Financial Part
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Introduction

If I were a fund manager, I would not include Bitcoin into my investment portfolio for its high volatility nature and uncertainties.

The volatility of Bitcoin will increase the risk of my investments drastically, causing unpredictability in managing the overall risk and predicting returns. Since Bitcoin is not directly related to any tangible products, it's hard to evaluate the intrinsic value of Bitcoin. On the other hand, the impacts of market sentiment, regulatory news, and technological developments are magnified on the market of the Bitcoin, meaning that every subtle movement in the public will have a large impact on the swing of the Bitcoin market price. Although it can bring profits overnight in a very short period, the risk for this profitability is too high that I would not sacrifice the overall safety for an unpredictable risk.

Why not Bitcoin

The policy landscapes of the cryptocurrency market still underlie a large number of regulatory concerns. Due to the decentralized nature of cryptocurrency, the transaction cost of Bitcoin is extremely low, and the cross-border transaction is faster and more efficient than ever. However, the whole regulatory environment of cryptocurrencies is still evolving and can vary significantly by countries. Governments may choose to impose strict taxes or even outright bans on the use of Bitcoin and other digital currencies. With this concern, if the regulation changes the direction while I'm still holding the currency, it will cause a significant loss on the value of my investment and the liquidity of the asset.

The security concern is also one of the reasons not to invest in Bitcoin. Currently, Bitcoin is a pseudonymous network, which means that a digital account is represented by a public address that is not linked to personal identification information such as a passport. This mechanism would give people a sense of anonymity without leaving the security system off guard. Every transaction on the network would be traceable and remains on the blockchain forever. The controllability of the network is admittedly powerful and secure. It might sound secure on the one hand. However, the holding of bitcoin would also be vulnerable to cyber-attacks. Despite the security of blockchain, the vulnerability of personal endpoints such as the "wallet" and public keys will attract the attention of attacks. If the private key is accidentally leaked, it might result in the permanent loss of the asset. For the security standpoint, I would not include Bitcoin in my portfolio.

Investing in Bitcoin also involves an opportunity cost. The money invested in Bitcoin could be allocated to other investments with potentially higher returns and lower risks, such as stocks, bonds, or real estate. These alternatives also offer the benefit of generating passive income through dividends or rent, which Bitcoin does not.

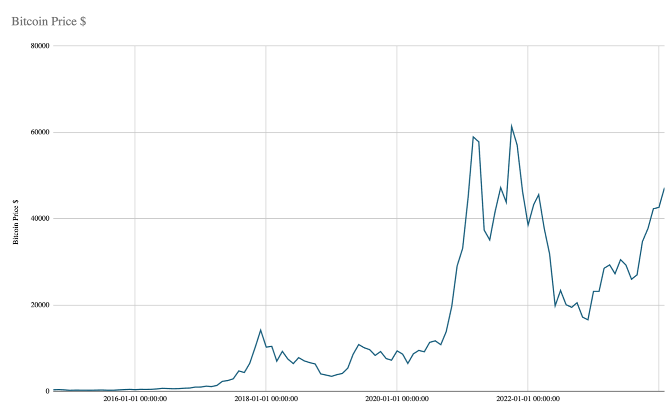
Investment Strategy in Crypto-Industry

If I were to invest in the cryptocurrency industry, I would approach it with a strategy that balances the potential for high returns with the need to mitigate the inherent risks of this volatile and unpredictable market. This can help me to balance the risk and the returns in the investment portfolio.

Firstly, the diversity in the investment portfolio can help me to manage the risk of the market. Instead of concentrating all investments in Bitcoin or any single cryptocurrency, I would diversify across multiple digital assets. This includes established coins like Bitcoin and Ethereum, which has a broader utility through smart contracts, and newer, promising projects with solid use cases and development teams.

At the same time, I would probably explore different subsectors of the crypto industry to find opportunities and mitigate the low liquidity nature of crypto coins. The crypto industry encompasses various sub-sectors, including DeFi (Decentralized Finance) and NFTs (Non-Fungible Tokens). Investing across these sub-sectors could spread risk and expose the portfolio to multiple growth areas.

For the asset allocation strategy, I would like to adopt a small percentage allocation with a layered entry strategy. Given the high risk associated with cryptocurrencies, I would limit the total exposure of my investment portfolio to a small, manageable percentage that aligns with my risk tolerance. A commonly suggested range is 5-10% of the total investment portfolio, depending on individual risk appetite.



To mitigate the impact of volatility, I would employ a layered entry strategy, investing a fixed amount at regular intervals over time. After some research online, I found that this approach can reduce the risk of investing a large sum at one single point of time.

The graph shows the price of Bitcoin currency over years based on the data distributed. It can be seen that instead of having a general trend, the price just spiked up and crashed down rapidly around 2020 to 2022. The sudden gain of value can be attributed to the mainstream adoption of the currency, and the sudden downturn was mainly caused by the policy changes in countries, causing sell-offs of risk-averse holders. If we use the layered entry strategy as mentioned above, there will be smaller concern of a correct entry period. Even though the profit wouldn't be maximized if the price suddenly struck up again, the overall safety of the portfolio would be ensured.