After $2 trillion crypto crash, what happens next?

Digital currencies have now lost $2 trillion in value after hitting a peak of $3 trillion in November 2021.

Geoff Bennett: From a wave of high profile Super Bowl ads to a full on crypto crash in less than a year, crypto or digital currencies have now lost $2 trillion in value after peaking at $3 trillion in November 2021. On Wednesday, the company Celsius became the third major crypto firm in two weeks to file for bankruptcy. This past week I spoke with Andrew Chang to unpack what's behind this latest crypto crash. He's a crypto consultant and former CEO of Paxos, a New York-based financial firm and technology company.

For the unfamiliar, I think it might be instructive if you first explain what crypto is and why it's been such an attractive investment vehicle for so many people.

Andrew Chang: So crypto currencies is a new type of financial asset that's powered by blockchain technologies. It's a way to store and move value on a decentralized network. Now why people are super excited and have been investing in cryptocurrencies as a financial assets is because they believe that technology is interesting and valuable and as the value of the network increases, so does the price of the currency that powers it.

Geoff Bennett: So what accounts for this crash? I mean, as I understand it, there was a crash back in 2018 where the largest cryptocurrency, Bitcoin, lost about 80% of its value. This crash is different in terms of magnitude and the cause. What's the deal?

Andrew Chang: It's important to paint the picture over the last couple years where the price has risen a lot. You had apps like Robinhood and PayPal enable people to invest in cryptocurrencies. You had a greater awareness of cryptocurrency and then a greater availability of capital through stimulus checks or low interest rates. That's what led up to the price being so high. What led to the downfall in this recent crash is partly due to the greater economic downturn. And then secondarily, you've seen a number of crypto companies that have recently filed for bankruptcy. Many of these crypto companies took on too much risk and that risk led to them imploding as the price went down.

Geoff Bennett: I always understood it, the value proposition of crypto was that it was supposed to be insulated from the broader economic trends. This crash would suggest that's not the case.

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Andrew Chang: Yeah, I think it's not realistic to think that cryptocurrency or any other type of alternative asset is immune to being completely divorced from the broader economic picture. When you have a long enough economic downturn or big

enough economic downturn, you're going to see that effect not only traditional financial assets, but financial assets like cryptocurrencies, and frankly all parts of our lives. So that has been the hope for many people that you could operate a different financial network, but the reality is it's all intertwined.

Geoff Bennett: As you mentioned, novice traders, amateur traders have suffered seismic losses. Some people losing it all. They put in a ton of money because they were looking for quick sizeable returns. And the timing of it just meant that they lost a lot of money and they lost it quickly.

Andrew Chang: Yeah, I think with any investment strategy, it's important for people to consider their current financial situation and their goals. But anytime you're investing in new technology, a more volatile asset, you're going to see greater risks with greater returns. And so some folks have been looking for greater returns, but they ignored the greater risks.

Geoff Bennett: But what about people who say that crypto is a scam and this latest crash just proves it? You have companies like Celsius, which declared bankruptcy. They won't let people withdraw their funds. I mean, you've spent a lot of time in this world. Is crypto legit?

Andrew Chang: Yeah. I think crypto's going through the same things new technologies go through at the start, just like the internet went through a lot of innovation cycles where there were internet companies that tried different business models that didn't work out. And so it's not that crypto itself is a scam. It's going through the growing pains of any new technology and you see regulators finding different ways to regulate and finding new problems with the way that people are interfacing with the technology. The technology itself is in a scam.

Geoff Bennett: When you talk about regulation, President Biden, as you know back in March, he signed an executive order calling on the Federal government to examine the risks and benefits of crypto currency. Is more regulation the answer, do you think?

Andrew Chang: I think it's inevitable. If you think about what regulation is, regulation comes to protect consumers. And when you have situations like you've had in the past couple of months where companies have taken on too much risk or haven't been playing by the rules, that's when regulators come in to try to help establish rules. So I don't think regulation is the answer per se. As you had have

companies that do operate in a way that is good for consumers, there’s no need for regulation. So given the current hiccups with some of the companies, you’re going to see more regulation coming in to help provide guardrails for companies.

Andrew Chang, a crypto consultant and former COO of Paxos.

Geoff Bennett, chief Washington correspondent for PBS NewsHour.