BITCOIN

Here's why some Americans are risking their life savings on a BitcoinIRA

MacKenzie Sigalos | 4 Hours Ago

Investors have been bullish on bitcoin all this year because of its rapid appreciation, but now, mom and pop buyers are also looking for a way to benefit from its price surge, despite the big risks.

BitcoinIRA launched in May of 2016, offering investors the tax-advantage of an Individual Retirement Account (IRA), plus the return of a high-risk, high-reward alternative asset class. It's similar in nature to other IRAs, except that instead of being funded by gold, cash, and bonds, it's backed by bitcoin.

And the company isn't just dealing in bitcoin anymore. As of April, it now includes rival cryptocurrency ether, and it plans to add two more coins to its roster by the end of the summer.

Chief Operating Officer Chris Kline says business couldn't be better. In its first year, he says BitcoinIRA was averaging around a million dollars of monthly inflows. In the last six months, they started doing that amount of business in a single day, he says. (CNBC did not independently verify the flows.)

Tsokur | Getty Images

Golden Bitcoin coins.

The popular cryptocurrency, bitcoin, may be highly volatile, but that didn't deter early adopter Roy Trimboli.

Roy calls himself '11,' since he's the proud owner of the eleventh-ever BitcoinIRA. He says he's been a conventional guy since 22, always maxing out his 401(k) and investing in blue chip mutual funds, but a year ago, he put 10 bitcoins into a BitcoinIRA. He says he's now up about 300 percent.

"It's a couple of generations worth of returns," he says.

'11' is now just one of over 700 individual account holders, including clients as young as 20-years-old.

But even with these kinds of returns, the fact remains, a speculative asset like bitcoin or ether comes with a certain degree of risk. Cryptocurrencies don't sleep. They're literally always moving, and if recent history is any indication, they're prone to seismic price moves in a very short space of time.

Campbell Harvey, a finance professor at Duke University, says this kind of volatility is brutal. "We're talking six times the volatility of the S&P 500 or five times the volatility of gold." He says it has to do with the fact that this is new technology, "and it's not easy to think about the fundamental value of a cryptocurrency."

That brutal volatility he's talking about is partly to do with the fact that these cryptocurrencies aren't collateralized. They're valuable, because people believe they're valuable. That's a big part of why Campbell says he's really worried about the BitcoinIRA.

"I'm worried that people will put too much of their retirement in an asset like this. It's a very small piece of the market right now and it's extremely volatile. To put this into your savings, you need to be willing to lose everything. If you put your retirement savings into the stock market, there is almost no chance that you're going to lose everything."

Risk aside, a BitcoinIRA itself isn't free. If you sink any less than $50,000 into your crypto nest egg, you'll face a hefty 15 percent set-up fee. But clients like Damon Smedley remain undeterred. He invested $330,000 into his BitcoinIRA last November.

"You look at where I was one year ago, versus where I'm at today, and it's quite a drastic difference," Smedley said.

It's not just the promise of a crazy return that's intrigued savers, it's also the fact that it's a hedge against the inflationary tendencies of mainstream currencies. Central banks in countries around the world have been printing cash to prop up their struggling economies, but that goes hand in hand with inflation.

In the U.S., gold, stocks, and bonds have long been the traditional hedge against inflation and the rising dollar. But now, bitcoin and ethereum offer an alternative way to beat inflation, though it's clearly not for the faint of heart.

One thing is for sure, despite its volatility, this new cryptocurrency asset class isn't going anywhere.

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