Bitcoin vs. gold: Which is the better inflation hedge?

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In recent years, inflation reached levels not seen in several decades. In such times, investors often turn to commodities, in particular gold, which has a long history as an inflation hedge. More recently, some traders have been touting Bitcoin and other cryptocurrencies as alternative ways to hedge inflation. Is one better than another?

Here's the upshot: Gold beats Bitcoin as an inflation hedge for a variety of reasons. In fact, many experts don't view Bitcoin or other cryptocurrencies as an inflation hedge, at least not yet.

What is an inflation hedge?

A hedge is a kind of investment that offsets something else, but the rationale behind a hedging investment can differ depending on what exactly the investor intends to do.

"A hedge can be a correlated but contra position in the movement of an asset price or an uncorrelated entity that provides stability in periods of volatility," says Emily Man, investor at Primary Ventures, a venture capital firm in New York.

For the former, she points to airlines buying oil futures as a way to protect future earnings. For the latter definition, Man points to hedge funds that might buy shares of Visa but short-sell rival Mastercard as a means to isolate specific risks and opportunities that impact both companies.

So, an inflation hedge is an investment that offsets some or all of the effects of inflation. Perhaps the hedge goes up while inflation rises (offsetting the decline of stocks, for example). Or maybe the hedge is just largely resistant to inflation as a factor, offering stability to a portfolio.

Does Bitcoin or gold protect against inflation better?

When comparing Bitcoin and gold as inflation hedges, experts point to a number of dimensions on which to compare them: their history, effectiveness, ease of access and other sources of demand for the asset itself.

History as an inflation hedge – How Bitcoin and gold compare

On the question of their history as inflation hedges, there's little question that gold has a strong background, while Bitcoin has just over a decade of existence to justify itself.

"Gold has thousands of years of established history as a resolute store of value," says Fergus Hodgson, director of Econ Americas, roving editor of Gold Newsletter. "Over an extended period, it is about the safest inflation hedge you can get."

In contrast, cryptocurrency is a relative newcomer to global asset markets. Hodgson is doubtful of the cryptocurrency's long-term viability.

"Its future as a store of value is precarious," he says. "In my assessment, central bank digital currencies and altcoins will challenge Bitcoin's value proposition as a medium of exchange."

There is also the potential for the creation of a U.S. central-bank digital currency.

Effectiveness as an inflation hedge – How Bitcoin and gold compare

The lack of longevity raises serious questions about Bitcoin's ability to be an effective hedge against inflation. Meanwhile, gold has long demonstrated its ability to act as a hedge, many experts say.

"There's really no historical data on Bitcoin as an inflation hedge," says Adam Perlaky, senior analyst, World Gold Council. "There's effectively been no periods of high inflation during Bitcoin's existence. There's no data to back it up."

Perlaky emphasizes, however, that the lack of data doesn't mean Bitcoin couldn't become an inflation hedge but rather that there's no demonstration of that potential so far.

In contrast, he says that "there is evidence that gold is an inflation hedge and it's one of the reasons that investors buy gold" and that gold has done well in periods of high inflation.

Chris Kline, COO and co-founder of Bitcoin IRA, a firm that allows individual investors to purchase cryptocurrencies in a self-directed IRA, points to Bitcoin's potential to act as a defense against the money printing of central banks.

"Bitcoin has a finite supply," he says. "The government has been printing unprecedented amounts of money since 2008, and it is starting to have an impact on the wider economy. That manipulation cannot be manufactured in the same way since Bitcoin is limited to only 21 million coins, providing an alternative to the fiat money system."

"Now that real estate prices are off the charts and gold is inaccessible to the average American, crypto has become part of that inflationary hedge mix," Kline says.

But Robert R. Johnson, professor of Finance at Creighton University is more emphatic about the inability of Bitcoin to be an inflation hedge.

"One cannot invest in the wide array of cryptocurrencies, one can only speculate," Johnson says. "There is no rational way to determine the value of Bitcoin or any of the other various cryptocurrencies as one can't apply the tools of traditional finance to arrive at the intrinsic value (or true value) of the supposed asset."

Ease of access – How Bitcoin and gold compare

Both Bitcoin and gold are relatively easy to purchase and dispose of, especially since there are ready markets for both. But gold has the edge because of more established ways of trading it.

Gold might be relatively easier to invest in, given the wide array of ways to do it, including purchasing actual physical gold, buying ETFs that own physical gold or gold companies, as well as trading futures. Investors have a number of ways to take an interest in gold, depending on what their intent is. Many of these ways involve exchange-traded products such as stocks and ETFs, making it easy and cheap for investors to access their investment.

For those looking to buy physical gold, however, Bitcoin IRA's Kline warns about the "storage, shipping, and security logistics requirements" that come with this kind of gold investment.

Traders can purchase Bitcoin through crypto exchanges and now through traditional brokers, if they don't mind the broker having custody of the cryptocurrency. Those who insist on taking custody of their coins will want to work through an exchange or an intermediary that allows it.

In early 2024, the Securities and Exchange Commission approved the applications of several spot Bitcoin ETFs, giving traders a simple way to buy and sell the cryptocurrency using a familiar structure. The funds have attracted billions in assets in the first months of trading.

In terms of costs, Bitcoin may be cheaper sometimes. Traders can pay one-off commissions to own Bitcoin. In contrast, those buying gold ETFs may pay no commission but pay an ongoing expense ratio that's a percentage of the total investment. So if this kind of gold investment is held long enough, it could cost more than the Bitcoin commission, depending on exactly how much that commission cost. Frequent trading, however, can make commissions add up quickly.

Other sources of demand for Bitcoin and gold

Those looking to use Bitcoin or gold as an inflation hedge should also understand other sources of demand that can support the prices of these assets.

Gold has many use cases, including industrial and electronic applications, jewelry, medical applications and, of course, it's often purchased by central banks as a store of value.

"Understanding trends besides investment is important, because the multifaceted nature of demand is a unique attribute of gold and a key reason why it's an effective strategic component of portfolios," says Perlaky, from the World Gold Council.

In contrast, Bitcoin's utility is based entirely in its ability to be traded for other things, including traditional currency. So if Bitcoin can't be used to purchase things or if people can't trade it to others who value Bitcoin in this way, it's effectively worthless.

"Bitcoin is a purely speculative asset with some limited ability as a medium of exchange," Creighton University's Johnson says.

"Bitcoin has enjoyed first-mover advantage among cryptocurrencies, but its use case is weak," Econ Americas' Hodgson says. "Its intrinsic value was supposed to be its convenience as a medium of exchange, but even proponents now shy away from asserting that and try to brand it as digital gold."

Bottom line

Though gold may be a better hedge against inflation than Bitcoin, could traders at least use Bitcoin as a hedge against a volatile stock market? Even that seems dubious.

"We do have historical evidence as to how cryptos have behaved during systemic market selloffs," Perlaky says. Crypto behaves more like a risky asset, more like tech stocks or momentum stocks.

That kind of correlation makes Bitcoin a poor hedge for stocks, at least so far.