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Bitcoin Is Falling Fast, Losing More Than Half Its Value in Six Weeks

Selloff triggered by expanding regulatory crackdown on cryptocurrencies

A client at the electronic signboard of a cryptocurrency exchange in Seoul last month. South Korea is among the governments clamping down on digital currency trading, leading bitcoin's price to tumble. PHOTO: YONHAP NEWS/ZUMA PRESS

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Bitcoin plunged below $8,000 in intraday trading, extending its sharp rout since the start of the year in a selloff triggered by a widening regulatory crackdown on cryptocurrencies.

Late Friday in New York, bitcoin had recovered to $8,524, down 6.8% on the day after slipping below $7,700. That was the lowest level since November.

At its low point, the digital currency had fallen about 60% from an intraday record of $19,783 in December, according to research site CoinDesk Inc. That marks bitcoin's third biggest drop over the past five years. It fell 76% in the spring of 2013 and 85% from November 2013 to January 2015.

Number of days and percentage declines measuring bitcoin's drops from recent highs

Bitcoin's sharp swings illustrate just how much the digital currency remains a highly illiquid and volatile investment, particularly relative to stock, bond or currency markets.

In its nine-year history, it has had five peak-to-trough declines of more than 70% apiece, said Charlie Bilello, director of research at New York advisory firm Pension Partners. It fell 94% in less than a month in 2010—and again over a five-month stretch in 2011—but both times bounced back.

The recent decline in some regards feels more severe, as the magnitude of the price drop offers a dose of reality to new investors who poured money into cryptocurrencies during last year's rally. Many were drawn to the prospect of investing in currencies outside the control of central banks and governments, but now are having to succumb to market forces.

“Headlines for crypto have been mostly negative lately,” Thomas Lee, managing partner at New York-based Fundstrat Global Advisors, wrote in a note to clients. “It has been a terrible few weeks, but the fundamental positive story for crypto remains intact,” Mr. Lee added, referring to strong millennial interest in cryptocurrencies.

Robinhood, an online trading app that targets young people, this past week said more than one million people joined its wait list to trade cryptocurrencies after it announced plans to offer crypto trading services.

Meanwhile, some big banks are putting up roadblocks to buying bitcoin. JPMorgan Chase& Co., Citigroup Inc. and Bank of America Corp.said Friday that they no longer would allow credit-card holders to use the cards to buy bitcoin.

Regulatory scrutiny is behind much of the reason for bitcoin’s sudden fall. India is the latest country to crack down on the cryptocurrency market, following in the footsteps of China and South Korea. That pressure shows that governments are turning out to be much harder to circumvent than cryptocurrency advocates once thought.

Bitcoin fell 28% in January, its steepest monthly decline in three years.

In the bitcoin futures market, in which traders can bet on the ups or downs in the digital currency, hedge funds have shifted their positioning so bearish bets outnumber bullish ones by more than 3 to 1, according to data released Friday by the Commodity Futures Trading Commission. A week earlier, hedge funds had been biased toward the bullish side, the CFTC data show.

The current mood is a far cry from the end of last year, when cryptocurrency investment mania hit feverish levels. A popular bitcoin-services company called Coinbase briefly drew some 100,000 new customers a day around Thanksgiving, as bitcoin approached $10,000, up from under $1,000 at the start of 2017.

Prices more than doubled from there, peaking at $19,783.21 on Dec. 17. Then came a six-week slide.

Alex Beene, a 30-year-old from Nashville, Tenn., cashed out as the decline accelerated. He said he recently sold all his bitcoin, locking in a profit of over $60,000.

Mr. Beene, who writes children’s books and works in the Tennessee Department of Labor and Workforce Development, said he bought most of his bitcoin in September, before prices surged over 500% in the following months.

“You’d wake up to $5,000 to $10,000 gains on consecutive mornings,” he said. “It was like a money train that wouldn’t end, but you could tell [it] wasn’t going to last.”

It didn’t.

Mr. Beene did keep some litecoin—an alternative digital currency—in his portfolio. The price of litecoin is down more than 60% from a high in December, according to research site CoinMarketCap.

He called the weekslong selloff "a scary scenario."

Indian Finance Minister Arun Jaitley said Thursday that the government doesn't recognize digital money as legal tender and would "take all measures to eliminate use of these crypto-assets in financing illegitimate activities or as part of the payment system."

Vaibhav Parikh, partner at Indian law firm Nishith Desai Associates, said some people might have misinterpreted, wrongly concluding the government was banning bitcoin.

"The Indian government said it will only crack down on the use of bitcoin for illegal activities and not on the currency itself," he said.

Other governments, particularly in Asia, have taken stringent approaches to cryptocurrency.

South Korea is implementing new legislation aimed at cooling its red-hot bitcoin market. China has gone even further, ordering cryptocurrency exchanges to close and moving toward limiting bitcoin mining operations, in which new bitcoin are minted.

In Japan, $530 million of a cryptocurrency called NEM was swiped in a heist on the exchange Coincheck Inc.

In the U.S., regulators have warned of fraud in initial coin offerings, a new form of fundraising by which a company creates a new virtual coin or token and offers it for public sale. The offerings have attracted billions of dollars.

Even Facebook Inc. is cracking down. The social-media company said this past week that it would stop running ads promoting cryptocurrencies and initial coin offerings.

"I don't think this is the end of the line for cryptos, but I'm certainly not touching any until more stability can be reached," Mr. Beene said.

—AnnaMaria Andriotis and Alexander Osipovich contributed to this article.