Advisers wary of bitcoin vindicated after big drop

Volatile cryptocurrency down 13% Monday after sharp runup

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By **John Waggoner**

Advisers wary of the bitcoin craze were vindicated Monday after the digitical currency dropped 13%.

After hitting a high of $3,000 on Sunday, bitcoins dropped nearly $400 and were selling for $2,610.

The surge in bitcoin prices had been astonishing. A single bitcoin cost $968.23 on Dec. 31, according to **coindesk.com**. Even after Monday's drop, they were was still up about 150% on the year. Naturally, that attracted some attention from investors, and translated into calls to advisers.

Advisers say — with some relief — that their clients aren't clamoring to get into the electronic currency. "I've gotten a couple calls about cryptocurrencies," said Douglas Boneparth of Bone Fide Wealth. "They're trying to understand how they work, or they're reading about someone who invested $100,000 that is now worth $75 million."

Bitcoins are an electronic currency that are created by solving complex mathematical puzzles, a process called "mining." As the number of bitcoins rise and the demand grows, bitcoin mining becomes progressively more difficult. That difficulty translates into greater expenses for both computing power and electricity.

Central banks control the amount of conventional currencies in circulation, and those amounts depend on seasonal demand, the economy, government borrowing and, sometimes, government manipulation. Bitcoins are unregulated — **a feature that endears them to hackers**. The maximum number of bitcoins that can be mined is 21 million; about 14 million have been mined to date.

The allure of bitcoin is that it can let you send money around the world for little or no cost. You can make bitcoin transactions with other users without disclosing any personal information. And all bitcoin transactions can be verified through the bitcoin blockchain, a kind of electronic public ledger that's extraordinarily difficult to hack.

The downside? Bitcoin prices are **extremely volatile**, and those big price spikes are often followed by equally large drops. No country recognizes bitcoin as legal currency, and none are likely to. And, while a few companies, such as Overstock.com, will take bitcoins, you're going to get pretty hungry before you can find a store that will let you buy groceries with them.

"I'll give bitcoin a lot more credence when Amazon says it will take it," said Mark Bass, a financial planner with Pennington Bass & Associates.

"Thankfully, I condition my clients from the start that if something is worth consideration for a portfolio, I will likely be the one initiating the conversation," said Kashif A. Ahmed, president of AmericanPrivateWealth.com. "No existing client has approached me about bitcoin, but I did have a prospect who wanted to invest in it. I told him respectfully that I am not the guy for him."

When Mr. Ahmed's client asked why he wouldn't help invest in bitcoin, he had three reasons: Shiny new things aren't usually good investments, nor are ones that are surging in popularity. And, of course, bitcoins are unregulated.

For many advisers, the main piece of advice is not to invest anything in bitcoin that you can't afford to lose. Erika Safran of Safran Wealth Advisors said she had clients who had been bitcoin investors for about a year. Ms. Safran doesn't give buy or sell advice on cryptocurrencies, nor does she have access to their digital currency accounts.

"My advice was to project and evaluate what their future financial security looks like without the cyber currency funds. What's the impact, if any, on 100% loss of investment?"

Fortunately, they hadn't bet the ranch.

"The future looked rosy; there are no financial worries about potentially losing the entire investment — other than bruised egos," Ms. Safran said.

Other advisers are starting to see bitcoin and other cryptocurrencies, such as Ethereum, as another asset class that could be a useful diversification tool.

"A serious investor in any asset class understands diversification and the same is true of cryptocurrencies," said Samuel Boyd of Capital Asset Management Group. "This is a relatively young asset class and one should tread lightly in terms of the weight to their overall portfolio but, in the same vein as **alternative investments**, a 5% allocation as a correlation reduction tool or store of value would not be out of the question for those with the liquid assets and [enough] disposable income to weather a bubble burst."

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