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Lester Coleman on 20/01/2017



As bitcoin has gained attention as an asset, more people are considering it as an investment for retirement. The Bitcoin IRA came into being last year, a tool that can provide direct ownership in [bitcoin](#). Jason Zweig, the author of The Wall Street Journal's "The Intelligent Investor," explored, in a recent [article](#), using bitcoin as a retirement investment and concluded that people should be wary on account of the cryptocurrency's volatility.

Had someone invested \$5,000 in bitcoin at the end of 2011, that amount would be worth just under \$1.2 million earlier this month when bitcoin reached its peak. In the past nine days, however, bitcoin lost more than 28%.

## Bitcoin's Investment Benefits

Among the experts Zweig interviewed, some pointed out that bitcoin's change in value is not tied to the same factors affecting more traditional assets.

Edmund C. Moy, the former director of the U.S. Mint and Bitcoin IRA's chief strategist, said all investors with retirement accounts should consider a bitcoin IRA since its movement is not correlated to the same factors affecting the U.S. dollar.

Because bitcoin is not part of the conventional financial system, it will not move up or down with the rest of an investment portfolio. For this reason, bitcoin is not extremely risky, according to Campbell Harvey, a Duke University finance professor.

Should the stock market crash, bitcoin has no reason to crash with it, Harvey said.  
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The correlation between bitcoin and other assets could even be negative should a geopolitical disaster raise bitcoin's demand, Harvey said.

## Volatility Still An Issue

Nevertheless, bitcoin remains wildly volatile less than a decade after it was conceived. The price still moves up and down as regulators threaten to regulate trading, hackers continue to steal bitcoins, and investors move in and out of the market.

Since January 2012, bitcoin has fallen at least 10% in a single day 28 times, Harvey noted. By comparison, the U.S. stock market has lost over 10% in one day only once since 1957 – on Oct. 19, 1987. Harvey said bitcoin is at least five times more volatile than U.S. stock market indexes.

Wade Pfau, an American College of Financial Services professor of retirement

income, said such volatility can be problematic for an IRA. Once a person retires, they go from saving to withdrawing money. Should one withdraw when the market value has taken a dive, the losses are locked in, making the money less likely to sustain itself through retirement.

Pfau, running a computer simulation for bitcoin's past returns, estimated there is a one in 10 chance an investor could withdraw at least 4% of the portfolio's value annually, which is a common standard for funding retirement.

Since bitcoin fluctuates so wildly, one cannot plan for a withdrawal rate of much more than zero percent, Pfau said. Should one withdraw money, there is a high chance of ending up with nothing.

Moy said bitcoin's volatility should decline as it becomes more widely used.

*Also read: [Bitcoin IRA launches new IRA calculator tool for investors](#)*

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Zweig concluded that at the present time, Bitcoin IRA is a costly bet. He noted the company charges a flat 15% set-up charge. This translates to \$750 for a \$5,000 investment to cover buying the bitcoins, placing them in a wallet and having a custodian keep them, according to Chris Kline, chief operating officer.

Taxes also need to be considered. Any increase in the value of assets in a traditional IRA accrues tax deferred, but it is taxed upon withdrawal at the ordinary income rate of up to around 40 percent. Non-IRA appreciation is taxed at capital gains rates, which are around 24% maximum.

Should bitcoin jump in value, the IRA investor could end up with a much bigger tax obligation than from a non-IRA account. Adam Chodorow, an Arizona State University tax law professor, said the difference could "swamp" any tax savings from the initial contribution deductions to the IRA.

This tax bite could be avoided by holding bitcoin in a Roth IRA, which offers tax-free withdrawals. Kline noted, however, that 70% of Bitcoin IRA investors have opted for the traditional IRA, not the Roth version.

Moy himself has opted for the traditional IRA. He said he has about 5% of his retirement savings in a bitcoin IRA as an insurance plan to offset losses on dollar-denominated assets.

Such assurance is speculation in its own right, according to Zweig. It could pay off, but it could also end in a complete loss.

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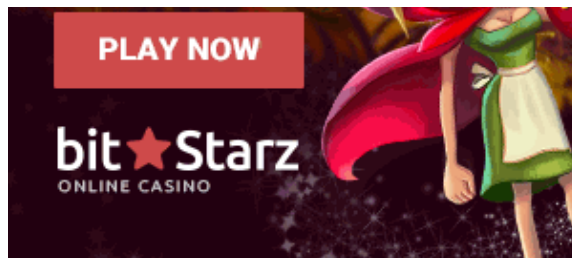
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