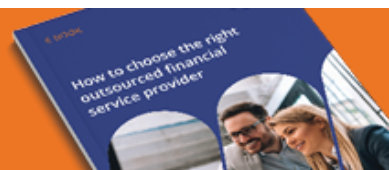




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INVESTMENT STRATEGIES

Ask an advisor: Is a spot bitcoin ETF a good investment?

By **Nathan Place** January 18, 2024 6:07 PM



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Welcome back to "[Ask an Advisor](#)," the advice column where real financial professionals answer questions from real people. The topic can be anything in the world of finance, from retirement to taxes to wealth management — or even advice on advising.

Last week, after years of resistance, the SEC [approved the spot bitcoin ETF](#). Specifically, it approved 11 versions of the new exchange-traded fund, offered by brands including Grayscale, Fidelity and iShares.

What makes this product unusual is what's inside it: actual bitcoin. Unlike derivatives-based bitcoin ETFs, which are based on bitcoin futures contracts, [the spot bitcoin ETF's](#) underlying asset is bitcoin itself. This means more direct tracking of the cryptocurrency's price, but also more exposure to its volatility.

Though the SEC approved the new funds, its decision was far from a full-throated endorsement. The commission has long been skeptical of the spot bitcoin ETF, and in fact rejected more than 20 applications for this kind of product from 2018 to 2023. It relented only after the U.S. Court of Appeals in Washington, D.C. ruled against one of those decisions.

So when SEC Chair Gary Gensler [announced](#) the SEC's final decision, he did so with obvious reluctance.

"While we approved the listing and trading of certain spot bitcoin ETP [exchange-traded product] shares today, we did not approve or endorse bitcoin," Gensler wrote. "Investors should remain cautious about the myriad risks associated with bitcoin and products whose value is tied to crypto."

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The chairman went on to describe bitcoin as a "speculative, volatile asset that's also used for illicit activity including ransomware, money laundering, sanction evasion and terrorist financing."

So to put it mildly, there are some asterisks on this approval. And yet, it's here: The spot bitcoin ETF is now available to investors. Can it be a good investment? Will financial advisors recommend it to clients? To find out, I asked the advisors themselves. Here's what I wrote:

Dear advisors,

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So my question is, is a spot bitcoin ETF safer than bitcoin itself? Would you recommend any of these products to clients? If so, to whom? What role could these ETFs play in a portfolio — or do you prefer to stay away from them all together?

Thanks in advance,

Wary in Washington Heights

And here's what advisors wrote back:

Only for the bold

Andrew Herzog, certified financial planner and associate wealth advisor at [The Watchman Group](#) in Plano, Texas



It's no surprise that Gensler stated the SEC "did not approve or endorse bitcoin" upon its ETF approval; that's not saying much. After all, the SEC website states that the SEC "does not evaluate the merits of securities offerings, or determine whether the securities offered are 'good' investments or appropriate for a particular type of investor."

That being said, I would venture to say a bitcoin ETF is safer than holding bitcoin itself for many people. If you simply want exposure to the price of bitcoin, an ETF is quickest and simplest in the confines of the traditional financial system that everyone is a part of. The large broker-dealers and exchanges have SIPC [Securities Investor Protection Corporation] insurance too, which crypto exchanges do not.

I would recommend bitcoin ETFs to those who are aggressive with risk and those willing to lose the entire investment — don't bet the farm on this. These ETFs could play the role of an aggressive, speculative, asymmetric bet on the future of finance. If you're wrong, you lose your investment and that's it. If you're right, you could get double or 20 times your investment. That's a gamble I am willing to take for a price.

Stay away

Kashif Ahmed, CFP and president of [American Private Wealth](#) in Bedford, Massachusetts

The SEC's statement says all that any investor needs to know. Just because the SEC has allowed ETFs in bitcoin to be launched doesn't mean they necessarily make sense in a portfolio. Bitcoin and cryptocurrencies still do not have any real world role or utility for the vast majority of people — especially those who cannot afford to lose their money. "Investing" in these is nothing more than gambling. The only silver lining is you cannot lose your money on the weekends when the markets are closed!

No, I do not recommend that anyone, especially my clients, gain any exposure to them. The risks cannot be calculated, and if you cannot calculate a risk, why take it? It will only end in tears. Just ask the millions of people who have already been wiped out after dabbling in crypto. FOMO and greed got the better of people, as always.

It depends

Marcel Miu, CFP and founder of [Simplify Wealth Planning](#) in Austin, Texas

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However, investing in a bitcoin ETF does not eliminate the risks associated with the underlying asset: bitcoin. The value of bitcoin can be extremely volatile, influenced by regulatory news, technological developments and market sentiment. Investors should be aware of these risks when determining if bitcoin is a good fit for their portfolios.

The suitability of a spot bitcoin ETF would depend on the individual investor's risk tolerance, investment goals and understanding of the cryptocurrency market.

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Danger! Danger!

Sarah K. Charles, accredited investment fiduciary and co-founder of [Sanctuary Financial Planning](#) in Charlotte, North Carolina

Are these ETFs safer than bitcoin? Not that we can tell.

While very well-established asset managers including Fidelity and BlackRock have chosen to offer spot bitcoin ETFs, they are not immune from the inherent risks associated with owning and trading bitcoin.

The first risk is volatility. Bitcoin has a history of boom/bust price cycles. While doubling your money in three months is appealing, losing 80% of it over the next 12 months is not.

Secondly, crypto and fraud seem to go hand and hand. There have been major hacks, like [Ronin](#) and [Mt. Gox](#), in which hundreds of