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Investing in Cryptocurrencies – Case Study of Malaysia Market

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***Abstract*: The volatility of cryptocurrencies will play a role in the decision of investors over whether to invest in it. When it comes to investing in cryptocurrencies, avoiding falling prey to the hype is one of the most difficult challenges that investors face. The purpose of study is to investigate the risk of cryptocurrency that will be faced by investors while incorporating trust as an independent variable. Cross-sectional approach is used in this research and it is a study that involves analysing population information at a specific point in time.**

***Keywords*: cryptocurrency, investor risk, investment.**

1. Introduction

The term "cryptocurrency" refers to a form of digital currency that has recently acquired appeal among both retail and institutional investors. The volatile and unpredictable nature of cryptocurrencies has also been a recurrent topic of discussion among experts, who have regularly pointed this out to investors. This has been an issue that has been brought up in a number of different contexts. Research is absolutely necessary if you have chosen to put your money into the cryptocurrency market, just as it is with any other kind of investment. The market for digital currencies or cryptocurrencies is unpredictable, and the volatility of the market is something that we are unable to forecast; as a result, it will present certain dangers to investors. The market for digital currencies or cryptocurrencies is unpredictable. This is the problem that the investigation that is currently being carried out as part of this research wants to look at more thoroughly. Due to the large number of investors who have an interest in cryptocurrencies, the legal ramifications of cryptocurrencies and the technologies behind them are becoming an increasingly relevant topic as a direct result of the growing demand for these items. This occurs as a result of an increase in the demand for these products.

Central banks, taxing agencies, and regulatory organisations all across the world are working together to better understand the fundamentals of digital currencies and the role they play in the economy. When purchasing and selling cryptocurrencies, private investors face considerable legal dangers, despite the fact that cryptocurrency investments have the potential to generate significant profits (Reiff, N. 2022). Investors have a vested interest in understanding the potential downsides of cryptocurrencies since, in the context of this "money game," they are gambling with their own funds in the hopes of increasing those funds through their investments. There hasn't been much in the way of regulation of cryptocurrency up until this point. But this is rapidly changing on a worldwide scale because to concerns about money laundering, greater consumer involvement, and the growing integration of cryptocurrencies with the conventional banking industry and the wider financial system (Simmons 2018).

The recent and ongoing significant price changes of cryptocurrencies illustrate why investing in them is a high-risk endeavour. Both cryptocurrencies and the stock market saw a downward trend in the second half of 2021 as a direct result of the depreciation of highly valued growth stocks. In 2021, Bitcoin reached its all-time high, which was approximately $47,300 at the time. In the space of half a year, there is a drop and because of this volatility and the long-standing worries over the potential for cryptocurrencies to be used to assist in money laundering, authorities around the world are currently debating whether or not to implement stricter regulations around cryptocurrencies. The bulk of court cases to date involving cryptocurrencies have included either fraud and breach of contract insolvency. On the other hand, it is a reasonable assumption to make that the incidence of legal challenges will increase in tandem with the growing prevalence of the use of cryptocurrencies. The notion that the public ledger and bitcoin units are in some way exempt from the jurisdiction of the government and the legal system is one that is commonly repeated in the cryptocurrency. The impact of this, prospective investors who want to put their money into the market need to proceed with extreme caution and conduct extensive background study before doing so.

Despite the fact that cryptocurrencies are riskier than regular equities, you don't necessarily need to avoid them. It's important to invest prudently. To choose the best cryptocurrency for your portfolio, do some research on cryptocurrency exchanges and other coins first. And be certain that your cryptocurrency

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investments are a small portion of your overall investing portfolio (Backman, M. 2021). Despite the fact that investing in cryptocurrencies is risky, the returns are huge. We need to conduct more research and gather more data before we start investing in cryptocurrencies.

2. Literature

A. Risk of Cryptocurrency

According to Haq et al., 2021, cryptocurrencies have a range of relationship patterns with national EPU. Each nation possesses a unique potential for risk mitigation. The reason why there are various connection patterns is because EPU is dependent on the policies and decisions made by regulatory bodies in a particular nation. This is the reason why there are distinct correlation patterns. Moreover, to manage the volatility of stock markets and the uncertainty of economic policy in several economies, heterogeneous EPU necessitates the application of heterogeneous solutions. Aside from having a negative impact on the performance of hedging and diversification against each economy, the various protocol and management of currencies in the crypto market also presents a challenge. Diverse fields of study are beneficial to a range of professions, including those of investors, legislators, fund managers, and portfolio managers.

B. Relationship between the Volatility and an Investor

According to Yen and Cheng's definition (2021), an increase in the EPU will give investors the impression that the market conditions of the cryptocurrency are getting worse. They could relocate the money that they have invested in the bitcoin market to other financial marketplaces. This cash outflow will make the cryptocurrency market less liquid, which will in turn make future price fluctuations more extreme. Additionally, there are many different impacts taking place at the same time, making it difficult to make accurate predictions. According to Liew et al.'s (2019), the market for larger cryptocurrencies with lower volatility may be more predictable than the market for smaller cryptocurrencies with higher volatility.

Aside from that, the total volatility connectedness index is a partial reflection of the stability of the entire cryptocurrency market in the sense that it demonstrates an upward trend when cryptocurrency markets encounter unpredictable events or suffer losses (Yi et al., 2018). This is because the index displays an upward trend when cryptocurrency markets experience unforeseen events or suffer losses.

Low volatility over short time horizons is still likely to be followed by low volatility over long time horizons, but high volatility over short time horizons is likely to be followed by low volatility over long time horizons. This is because low volatility over short time horizons tends to be followed by high volatility over short time horizons. This is a significant finding because it suggests that a spike in high-frequency volatility is not likely to result in a corresponding spike in low-frequency volatility (Gradojevic & Tsiakas, 2021). This finding is noteworthy because it suggests that high-frequency volatility spikes do not generate low-frequency volatility spikes.

C. Relationship between the Lack of Regulations and an Investor

According to research carried out by Feinstein and Werbach (2020), the amount of global cryptocurrency trades should not be increased. It is possible that, from a public policy perspective, a decrease in such activity might be desirable. If government can stifle market development, it may be possible to forestall not only positive developments like innovation and capital formation, but also negative ones like fraudulent activity, regulatory arbitrage, financial crime, market manipulation, and other forms of abuse. Regulators will need to decide as to whether the trading of cryptocurrencies falls on the positive or negative side of the ledger. A revolutionary approach to conducting financial operations and exchanging money is represented by cryptocurrencies like bitcoin. However, the percentage of the population that uses them is still quite low. According to Dabbous et al.'s 2022, countries that are currently experiencing financial turmoil and are characterized by a high level of risk may find that adopting cryptocurrencies presents them with opportunity to avert disasters.

D. Relationship between the Market Risks and an Investor

This study significantly adds to the existing body of knowledge on consumer behavior research, as stated by Sukumaran et al. (2022). This is accomplished through the investigation of the perspectives of retail investors about perceived risk and perceived value. The purpose of this study was to investigate, in addition to perspectives on risk and value, the influence that demographic characteristics have on Malaysian investors' adoption of cryptocurrency. Arsi et al. (2021) provided evidence of strong risk contagion across large-cap cryptocurrencies to back up their claim that this risk is warranted when compared to the danger posed by fiat currencies. Due to the pandemic caused by COVID-19, major cryptocurrencies have been significantly impacted, and they have lost their ability to hedge and hedge. Angerer et al. (2021) emphasized the primary possible hazards of the development of cryptocurrencies are identified as key risks by those who are opposed to the evolution of cryptocurrencies. These risks include cybercriminal activity, worries regarding volatility and liquidity, and the unknown destabilizing impact on economies around the world.

E. Relationship between the Tax-Based Concerns and an Investor

Yerel & Sahin (2018) mention that, worldwide tax information exchange agreements have caused tax havens to fall out of popularity as a technique of avoiding taxes. As a result, investors' go-to option of choice has shifted to cryptocurrencies. For instance, there is evidence to imply that Bitcoin is used for the purpose of evading taxes. According to Meléndez (2013), tax evaders and money launderers regularly employ these methods to obscure the origins of financing as well as the recipient to whom it is meant. As a direct consequence of this, the legal framework governing cryptocurrency varies significantly between nations. There is a possibility that tax revenue may be lost as a result of the shortcomings of the current cryptocurrency taxation system, the absence of federal rules and regulations at the state level, and compliance challenges such as non-filing, underpayment, and underreporting of tax obligations. Promoting Bitcoin's helpful applications while simultaneously minimizing the cryptocurrency's downsides will be a challenge for regulators. Bitcoin can never be lost or stolen because it is not controlled by any one entity (Jurado, 2019).

3. Methodology

A. Research Design

The research issue will be solved with the use of quantitative research methods. Quantifying the issues required either the production of numerical data or the transformation of data into statistics that are informative. Quantitative research attempts to quantify behaviours, attitudes, points of view, and any other distinguishing characteristics in order to collect data from a broader population. The data that comes from quantitative research is better organised than other types of data because it is utilised to establish facts and figure out the study pattern. Surveys are typically the method that is applied to accumulate quantitative data.

The goal of this study is to explore the risk of cryptocurrencies that will be faced by investors while including trust as an independent variable. This research used a methodology known as cross-sectional analysis, which is a type of study that looks at data collected from a population at a particular instant in time. Because there is no need to maintain following up and only fewer resources are necessary to collect and understand the data, it is much easier, quicker, and cheaper to carry out. In addition, a self-administered questionnaire was employed to establish whether or not the investors' decision will be influenced by the risk associated with cryptocurrencies. In order to collect data, survey questionnaires are utilised since they summarise the responses of the entire population and make qualitative analysis easier. 2009; Preston. Because the focus of the research is on social attitudes and economic choices, it is suitable for investigations of both topics. (Park, A. 2006).

B. Target Respondents

Users of cryptocurrencies in Malaysia are the focus of this research. However, it would be impossible to communicate with every person in Malaysia who uses cryptocurrencies. The age range of respondents ranging from 22 to 30 years old will made up around 50% of the total. Therefore, we are focusing on those between the ages of 18 and 40 as our target respondents so that we can accurately represent the population.

C. Sample Size

Pedhazur (1973) suggested having a ratio of at least 15:1 between the number of respondents and the independent variable. It is necessary to collect a minimum of 120 responses for each of the study's 8 independent variables to guarantee that the results are accurate and representative. According to Hinkin (1998), the item-to-response ratios for factor analysis samples fall somewhere in the range of 1:4 to 1:10. The sample size for this study will be 250 respondents, which satisfies the standards for the sample size, which ranged from 120 to 350 respondents.

D. Data Collection Method

Interviews and questionnaires are the key tools utilised in the data collection process. Interviewing a large and diverse cross-section of a specific and well-defined target population is what's involved in conducting a survey. It is common practice to ask a large number of standardized questions and to classify the responses obtained into standardized response groups. People's opinions, attitudes, feelings, experiences, and perspectives are compiled with surveys, which are carried out to collect this information. According to Hox and Boeije (2005), survey research has the distinct advantage of being able to offer information that is both subjective and objective concerning a society.

4. Conclusion

This research will make a number of important contributions to modern society. First, it offers a comprehensive overview of the elements behind Bitcoin's pioneering role in the world of cryptocurrencies that influence its exchange rate. Bitcoin is a financial innovation that is enabled by information technology, and this modelling approach brings attention to the significance of combining economic theory with technological considerations when studying Bitcoin. In addition, the findings of this study will contribute to an expansion of our knowledge regarding the dynamics of the world of speculative trading as well as the foreign exchange market and provide a comprehensive overview of the factors that are important for fund managers to consider when assigning a value to cryptocurrencies. This study will provide direction for the incorporation of financial decision support systems into developing cryptocurrency markets.

It is recommended that investors examine Bitcoin as an alternative to gold as a means of hedging rather than simply holding gold. The results of our study will assuage the concerns of the public and lend support to the idea of viewing Bitcoin as "digital gold."

It gives the impression that the value of Bitcoin itself could have been established by simply gathering the required information. It is essential to keep a close eye on the activities of exchange markets, particularly as the economic significance of cryptocurrencies on a worldwide basis continues to grow. It could give the impression that the findings are skewed if only one factor is addressed at a time, our investigation will place an emphasis on the significance of considering the factors that influence the price of Bitcoin from a range of perspectives. For the purposes of monetary policy administered by central banks, having a solid understanding of the factors that influence Bitcoin's price is essential.

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