

INVESTOR'S PREFERENCES AND PRICE VOLATILITY OF CRYPTOCURRENCIES - AN OVERVIEW

Dr. M. Balasubramanian

Assistant Professor & Research Advisor, PG & Research Department of Commerce,
Jamal Mohamed College (Autonomous), (Affiliated to Bharathidasan University)
Tiruchirappalli, Tamilnadu, India

K.M Amanullah

Ph.D. Research scholar in Commerce (FT), PG & Research Department of Commerce,
Jamal Mohamed College (Autonomous), (Affiliated to Bharathidasan University)
Tiruchirappalli, Tamilnadu, India

ABSTRACT

Cryptocurrencies are digital money that can be used to buy things online. Unlike paper currency, these digital currencies are highly secured with the help of cryptography technology, so it's almost impossible to counterfeit. It is also used to trade on crypto exchanges. When it comes to cryptocurrencies, people are perplexed. Simply put, cryptocurrencies are money in the form of a program that can be used for exchange or payment. The history of cryptocurrencies was not that long ago. It has a history of only 11 years, but cryptocurrency's future is an unexplored frontier. This paper investigates the cryptocurrency market's price volatility, the number of new coins introduced over the last decade, and the age of investors who are invested in cryptocurrency in the state of Kerala, and finds out that the cryptocurrency investment has higher risk compared to other financial assets because of the high price volatility, most of the investors are younger than 35 years old, and almost one million cryptocurrencies are currently available in the market.

Keywords: Cryptocurrency, Bitcoin, Investment, Volatility of Cryptocurrency Price.

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INTRODUCTION

Cryptocurrencies are decentralized money that can't be controlled by any centralized agency or person. This form of currency is stored and transferred between a large number of computer networks without any centralized authority to monitor or manage it. This feature itself is to make this an advantage and disadvantage of the cryptocurrency (Subhashini & Gopinath, 2020). The key feature behind cryptocurrency is blockchain technology. Crypto was developed with the help of blockchain technology so that it's nearly impossible to hack or manipulate.

A cryptocurrency is a digital data string that is encrypted and is used for transactions. Unlike physical money, it is decentralized and is not issued by governments or financial institutions. Cryptocurrencies are created through a process known as mining, which involves keeping a network of computers running smoothly. The miners are incentivized to mine successfully. There are lots of cryptocurrencies available to buy and invest in.

The term "Bitcoin" is generally used instead of the term "cryptocurrency," but they are different, like "currencies and dollars." The term "currency" can be used to refer to the whole type of currency, but the term "dollar" is the specific currency that is used in the United States and some other countries. Bitcoin is the most famous and first introduced cryptocurrency and is currently the most valuable, so sometimes people use the term "Bitcoin" as they mean the whole type of cryptocurrency. Cryptocurrency is the term used to mention digital currencies that use blockchain technologies and cryptographic techniques. On the other hand, Bitcoin is the premier and one-of-a-kind cryptocurrency and is the most popular among investors due to its high monetary value. Simply put, Bitcoin is one of the many coins or currencies that come under the category of cryptocurrencies. Using cryptography technology, Bitcoin was introduced as the first decentralized cryptocurrency in the year 2009 by a developer named Satoshi Nakamoto.

AWARENESS AND PREFERENCES TOWARD CRYPTOCURRENCIES

Investors are people who are normally optimistic and adventurous rather than ordinary people. They always look at a variety of investment options to get a better return on their money. Unlike most people who keep their money in a bank account, most investors or buyers of financial or non-financial assets do so with the expectation of getting future income. The basic idea behind investing is to forego current needs in exchange for higher returns and capital appreciation on their money.

There are various types of investment opportunities available for one to consider. Every investment opportunity is not suitable for everybody, just like everyone's objectives and goals are different. Generally speaking, people tend to follow the trends and do what their fellow people would do (Gopinath, 2016a). Recently, the trend toward cryptocurrency investment has been increasing due to the technological advancement and influence of social media. Most people believe that cryptocurrencies are the future and believe that it's an easy way to make money. But that may not be true. People need to take an element of risk to get a decent return, but to what extent of risk is one willing to take? That's the ultimate question.

Investors were allocating their resources to various investment avenues and making a profit on their money. The adventurous ones were always exploring various investment options every time they heard about the new technologically advanced or innovative options to invest in. They were always willing to take a risk in order to make a profit on their investment (Gopinath, 2020). But the problem with these adventurous people is that sometimes it leads them to traps and they lose the money completely.

Normal people who don't want to take any risks with their money always look for safer options like bank fixed deposits or purchasing fixed assets like gold or land. They normally don't make any long-term capital gains. They gave more importance to the safety of the fund that they were trying to save.

There is a significant difference between savers and investors. Savers typically do not want to take major risks because they value the safety of their funds over future capital appreciation. On the other hand, investment-oriented people are always looking to increase their wealth or money by investing it in riskier avenues.

REVIEW OF LITERATURE

Eshwari B and Adeeba Ahamed (2018) conducted this research on investors' perceptions of bitcoin and their knowledge of asset management firms, with a focus on Bangalore city. The authors collected data from respondents from Bangalore city through questionnaires and interviews. The major findings from the study are that bitcoin has made an impact on the portfolios of the investors as they include this cryptocurrency in their investment in the hope of a better return, and all of them are very well aware that investing in bitcoin carries high risk. (B & Ahamed, 2018)

Kayode Adewole Neetesh Saxena and Saumya Bhadauria (2020) have conducted a study on the application of cryptocurrencies and blockchain techniques in e-commerce online payments. Researchers collected data through a questionnaire among the selected sample and concluded that the replies demonstrate that the public is doubtful about accepting cryptocurrencies as an electronic payment method because of the safety hazards associated with them. The main safety matters described by users are attacks on cryptocurrency wallets, time jacking, dual spending, self-interested mining, and fork issues. The researcher suggested that these issues are only solved through the implementation of suitable resolution procedures. Misuses have been created as a result of a lack of mutual international authority and guidelines. (Adewole et al., 2020)

OBJECTIVES OF THE STUDY

1. To know the volatility of cryptocurrency prices over a period of time.
2. To find out the age group of cryptocurrency investors in Kerala
3. To understand the number of cryptocurrencies available in the market over the last decade.

STATEMENT OF THE PROBLEM

Cryptocurrencies are the most modern means of online payment, and they are attracting an increasing number of individuals every day, even though the working mechanism behind the crypto is very hard to understand. Cryptocurrencies are a new area of speculative investment, and many people have lost money as a result of not understanding the risks connected with these investments and trades. However, because of the increased online involvement of people, particularly teenagers or youngsters, they are still drawn to it. Although there are no governing bodies to regulate the cryptocurrency market, people continue to use it. The goal of this paper is to grasp the fundamental principles, hazards, and benefits of cryptocurrency investment, as well as their growth rates among Indian investors.

RESEARCH METHODOLOGY

These cryptocurrency transactions were performed through highly encrypted and secured networks. So, the method of collecting primary data is very difficult because of the difficulty of identifying the respondents, as there isn't any database of crypto investors available. Decentralization is the key feature of cryptography so that no authority or government can control this transaction, not even knowing about the parties included.

High security and privacy are the key characteristics of cryptocurrency. So, in this study, the data collected from respondents is not random. The researcher used a non-probability sampling technique, specifically the snowball sampling technique. Once the researcher identified a few people who were trading and investing in cryptocurrencies, and then further identified others with the help of the first participants. Secondary sources, such as published books, articles, and websites, were also used.

This article uses a descriptive type of research design. Primary and secondary data were also used for the study. Crypto investments are an innovative method of payment and it is still not much observed among the general public. The study area is the state of Kerala, and the researcher conducted a pilot study among cryptocurrency investors to collect the primary data.

LIMITATIONS OF THE STUDY

1. This study was conducted among people who were trading or investing in cryptocurrencies, and finding and identifying those people was very difficult.
2. The area selected for the study was the state of Kerala, and the generalization of the study into overall India may not seem possible.

ANALYSIS AND INTERPRETATION OF THE DATA

Table. 1. Price volatility of Bitcoin of the last year (Jan 2020 to Sep 2020)

Date	Price	Open	Change in %
Jan-20	2,411,950	2,112,402	13.99%
Feb-20	3,329,987	2,412,846	38.06%
Mar-20	4,295,089	3,342,246	28.98%
Apr-20	4,280,074	4,296,743	-0.35%
May-20	2,704,282	4,273,376	-36.82%
Jun-20	2,605,588	2,704,762	-3.65%
Jul-20	3,085,944	2,604,800	18.44%
Aug-20	3,439,921	3,082,417	11.47%
Sep-20	3,247,950	3,437,523	-5.58%

Source: (yahoo finance, 2020)

Table 1 represents the price volatility of bitcoin over the last 1 year, and it is clearly visible that the price fluctuation is very high and it is very difficult to predict the price movement. Bitcoin is considered the basis of the overall cryptocurrency, and almost all other major currencies have a tendency to follow these bitcoin trends. That sums up that the risk associated with the price fluctuation of cryptocurrency is very high. Investors must be aware and cautious. But on the other hand, the high volatility also opens the door for frequent trading options, and short-term investors can make a profit from this volatility, but the stakes are very high.

Table 2. Bitcoin Price changes over the last Decade (January 1 of each year)

Year	Bitcoin Price (\$)	Change (\$)
2020	7188.46	3318.99
2019	3869.47	-9542.97
2018	13412.44	12414.75
2017	997.69	563.23
2016	434.46	120.54
2015	313.92	-456.51
2014	770.44	757.13
2013	13.3	8.04
2012	5.27	4.97
2011	0.3	0.21
2010	0.09	0

Source: (Webster, 2020)

The above table displays Bitcoin historical prices on January 1st of each year. And it is clear that the price is moving in a positive way, but in 2015 and 2019 there was negative movement in the price of bitcoin. And it can be seen that the fluctuations in the prices are not in a systematic manner and the value is not a small one either, so the investor must be cautious about the unpredictable movement of the price of bitcoin as it has the ability to influence the entire cryptocurrency market.

Table. 3 Age Group of the Cryptocurrency Investors in Kerala

Age group	Respondents	Percentage	Cumulative Percentage
Below 25	61	53	53.0
25-30	47	40.9	93.9
30-35	7	6.1	100.0
Total	115	100	

Source: (Primary Data)

The above table clearly shows that the people who chose or preferred crypto investment are relatively young, under the age of 35. 93% of the investors fall under the age group of 30 years old.

Table 4. Number of Cryptocurrencies Available in India

Year	No. of cryptocurrencies	Year	No. of cryptocurrencies
2013	66	Mar-18	1658
2014	506	Nov-19	2817
2015	562	Feb-20	4501
2016	644	Jul-20	6044
2017	1335	Aug-20	5840

Source : (Statista, 2020)

There are about half million different kinds of cryptocurrencies available to investors as of 2020. At the time of the first cryptocurrency incorporation in 2013, only 66 currencies were available, but right now the number of available cryptocurrencies reaches more than ten thousand. There is a major growth from just a small number of coins in the year 2013 to 2020. Nevertheless, a bulk share of these coins (cryptocurrencies) is not important at all.

Because the incorporation of new cryptocurrency is not a major issue for companies or individuals with knowledge and technology in this field. It is undeniable that the top 20 cryptocurrencies control nearly 90% of the total cryptocurrency market.

FINDINGS AND SUGGESTIONS

From the above analysis, it is understood that the price movement of bitcoin is unpredictable. Considering that from 2019 to 2020, the price fluctuated a lot. While looking at the last decade, the price movement may seem overall positive, the unpredictable nature of this currency makes it impossible to predict and manage. So, the researcher understands that trading and investing in cryptocurrencies are highly risky even though the growth of the cryptocurrency market is going higher and the number of new currencies introduced day by day indicates that the market is expanding.

Bitcoin is the market leader and has gained the trust of the people who are buying and selling these cryptocurrencies. Considering bitcoin is the premier coin, the market has a tendency to follow the ups and downs of bitcoin. And people needed to be cautious of the massive risk associated with it. Hence, the scholar proposes that the authorities take proper measures to incorporate the investors of cryptocurrencies rather than make them completely illegal. Teach investors about the risks of crypto investments and try to create guidelines and regulations to combat deceptive activities in the crypto market. SEBI or the RBI must educate people, particularly young investors who are risk takers and are drawn to these types of modern online trading instruments. Educate potential investors on the operations, benefits, and risks associated with cryptocurrencies and other similar unofficial online investment avenues (Gopinath, 2016b). The Indian Government is yet to make a clear stand on this matter but Government already proposed a tax rate for the money earned through crypto investments and investor's think it is a positive move by the Government.

CONCLUSION

In conclusion, the people who are invested in cryptocurrencies are relatively young, and they are taking a high risk by investing in cryptocurrencies. Due to the immense volatility of the cryptocurrency price movement, it is very difficult to understand and predict the price movement. Only those who are willing to take a higher risk may invest in these currencies, and they should have proper knowledge of this field. In order to reduce the loss, they must also keep a constant eye on their investment.

Almost all kinds of events all over the world affect the price of crypto coins. Furthermore, this market is decentralized and has no authority to look after; it works on its own and the price fluctuation may be unpredictable. Younger people who were drawn to new technologies and innovative techniques were also interested in crypto investment, as all of the respondents who participated in this survey were invested in cryptocurrencies under the age of thirty-five (Gopinath, 2016c). Younger people are always discovering new unexplored areas, which may cause them to lose money due to the high risk they are willing to take, but high rewards come only with high risk.

SCOPE FOR FURTHER RESEARCH

This study was conducted with the help of secondary data on the number of cryptocurrencies available in the market and the price fluctuation of bitcoin. Bitcoin is the most valuable cryptocurrency in terms of market capitalization. There are a wide variety of areas related to this topic that may not be explored, such as investors' attitudes towards the risk and return of cryptocurrency investments.

It can be considered the Indian government's policies and investors' awareness of the risk associated with them and new tax rules related to digital assets. Conduct surveys among crypto traders to learn about their experiences with various online cryptocurrency exchanges. There is scope for further study of the comparative performance analysis of the top ten currencies and their growth rates in the past years.

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