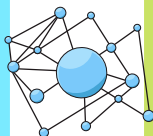




# Crypto Exchange FTX Answers a Big Question

*Reasons why cryptos should not be an asset class worthy of your money*

In the span of just a few days in November 2022, cryptocurrency exchange FTX - the world's third largest cryptocurrency exchange with more than 1 million users - filed for Chapter 11 bankruptcy.



A few days later, cryptocurrency lender BlockFi announced that it was "not able to do business as usual" and paused client withdrawals as a result of FTX's implosion. The price of Bitcoin - a household name in the crypto space - immediately dropped, pushing its shareholders' 1-year losses to about 75%. And the losses to FTX users will be measured in the billions, with some users likely losing all their money.

**So, still think cryptos should be an asset class worthy of your investment? Let's explore.**

## Asset Classes 101

In very simple terms, there are three main asset classes: equities (stocks), fixed-income (bonds), and cash equivalents (money market instruments). And most financial advisors and investors expand upon the Big Three to also include: real estate, commodities, and futures.



But should cryptocurrencies be considered a new asset class altogether? Well, one venerable investment bank thinks so. Here is a quick quote from its published research piece not too long ago:

*"Bitcoin is now considered an investable asset. It has its own idiosyncratic risk, partly because it's still relatively new and going through an adoption phase," said the white-shoe investment banking firm.*

*"And it doesn't behave as one would intuitively expect relative to other assets given the analogy to digital gold; to date, it's tended to be more aligned with riskon assets. But clients and beyond are largely treating it as a new asset class, which is notable - it's not often that we get to witness the emergence of a new asset class."*



But just because someone writes something, that doesn't make it true. Or make it a good idea. So, before you blindly accept this research as gospel - or jump into cryptos because you have fear of missing out - please ask yourself the following questions.



## Can You Stomach the Volatility?

Bitcoin prices are off 75% over the past year. Other cryptos are off by even more. Bitcoin prices peaked at about of \$64k (November 2021) and are now priced around \$16k.

With that kind of volatility, Bitcoin has more in common with pink sheet stocks - also known as penny stocks - versus an investment in the stock or bond of a legitimate company.

Now, just because something is volatile, that doesn't mean it's not an investment. Lots of investments are volatile and many asset classes are volatile too. But remember, if you invest in a volatile asset or asset class, then your risk profile changes.

**Assuming you have adjusted your other investments to account for increased volatility in cryptos, ask yourself question number two.**

## What is it Worth?

"Everything is worth what its purchaser will pay for it" is a quote from the Roman Writer Publilius Syrus and is a common answer when asked to define worth.

But think about that definition for a minute and whether it should apply to investing.

Here is an analogy that borders on hyperbole: I go into my backyard and take a tablespoon of dirt out of the ground and sell it to my neighbor for \$1,000. Does that mean that tablespoon of dirt is worth \$1,000 because one person paid that? Does that mean my net worth is in the billions because I easily have another thousand tablespoons of dirt?

**Don't confuse worth for value.**



## What is it Bitcoin Worth?

Bitcoin is backed by nothing and no one. Bitcoin doesn't create anything. It's only "worth" what someone else will pay for it. The only hope you have is in convincing other people that it's worth something, hopefully more than what you paid for it.

Hear the Oracle of Omaha, Warren Buffett:

"If you buy something like bitcoin or some cryptocurrency, you don't have anything that is producing anything," Buffett says. "You're just hoping the next guy pays more. And you only feel you'll find the next guy to pay more if he thinks he's going to find someone that's going to pay more."

"You aren't investing when you do that, you're speculating."



### Protection Matters

How does a wise investor avoid falling prey to the lure of “asset euphoria,” as seen with the Bitcoin, other cryptos and the dirt in my backyard? That’s easy, just remember the adage: “If it sounds too good to be true, then it probably is.”

To avoid losing large amounts of money to asset euphoria, the best move is to diversify your holdings. Diversifying your assets among various types of investments and asset classes allows you to get a better risk-adjusted return. You spread the risks around.

Over the long term, you will reap the benefits of many investment sectors, rather than suffer massive losses when a bubble bursts. Your financial advisor is an expert on diversifying your investments by helping you invest wisely in various asset classes.



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