

Ask the Experts: Bitcoin

Q: Bitcoin has received a lot of attention lately from the financial media and investors. What is it, and what are some of the risks?

A: Many of our readers have noticed the fierce debate over Bitcoin recently. Is it an investment, digital gold, a scam, a network of computers, or even the future of currency? If youâ??re wondering what all the fuss is about, here is a brief introduction explaining what Bitcoin is and what it isnâ??t and detailing some of this emerging assetâ??s unique characteristics.

Bitcoin is a digital asset (sometimes called a *cryptocurrency*) supported by a peer-to-peer Internet-based ledger system. It was launched in 2009 by an individual or group known by the pseudonym Satoshi Nakamoto. Unlike printed currency or minted coins, Bitcoin is not created or maintained by a government. Whereas Bitcoin has been talked about as a currencyâ??to be used for buying and selling goods and servicesâ??today, it is thought of increasingly as an investment.

It is not a security. Bitcoin is an assetâ??like a direct investment in real estate, such as a home, or an investment in physical gold bars. Bitcoin is not an investment like a mutual fund or exchange-traded fund (ETF), both of which are regulated securities.

It is volatile. Over bitcoinâ??s history, its value has fluctuated wildly, with peak-to-trough drawdowns of greater than 50 percent in a single day. As speculation and confidence in bitcoin has ebbed and surged, this volatility has led to problems for people trying to make payments in bitcoins. At the beginning of 2017, one bitcoin was worth about $1,000. In March 2021, the price topped $60,000 for

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the first time. In between, bitcoin investors have been tested, over and over, by gut-wrenching price declines.

It is difficult to manage. The decentralized nature of the Bitcoin system makes it more challenging to follow the flow of money and for governmental regulators to get a handle on it. Major bitcoin exchanges located around the world have been subject to trade disruptions and the potential for increased regulatory scrutiny. Also, unlike credit card charges, transactions are irreversible.

It is not insured. While securities accounts at U.S. brokerage firms are insured by the Securities Investor Protection Corporation (SIPC), and bank accounts at U.S. banks are insured by the Federal Deposit Insurance Corporation (FDIC), bitcoins held in a digital wallet or exchange do not have similar protections.

It is vulnerable to security threats. Fraud, technical glitches, hackers, cyberattacks, or malware could cause bitcoin exchanges to stop operating or permanently shut down. Login information needed to access exchanges can be forgotten, lost, or stolen by hackers or phishers. Once access is denied, it cannot be restored, resulting in the loss of oneâ??s bitcoin account.

It may limit your recovery in the event of fraud or theft. If fraud or theft results in you losing bitcoins, you may have limited recovery options. Third-party wallet services, payment processors, and bitcoin exchanges that play important roles in the use of bitcoins may be unregulated or using developing technologies vulnerable to hacking.

U.S. Treasury Secretary Janet Yellen has called Bitcoin â??an extremely inefficient way of conducting transactions.â?• But she also said it makes sense for central banks to consider a digital dollar, which could lead to faster, safer, and cheaper paymentsâ??a statement that could open the door to regulations from the Federal Reserve, Treasury, or the U.S. Securities and Exchange Commission (SEC) in the coming years.

The question of whether Bitcoin has a place in your portfolio is not an easy one to answer. At this time, Bitcoin is speculative, but it may become more desirable in the future and may provide a means of portfolio diversification. Overall, the universe of Bitcoin as an investment vehicle is small but could expand as consumers, Wall Street, and technology firms build momentum toward mainstream acceptance.

If youâ??re considering investing in Bitcoin, be prepared to potentially lose muchâ??if not allâ??of your investment. Proceed with caution, educate yourself, know the risks involved, and work with your financial and tax advisors to determine whether Bitcoin makes sense for your portfolio. Depending on how comfortable you are with volatility, it may be wiser to stay on the sidelines than to be on the field.

Have questions? Need help? Call the CAPTRUST Advice Desk at 800.967.9948, or schedule an appointment with a retirement counselor today.

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