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Is Bitcoin the “Paris Hilton” of the Currency World? *Or Are the Early Investors onto Something That Will Make Them Rich?*

Abdur Chowdhury

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Abstract

The Bitcoin phenomenon—and the technological innovation that made it possible—is interesting, but for investors large and small, the more pertinent question is whether they should buy the digital currency or avoid it. Using both in-sample and out-of-sample settings, we analyze a Bitcoin investment from the standpoint of an investor with a diversified portfolio. Within the in-sample setting, Bitcoin does not yield added value to investors, with a utility function consistent with the mean-variance setting. On the other hand, Bitcoin does offer diversification benefits to investors with negative exponential and power utility functions. However, these benefits are not preserved in the out-of-sample framework. In most cases, the optimal portfolios that include only the traditional asset classes appear to have superior performance.

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