

Should You Add Bitcoin to Your Investment Portfolio? Experts Disagree

Bitcoin can be used as a diversification tool, but the risks shouldn't go unnoticed.

BY ANNIE PALMER

Dec 13, 2017 9:00 PM EST



Bitcoin's mind-boggling rise in recent months may have the average investor wondering how they can profit off of the crypto boom and possibly become the next bitcoin billionaire.

The cryptocurrency has skyrocketed over 2,000% in the past year but it's also extremely volatile. That's why many bitcoin experts suggest that investors limit their exposure to volatility by only holding a small amount in their portfolio.

Bitcoin's sky-high returns have been just as stunning as the cryptocurrency's volatility. Bitcoin had an average monthly return of 25% from September 2010 to September 2017, according to data researcher Nick Maggiulli.

Bitcoin is best treated as an alternative asset class, similar to real estate, private equity, derivatives or gold.

"I really believe that financial advisers should not be afraid of bitcoin being put into a portfolio," said Jack Tatar, a cryptocurrency advisor, author and angel investor. "I think the approach that people should take is that if you become educated about it and understand the risks, then I would say get into it."

Tatar added that he believes between 5% and 10% of a portfolio should be allocated to alternative assets. Social Capital CEO Chamath Palihapitiya, a former Facebook Inc. (**FB** - *Get Report*) executive who once owned 5% of all bitcoin, have suggested that people put 1% of their net worth in bitcoin.

Some argue that bitcoin is optimal for diversification because it's uncorrelated to the markets and can serve as a hedge against stock market moves.

"Bitcoin is pretty well uncoiled from other assets, so in that case it's a diversifier," said Campbell Harvey, a professor of finance at Duke University.

Still, Harvey cautions that there is almost no data that shows bitcoin being a reliable hedge to the stock market.

"If there is another crisis more significant where currencies are being challenged, you could argue that bitcoin would have hedging properties, but there's no data on this," Harvey added. "Bitcoin hasn't been through any kind of financial crisis. It's conjecture."

In small amounts, bitcoin can add value to an investor's portfolio. New bitcoin investment vehicles like the recently announced futures contracts, as well as the possibility of bitcoin exchange traded funds, could create new opportunities for investors to bet on bitcoin while being exposed to less volatility.

"The fact that [bitcoin is] going on the futures exchange, this will now allow people to really take a look at how bitcoin performs," Tatar said. "Ultimately it will strengthen the case for bitcoin as a new asset class. This is going to show people how robust and how sturdy this asset class is."

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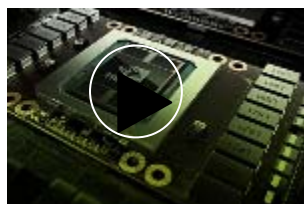
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