

CAPTRUST Cryptocurrencies Research

CAPTRUST's investment team has followed cryptocurrencies (which are digital assets), specifically, Bitcoin, for over three years now and we do see opportunities for growth.

- **Potential store of value** —Bitcoin is verifiably scarce with a capped supply of 21 million
- **Diversification** — While not ensuring a profit or protecting from a loss, Bitcoin has showed low correlation to traditional asset classes
- **Growing ecosystem** —Companies are making larger investments in this space as they respond to increasing customer demand that could lead to wider adoption
 - 'Digital assets are becoming a more important part of the payments world' - Mastercard – February 10, 2021

BITCOIN BREAKDOWN

- Certain cryptocurrencies are traded between users on a peer-to-peer blockchain without the need for a central location or a middle-man such as a bank.
- A blockchain is a database of public records called a distributed ledger that is maintained collectively by a network of independent users.
- The network of users validate transactions, easily identifying inaccuracies within the blockchain.



CAPTRUST Cryptocurrencies Research

While we see opportunities for growth, we expect growing pains and would advise that investors proceed with caution in this nascent asset class.

- **Volatility** — As a potential emerging asset class, cryptocurrencies (e.g., Bitcoin) have displayed extreme levels of volatility at times
- **Difficult to manage** — Cryptocurrency “exchanges” have been subject to trade disruptions and the potential for increased regulatory scrutiny
 - Unregistered funds or private placements could be vulnerable to hacking and theft
- **Hard to store** — Multiple layers of security are needed to keep public and private keys safe and protected, there are also risks of keys being lost or stolen and irretrievable

BITCOIN REGULATION

- To this point the SEC has stated that due to Bitcoin’s decentralized (peer to peer) nature it is not a security.
- This means that Bitcoin is an asset like a direct investment in real estate such as a home or an investment in physical gold bars, not like an investment in a mutual fund or ETF, which are securities.
- To date, the SEC has yet to approve a Bitcoin ETF or mutual fund, but there are publicly-traded funds that invest their money in Bitcoin.



CAPTRUST Cryptocurrencies Research

Investment involving Bitcoin present unique risks

Consider these risks when evaluating investments involving Bitcoin:

- **Not insured.** While securities accounts at U.S. brokerage firms are often insured by the [Securities Investor Protection Corporation](#) (SIPC) and bank accounts at U.S. banks are often insured by the Federal Deposit Insurance Corporation (FDIC), bitcoins held in a digital wallet or Bitcoin exchange currently do not have similar protections.
- **History of volatility.** The exchange rate of Bitcoin historically has been very volatile, and the exchange rate of Bitcoin could drastically decline. For example, the exchange rate of Bitcoin has dropped more than 50% in a single day. Bitcoin-related investments may be affected by such volatility.
- **Government regulation.** Bitcoins **are not legal tender**. Federal, state or foreign governments may restrict the use and exchange of Bitcoin.
- **Security concerns.** Bitcoin exchanges may stop operating or permanently shut down due to fraud, technical glitches, hackers or malware. Bitcoin also may be stolen by hackers.
- **New and developing.** As a recent invention, Bitcoin does not have an established track record of credibility and trust. Bitcoin and other virtual currencies are evolving.

Source: <https://www.SEC.gov>



CAPTRUST Cryptocurrencies Research

Other important considerations

Bitcoin has been described as a decentralized, peer-to-peer virtual currency that is used like money it can be exchanged for traditional currencies such as the U.S. dollar, or used to purchase goods or services, usually online. **However, unlike traditional currencies, Bitcoin operates without central authority or banks and is not backed by any government.**

Using Bitcoin may limit your recovery in the event of fraud or theft. If fraud or theft results in you or your investment losing bitcoins, you may have limited recovery options. Third-party wallet services, payment processors and Bitcoin exchanges that play important roles in the use of bitcoins may be unregulated or operating unlawfully.

Law enforcement officials may face particular challenges:

-Tracing money. Traditional financial institutions (such as banks) often are not involved with Bitcoin transactions, making it more difficult to follow the flow of money.

-International scope. Bitcoin transactions and users span the globe. Although the SEC regularly obtains information from abroad (such as through cross-border agreements), there may be restrictions on how the SEC can use the information and it may take more time to get the information. In some cases, the SEC may be unable to obtain information located overseas.

-No central authority. As there is no central authority that collects Bitcoin user information, the SEC generally must rely on other sources, such as Bitcoin exchanges or users, for this type of information.

-Seizing or freezing bitcoins. Law enforcement officials may have difficulty seizing or freezing illicit proceeds held in bitcoins. Bitcoin wallets are encrypted and unlike money held in a bank or brokerage account, bitcoins may not be held by a third-party custodian.

Source: <https://www.SEC.gov>

