FOCUS ON FUNDS

Bitcoin Trading Is About to Get Easier

By Avi Salzman
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Robinhood, a fast-growing stock-trading app geared toward millennials, is about to launch one-touch access to bitcoin and ethereum with no fees in several states. Which means one thing: Starting next month, trading some of the most novel and volatile assets on earth will be about as easy as ordering a toaster from Amazon.com (AMZN), which is either a thrilling development (freedom from the financial world!), or a terrifying one (novice investors embracing the mania).

The app will make trading digital coins look the same as buying stocks, ETFs and options, all of which are already available on Robinhood. While it may seem counterintuitive, trading cryptocurrencies aligns with the site’s mission, said CEO Baiju Bhatt in an interview.

“Our mission is to make the financial system in our country more accessible to the rest of us and to make it one that works for everyone and not just the wealthy people,” he said. “The reason we’re excited is because we think cryptocurrencies line up very directly with our mission. It’s a fundamental realignment of the way that money works. It puts the power much more in the hands of individual people as opposed to financial institutions.”

Robinhood will roll the app out in a handful of states—California, Massachusetts, Missouri, Montana, and New Hampshire—where it has been able to get a license. It’s attempting to get licenses for other states too. Unlike Robinhood Financial, Robinhood Crypto is not a member of FINRA and is not registered with the SEC, the company notes. “It is registered with FinCEN as a money services business. As such, Robinhood Crypto is subject to the requirements of the Bank Secrecy Act as well as the money transmitter laws of most U.S. states.” Robinhood makes money by collecting interest on its customers’ deposits and by offering a premium service that lets people trade on margin.

Crypto trading won’t immediately be available to everyone. There will be a waiting list, and invites will be sent to people “in good standing that have had accounts for a relatively long period of time,” Bhatt said. Robinhood will buy and sell the cryptocurrency on multiple exchanges and store it in both “cold storage” (offline hard drives) and “hot storage” (computers connected to the internet) for crypto that needs to be traded. People will be able to instantly transfer $1,000 or less in cryptocurrency, a competitive advantage for the service, given the delays that can occur on other platforms.

Trading will start rolling out in February, although the exact date has not been set. Although it will be limited to bitcoin and ethereum to start, Bhatt expects Robinhood will make other coins available eventually. Starting today, users can track 16 digital coins on the app, although they can’t buy them yet.

This is not entirely new of course. People can already buy digital coins relatively easy on exchanges such as Coinbase, the largest U.S. exchange with well over 10 million users. They can also buy it on exchanges outside the U.S. (crypto knows no borders). And digital payment company Square (SQ) has allowed some users to buy bitcoin. But Robinhood, which has more than 3 million accounts, will be the first large broker-dealer to offer direct cryptocurrency trading alongside stock and bond trading. Discount brokers like TD Ameritrade (AMTD) and E*Trade Financial (ETFC) have been allowing some people to trade
bitcoin futures, but not bitcoin itself. Large banks have stayed away, worried about regulatory issues and risk. And the SEC has put plans for bitcoin ETFs -- which would have made bitcoin trading more accessible to average investors -- on ice.

There's clearly an enormous appetite for this. Robinhood surveyed users about whether they should introduce crypto trading, and 96% said they were either "very likely" or extremely likely" to invest Bhatt said.

Bhatt isn't concerned about guiding novice investors in their decisions on these assets, instead focusing on "giving that power back to consumers."

"We think that's more up to them. In the absence of a company like us doing this, people are finding lots of different ways to do this and we do think we can do a much better job of this."

Campbell Harvey, a professor at Duke University's Fuqua School of Business who is an expert in blockchain technology, said he supports "anything that makes trading efficient and low-cost."

That doesn't mean it's not risky, of course.

"Given that it's easier, does that increase the risk that people will make investment mistakes? I guess the answer is yes," he said. "But it's yes for other things also. Anything that you make easier," Harvey declined to offer advice on how much crypto the average 20-something investor ought to have in his or her portfolio. But he said that investors need to accept that their portfolios can decline dramatically. "You have to be able to withstand a 90% drop."