Investing in bitcoin – a safe investment?

Canaccord Genuity Wealth asks the question.

Bitcoin is the best known of the 1,800-odd cryptocurrencies. Its meteoric rise has drawn many investors, with some believing that the underlying blockchain technology (blockchain is a digital ledger in which transactions made in cryptocurrencies are recorded chronologically and publicly) could become one of the most powerful tools ever given to civilisation. But do investors understand the risks and does the underlying technology even matter?

Bitcoin investing - the risks

To us, any suitable investment requires a valuation methodology, safe custody and easy transferability. Bitcoin fails to meet these tests.

1. **Valuation:** bitcoin has no proper valuation method or underlying value. This is unlike equities which can be valued by their earnings or cash flow, bonds by yield, property by rental income and location and commodities by their industrial usage. There may be scarcity, because only a limited number of bitcoins is produced, but scarcity does not create value unless the product has an economic purpose. Should bitcoin be worth US$10,000, US$100, US$1m or 10 cents? There is no measurement to help make that decision.

2. **Safety:** other investments have custodians, registries, etc. to protect investors. With unregulated transferable cryptocurrencies such as bitcoin there is no central bank or public authority issuing or guaranteeing the asset. This is unlike central bank digital currencies (CBDCs) which are regulated. One astonishing statistic is that, at the time of writing, 20% of bitcoin has been lost, unrecoverable[1]. The private keys and digital wallets are inherently vulnerable, and intermediaries charge enormous amounts to deal with that basic safety issue.

3. **Transferability:** it takes a long time and huge efforts to buy or sell (particularly to sell) bitcoin. 'Mining' – where bitcoin transactions are digitally verified and added to the public 'blockchain' ledger – is highly time-consuming, whereas equities and bonds can be sold in a fraction of a second.

Regulation around bitcoin investing

It is no surprise that many governments, including South Korea, China and France are clamping down on cryptocurrencies such as bitcoin. And recent regulatory changes in the UK provide stark evidence as to the concerns for investors. The Financial Conduct Authority's near-total ban on cryptocurrency investment for UK retail investors shows that it is a matter of time before stronger restrictions are slapped on these assets in many parts of the world.

Bitcoin investment - the new gold?

Some adopters of bitcoin have heralded the asset as 'the new gold', suggesting it could be used as a defensive portion of a diversified portfolio. But gold has been around for thousands of years as a payment method and investment meaning there is some way of measuring its worth and the correlation with other asset classes. The extremely short history of crypto assets means this is impossible to do and the risk too high to warrant their inclusion in portfolios.

Theoretically, anything can go into a diversified portfolio (art, racehorses, timber) but most of these idiosyncratic assets have enough history to justify an analysis before placing them in a portfolio. Cryptoassets do not.

What is the outlook for cryptocurrencies?

Although cryptocurrencies seem to move up and down with risk appetite, their price graphs make the 17th-century tulip craze look like a triple-A rated government bond. More importantly, out of 1,800 outstanding cryptos plus any new cryptocurrencies issued in the future, are you confident you could pick the survivor?

Many governments and central banks have mentioned their desire to issue cryptocurrencies. It is therefore theoretically possible that such investments could be backed by a reputable country in the future, but until we can do due diligence on the terms of such cryptocurrency issuance and fully understand the motivation for governments doing this, investors may want to remain sceptical.

Blockchain may well be one of the technologies of the future (although it scores poorly environmentally, given the huge electricity consumption required for 'mining') but this alone doesn't warrant investing in bitcoin or other unregulated transferable cryptos for that matter, and there are countless other reasons not to.

For more information about CGWM's investment philosophy and outsourced investment solutions contact **Richard Burden – richard.burden@canaccord.com** or tel: **+44 (0)7624 499 590** or visit **our website**.

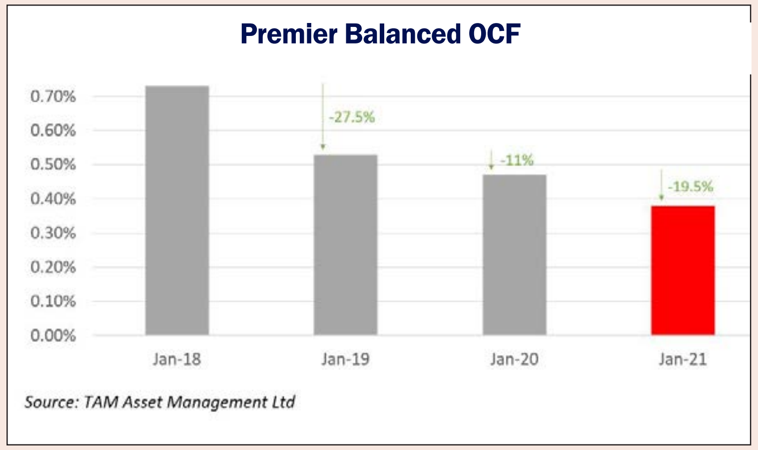
[1] *https://www.investopedia.com/ws/20-all-btc-lost-unrecoverable-study-shows/*

Another cost bites the dust

TAM Asset Management highlights fee reductions.

As we all know, the cost can be the deciding factor when it comes to a client choosing an investment.

Over the years, TAM has done its upmost to make that decision an easy one. How? Because of our continued efforts to cut costs for the end client, both in our management fees and the underlying OCFs of the funds selected for our model portfolios which can be seen below.



At the start of the year, we were pleased to announce a reduction in our mainstream investment portfolio AMC from 50 bps to 30 bps. This, together with the ongoing decrease in OCF charges, not only makes TAM one of the most attractive investment propositions available in the European market, it also makes TAM a fund of funds portfolio manager that can manage money for less than a 1% total charge.

As most retail fund classes are offered at 95 to 125 bps, this therefore means that the cost of buying a managed investment portfolio is now more or less equal to buying a retail fund.

The advantages to choosing an active investment portfolio far outweigh those for a passive portfolio, but one of the very few disadvantages to choosing an active portfolio has historically been the high price point. As you can see from the graph, such a disadvantage no longer applies, making an active investment portfolio the ever more attractive choice.

Gone are the days of fund picking for clients to save on costs, now IFAs can enjoy the solution of a well-established manager running a portfolio for the same cost, or even cheaper, than choosing the fund themselves.

And finally, we would like to remind readers that as a member of FEIFA, you can also enjoy a reduced AMC for our ESG investment portfolios of just 35 bps. To speak to us about our model portfolios and associated fees, please contact **Tom Worthington** at **tom.worthington@tameurope.com**