FORVM GEOPOLITICA
Independent Commentary on a Fractured World

Five Reasons the Boom in Crypto is a Speculative Mania

Following Bitcoin's impressive 120% rise in 2024 and the return of President Donald Trump to the White House, the speculative mania in crypto is back in full swing.

Auguste Maxime

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Our blog has a new author

I am very happy to introduce a new author to our blog. Auguste Maxime is so far our youngest contributor. Auguste is 32 years old and holds a degree in economic history from the University of Geneva in Switzerland. We are excited to have young blood among our contributors since an author who is half the age of our average group of authors will contribute a different angle and also write about aspects and subjects, which younger people better understand.

In his first contribution, Auguste talks about a subject, that is in itself young – cryptocurrencies.

It goes without saying that we hope for a close cooperation with Auguste in the future since he would be a gift from heaven for our blog because we are for quite some time looking for a native French speaker who would be able to translate our articles into his mother tongue and add French as our fourth language to our blog.

Please enjoy!

Introduction

On January 17, 2025, President Donald Trump launched his meme coin, named $TRUMP. Memes coins are a highly volatile subcategory of cryptocurrencies, typically launched as a joke. Their prices can experience meteoric rises if enough people are willing to buy them.

Despite a clear disclaimer on the coin's website that it is not "intended to be, or the subject of, an investment opportunity, investment contract, or security of any kind," the price of $TRUMP skyrocketed from $6.50 to $75 in one day, pushing its market capitalization to around $15 billion. Just 24 hours later, its value plummeted by over 50%, bringing its market capitalization down to $7.1 billion.

As of January 26, 2025, the global cryptocurrency market is valued at approximately $3.64 trillion, equivalent to about 20% of the value of all the gold ever mined globally. Bitcoin alone accounting for $2.08 trillion. Meme coins collectively hold a valuation of roughly $110 billion, according to data from CoinGecko—on par with Airbus, the world's leading aircraft manufacturer, which delivered 770 commercial planes in 2024. Meme coins are widely considered the most speculative segment of the cryptocurrency market.

John Maynard Keynes, the renowned economist defined speculation as the pursuit of short-term gains based on anticipated price fluctuations, stating :

> *"Speculation is the activity of forecasting the psychology of the market, while investment involves predicting the yield of assets."*

JOHN MAYNARD KEYNES

Charles Mackay, the 19th-century author of *Extraordinary Popular Delusions and the Madness of Crowds* (1841), described speculative mania as society's tendency to fall victim to delusion and mass madness:

> *"Men think in herds; it will be seen that they go mad in herds, while they only recover their senses slowly, and one by one."*

CHARLES MACKAY

Here are five reasons why the current crypto boom exemplifies a textbook speculative mania:

1. You Can't Value What You Can't Define

Traditional assets such as stocks, bonds, and real estate generate cash flows, allowing investors to estimate their intrinsic value. Bitcoin, however, generates no income or dividends, which complicates efforts to assess its worth. Proponents often compare Bitcoin to "digital gold," suggesting it has value as a currency. Yet, to be a viable currency, it must fulfill the three fundamental functions outlined by Aristotle:

- **Unit of Account**: A currency must serve as a stable measure of value, enabling prices to be quoted and compared consistently across goods and services. Bitcoin's extreme price volatility makes it unreliable for this purpose, as its value can swing wildly within hours or even minutes.
- **Medium of Exchange**: A currency should facilitate transactions efficiently and be widely accepted in exchange for goods and services. While Bitcoin is accepted by some vendors, its adoption for everyday transactions remains marginal. According to the Financial Times, only 1–2% of cryptocurrency holders in Australia, the USA, and Sweden used crypto for payments in 2023, highlighting its limited real-world use.
- **Store of Value**: A currency should preserve purchasing power over time, providing stability against inflation and market fluctuations. Bitcoin's dramatic volatility undermine its ability to reliably store value, as holders risk significant losses over short periods.

The exorbitant valuation of cryptocurrencies like Bitcoin arises partly from the ambiguity surrounding their perceived purpose, utility, and value. Without fulfilling these three essential roles, Bitcoin and similar assets remain speculative instruments rather than functioning currencies.

2. Technological Innovation Often Leads to Bubbles

Joseph Schumpeter, renowned for his theory of "creative destruction," observed that speculative manias often arise during technological revolutions, as exaggerated expectations attract excessive capital. Howard Marks, co-founder of Oaktree Capital, echoed this idea, stating in his last letter :

> *"Every mania and bubble starts with a grain of truth—it just gets taken too far."*
>
> HOWARD MARKS

This pattern is evident in the tulip bubble of the 17th century, the railroad bubble of the 19th century, and the Internet bubble of the early 2000s. The tulip bubble, often seen as the first financial mania, was driven by the novelty and perceived exclusivity of tulips, while the railroad bubble arose from overestimated profits linked to rail transportation. Similarly, the Internet bubble stemmed from the promise of the digital age, with inflated valuations for companies lacking viable business models. These historical examples show that during periods of rapid innovation, genuine progress often coexists with irrational exuberance and speculative excess.

Similarly, skeptics of cryptocurrencies challenge their valuations, while proponents emphasize the potential of blockchain technology—discussions that often end with: "You don't understand Bitcoin anyway."

3. FOMO and Greater Fools Game

Fear of missing out (FOMO) has been one of the main drivers of retail investment in cryptocurrencies, fueled by hype on social networks, sensational success stories of overnight wealth, and the allure of joining a financial revolution. This emotional phenomenon pushes individuals to invest, not based on careful analysis, but out of a fear of being left behind while others profit. According to a survey by Kraken, 84% of cryptocurrency investors admitted to making impulsive decisions due to FOMO.

This behavior epitomizes the "herd mentality," where collective excitement overrides individual rationality. Investors rush to buy assets, not for their intrinsic value or long-term potential, but with the hope of reselling them to "greater fools" at an even higher price. As more people pile in, the asset price often inflates far beyond its fundamental value. However, when the pool of buyers diminishes, the bubble bursts, and prices plummet, leaving latecomers with substantial losses. A study by the Bank for International Settlements (BIS) found that between 73% and 81% of Bitcoin buyers lost money on their investments between 2015 and 2022. This highlights the tendency for investors to purchase during periods of rapid price increases, only to endure steep declines. These cycles illustrate how speculative markets reward early participants at the expense of those who join too late.

4. Many new entrants young and naïve

Speculative manias rely on waves of naive buyers to sustain their momentum, and the cryptocurrency boom is no exception. Most cryptocurrency buyers are young men aged 25-34, typically well-educated. This generation grew up during the rapid expansion of the internet and social media, shaping their familiarity with digital platforms and virtual assets. They began investing after the 2008 financial crisis, during an unprecedented era of central bank liquidity injections and accommodating fiscal policies that fueled a decade-long stock market rally. This environment instilled a "buy the dip" mentality, where setbacks were seen as temporary opportunities rather than warnings of structural risk. The shift to remote working during the COVID-19 pandemic has further distanced this generation from real interactions, where virtual assets are increasingly perceived as "real"—as physical ones. Many in this group lack the historical perspective to recognize the cyclical nature of speculative bubbles, often underestimating the risks or believing that "this time it's different." This optimism and detachment from traditional markets make them particularly vulnerable to speculative excesses.

5. Fraud and speculation have become indistinguishable

The fusion of reckless speculation and financial fraud, blurring the lines between the two, is a hallmark of speculative mania. In November 2022, the collapse of FTX resulted in an estimated $8 billion loss, attributed to mismanagement and embezzlement by its founder, Sam Bankman-Fried. The scandal not only shook investor confidence but also highlighted the vulnerabilities of an industry often operating with minimal oversight.

Today, MicroStrategy, a Nasdaq-listed U.S. company specializing in data analytics software, serves as a notable example. Since 2020, the firm, led by CEO Michael Saylor, has aggressively accumulated Bitcoin, amassing over two percent of the total supply in circulation. This strategy, funded through a mix of share issuances and convertible bonds, **has** drawn criticism from known investors like Peter Schiff, a vocal Bitcoin skeptic and David Einhorn, a hedge fund manager known for identifying overvalued companies. Both have likened MicroStrategy's approach to a Ponzi scheme due to its reliance on Bitcoin's rising price to sustain its financial position.

Conclusion

Cryptocurrencies and their underlying technologies may hold significant long-term potential. However, the current speculative surge — driven by hype, FOMO, and inflated valuations —demands caution. History has repeatedly shown that speculative manias rarely end well, often leaving behind painful lessons for those swept along by the dream. The cryptocurrency sector may only represent the tip of the iceberg in a broader landscape of market exuberance. Recent events, such as the sharp drop in NVIDIA's valuation — a company celebrated as a leader in AI innovation — underscore how even the most promising industries are not immune to the risks of speculation and overvaluation.

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