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Bitcoin Halving: What is it and how will it affect retail investors

The Bitcoin halving which has occurred over the weekend will see the total number of Bitcoin that miners receive for validating transactions and securing the network cut to 450 from 900. This halving occurs every four years and is a fundamental principle of the Bitcoin blockchain.

The halving plays an integral role in the Bitcoin protocol, which ensures that there will only ever be 21 million Bitcoins in circulation and/or existence. Why only 21 million Bitcoins with a quadrennial halving event? Bitcoin's founder Satoshi Nakamoto never specifically addressed the topic which would likely remain an elusive answer. However, industry experts have linked the halving events and cap on the number of Bitcoin to the cryptocurrency's goal to combat inflation and maintain scarcity.

As the halving has taken place, let us break down what this halving could mean for retail investors. The halving event presents an extremely encouraging situation where the price of Bitcoin has traditionally spiked after a halving. This could provide a timely and opportune exit for speculative retail investors looking to capitalize on price surges post-halving. Additionally, increased attention and adoption of cryptocurrency as an investment asset could help to further prop up the price of Bitcoin. However, while the halving event might paint a rosy picture for retail investors, Bitcoin miners are mulling over a looming drop in profitability.

Miners play an integral role in the Bitcoin blockchain by supplying the trust that investors are not defrauded by transactions in a decentralized network. A drop in profits for these miners could potentially pose a huge problem as they are less incentivized to continue serving their role. The issues surrounding reward and payment will continue to loom large concern as falling rewards could potentially spark more serious problems for the entire Bitcoin ecosystem between now and the next halving in 2028.

The processing power required to secure Bitcoin expands energy and space which till now has been borne largely by the Bitcoin miners. However, with rising costs brought on by increased competition from AI coupled with decreasing margins, the centralisation of mining and security of the Bitcoin network could be seriously undermined if miners are not paid adequately and decide to drop out. One way which Bitcoin miners could look to to reduce costs would be efficient green energy projects.

While the idea of green energy projects in the cryptocurrency industry is not new, industry experts have suggested that these energy-efficient projects might not be enough to ensure there is a sustainable number of miners for the network. Instead, these experts have suggested that the only way to keep incentivizing Bitcoin miners would be to increase the transaction fees paid to miners to make up for the dip in mining payouts. Up until now, Bitcoin miners have not relied on transaction fees to cover computational costs which has largely been optional. However, with rising costs and uncertainty over the long-term sustainability of Bitcoin miners, transaction fees could be a necessary market evil that will keep both miners and retail investors happy, ensuring the continuity of the Bitcoin network in the long run.

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