

**CRYPTOCURRENCY AS AN ALTERNATIVE INVESTMENT: OPPORTUNITIES,
RISKS, AND MARKET IMPLICATIONS**

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Abstract: Cryptocurrencies have emerged as a new asset class, attracting increasing attention from global investors. This study evaluates cryptocurrencies as alternative investments by analyzing their risk-return characteristics, diversification potential, and associated challenges. Using secondary data from the Organisation for Economic Co-operation and Development and existing academic literature, the research applies a qualitative analytical approach within the IMRAD framework. The findings indicate that cryptocurrencies offer high return potential and portfolio diversification benefits but are constrained by extreme volatility, low financial literacy, and regulatory uncertainty. The study concludes that cryptocurrencies should be used cautiously within diversified portfolios and highlights the importance of regulatory frameworks and investor education.

Key words: Cryptocurrency; Bitcoin; Alternative Investment; Portfolio Diversification; Financial Literacy; Market Volatility; Blockchain Technology; Digital Assets.

Introduction

The development of cryptocurrencies has significantly transformed the landscape of modern finance. Since the introduction of Bitcoin in 2009, digital assets have gained widespread attention among investors, policymakers, and researchers. Cryptocurrencies operate on blockchain technology, which enables decentralized and secure transactions without the involvement of traditional financial intermediaries. This technological innovation has created new opportunities for investment while simultaneously introducing new forms of risk.

The increasing popularity of cryptocurrencies is driven by their potential for high returns and their accessibility through digital platforms. Unlike traditional financial assets, cryptocurrencies are not controlled by central authorities, which makes them attractive to investors seeking independence from conventional financial systems. However, this decentralization also raises concerns regarding market stability, investor protection, and regulatory oversight.

Despite the rapid growth of cryptocurrency markets, there is ongoing debate regarding their classification as investment assets. Some scholars argue that cryptocurrencies function primarily as speculative instruments, while others emphasize their potential role in portfolio diversification. This study aims to contribute to this debate by providing a comprehensive analysis of cryptocurrencies as alternative investments, focusing on their benefits, risks, and implications for investors.

Literature review

The academic literature on cryptocurrency investment has expanded rapidly, reflecting growing interest in digital assets. Early research by Satoshi Nakamoto (2008) introduced Bitcoin as a decentralized payment system, laying the foundation for subsequent financial studies.

Baur, Hong, and Lee (2018) argue that cryptocurrencies function more as speculative assets than as traditional currencies. Their research shows that Bitcoin exhibits characteristics similar to high-risk financial assets, including extreme volatility and limited use as a medium of exchange.

Similarly, Corbet et al. (2019) find that cryptocurrency markets are highly sensitive to external shocks, such as geopolitical events and regulatory announcements.

From a portfolio perspective, studies suggest that cryptocurrencies may offer diversification benefits. Their relatively low correlation with traditional assets aligns with principles of Modern Portfolio Theory, which emphasizes risk reduction through asset diversification. However, other researchers caution that this benefit may diminish during periods of market stress when correlations increase.

The Organisation for Economic Co-operation and Development has contributed significantly to understanding cryptocurrency markets, particularly in terms of financial literacy and investor behavior. OECD reports highlight that many crypto investors lack sufficient knowledge, increasing their exposure to financial risks. This aligns with behavioral finance theories, which suggest that investors often make irrational decisions under uncertainty.

Overall, the literature presents a mixed view of cryptocurrencies, recognizing both their potential benefits and significant risks.

Methodology

This study employs a qualitative research design based on the analysis of secondary data. The objective of the methodology is to evaluate cryptocurrencies as alternative investment assets by examining their market characteristics, adoption trends, and associated risks.

The data used in this research are derived primarily from reports published by the Organisation for Economic Co-operation and Development, which provides comprehensive and reliable information on financial markets, investor behavior, and digital finance. Additional data are obtained from peer-reviewed academic journals, policy papers, and financial analyses that focus on cryptocurrency markets. These sources are selected based on their credibility, relevance, and contribution to the field of financial research.

Analysis and Results

The empirical results of this study are derived from secondary data obtained primarily from the Organisation for Economic Co-operation and Development, complemented by findings from established financial research on cryptocurrency markets. The analysis focuses on three key areas: adoption and financial literacy, market volatility, and diversification properties.

The data indicate that cryptocurrency adoption has increased steadily over the past decade, although it remains relatively limited compared to traditional financial instruments. According to OECD estimates, awareness of crypto-assets exceeds 40% among adults in surveyed economies, whereas actual ownership remains between 3% and 4%. This gap suggests that while cryptocurrencies have entered mainstream awareness, their use as investment assets is still concentrated among a smaller segment of the population.

At the same time, financial literacy levels remain relatively low. OECD findings show that only about 29% of adults demonstrate minimum financial literacy competencies, and even among cryptocurrency holders, a significant proportion lacks a full understanding of associated risks. This discrepancy between participation and knowledge is a critical issue affecting market behavior and investment outcomes.

Table 1. Cryptocurrency Awareness, Ownership, and Financial Literacy (OECD Estimates)

Indicator	Estimated Value (%)	Source
Adults aware of cryptocurrencies	40-45%	OECD (2025)
Adults owning cryptocurrencies	3-4%	OECD (2025)
Adults with minimum	29%	OECD/INFE Survey (2023)

financial literacy		
Crypto investors aware of key risks	55%	OECD (2025)

The results demonstrate that the expansion of cryptocurrency markets has not been accompanied by a proportional increase in investor understanding. This imbalance has important implications for market stability and investor protection.

In addition to adoption patterns, the analysis reveals that cryptocurrencies exhibit significantly higher volatility compared to traditional financial assets. For example, Bitcoin has experienced substantial price fluctuations, with annualized volatility frequently exceeding 60%. In contrast, traditional asset classes such as equities and bonds display considerably lower volatility levels.

Table 2. Comparative Volatility of Major Asset Classes

Asset Class	Average Annual Volatility	Source
Bitcoin (Cryptocurrency)	60-80%	Baur et al. (2018); OECD (2024)
Global Equities	15-25%	OECD Financial Outlook
Government Bonds	5-10%	OECD Financial Outlook
Gold	10-20%	World Gold Council / OECD

The significantly higher volatility of cryptocurrencies reflects their speculative nature and sensitivity to market sentiment. While this creates opportunities for high returns, it also exposes investors to substantial risks.

Another important finding concerns the correlation between cryptocurrencies and traditional financial assets. Empirical studies suggest that cryptocurrencies generally exhibit low correlation with other asset classes, particularly under normal market conditions. This characteristic supports their potential use as diversification tools within investment portfolios.

Conclusion and Suggestions

The findings of this study provide important insights into the role of cryptocurrencies as alternative investment assets. One of the most notable observations is the imbalance between widespread awareness and limited financial understanding. Although cryptocurrencies have become highly visible in global financial markets, a significant proportion of investors lack the knowledge required to assess their risks effectively. This issue is particularly concerning given the complexity and volatility of crypto-assets.

The volatility analysis confirms that cryptocurrencies occupy the high-risk, high-return segment of the investment spectrum. The data presented in Table 2 demonstrate that the volatility of Bitcoin is several times higher than that of traditional assets such as equities and bonds. This characteristic reflects the absence of intrinsic valuation models, as well as the influence of speculative trading and market sentiment.

From the perspective of portfolio management, the relatively low correlation between cryptocurrencies and traditional assets represents a potential advantage. According to Modern Portfolio Theory, combining assets with low correlation can reduce overall portfolio risk. The findings presented in Table 3 support this theoretical framework, suggesting that cryptocurrencies may contribute to improved risk-adjusted returns. However, this benefit is not stable across all market conditions, as correlations tend to increase during periods of economic stress.

Another important aspect of the analysis is the role of regulation. The lack of a unified global regulatory framework contributes to uncertainty and increases the risk of market instability. Initiatives by the Organisation for Economic Co-operation and Development to enhance transparency and reporting standards represent a positive development. Nevertheless, regulatory fragmentation remains a significant challenge for both investors and policymakers.

The findings also highlight the importance of behavioral factors in cryptocurrency markets. Many investors are influenced by social trends, media coverage, and speculative expectations rather than fundamental analysis. This behavior contributes to price bubbles and sharp corrections, further increasing market volatility.

Overall, the analysis suggests that while cryptocurrencies offer unique opportunities as alternative investments, they also present substantial risks. Their inclusion in investment portfolios should therefore be carefully managed, with attention to risk tolerance, diversification strategies, and financial knowledge.

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