bitcoin, stock, and gold, focusing on the period from 2014 to 2017. Through their study, the authors aim to explore the potential of cryptocurrencies as an alternative investment portfolio. They analyze the return on investment, volatility, and correlation among the three assets, considering their performance over the specified timeframe. The research provides valuable insights into the comparative characteristics of Bitcoin, stock, and gold, enabling investors to make informed decisions regarding their investment portfolios.

Aggarwal, Santosh, and Bedi (2018) investigate the role of Bitcoin in portfolio diversification, specifically focusing on the Indian market. The authors aim to explore whether Bitcoin can serve as a viable diversification asset for traditional investment portfolios. By employing various statistical techniques, they assess the correlation and volatility of Bitcoin with other financial assets in the Indian market. The findings suggest that Bitcoin exhibits low correlation with traditional assets like stocks and gold, indicating its potential to contribute to portfolio diversification. This research provides evidence that Bitcoin may offer investors an opportunity to mitigate risk and enhance portfolio performance.

Barone and Masciandaro (2019) examine the association between cryptocurrencies and alternative money laundering techniques, specifically focusing on the potential use of cryptocurrencies for illicit activities. The authors explore the concept of cryptocurrency as an alternative to traditional fiat currencies, raising concerns about its potential use in money laundering activities. They discuss various techniques employed by criminals to exploit the anonymity and decentralization of cryptocurrencies for illicit purposes. The study emphasizes the importance of understanding and addressing the risks associated with cryptocurrencies to develop effective regulatory frameworks and combat financial crimes.

Alzahrani and Daim (2019) conducted a study which aimed to assess the factors influencing the adoption of cryptocurrencies. The authors employed a hierarchical decision model (HDM) to analyze the decision-making process. Their research identified key factors such as perceived benefit, perceived risk, government regulations, technological readiness, and social influence as significant determinants affecting cryptocurrency adoption. The study contributes to the understanding of the complex dynamics involved in individuals' decision to adopt cryptocurrencies and provides insights for policymakers, investors, and industry stakeholders.

Yilmaz and Hazar (2018) aimed to forecast future investment trends in the cryptocurrency market. Through their analysis, they identified and prioritized various attributes that influence individuals' investment decisions, such as security, return on investment, market volatility, and ease of use. By utilizing conjoint analysis, the study offers valuable insights into the factors that shape cryptocurrency investment preferences and can assist investors in making informed decisions.

Petukhina, Trimborn, Härdle, and Elendner (2021) evaluated the potential of cryptocurrencies in portfolio allocation strategies. The study found that incorporating cryptocurrencies into traditional portfolios can enhance risk-adjusted returns and diversification benefits, particularly during periods of financial distress and high market uncertainty. These findings contribute to the understanding of cryptocurrencies as an investment asset class and provide insights for investors seeking to incorporate them into their portfolios.

Rejeb, Rejeb, and Keogh (2021) conducted a comprehensive overview of the existing research on cryptocurrencies and their implications in modern finance. The research covers various aspects, including the technological foundations of cryptocurrencies, their impact on financial intermediation, market efficiency, regulatory challenges, and the role of cryptocurrencies in international finance. The

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authors summarize and critically analyze a wide range of studies, offering an extensive overview of the existing knowledge and identifying gaps in the literature. This literature review serves as a valuable resource for researchers, practitioners, and policymakers interested in understanding the current state of research on cryptocurrencies and their implications in the financial domain.

Ong et al. (2015) present a comprehensive evaluation of alternative cryptocurrencies, beyond Bitcoin, to assess their potential as viable digital currencies. The authors examine various aspects such as the technological features, user adoption, transactional volume, market liquidity, and regulatory environment of these alternative cryptocurrencies. Through their analysis, the researchers aim to identify key factors that contribute to the success or failure of these digital assets. The study provides valuable insights into the broader landscape of cryptocurrencies and their potential role in the evolving digital currency ecosystem.

Corbet et al. (2019) conduct a systematic analysis of cryptocurrencies as a financial asset, investigating their risk-return characteristics and exploring their relationships with traditional asset classes. The researchers utilize a broad dataset of cryptocurrencies and employ various econometric techniques to assess their performance and volatility. The study finds evidence of significant market inefficiencies and high volatility within the cryptocurrency market. Furthermore, the authors observe both positive and negative correlations between cryptocurrencies and other asset classes, implying that cryptocurrencies may possess characteristics that enable diversification benefits but also expose investors to additional risks. This research provides valuable insights into the unique characteristics of cryptocurrencies as a financial asset and contributes to a better understanding of their role in investment portfolios.

This paper by Alzahrani and Daim(2019)aims to bridge this research gap by investigating the current adoption levels of cryptocurrencies, identifying the factors that influence their adoption, conducting a detailed analysis of these factors, and highlighting potential challenges associated with cryptocurrency adoption. To estimate the number of cryptocurrency users, the study proposes studying the user base of cryptocurrency exchange sites. Moreover, the research identifies several key drivers of adoption based on a literature review, including the investment potential of cryptocurrencies, transactional anonymity and privacy, acceptance by businesses as a payment method, fast fund transfers, low transaction costs, and technological curiosity. The findings of this research are valuable for researchers, regulators, and cryptocurrency developers as they seek to gain a deeper understanding of consumer intentions towards cryptocurrency adoption. All in all, this paper addresses the growing significance of cryptocurrencies as a novel financial innovation. It recognizes the limited existing literature on cryptocurrency adoption and aims to contribute to this field by examining adoption levels, influential factors, and associated challenges. By proposing the analysis of cryptocurrency exchange user bases to estimate adoption rates, the study aims to provide valuable insights into the adoption landscape. Additionally, it highlights key drivers of adoption identified from the literature, encompassing investment opportunities, transactional anonymity, acceptance by businesses, fast transfers, low costs, and technological curiosity. The research outcomes offer crucial understanding for researchers, regulators, and cryptocurrency developers seeking to enhance their comprehension of consumer attitudes and intentions towards cryptocurrency adoption.

Conclusion

In conclusion, the evaluation of cryptocurrency as an investment alternative reveals a complex and dynamic landscape. While cryptocurrency has undoubtedly captured the attention and imagination of many, it is essential to approach it with caution and a thorough understanding of its unique characteristics.

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