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NEWSLETTERS

How To Buy Bitcoin:

A Comparison Of 11 Ways

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BIO

Bill Baldwin graduated from Harvard with a degree in linguistics and applied math. He has been a journalist and Forbes Investment Strategies columnist for many years and was editor of *Forbes* magazine for 11 years. Tax law has been a frequent subject in his articles. He is, in fact, an IRS Enrolled Agent.

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What's the best way to invest in cryptocurrency? Here I survey 11 possible answers. They appear in descending order of how favorably I view them, but, as the details will make clear, your preferences may vary. Large, long-term investors will prefer #2 to #1.

1. Purpose Bitcoin ETF

This new exchange-traded fund, available on the Toronto exchange, has a 1.5% expense ratio. Since its launch last month, it has pulled in $1 billion (U.S.) of assets. **Sponsor Purpose Financial** is going places. It just landed a $53 million (Canadian) equity investment from the German financial giant Allianz Group.

The advantage to this product is that you can own it in a brokerage account, don't have to worry about lost keys and can exit easily at close to net asset value. The expense consists of 1% for management plus other costs (like custody) that are now 0.5%. Purpose promises to pass along savings in the latter to ETF holders.

If and when competition arrives in the form of U.S. bitcoin ETFs (which have not yet been authorized), Purpose will probably trim its 1% management fee. If it doesn't, you can just move your money.

You may encounter some difficulty acquiring shares. A Schwab spokesman says this firm won't permit Americans to buy foreign ETFs. Fidelity Investments, however, will, with a flat $19 commission for an online trade for a Canadian stock. You have the option of buying shares of this fund with U.S. dollars, saving yourself a currency conversion fee.

The ticker for the U.S. dollar-denominated shares at Fidelity is BTCC_U:CA. They were last seen trading at $10.17; you need 5,210 of them to have one coin.

2. Coinbase Pro

Coinbase, the leading U.S. crypto exchange, offers serious traders its Pro platform. The one-way commission is 0.5% for trades under $10,000. Above $50,000, your commission depends on whether you are a “taker,” someone who accepts an offer price already posted or a “maker,” someone who leaves a standing offer to buy at a certain price. At the five-coin level the commissions are, respectively, 0.2% and 0.1%.

Being a maker will not necessarily save you money. It involves giving away a put option with a duration of at least a few seconds, if not longer. In a volatile market you don’t want to be giving away too many puts. What to do with coins you’ve bought?

The first choice, and the only one if you want your coins accessible for trading, is to leave them on deposit at Coinbase. Risky? Not very; the company is immensely profitable. It recently went public on Nasdaq via the largest direct listing in history at $86 billion. But there is no Securities Investor Protection Corp. or Federal Deposit Insurance Corp., as there is at a broker or bank.

Next choice is to have your purchased coins transmitted to your own wallet. The risk with that is losing your keys or getting hacked.

Third choice is to make Coinbase the custodian of your coins. There they remain beyond the reach of Coinbase’s creditors and you don’t have to worry about keys or hackers. The fee for this service is 0.5% a year.

Coinbase Pro’s forbidding interface is inappropriate for novice traders.

3. Coinbase Amateur

This service, whose official moniker omits "amateur," is for beginners. The commission is 2% for any trade above $200. The platform is friendly. Choices for storage are the same as those for Pro customers.

4. River Financial

This firm, based, like Coinbase, in San Francisco, is appealing to investors who want to make periodic investments in bitcoin. For regular buys between $200 and $1,000 the commission is 1.2%.

One crypto expert I know uses River to put away $500 a week. Such dollar-cost averaging is a terrific strategy for any volatile asset that is destined to follow an upward trajectory over time. My friend seems to have foreknowledge of bitcoin's happy future. I don't have it. For safety he exports the coins to a wallet he maintains on some very secure hardware. Again, not me. I'd be afraid of spilling coffee on the thumb drive.

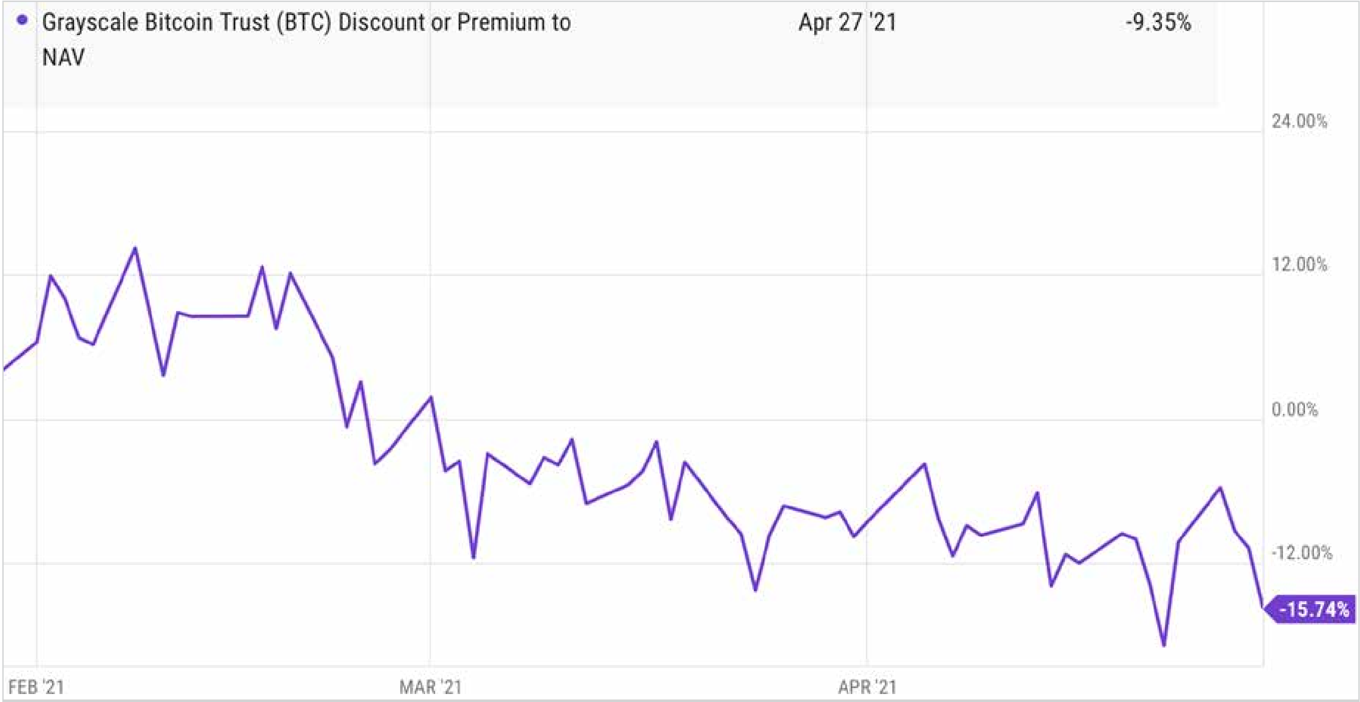
5. Grayscale Bitcoin Trust

This granddaddy of coin funds has $36 billion in hand. In a restricted sense, "fund" means a regulated investment company, which Grayscale is not. I am using the term in the broader sense of any financial slop-pot.

The main advantage of Grayscale is liquidity. The shares (ticker: GBTC) see $800 million of volume on an average day. The main disadvantage is the trust's stiff fee, 2% a year.

Last fall, when bitcoin's price was enjoying one of its growth spurts, Grayscale traded at a premium to the value of its coins (see chart), which you can calculate by dividing bitcoin's price by 1,056. Recently trust shares have sunk to a 15.7% discount. The discount, I surmise, reflects a belated recognition by investors that 2% is not such a good deal.

Grayscale is a roach-motel fund. Assets can come in but can't leave. Now let's suppose that a fair fee for a bitcoin fund is only 0.8% (see option #11 below), and that the Grayscale people keep their 2% going for 20 years before throwing in the towel and allowing assets to leave. Then the correct discount for this product would be 21%.



Source: YCharts

Don’t Miss Out On This Investing Trend

Here at Forbes, we've been keeping an eye on the bitcoin phenomenon ever since it burst onto the scene in 2008. If you missed out on the huge investing trends of the past two decades, here's your chance to capitalize on what is shaping up to be the biggest one yet.

Investing in select crypto assets and blockchain stocks is an outstanding hedge because they're not tied to the daily gyrations in the market. They also have the potential to hand you substantially larger gains than you'd ever make in conventional stocks and funds.

But you may not know that much about crypto assets or blockchain technology, much less how to profit from it. Steven Ehrlich and *Forbes CryptoAsset & Blockchain Advisor* come in. Steven is the director of research, Digital Assets at Forbes, and prior to joining Forbes, he was the chief operating officer of the Wall Street Blockchain Alliance.

Even if you're completely new to this space, Steven will show you step–by–step how to understand the risks and allocate a prudent mix of crypto assets and blockchain stocks in your portfolio.

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On March 10 Grayscale announced that it might buy back up to $250 million worth of the trust's shares. That doesn't do much to change the economics of share ownership.

Someday soon Grayscale will see some serious competition in the form of U.S.-registered ETFs, which by their nature permit departures. If and when that happens, Grayscale will convert GBTC to an ETF as well. Will Grayscale's operator at that point cut its fee? If so, by how much? My verdict on Grayscale right now is that it's good for day trading and bad for holding.

6. Futures

The Chicago Mercantile Exchange does a brisk business in bitcoin futures, with a daily average of trades this year representing not quite 80,000 coins. Each contract, which settles in cash, covers five coins.

I got the low-down from Steve Sosnick, chief strategist at Interactive Brokers, a platform popular with heavy traders. There are two things to like about these derivatives. One is the liquidity you get from $4 billion of activity per day. The other is the low risk of trouble. You don't have to worry about keys because no coins change hands. Nor is insolvency an issue because the exchange insists on ample collateral from each party.

What's not to like? The fierce contango, which would make keeping a long position open for a long time a very expensive way to live. Contango is the spread between the spot price of a commodity and the higher price on the future. It's there because the seller of the future has to finance a stockpile of coins in order to hedge, and that means running up borrowing and custody costs. Bitcoin's volatility and vulnerability to hacking make those costs high.

Thus, if the coin is worth $56,000 at the end of May as the May contract expires, you might be exiting at $56,000 and immediately reestablishing your position with a June contract at $56,300. You lose $300 per coin or $1,500 for one futures contract. Keep this up for a year in which bitcoin goes sideways and you're out $18,000.

The bid/ask spread on contracts for nearby months is not too bad, Sosnick says, maybe $80 per coin or $400 per contract. That's a round-trip cost. Interactive's commission (including a $5 exchange fee) is $15 each way or $30 round trip. A total trading cost of $430 per future would be less than you spend on a round trip at Coinbase Pro.

Sosnick's verdict: These futures are good for trading but not so good for buy-and-holders.

7. Binance

The world's largest crypto exchange is a largely offshore operation, but it has a U.S. arm, Binance.US, that complies with U.S. regulations. It doesn't quite reach Coinbase's stature in either transparency or security. If this doesn't bother you, you'll love Binance's fees: less than half those at Coinbase Pro.

8. Robinhood And PayPal

These two newer contestants in the arena will be very appealing to the scratch-off lotto crowd. If you want to bet $20, they're fine. For larger sums, go elsewhere. Neither will let you export coins to your own wallet.

9. Bitcoin IRAs

Any number of small, sometimes sketchy custodians have surfaced with pitches for crypto retirement accounts. With them you add to the considerable security and cost problems of bitcoin investing the additional layer of fees and uncertainties attached to investing IRA money in nonstandard assets. What is the risk that, in this thicket of exchanges and custodians, some intermediary gets hacked, becomes insolvent or loses the keys? It's high enough to put IRAs near the bottom of my purchase ranking.

> **Putting the bitcoins in the IRA is a loser, even without taking into account the higher fees and higher risks of that strategy**

In your fantasy, you bought bitcoin in an IRA five or ten years ago and now you're on Easy Street. But consider a less fantastic outcome. Suppose that between now and when you retire ordinary stocks and bonds can double your money, while bitcoin will quadruple it. Suppose that your tax rate on ordinary income (such as from an IRA withdrawal) is 40% and on long-term capital gains is 20%. And suppose you have $20,000, evenly divided between a taxable brokerage account and an IRA.

If you put the coin account outside the IRA, it appreciates to $40,000 and becomes $34,000 after tax. Inside, the stocks and bonds double to $20,000 and become $12,000 after tax. Total to spend: $46,000.

Now try flipping the locations, as the bitcoin IRA vendors would have you do. Inside the IRA your coin account quadruples to $40,000 and becomes $24,000 after tax. Outside the shelter the stocks and bonds incur tax along the way and grow to only $18,000 or so. Total to spend: $42,000.

Conclusion: Putting the bitcoins in the IRA is a loser, even without taking into account the higher fees and higher risks of that strategy.

10. Options

CME (see #6) also offers options on futures. Alas, trading volume is pathetic. Stay away until it gets much bigger.

11. Osprey Bitcoin Trust

This new competitor to the Grayscale trust has an expense ratio of only 0.8% (a management fee of 0.5% plus custody and other costs estimated at 0.3%). Profile here.

In its first few weeks of over-the-counter trading Osprey (ticker: OBTC) changed hands at ludicrous premiums to net asset value, sometimes north of 100%. The premium has subsided to 18%, but that's still too much. (To get the NAV, divide bitcoin's price by 2,930.)

When the Osprey premium is 1% or less, this fund is a buy. It vaults to position #1 on my list, eclipsing that Canadian ETF.