4 things a financial planner wishes she could tell her clients about crypto before they invest

Anika Hedstrom  Aug 24, 2021, 11:43 AM
Many of my clients have questions about crypto, and I have four tips to consider before investing.

Start by understanding the landscape — digital wallets, regulations, and costs all play a role.

Know that crypto may not align with ethical investors' values, and you could lose everything easily.

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Cryptocurrencies have made a lot of headlines recently, from minting overnight millionaires to Elon Musk's tweets about bitcoin. Many people are left to wonder if — and how — they should be thinking about crypto.

The comedian John Oliver offers one way to think about it: "Everything you don't understand about money combined with everything you don't understand about computers."
Average stock market returns

With over 4,000 types of cryptocurrencies in circulation, it's hard to know where to start. Here are four things I'd love to tell every single one of my clients, ideally before they invest in any type of digital asset.

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1. Get a feel for the landscape
where the new norm is $0 trades and, in some cases, funds with no expense ratios. This has encouraged companies to find new ways to upcharge for access to cryptocurrencies.

Costs can vary, and may include trading fees, a spread, a percentage of the purchase price, and fees to transfer to/from your bank account. For example, Morgan Stanley charges a 3% placement fee, and Grayscale Bitcoin Trust charges a 2% annual fee.

In addition to costs, it’s also important to consider the accessibility and efficiency of the various crypto coins available.

**Digital wallets**

Unlike other types of assets, such as stocks or bonds, which are usually held with little concern via third-party custodians, crypto assets like bitcoin are not backed by an issuing authority. Instead, they're generally kept in an individual's digital wallet, accessible through a password.

In addition to identifying ways to securely store your crypto, you also need to be hyper vigilant in remembering and storing your password. Without a central authority responsible for bitcoin, there is no recourse for forgetting a password. Earlier this year, The New York Times reported that around 20% of bitcoin is inaccessible due to "stranded wallets."

**Regulation issues**

US regulators are just now beginning to consider their approach to cryptocurrencies, causing great uncertainty and speculation about the coins' future.

It’s likely there will be additional oversight in the US, as the $1 trillion infrastructure taxes already owed on capital gains from sales of digital assets.
Across the pond, the UK Financial Conduct Authority recently banned Binance, the world's largest cryptocurrency exchange, from operating in the country. Additionally, India is threatening to ban crypto, and several countries, including Turkey and Nigeria, already have.

New regulations are likely to contribute to crypto's volatility, as we saw earlier this summer with China.

2. If you're committed to socially responsible investing, crypto may not fit your values

Over the past few years, strategies that screen companies based on environmental, social, and governance (ESG) criteria have attracted "more money than ever," as reported by the Wall Street Journal.

If this type of investing appeals to you, purchasing cryptocurrencies may run counter to those values. Campbell Harvey, an economist and professor at Duke University, states, "Bitcoin in its current form is not good for the environment."

Financial expert Vitaliy Katsenelson notes, "Bitcoin is worse for the environment than internal combustion engine cars if you adjust for CO2 production in relation to societal utility. For the energy cost of processing one bitcoin, Visa can process 810,000 transactions, about 370 times faster."

3. You may already have some indirect exposure

If you invest in the stock market, you may unknowingly have some indirect exposure technology that records cryptocurrency transactions.
Some high-profile investors like Warren Buffett, who has publicly denounced cryptocurrencies, have called the technology behind it "important." Because the data on a blockchain cannot be modified, it's becoming increasingly attractive to payment processing, cybersecurity, and healthcare industries.

Many other large companies are exploring ways to implement the technology, and/or add cryptocurrencies to their balance sheets. Depending on your needs and goals, these indirect exposures may be enough.

4. Only 'invest' what you can afford to lose

price fluctuations are common, requiring those who dabble in crypto to have a healthy appetite for risk.
Beyond risk tolerance, would-be investors should ask themselves what role crypto plays in their total portfolio, and if bitcoin or other digital assets can help them better achieve their goals.

It’s also prudent to only invest what you can afford to lose. As popular as digital assets are, the total cryptocurrency market value represents only a tiny fraction — about 0.5% — relative to the global stock and bond market. Therefore, investing over 1% is aggressive, particularly for the average investor.

**Anika Hedstrom**

Anika Hedstrom, MBA, CFP, co-founded [Uplevel Wealth](https://www.businessinsider.com/personal-finance/things-to-know-about-crypto-before-you-invest-2021-8), a boutique wealth management firm serving women and professional families. She writes on motivational and behavioral aspects of financial planning, and has been featured in the Wall Street Journal,...

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