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MONEYBEAT | THE INTELLIGENT INVESTOR

Should You Put Bitcoin in Your IRA?

PHOTO: CHRISTOPHE VORLET

By **JASON ZWEIG**

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One of the world's hottest assets is also the newest way to invest for retirement. But it carries the most old-fashioned risk of all: losing buckets of money in the blink of an eye.

Since last June, Bitcoin IRA, a firm based in Sherman Oaks, Calif., has been offering Individual Retirement Accounts that can provide direct ownership interests in bitcoin, the so-called cryptocurrency. The firm's timing couldn't be better: Bitcoin's market value shot up 123% in 2016, and it nearly hit a record high less than two weeks ago. Had you put $5,000 in bitcoin at the end of 2011, you would have had just under $1.2 million at the currency's peak closing price earlier this month.

Edmund C. Moy, who was Director of the U.S. Mint from 2006 to 2011, is Bitcoin IRA's chief strategist. "Virtually all investors who have retirement accounts should take a look at bitcoin in an IRA," he says, "because its rise and fall aren't correlated to the same factors that affect the U.S. dollar."

Created by an anonymous coder and exchanged among a decentralized network of computers, bitcoin has no physical existence. By design, its supply is finite. No government or central bank can devalue the currency by printing more of it.

Because it isn't part of the conventional financial system, bitcoin is unlikely to move up and down in sync with rest of your portfolio. "So, in that sense, bitcoin isn't extremely risky," says Campbell Harvey, a finance professor at Duke University. "If the stock market crashes, there's no particular reason bitcoin would crash with it. The correlation could even be negative, if geopolitical disaster increases demand for bitcoin."

But, less than a decade after it began, the cryptocurrency remains wildly volatile. Its price jounces up and down as computer hackers steal bitcoins, regulators threaten to scrutinize trading, and buyers and sellers swarm into and out of the market.

In the past nine days alone, bitcoin is down more than 28%. Since January 2012, it has dropped at least 10% in a single day 38 times, says Prof. Harvey. The U.S. stock market, by contrast, has lost more than 10% in a day only once since 1957 (on Oct. 19, 1987). Bitcoin, says Prof. Harvey, is "at least five times more volatile than U.S. stock market indexes."

Bitcoin's "insane" volatility can make it problematic to hold in an IRA, says Wade Pfau, a professor of retirement income at the American College of Financial Services in Bryn Mawr, Pa.

That's because, after you retire, you go from saving into an IRA to withdrawing from it. And, if you withdraw when its market value has fallen sharply, you lock those losses in — making your money much less likely to last throughout retirement.

Running a computer simulation using bitcoin's past returns, Prof. Pfau estimates that there's only about a one-in-10 chance that you could withdraw at least 4% of the portfolio value annually — a common standard to fund a sustainable retirement.

Because bitcoin's price fluctuates so wildly, says Prof. Pfau, "one cannot plan for a withdrawal rate of much more than 0%." In other words, if you take anything out, you stand a high chance of ending up with nothing.

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Bitcoin's volatility should decline, predicts Mr. Moy: "As its use becomes more frequent in the future, that will help stabilize the price and reduce the volatility."

For now, a Bitcoin IRA is a costly bet. The firm charges a fat 15% upfront set-up charge. If you put up $5,000, you pay $750 in initial fees. That covers buying the bitcoins, securing them in a digital "wallet" and arranging for a custodian to hold them, says chief operating officer Chris Kline.

Taxes could trip you up, too.

In a traditional IRA, any growth in the value of the assets accrues tax-deferred but is taxable, when you withdraw it, at your ordinary-income rate (up to approximately 40%). Outside an IRA, such appreciation is taxable at capital-gain rates, which top out at nearly 24%.

So if Bitcoin does skyrocket, you can end up with a much larger tax bill in a traditional IRA than if you had wagered on it in a regular account. That difference, says Adam Chodorow, a professor of tax law at Arizona State University, "could swamp any tax savings you got from the initial deductions for contributing to the IRA."

You could avoid that unnecessary tax hit by holding bitcoin in a Roth IRA, from which withdrawals are tax free. However, reports Mr. Kline of Bitcoin IRA, approximately 70% of investors so far have chosen to open traditional, not Roth, IRAs.

They include Mr. Moy himself, who says he has about 5% of his retirement savings in a bitcoin traditional IRA as "an insurance plan to offset any losses on my dollar-denominated assets."

But such insurance is a speculation in its own right. It might pay off, but you could also lose it all.

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