

The Difference Between Speculating and Investing



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Chapter 1 of the seminal book by Benjamin Graham, *The Intelligent Investor*, starts with a most important lesson: what is the difference between speculating and investing?

“An investment operation is one which, upon thorough analysis, promises safety of principal and a satisfactory return. Operations not meeting these requirements are speculative.” - Benjamin Graham

I think an element that creates confusion for people is the illusion of tangibility behind a great story.

Bitcoin is an excellent example. The idea of a grand ledger shared securely across the internet and not controlled by any large banking concern is an amazing story. This idea is actually incredible and it makes for great Netflix documentaries. The concept even has tremendous merit.

Yet, for the moment, most people buying Bitcoin are buying it to generate a substantial gain and that is the main, if not the only, reason the price is going up.

There is always a story. Just because the story of Bitcoin is amazing and has the right amount of complexity (flattering the egos of smart speculators is a great way to raise money) does not make this investing. Even if the concept of Bitcoin turns out to work, it probably remains a gamble for the moment.

"Had you taken out a mortgage in March 2020 for \$250,000 in Bitcoin, you'd owe the bank almost \$2 million today" - Steve Forbes

Not very practical.

In terms of the "digital gold" argument, there are issues here as well. Gold was produced during the collision of neutron stars and it is invulnerable. This has made it an excellent store of value throughout history. Bitcoin, on the other hand, is destructible. If the keys/passwords are lost, your Bitcoin can be gone and no one else can get it back. If you drop gold bars at sea, they are lost but still retrievable.

Don't get me wrong. Bitcoin (or another cryptocurrency) might work. Some are talking about cryptocurrencies backed by gold, which could correct some of the issues. This post is about being aware of the difference between speculating and investing.