OPPORTUNITIES AND RISKS OF INVESTING IN CRYPTOCURRENCIES

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The article is devoted to highlighting and defining the nature of cryptocurrencies. We will go into the details and latest trends regarding cryptocurrencies, with directing the potential risks and opportunities of investing in cryptocurrencies.

What is cryptocurrency? Cryptocurrency – is a digital asset connected to blockchain network. Blockchain – is a network, which keep track of transactions behind several levels of cybersecurity. There are many different types of cryptocurrencies. For example, some types of cryptocurrencies are programed to function as a digital currencies and long-term stores of value. Others offer extra features such as smart contracts (Smart contracts are programs written on the blockchain that self-execute when certain conditions are met. They use code to define and enforce the rules of the contract. Once a smart contract is deployed, it runs autonomously, and there's no need for an intermediary to ensure that the contract is fulfilled.) and decentralized computing platforms, which facilitate advanced products such as non-fungible tokens (NFTs - An NFT is a token built and managed on a blockchain (most frequently on ETHEREUM that represents ownership of an asset. So, most NFTs require payment in ETHEREUM or the other crypto blockchain where they're built.) and decentralized finance apps.

BITCOIN (BTC) is the leading name in the value-store category. For smart contracts, most users and developers rely on ETHEREUM (ETH). The two are the most substantial cryptocurrency networks today. Thousands of smaller and newer cryptocurrencies exist, and even the largest names in this ever-expanding group are known as ALTCOINS (alternative coins) is a term used to describe all cryptocurrencies other than BITCOIN).

While cryptocurrencies can be tempting due to their potential for quick profits and modernity, they're also very risky in terms of financial security [1]. Before investing in this exciting but potentially dangerous area, it's important to understand the all-probable risks involved.

EFFECT OF ROLLER COASTER  
Cryptocurrencies can be like a roller coaster. Their value might shoot up one day, but then crash down the next. This is not a good investment for someone who gets scared easily by ups and downs in the market. The price changes are even more dramatic compared to regular stocks [2].

UNCLEAR VALUATION
Unlike stocks, cryptocurrencies don't have clear reasons for their value. When you buy a stock, you're buying a piece of a real company with sales, profits, and growth potential. Cryptocurrencies often lack this connection to a real-world business. Some might be used in future financial systems, but even then, their long-term value is uncertain. There's no clear way to judge a cryptocurrency's true worth, which makes it risky for investors. Critics even compare cryptocurrencies to historical bubbles like the tulipmania (Tulipmania took hold of the Netherlands in the 1600s and is widely viewed as the first financial asset bubble. A bubble is a significant increase in an asset's price that is not reflected in its value. The price increases because people think they can sell the asset for a profit, not because it's actually valuable.), where prices soared based on hype rather than any real value. With crypto, it can be hard to see anything more than computer code with a price tag.

RISK OF BEING HACKED

While hacking the entire blockchain network behind a big cryptocurrency is difficult, it's still a risk. The bigger and more established the cryptocurrency, the less likely this is to happen. However, the bigger danger comes from hacks on cryptocurrency exchanges. These are the platforms where you buy and sell crypto, and they can be vulnerable to cyberattacks. This is why you often hear about "crypto hacks" in the news - they're usually targeting these exchanges where people store their cryptocurrency.

LACK OF REGULATIONS

Cryptocurrency is the wild west of finance right now. Governments are all over the map when it comes to how to handle it. Some countries, like El Salvador, have embraced it completely, while others, like China, have banned it altogether. Most countries are somewhere in between, trying to figure out how to regulate it. The big question is: how should cryptocurrencies be treated? Are they like regular money (like dollars) or more like stocks and bonds? This decision will affect how people can buy, sell, and use crypto, and how much tax they have to pay on it. There's no easy answer because different cryptocurrencies have different purposes. Some regulators might need to come up with different rules for different types of crypto. This lack of clear rules makes a lot of investors nervous, especially big financial institutions. Until governments figure out how to regulate crypto, many people will be hesitant to invest in it.

DECENTRALIZATION

One of the big draws of cryptocurrency is that it's decentralized. This means it doesn't rely on banks or other middlemen, which can make transactions faster and cheaper. Plus, the data is spread out across a network of computers, making it more secure.

But there's a downside to this decentralization. Because everyone has a say in how the system works, making changes can be slow and difficult. It can be hard to get everyone to agree on updates, even if they're necessary. There's also a risk of bad actors taking control of the network or manipulating the voting system.

LOST KEYS TO CRYPTO WALLETS

Your cryptocurrency is stored in a digital wallet. This can be on a trading platform, your phone, or even a special device. The problem is, if you lose your password or the device itself, your crypto is gone. Unlike a
bank, there's no way to get it back [6]. Computers can't help you recover lost fortunes, but a friendly banker might!

On the other hand, we should not forget that “Without a risk – you are not going to drink a champagne”. So, there are also plethora of benefits investing in cryptocurrencies.

**EXPONENTIAL GROWTH POTENTIAL.** Unlike traditional investment options like stocks and bonds, cryptocurrencies boast a history of explosive growth. Take Bitcoin, the most well-known cryptocurrency. From its humble beginnings trading for mere cents in 2009, it skyrocketed to a peak of over $60,000 per coin in 2021 [7]. While past performance doesn't guarantee future results, such dramatic increases paint a picture of the transformative potential cryptocurrencies hold. This rapid appreciation has the potential to significantly grow an investor's wealth in a relatively short timeframe, a prospect that traditional investment vehicles often struggle to match.

**PORTFOLIO DIVERSIFICATION AND RISK MITIGATION**
A well-diversified portfolio is a cornerstone of any sound investment strategy. Cryptocurrencies, with their distinct price movements compared to stocks and bonds, offer a way to hedge against market fluctuations [8]. By including a strategic allocation of cryptocurrencies in your portfolio, you can potentially mitigate overall risk. In simpler terms, if the stock market takes a downturn, cryptocurrencies might not follow suit, protecting your investments from a widespread market correction. This diversification can provide greater peace of mind and potentially smoother returns over time.

**DECENTRALIZATION AND FREEDOM FROM CONTROL**
Unlike traditional financial systems controlled by centralized institutions like banks and governments, cryptocurrencies operate on a decentralized network. This means no single entity has the power to manipulate the market or restrict transactions [9]. This empowers investors with greater control over their assets and eliminates the potential for bureaucratic hurdles or limitations imposed by traditional financial institutions. Transactions are recorded on a transparent and secure public ledger (blockchain), fostering trust and reducing the risk of human error or fraud.

**EMERGING TECHNOLOGY AND FUTURE POTENTIAL**
Investing in cryptocurrency goes beyond just chasing immediate profits. It's a chance to be a part of a groundbreaking technological revolution [10]. Blockchain technology, the backbone of cryptocurrencies, has the potential to disrupt various industries beyond finance. By investing in crypto, you're not just buying a digital asset, you're potentially gaining exposure to a transformative technology that could shape the future of finance, data security, and more.

**ACCESSIBILITY AND LOWER BARRIERS TO ENTRY**
Compared to traditional investments that often require significant capital or involve complex investment vehicles, cryptocurrencies offer a lower barrier to entry. With the rise of user-friendly cryptocurrency exchanges and digital wallets, anyone with an internet connection can potentially participate in the crypto market. This accessibility opens doors for a wider range of investors, allowing them to participate in a previously exclusive financial landscape [11].
In conclusion, the decision to invest in cryptocurrency should not be taken without analysis, and investors, who are willing to invest their financial resources in cryptocurrencies, should be aware of the potential benefits and risks associated with this type of investment. Ultimately, investors must weigh their personal risk tolerance and financial goals when considering investing in cryptocurrency.

*Used sources:*


**STATA DASTURIDAN Foydalanib bir nechta omillarning mahsulot ishlab chiqarish hajmiga ta’sirini tahlil qilish**

*Rustamova Mexrigiyo*

TDIU tayanch doktoranti
Ekonometrika va statistika

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