

INVESTMENT STRATEGIES

Navigating spot bitcoin ETFs, and capturing benefits from more traditional funds

By [Courtney Hoff Dockerty](#) March 22, 2024 9:00 AM



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In January, the Securities and Exchange Commission approved [11 spot bitcoin exchange-traded funds](#), which track the value of the cryptocurrency.

Popular stock-trading platforms now [allow customers to trade the product](#), but navigating these new ETFs can be overwhelming for many investors. This recent development could lead to more questions and concerns among financial advisors as they approach this newer investment strategy with their clients.

Since the SEC's approval of spot ETFs, the value of bitcoin and bitcoin ETFs as investments have faced increased scrutiny. [SEC Chair Gary Gensler](#) emphasized in his written announcement of the decision that

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"Bitcoin is primarily a speculative, volatile asset that's also used for illicit activity including ransomware, money laundering, sanction evasion, and terrorist financing," Gensler wrote. "While we approved the listing and trading of certain spot bitcoin ETF shares today, we did not approve or endorse bitcoin."

Read more: [Industry stalwarts now married to bitcoin ETFs \(for better or worse\)](#)

Kashif Ahmed, CFP and president of American Private Wealth in Bedford, Massachusetts, does not recommend his clients gain exposure to bitcoin ETFs.

"The SEC's statement says all that any investor needs to know," he recently told Financial Planning. "Just because the SEC has allowed ETFs in bitcoin to be launched doesn't mean they necessarily make sense in a portfolio."

Other advisors stress the risk of cryptocurrency to clients, likening it to gambling. Brett Bernstein, the CEO and co-founder of XML Financial Group, asks his crypto-curious clients, "If you were to go with me to Las Vegas for the weekend, how much would you be willing to put on one number and one color at the roulette wheel?"

In recent years, bitcoin, the most widely known cryptocurrency, has seen its price [rise as high](#) as \$74,000 and fall below \$12,000. Its value [increased by 160%](#) in 2023 amid widespread expectation that the SEC would approve bitcoin ETFs. Such fluctuation is reason enough for many advisors to be skeptical.

Read more: ['Thousands' of new ETFs seen in \\$8 trillion market's next leap](#)

Still, these 11 new bitcoin ETFs quickly proved popular to investors, drawing in about \$4 billion within a week of their [approval in January](#). Lori Van Dusen, the CEO and founder of LVW Advisors in Rochester, New York, said her clients have taken note of the new opportunity.

Van Dusen told Financial Planning that even some of the large and midsized institutional investors her firm works with are curious about digital assets after previously having "zero interest in even talking about this."

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deficits. Some now think bitcoin and other digital assets can serve a similar purpose. Other clients of Van Dusen look at cryptocurrencies as offering them an opportunity to be a venture investor supporting one of the next great leaps in technological innovation.

Read on for stories that can help you juggle clients' enthusiasm or hesitancy when it comes to the new spot bitcoin ETFs and to more traditional ETFs.



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Charting the growth of the active ETF market

Active asset managers are betting that financial advisors and investors will move some of the trillions of dollars in cash vehicles into ETFs that cost more but may outperform their peers.

Money-market funds fueled by rising interest rates and yields [topped \\$6 trillion in assets](#) for the first time at the end of January — just as [passive mutual funds and ETFs reached a long-anticipated milestone](#) by [eclipsing the holdings](#) in active strategies. Newer products that are gaining more notice could still win over advisors and investors who are likely to cut the cash allocations in their portfolio if the Fed proceeds as expected [by slashing interest rates later this year](#), according to active managers.

"To the extent that an active strategy can consistently outperform other alternatives, it will continue to garner assets," Patricia Lizarraga, the managing partner of [Hypatia Women CEO ETF](#) issuer [Hypatia Capital](#), said in a February interview with [Tobias Salinger](#), chief correspondent for Financial Planning. "The active ETF market will continue to grow as people will continue to want to have a view as to what's going to outperform in the market."

Read more: [Can active ETFs outperform their way into more portfolios?](#)

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Milan Jaros/Bloomberg

Advisors prepare to guide clients through ETF questions

For many advisors, exchanged-traded funds are one of their clients' best friends. ETFs tracking broad market indexes like the S&P 500 offer investors exposure to a vast array of stocks. And because the funds are bought and sold on public exchanges just like equities and bonds, they also make it easy for clients to pull money out as needed.

But the new bitcoin ETFs are a [different animal](#). Rather than tracking all the stocks in a particular index, they offer ownership in only one particular asset: bitcoin. And bitcoin has proved to be fairly volatile.

"It's still a very speculative investment," Brett Bernstein, [CEO and co-founder of XML Financial Group](#) recently told [Dan Shaw](#), a reporter for Financial Planning. "And I think it's inappropriate for a lot of clients."

Read more: [Bitcoin ETFs bring new questions, worries to advisors](#)



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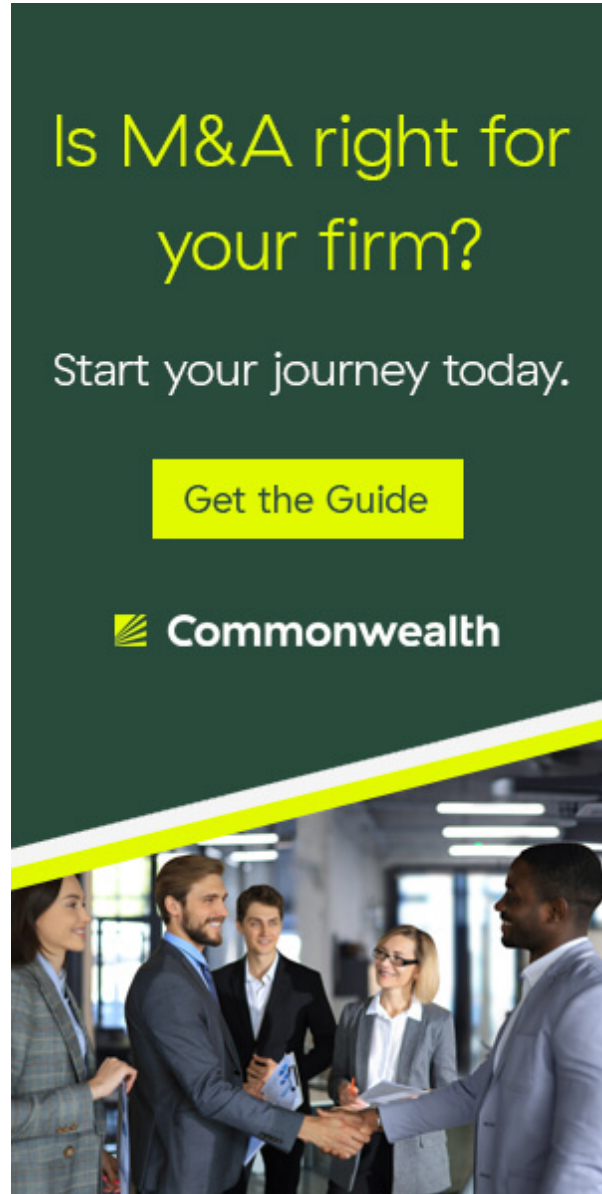
Advisors share their takes on spot bitcoin ETFs after SEC approval

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Unlike ETFs tied to bitcoin futures, [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.

What do financial advisors think? We checked in with four to learn whether a spot bitcoin ETF is safer than bitcoin itself.


Read more: [Ask an advisor: Is a spot bitcoin ETF a good investment?](#)



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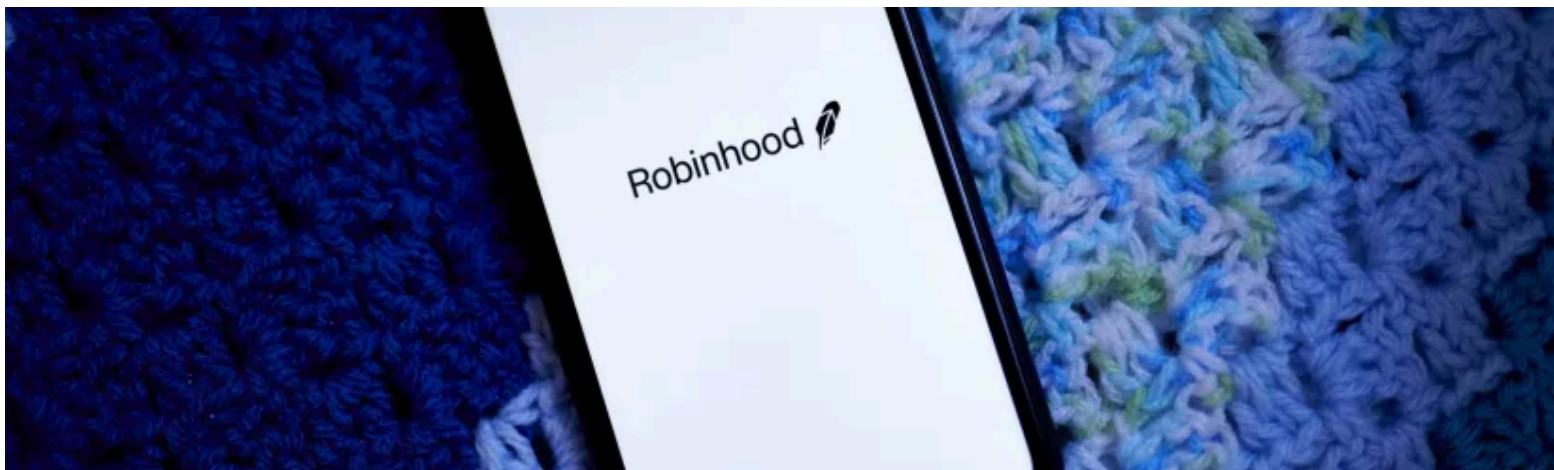
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Gabby Jones/Bloomberg

Popular trading apps allow customers to trade ETFs after SEC approval

Some traditional stock-trading platforms including Fidelity (which has [its own spot bitcoin ETF](#)), [Schwab](#) and E-Trade have enabled bitcoin ETF trading. [UBS](#) has also enabled bitcoin ETF trading for its wealth management customers. Merrill by Bank of America will allow "eligible" clients — those with \$10 million or more in assets — to trade them, according to a spokesperson for the company.

One notable exception has opted not to let customers purchase bitcoin ETFs through their platform: [Vanguard](#).

"Our perspective is that these products do not align with our offer focused on asset classes such as equities, bonds and cash, which Vanguard views as the building blocks of a well-balanced, long-term investment portfolio," said a Vanguard spokesperson, adding that the investment advisor also did not plan to offer any bitcoin ETFs or other crypto-related products of its own.

Read more: [Many trading apps embrace bitcoin ETFs, some still crypto shy](#)



Oxford report reveals tax efficiency of ETFs

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"The paper shows that the tax efficiency of the ETF comes from not only owning it but also trading it," the study said. "Owning an ETF helps investors track the index closely, while trading ETFs allows investors to reduce the taxable income of the whole portfolio, making ETFs more valuable than the index. Through buying and selling highly correlated ETFs, investors effectively avoid the wash-sale rule that disallows tax deduction with trades only for tax purposes."

Reducing capital gains through tax-loss harvesting has emerged as a key element [making the case for direct indexing](#) — investing directly in the underlying stocks of a broad market fund. A [client's level of wealth](#) and [the timing of the transactions](#) play large roles in the potential tax savings.

Read more: [Study finds 'new source of tax efficiency for ETFs'](#)

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