



Bitcoin to the Moon?

Bitcoin Basics, the ETF Landscape, and Investment Considerations

In the most recent episode of our **Amplified Wealth** podcast, Adam Armstrong and Austin Hagaman took a deep dive into Bitcoin, discussing the mining process, pricing, distribution of ownership, the upcoming halving event, and the host of newly available ETFs. From the time of their recording in early March, Bitcoin has risen from \$52k to \$73k and back to \$64k as of this writing.

This is hardly the first time a rapid increase in the price of Bitcoin (and other cryptocurrencies) has sparked a renewed wave of interest. Nevertheless, we thought publishing a companion article to the podcast might be prudent. What follows is not a comprehensive substitute for Adam and Austin's high-level discussion, but should it spark a deeper interest, we strongly encourage you to give them a listen.

In the realm of finance, few innovations have sparked as much intrigue and debate as Bitcoin. Emerging in 2009 from the shadows of the financial crisis, Bitcoin presented a radical new idea: a digital currency independent of any central authority, designed to be secure, anonymous, and finite in supply. The brainchild of the enigmatic Satoshi Nakamoto, whose real identity remains a mystery, Bitcoin's foundational technology, blockchain, proposed a decentralized system where transactions are recorded across multiple computers, making it virtually impossible to alter historical data. This not only offers a level of transparency and security unheard of in traditional financial systems but also introduced the concept of digital scarcity through its

capped supply of 21 million coins, challenging conventional notions of value and currency.

The Evolution of Bitcoin: From Obscurity to Mainstream

Bitcoin's journey from an obscure cryptographic experiment to a mainstream financial asset is a testament to its underlying principles and a growing disillusionment with traditional monetary systems. Initially embraced by tech enthusiasts and libertarians, Bitcoin's potential as a hedge against inflation and financial instability gradually attracted the attention of more mainstream investors. Its decentralized nature offered a form of what some consider "digital gold," providing a new avenue for portfolio diversification.

However, Bitcoin's path has been anything but smooth. Its association with illicit activities in the early days, due to the anonymity it offered, and its extreme price volatility have led to intense scrutiny and debate among regulators, investors, and the public. Despite these challenges, Bitcoin has seen a growing accep-

tance, with major financial institutions, corporations, and even some governments exploring its potential as an investment and a tool for economic innovation.

Investor Perspectives on Bitcoin

The investor’s dilemma with Bitcoin lies in its classification: is it a currency, a commodity, a speculative asset, or perhaps a new asset class altogether? Unlike traditional assets, Bitcoin’s value is not derived from physical properties or cash flows but from the collective belief in its utility and potential as a store of value and medium of exchange. This has led to divergent views among investors, with some heralding it as the future of money and others dismissing it as a speculative bubble.

A fascinating aspect of Bitcoin’s ecosystem is the revelation that the U.S. government, often seen as a potential adversary to decentralized digital currencies, owns one of the largest Bitcoin hoards with over 200,000 in possession. This stems from seizures related to criminal activities, highlighting Bitcoin’s complex relationship with legal and financial systems. For investors, this serves as a stark reminder of Bitcoin’s volatile legal and regulatory landscape, which can significantly impact its value and acceptance.

Bitcoin and the Traditional Financial World

As Bitcoin’s popularity grew, so did the interest from traditional financial institutions. Initially skeptical, many have started to explore Bitcoin’s potential, either

Bitcoin – Commodity, Collectible or Other?



	Gold	Bitcoin	Mickey Mantle Baseball Card
DURABLE	+	+	+
DIVISIBLE	-	+	-
FUNGIBLE	+	+	+
PORTABLE	-	+	+
VERIFIABLE	-	+	-
SCARCE	+	+	+
TRACK RECORD	+	-	-
TANGIBLE VALUE	+	-	-

Chart adapted from Fidelity

The Mining & Blockchain Process

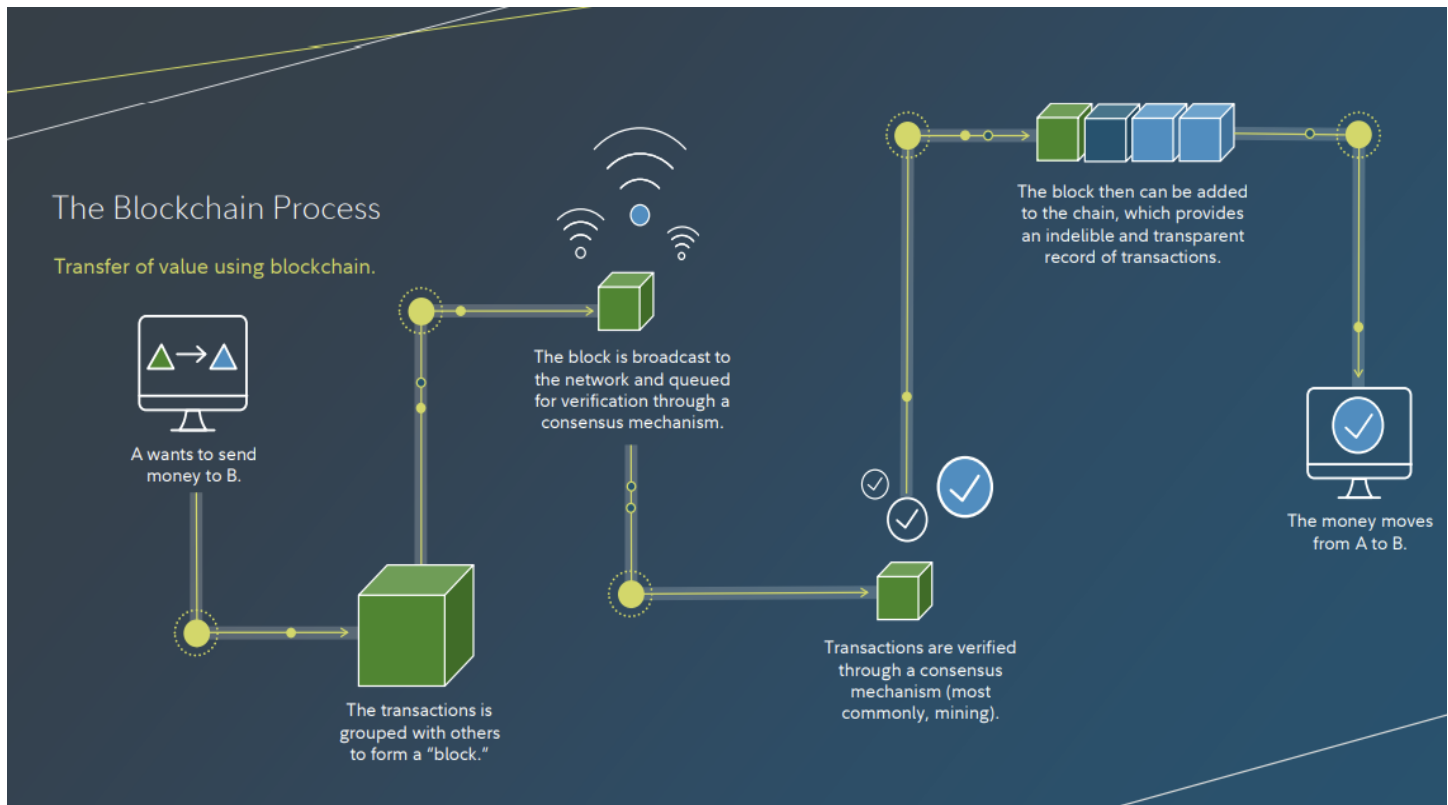


Chart courtesy of Fidelity

by offering cryptocurrency-related services or by investing directly in Bitcoin. This shift signifies a growing acknowledgment of digital currencies' potential to coexist with or challenge traditional financial systems. For investors, this mainstream acceptance serves as a double-edged sword: it provides legitimacy and potential stability to Bitcoin, but also introduces new dynamics that can influence its value and role in the broader financial ecosystem.

Technological Underpinnings and the Promise of Blockchain

At the heart of Bitcoin's allure is its underlying technology—blockchain. Far more than just a ledger for recording transactions, blockchain technology offers a new paradigm for data integrity, transparency, and security. By distributing the ledger across a network of computers, blockchain ensures that no single entity can control or alter historical data, making it incredibly resilient to fraud and corruption.

Bitcoin mining, the process through which new Bitcoins are created and transactions are verified, epitomizes the marriage of cryptography and economic incentives. Using powerful computers, miners solve complex mathematical problems to validate transactions and are rewarded with new Bitcoins. This secures the network and gradually introduces new coins into circulation in a process meticulously designed to mimic the scarcity and labor of mining precious metals.

However, the energy-intensive nature of mining has sparked environmental concerns, leading to debates about the sustainability of Bitcoin and similar cryptocurrencies. Innovations such as using renewable energy sources and more energy-efficient consensus mechanisms are being explored to address these concerns, highlighting the ongoing evolution of blockchain technology and its potential beyond cryptocurrencies.

Bitcoin's Price Dynamics: A Rollercoaster Ride

Understanding Bitcoin's price dynamics requires delving into its history of booms and busts, each illustrating the complex interplay of supply and demand, investor sentiment, and external influences. Bitcoin's limited supply—capped at 21 million—sets the stage for potential scarcity value akin to precious metals like gold. This scarcity is further accentuated by the halving events, which reduce the reward for mining new blocks by half approximately every four years, effectively slowing the rate of new Bitcoin creation and applying deflationary pressure.

The price of Bitcoin has been subject to dramatic fluctuations, driven by various factors:

- **Adoption and Utility:** Increases in adoption, whether for transactions, investment, or speculation, tend to drive the price up. Conversely, regulatory crackdowns or technological challenges can lead to declines.
- **Market Sentiment and Speculation:** Bitcoin's market is heavily influenced by investor sentiment, often amplified by media coverage and social media, leading to rapid price swings based on news, rumors, or even tweets from influential figures.
- **Macro-Economic Factors:** Global economic conditions, such as inflation rates, currency devaluation, and financial crises, can also impact Bitcoin's appeal as a hedge against traditional monetary systems, influencing its price.

Navigating Bitcoin's volatility requires a robust understanding of these dynamics and preparedness for the potential for significant drawdowns, which have historically followed its meteoric rises.

The aforementioned podcast dives deeper into some measurable the supply-side miner economics that may drive prices swings and the ensuing behavioral mania and capitulation events that follow which can be measured by realized gains on coins being transferred.

Bitcoin Supply and Mining Subsidy

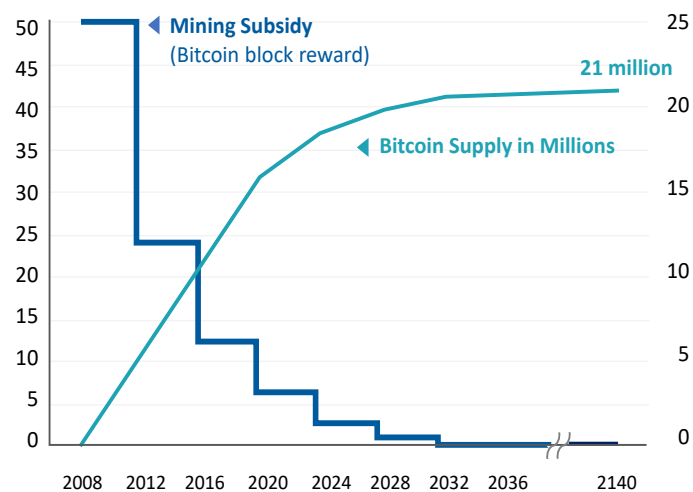


Chart courtesy of Fidelity

Investment Vehicles for Bitcoin: Expanding Accessibility

The evolution of investment vehicles for Bitcoin reflects its journey from a niche digital curiosity to a recognized financial asset. Initially, investors looking to gain exposure to Bitcoin had to navigate the complexities of buying and storing it directly, dealing with cryptographic keys and digital wallets. While empowering for some, this process presented significant barriers to entry for mainstream investors accustomed to traditional financial infrastructure.

The recent introduction of spot Bitcoin ETFs marked a significant milestone. These ETFs offer a more accessible route for investors to gain exposure to Bitcoin's price movements without the complexities of direct ownership or the high fees and significant tracking errors of vehicles like the Grayscale Bitcoin Trust (GBTC) prior to the conversion to an ETF. Spot ETFs, which hold actual Bitcoin or some which track its price through futures contracts, are traded on traditional stock exchanges, making them accessible to a broader audience of investors through standard brokerage accounts.

However, these investment vehicles come with their considerations:

- **Direct Ownership vs. ETFs:** While ETFs offer convenience, they may come with management

Bitcoin ETFs

ETF Symbol	Name	Total AUM	Fee*	Type	Bitcoin Custodian
GBTC	Grayscale Bitcoin Trust ETF	\$22.8B	1.50%	Spot	Coinbase Custody Trust Company LLC
IBIT	iShares Bitcoin Trust	\$5.2B	0.25%	Spot	Coinbase Custody Trust Company LLC
FBTC	Fidelity Wise Origin Bitcoin Fund	\$3.9B	0.25%	Spot	Fidelity Digital Asset Services
BITO	ProShares Bitcoin Strategy ETF	\$2.01B	0.95%	Futures	N/A
ARKB	ARK 21Shares Bitcoin ETF	\$1.1B	0.21%	Spot	Coinbase Custody Trust Company LLC
BITB	Bitwise Bitcoin ETF	\$931.0M	0.20%	Spot	Coinbase Custody Trust Company LLC
BTCO	Invesco Galaxy Bitcoin ETF	\$336.2M	0.25%	Spot	Coinbase Custody Trust Company LLC
HODL	VanEck Bitcoin Trust	\$175.7M	0.25%	Spot	Gemini
BRRR	The Valkyrie Bitcoin Fund	\$136.5M	0.25%	Spot	Coinbase Custody Trust Company LLC
EZBC	Franklin Bitcoin ETF	\$80.1M	0.19%	Spot	Coinbase Custody Trust Company LLC
BTCW	WisdomTree Bitcoin Fund	\$21.7M	0.25%	Spot	Coinbase Custody Trust Company LLC
DEFI	Hashdex Bitcoin Futures ETF	\$20.5M	0.90%	Futures	N/A

fees and potential tracking errors. Direct ownership of Bitcoin provides more control and avoids these fees but requires a higher level of technical understanding and responsibility for security.

- **Futures-Based vs. Spot ETFs:** Futures-based ETFs, which use Bitcoin futures contracts to track its price, can suffer from roll costs and potential deviations from the spot price of Bitcoin. Spot ETFs, holding actual Bitcoin, may offer closer tracking but are subject to the regulatory and security challenges of holding and safeguarding large amounts of cryptocurrency.

As the ecosystem around Bitcoin investment continues to evolve, investors have a growing array of options, each with its trade-offs. This highlights the need for due diligence and a clear understanding of the underlying risks and mechanics. It is worth noting that GBTC can get away with a higher fee since it has been in portfolios for years at this point. Older holders of GBTC must weigh up front costs of capital gains tax versus an ongoing higher annual fee.

Navigating the Bitcoin Investment Landscape

The landscape offers unprecedented opportunities and significant challenges for investors considering adding Bitcoin to their portfolios. The digital currency's potential for high returns, driven by its unique supply dynamics and growing acceptance, is counterbalanced by its susceptibility to volatile price swings and regulatory uncertainties. Consider the chart on the following page, which uses a logarithmic scale to map the percentage-basis price drawdowns of Bitcoin from new all-time highs.

Critical considerations for potential Bitcoin investors include:

- **Risk Tolerance and Time Horizon:** Given Bitcoin's volatility, investors must carefully assess their risk tolerance and investment time horizon. A long-term perspective may help weather the price fluctuations inherent in this nascent market if returns continue as they have.

- **Portfolio Diversification:** Bitcoin can offer diversification benefits due to its low correlation with traditional asset classes. However, its inclusion in a portfolio should be balanced against its risk profile and the investor's overall investment strategy.
- **Regulatory Landscape:** The regulatory environment for Bitcoin and other cryptocurrencies is evolving. Regulation changes, whether more stringent or more accommodating, can significantly impact Bitcoin's acceptance and value.
- **Technological and Security Considerations:** Investing in Bitcoin, mainly through direct ownership, requires understanding the underlying technology and best practices for securing digital assets.

Bitcoin Price Drawdown from ATH

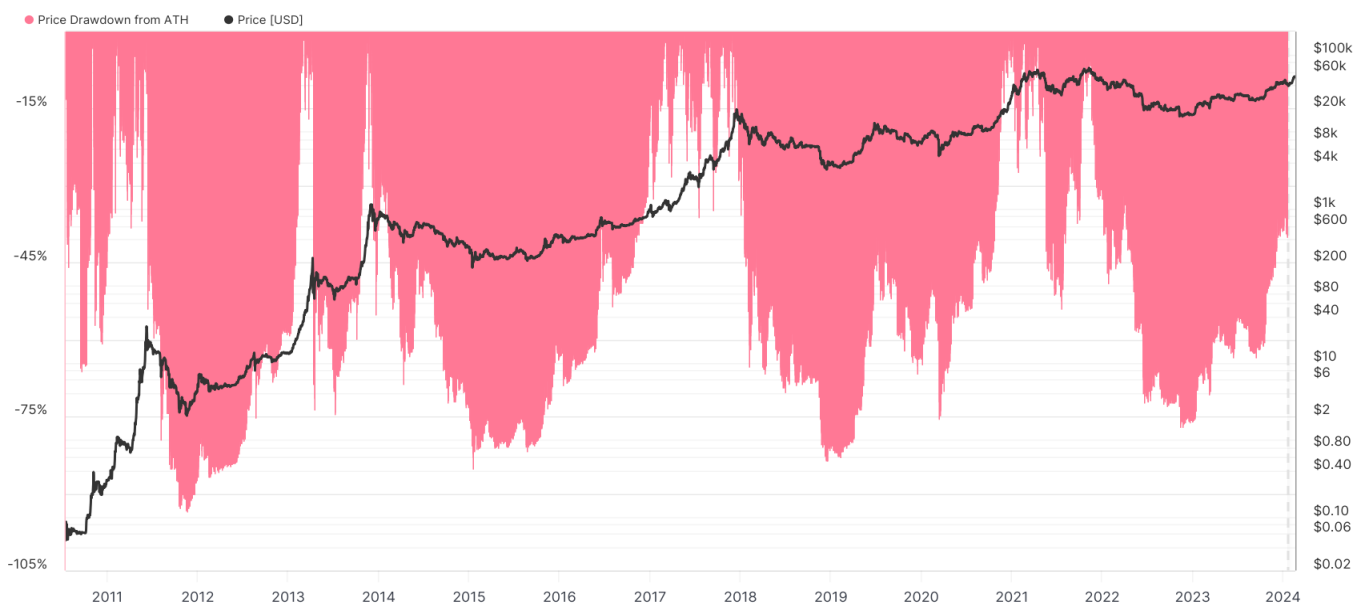


Chart courtesy of Glassnode

Concluding Thoughts: Bitcoin's Place in the Financial Future

As Bitcoin continues to carve out its place in the financial landscape, it embodies both the promise and the perils of digital currencies. Its journey from an obscure digital token to a topic of mainstream financial discourse reflects a broader reevaluation of the nature of money, value, and the mechanisms that underpin our economic systems.

For investors, Bitcoin presents an opportunity to participate in a potentially transformative financial innovation, but it also demands a careful consideration of its risks and complexities. Whether as a speculative asset, a hedge against traditional financial instability, or a harbinger of a more decentralized and digital financial future, Bitcoin's story is far from over, and its impact on the investment world will likely continue to evolve

in surprising and challenging ways.

As we stand on the precipice of this digital financial frontier, Bitcoin's journey underscores a fundamental truth: the future of finance may be uncertain, but it is undoubtedly digital.

At Withum Wealth, we remain dedicated to offering our clients an expansive investment universe. Our Investment Committee continues to monitor new and alternative investment vehicles throughout the year - and should we deem Bitcoin or other asset classes appropriate as part of clients' portfolios, we will incorporate into accounts. In the meantime should you have any questions or would like to discuss the pros and cons further, please reach out to your wealth advisor. ■

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