



How advisors are managing crypto funds as client interest grows

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Bitcoin and other cryptocurrencies are not for the faint of heart, but more financial advisors are getting up to speed to embrace these alternative assets despite their wild swings.

The price of bitcoin [BTX21 \(/investing/markets/commodities/BTX21/\)](/investing/markets/commodities/BTX21/) +0.79% ▲ surged recently to a record high of US\$69,000 but has since retreated to the US\$56,000-range. Ethereum trades at more than US\$4,100 after pulling back from its recent peak of more than US\$4,800.

Rising interest in digital coins prompted the Canadian Securities Institute (CSI), which provides investment industry courses and designations, to launch a course on bitcoin last year. It plans to add another one in January to cover altcoins, such as ether and cardano, and non-crypto assets, including non-fungible tokens.

“Bitcoin is a sexy topic, but it’s not a flash in the pan,” says Marshall Beyer, CSI’s senior director of academic standards. “There is way too much institutional adoption already, and it is becoming so integrated into the financial world.”

Advisors were probably initially resisting crypto assets, but now realize that they need to understand this space because clients are going to ask for it, he says. “If they can’t provide the answers, clients will go somewhere else.”

New regulations also require advisors to better know the products that they recommend, he adds. Because some investors may see crypto assets as one way to get rich quickly, “advisors play an important role to temper their expectations.”

Maili Wong, senior investment advisor and portfolio manager with Wellington-Altus Private Wealth Inc. in Vancouver, is getting more inquiries about cryptocurrencies mostly from millennial clients.

“There is growing acceptance of bitcoin, partly driven by its rise in value, while more high-profile companies and institutional investors now hold bitcoin,” Ms. Wong says. “More firms accept bitcoin as a form of payment too.”

But she always warns clients about the risks of investing in crypto assets, saying they’re “highly speculative” and very volatile. Bitcoin, she notes, has fallen by more than 20 per cent twice since January.

How much should you hold?

For clients who still want exposure to cryptocurrencies and can handle high-risk investments, she says a weighting of 5 per cent or less in Canadian-listed crypto exchange-

traded funds (ETFs) for an investment account is suitable.

“Our team is a big proponent and supporter of digital and disruptive innovation and technology,” Ms. Wong says. “We continue to research different ways to gain exposure to blockchain technology.”

Blockchain, a type of decentralized and shared database designed to record transactions that are tamper-proof, is the technology underpinning bitcoin and other cryptocurrencies, but also has other emerging uses.

Ms. Wong, who invested in crypto ETFs this year, says that her clients may also hold other securities that benefit from the rising value of digital assets and growth in blockchain technology.

One is Emerge Ark Global Disruptive Innovation ETF

[EARK-NE \(/investing/markets/stocks/EARK-NE/\)](/investing/markets/stocks/EARK-NE/) -3.13% ▼ run by Ark Investment Management LLC of New York. This ETF holds names such U.S.-based Square Inc.

[SQ-N \(/investing/markets/stocks/SQ-N/\)](/investing/markets/stocks/SQ-N/) -6.14% ▼ and cryptocurrency exchange

operator Coinbase Global Inc. [COIN-Q \(/investing/markets/stocks/COIN-Q/\)](/investing/markets/stocks/COIN-Q/) -5.13% ▼ .

Michael Zagari, an investment advisor with Mandeville Private Client Inc. in Montreal, says some of his clients wanted exposure to the crypto space after he brought it to their attention through webinars and blogs.

In January, he had started buying small amounts of bitcoin through Coinbase when the asset traded at more than US\$33,000 because he wanted to experience owning it. That led to also buying altcoins such as ether, cardano and cosmos.

“I am passionate about blockchain technology – not just bitcoin,” Mr. Zagari says. “I’ve read the white papers [revealing the purpose and technology behind the crypto assets] and followed individuals who helped me understand them.”

The capabilities of blockchain are compelling because smart contracts, for example, can be built on it, he says. This software code can allow for transactions and agreements to be carried out without the involvement of an intermediary.

He says he believes in the mass adoption of bitcoin someday, noting that El Salvador has made it legal tender, while the digital coin has appeal in countries such as Argentina, with its high inflation and deflating currency. Bitcoin's supply is capped at 21 million "so it's a hedge against inflation," he adds.

Crypto ETFs listed in Canada

Still, he says clients should only invest in Canadian-listed crypto ETFs if they are comfortable with risk and can accept the extreme volatility. "It's still a speculative investment regardless of how promising it seems," Mr. Zargari says.

He typically recommends a maximum 5-per-cent position in a tax-free savings account if his clients' investments are on target to reach their retirement goals. He is less enthusiastic about owning crypto ETFs in a registered retirement savings plan because of "the tax liability associated with its growth."

He mainly invests in Purpose Bitcoin ETF

[BTCC-B-T \(/investing/markets/stocks/BTCC-B-T/\)](/investing/markets/stocks/BTCC-B-T/) -3.05% ▼ and Purpose Ether ETF [ETHH-B-T \(/investing/markets/stocks/ETHH-B-T/\)](/investing/markets/stocks/ETHH-B-T/) -4.58% ▼ , which are non-hedged, as well as 3iQ CoinShares Bitcoin ETF [BTCQ-T \(/investing/markets/stocks/BTCQ-T/\)](/investing/markets/stocks/BTCQ-T/) -3.34% ▼ and 3iQ CoinShares Ether ETF [ETHQ-T \(/investing/markets/stocks/ETHQ-T/\)](/investing/markets/stocks/ETHQ-T/) -4.79% ▼ .

During the recent crypto sell-off, "we have also been buying the dip through ad-hoc purchases" for clients who have a long-term view, and some understanding of the technology behind the digital assets, he says.

Some clients also own shares of Coinbase, which also provides custody support for digital assets held by institutions and corporate customers, such as Microstrategy Inc.

[MSTR-Q \(/investing/markets/stocks/MSTR-Q/\)](/investing/markets/stocks/MSTR-Q/) -3.94% ▼ and Tesla Inc. [TSLA-Q \(/investing/markets/stocks/TSLA-Q/\)](/investing/markets/stocks/TSLA-Q/) +1.74% ▲ , that own bitcoin, Mr. Zargari adds.

David MacNicol, president, and portfolio manager at Toronto-based MacNicol & Associates Asset Management Inc., isn't getting inquiries about investing in cryptocurrencies from his mainly retiree clients. However, some of them have indirect exposure to the space in the firm's alternative investment fund.

In 2017, when bitcoin was trading at around US \$16,600, MacNicol Alternative Asset Trust provided seed capital for Toronto-based 3iQ Corp. as part of its private-equity strategy. The digital asset manager got the regulatory nod to launch a listed closed-end bitcoin fund in late 2019.

“It took longer than we thought,” Mr. MacNicol says. Before making the private investment, he recalls that an analyst friend, who was passionate about bitcoin, told him that he thought it would go to US\$100,000 someday.

“I thought that was crazy,” but started to pay attention, and eventually invested in 3iQ because its vision was about having a “fully regulated cryptocurrency fund that clients could purchase safely and reliably,” he says.

He figured the odds were in 3iQ’s favour given that the Grayscale Bitcoin Trust [GBTC \(/investing/markets/stocks/GBTC/\)](/investing/markets/stocks/GBTC/) -4.22% ▼ , a similar fund, was trading south of the border, and Canada tends to follow U.S. trends.

“It was still a speculative investment, but I had it at a size so that if it didn’t work out, it wouldn’t impact our clients adversely,” he adds.

Today, the MacNicol fund benefits from 3iQ’s growing revenue from managing crypto assets that stood at \$4.1-billion as of Oct. 29.

“I won’t say how much we put in 3iQ, but it was fairly sizeable,” he says. “It’s been a four-bagger for us.”