Convenient Crypto Accessibility

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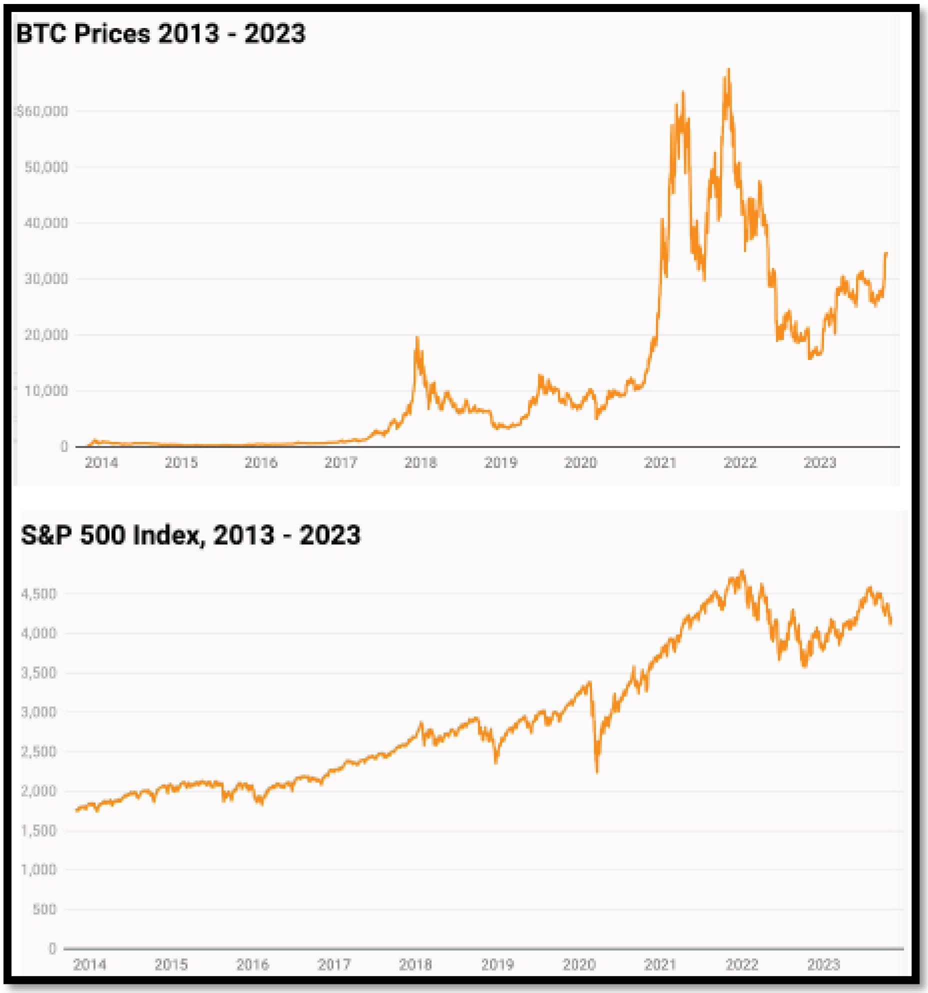
Are you looking to invest in a relatively new type of asset that is roughly four times as volatile as the S&P 500 index? Then you might be interested in some new ETFs that have come on the market.

The 11 new ETFs, some from venerable names like Franklin Templeton, Invesco, Fidelity, Blackrock, and iShares, and others from firms like Valkyrie and Bitwise, have one thing in common: they were set up to invest in a cryptocurrency called Bitcoin. They all put their investor money directly into the tokens, which are stored in digital wallets, which means their returns will mirror the bumpy price trajectory of Bitcoins in the crypto marketplace.

That can be a good thing or a bad thing, depending on how you view investing. The first thing to know is that the Bitcoin tokens, like all of the 1,000+ cryptocurrency tokens circulating on various exchanges, are not backed by any government or tangible asset, and the Securities and Exchange Commission seems to be bending over backward to tell the world that these are highly speculative investments.

The second thing is risk (often measured by volatility of returns) vs. return. Bitcoin fell more than 81% in 2022 and 72% in 2018. But it gained 160% in 2023 and 302% in 2020. If you were lucky enough to buy $100 worth of Bitcoin when the tokens were first issued in 2008, you would be a multi-millionaire today. If you had purchased in the middle of 2013, you would have enjoyed a $2,500% return by the end of 2023. Proponents will point out that Bitcoin has outperformed all other asset classes over various time periods. Detractors will note that Bitcoins exist only as blips in a computer network called the Blockchain, unlike tangible assets like gold or silver, unlike shares of actual companies like Apple and Amazon.



Who's right? Who knows. But the point of the ETFs is that they allow ordinary investors who wouldn't know how to exchange dollars for Bitcoin on the Coinbase exchange, who don't have the expertise to move Bitcoins to a cold wallet to protect them from poaching hackers in North Korea, can now invest in the asset in a relatively convenient manner. It's helpful to remember the SEC's characterization of the tokens; most investors would be wise to limit their Bitcoin exposure to 5% of the overall portfolio at most, 1% for a reasonably cautious investor, and 0% if you're not willing to invest in something that might (if the detractors are right) vaporize its value and generate a 100% loss.

One other note: Bitcoin holdings are taxed as if they are property, not as investments, under current IRS rules. The term 'currency' in cryptocurrency is a bit misleading in this regard; if the dollars in your purse or wallet gained in value, it would not be a taxable event when you spend them at the grocery store. But when you buy or sell Bitcoin, you are subject to capital gains taxes, just like stocks.

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