

Over 60% of investors used borrowed funds to purchase highly volatile cryptocurrencies

Submitted by: KIS Finance

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A study by KIS Finance

(<https://www.kisbridgingloans.co.uk/finance-news/cryptocurrency-consumer-research-and-data-autumn-2021/>), has revealed that over two thirds of cryptocurrency investors borrowed money to make their purchase, rather than using income and/or savings.

Overall, more than two thirds (64%) of those who have invested in cryptos, used one or more credit facilities to do so.

Massive crypto losses over the last two months

Cryptocurrencies are highly volatile and a risky investment strategy. There was a massive increase in crypto prices in November last year, with Bitcoin hitting it's highest ever price. But since then, cryptos have been continuously falling in value.

Here is a table showing an example of how five of the largest currencies have changed in value over just two months.

	10/11/21	10/01/22	Percentage drop
Bitcoin	\$68,622	\$40,904	40%
Bitcoin Cash	\$722	\$357	50%
Ethereum	\$4,843	\$3,046	37%
Litecoin	\$290	\$128	56%
Ripple	\$1.32	\$0.72	45%

However, although cryptocurrencies are currently in the red, the industry as a whole is growing every day.

For example; Binance (the world's largest crypto exchange) CEO, Changpeng Zhao, has just become Asia's richest person and one of the world's richest billionaires. According to Bloomberg, it's estimated that his net worth is approximately \$96 billion.

Zhao launched Binance in 2017, and in just 5 years it has gradually grown into one of the world's largest crypto exchanges.

Also, last year Ethereum's creator, Vitalik Buterin, and Coinbase founder, Brian Armstrong, also became billionaires highlighting the exponential growth in the cryptocurrency industry in the last couple of

years.

Cryptocurrency success stories can make many people, particularly teenagers and young adults, want to jump on the band wagon and make their own fortunes. However, these success stories can fail to highlight how much of a risk cryptocurrencies are as an investment product.

The difference if you invested in the largest cryptos, Bitcoin and Ethereum, years or months ago

If you invested Bitcoin in February 2011 or Ethereum in 2016 when they were worth just \$1, then you would be laughing now. But if you invested in Bitcoin or Ethereum just two months ago (November last year), you would have lost 40% or 37%, respectively, of your investment if you sold now.

Some investors may hold on, but many might start to panic seeing their savings or loan drop by 40% and sell to cut their losses, fearing that they will lose everything.

Percentage of crypto investors who used one or more credit facilities to fund purchase, by age

18 - 24: 70%
25 - 34: 64%
35 - 44: 68.9%
45 - 54: 62.5%
55 - 64: 45%
65+: 25%

As the data shows, those aged between 18 and 24 were the age group most likely to use borrowed funds to make their investment, with a significant drop of borrowers in the two highest age groups.

What type of credit facilities have people used to fund cryptocurrency investments?

When we break down what kinds of credit facilities people have used to purchase cryptocurrencies, over a third (35.5%) made their investment using a credit card. Almost a fifth (19.3%) funded the purchase out of their overdraft.

Credit card: 35.5%
Overdraft: 19.3%
Personal loan: 14.6%

Secured loan: 9%
Payday loan: 7.6%
Re-mortgage: 3.3%

Holly Andrews, Managing Director at KIS Finance, comments on the findings.

“In recent years, the cryptocurrency industry has grown rapidly and cryptos are becoming a more mainstream product every single day. Even tech giant PayPal has now introduced a cryptocurrency trading platform, making it accessible to everyone.

Although cryptos, and specifically Bitcoin, have seen people make thousands or even millions in profit; the last few weeks have shown that they are incredibly volatile and can see investors losing large percentages, or all, of what they put in very quickly.

It's concerning to see that so many people have turned to borrowed funds to purchase cryptocurrencies as they are extremely unpredictable and offer no guarantees that the money invested will be returned. So, if people are investing money that isn't theirs and subsequently losing it, this could cause some serious financial challenges later down the line.

The biggest concern is those who don't have the means to pay the money back, especially if their original plan was to repay their loans with the profits made from their investment. With a very strong possibility of losing the money for good, people may be left severely out of pocket and racking up interest on their credit cards and overdrafts. Also, some credit card providers will view this type of transaction as a cash advance, meaning a cash advance fee and higher interest rate will be applied.

So, if you are thinking of making an investment into cryptocurrencies, you should only invest an amount of money that you can afford to lose and it should be funded through income and/or savings rather than a credit facility.

Borrowing money to invest in cryptos can become a very vicious cycle that's difficult to break. Once you start losing money, it can be very tempting to invest more to make the money back; especially if you don't have other means of repaying the funds.

Great care should be taken when you invest money anywhere, but especially when it's something as volatile as cryptocurrencies. If you can, seek some professional financial advice first and never invest more than you can afford. Buying cryptocurrencies should also not be your only form of investment or savings as there is very little stability – spread your investments out and treat cryptocurrencies as a smaller, fun investment.”

[ENDS]

Notes to journalists/editors:

All figures, unless otherwise stated, are from a survey conducted by The Leadership Factor for KIS Finance. The total sample size was 2,000. Fieldwork was undertaken between 9th September 2021 and 15th September 2021. The survey was carried out online.

Further data breakdowns (by age, gender, region, and city) are available on request.

Full data report: <https://www.kisbridgingloans.co.uk/finance-news/cryptocurren...>

About KIS Finance:

KIS Finance are an independent finance broker specialising in bridging finance, development finance, commercial mortgages, equity release, and secured loans. Their team of advisors have considerable experience across multiple different areas of the finance sector, as well as insurance and compliance.

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