Bitwise

The Bitwise / ETF Trends 2020 Benchmark Survey of Financial Advisor Attitudes Toward Cryptoassets

Introduction

Bitcoin and other cryptoassets surged onto the national consciousness in 2017, spurred by spectacular price increases and accompanying cautions of a repeat of the "tulip bubble." The subsequent bear market in 2018 led some to question whether crypto would survive the long term.

2019 answered that question in the affirmative: Prices recovered sharply, with bitcoin rising more than 90%; major institutions like Fidelity, Facebook, and the Intercontinental Exchange entered the cryptomarket; infrastructure and regulation came into place; and large institutional investors began making significant allocations for the first time.

As we enter 2020, many are wondering, what does the next decade hold?

Against this backdrop, Bitwise, the leading provider of index and beta crypto funds, and ETF Trends, a leading provider of news and analysis in the ETF space, joined forces to conduct *The Bitwise / ETF Trends 2020 Benchmark Survey of Financial Advisor Attitudes Toward Cryptoassets*.

The goal was to benchmark how financial advisors—who manage roughly half of all wealth in America—are now thinking about crypto after the developments of 2019, including whether and how they are allocating to crypto in client portfolios.

The findings were revelatory. Among the highlights:

ALLOCATION

The number of advisors allocating to crypto in client portfolios is expected to more than double in 2020, from 6% to 13%.

MOTIVATION

The No. 1 motivation for including crypto in portfolios continues to be its low/uncorrelated returns with other assets, highlighted this year by 54% of advisors completing the survey (up from 47% last year). Other key attractions include crypto's high potential returns (30%), client demand for access to crypto (26%), and the desire to win new business (23%).

CLIENT INTEREST

Investor interest in crypto is not going away: 76% of all financial advisors report receiving questions from clients on crypto in 2019.

CLIENT BEHAVIOR

72% of advisors think clients may be investing in crypto on their own, outside of their advisory relationship.

PRICE EXPECTATIONS

64% of advisors expect the price of bitcoin to appreciate over the next five years, up from 55% of advisors in last year's survey. 35% of advisors expect the price of bitcoin to at least double by 2024. Meanwhile, the fraction expecting bitcoin's price to fall to zero decreased sharply this year, from 14% to 8%.

The survey's findings are in line with what Bitwise has anecdotally seen across hundreds of conversations and meetings each month with advisors. Many advisors are still having their first conversation about crypto since initially becoming aware of it in 2017. Most feel they need to learn more, although they do not have the time to follow daily developments on their own. Meanwhile, a material and growing set of early adopters, particularly independent RIAs, have already started allocating.

Bitwise and ETF Trends intend to continue to run this survey annually to provide advisors and the industry with an ongoing benchmark of how advisor attitudes toward crypto are evolving.

We hope you find this year's report insightful.

MATT HOUGAN
Managing Director, Global Head of Research
Bitwise Asset Management

TOM LYDON
Chief Executive Officer
ETF Trends

Methodology

The goal of *The Bitwise / ETF Trends 2020 Benchmark Survey of Financial Advisor Attitudes Toward Cryptoassets* is to benchmark how U.S.–based financial advisors are thinking about the cryptoasset market, including whether they believe it is or is not appropriate to allocate client assets to that space.

In conducting the survey, our intent was to take a cross-sample of different types of advisors from across the country, including independent registered investment advisors (RIAs), broker-dealer representatives, financial planners, and wirehouse representatives.

Outreach took place in December 2019. Survey respondents were not paid for participating in the survey, although respondents were entered into a raffle for the chance to win a Peloton bike.

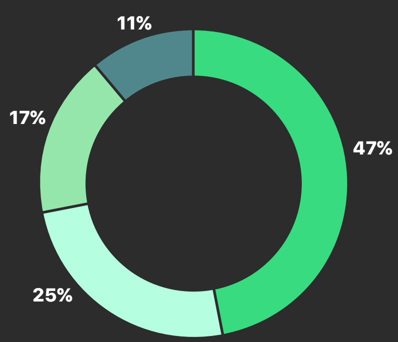
The survey elicited 415 eligible, complete responses from financial advisors. That number is up significantly from the 151 eligible, complete responses received by last year's survey.

Respondent Profile

Independent RIAs represented nearly half of all respondents (47%), followed by independent broker-dealer representatives (25%), financial planners (17%), and wirehouse representatives (11%). The breakdown in respondents was very similar to last year's survey.

The mean advisor in the survey had between $50 million – $99.99 million in assets under management, but asset size was well-distributed: 24% of respondents had less than $25 million in AUM, while 43% had more than $100 million and 10% had more than $1 billion.

Many advisors were familiar with crypto: 17% of surveyed advisors owned "bitcoin, ethereum, or other cryptoassets" in their personal portfolios, including representatives of all four types of advisors–RIAs, broker-dealers, financial planners, and wirehouse reps. That number was roughly in line with the results of last year's survey, which showed that 19% of advisors owned crypto in their personal portfolios.

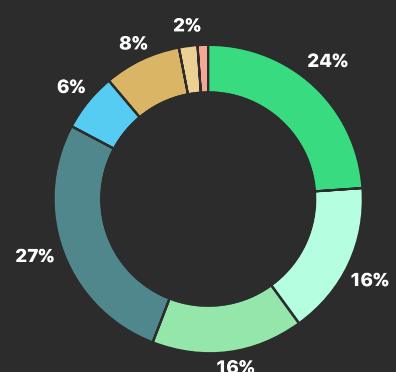


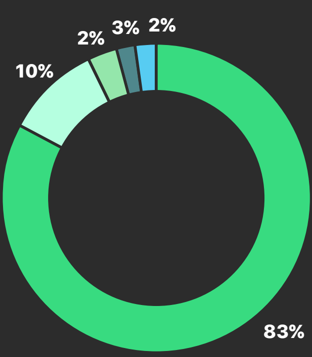
SURVEY RESPONDENTS BY ADVISOR TYPE

- *Independent RIA*
- *Broker-Dealer*
- *Financial Planner*
- *Wirehouse Rep*

SURVEY RESPONDENTS BY AUM

- *$1–24.99M*
- *$25M-$49.99M*
- *$50M-$99.99M*
- *$100M-$499.99M*
- *$500M-$999.99M*
- *$1B-$9.99B*
- *$10B-$49.99B*
- *$50B-$99.99B*
- *$100B+*





DO YOU OWN CRYPTO IN YOUR PERSONAL PORTFOLIO?

- *No*
- *Yes – Independent RIA*
- *Yes – Broker-Dealer*
- *Yes – Financial Planner*
- *Yes – Wirehouse Rep*

Survey Findings

ARE ADVISORS' CLIENTS INTERESTED IN CRYPTO?

Client interest and activity has remained much the same as in last year's report.

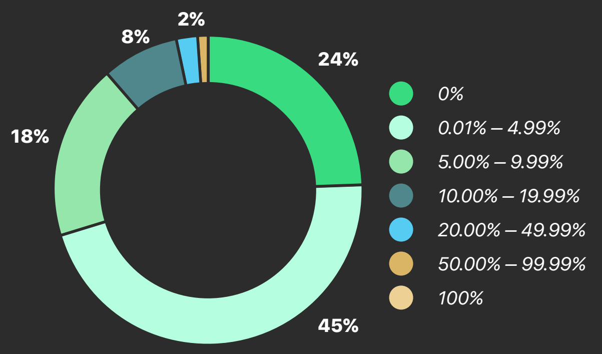
More than three-quarters (76%) of surveyed financial advisors reported that they had received a question from a client about crypto sometime in the past 12 months; this compares to 80% in last year's report. Most of the advisors (64%) who reported receiving questions this year said they had received them from a small number of clients (fewer than 10% of clients).

Interestingly, more than one-third of surveyed advisors (35%) believe that some or all of their clients are investing in crypto outside of their advisory relationship. An additional 37% said they didn't know whether or not clients were investing in crypto on their own. Taken together, 72% of advisors think clients may be investing in crypto outside of their advisory relationship, up from 65% last year.

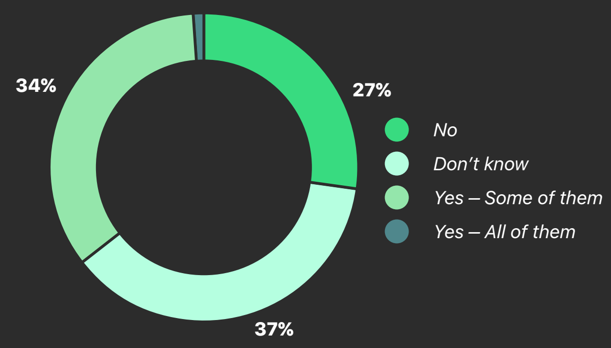
By comparison, just 27% of advisors were confident that their clients were not investing in crypto at this time. That number was down from 35% last year.

One significant challenge for advisors with regard to crypto is how to bring client assets inside the advisory relationship so that they can be professionally managed and monitored.

WHAT PERCENTAGE OF CLIENTS ASKED QUESTIONS ABOUT CRYPTO IN THE PAST 12 MONTHS?



DO YOUR CLIENTS INVEST IN CRYPTO ON THEIR OWN?



ARE FINANCIAL ADVISORS ALLOCATING TO CRYPTO IN CLIENT ACCOUNTS?

Crypto remains a rare allocation in advisor portfolios and the domain of cutting-edge early adopters: Just 6% of financial advisors currently have an allocation to cryptoassets in client portfolios.

Of those allocated to crypto, a strong majority (69%) are independent RIAs. That finding is not surprising, given that RIAs face fewer restrictions in terms of what types of investments to include in client accounts when compared to other categories of advisors, and are often seeking to differentiate themselves with bespoke attention to client needs.

By contrast, just 2% of wirehouse representatives reported having an allocation to crypto in client accounts.

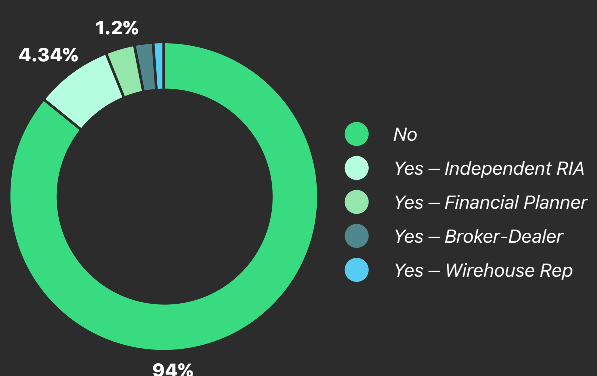
In a repeat of last year's findings, a majority of advisors with client assets invested in crypto also had personal investments in crypto (62%).

Among the surveyed advisors who have allocations to crypto in client portfolios, 42% intend to increase their clients' allocation to crypto in the next 12 months, and 58% intend to hold that position steady. None of the advisors with positions today intend to decrease or eliminate their position in the next year.

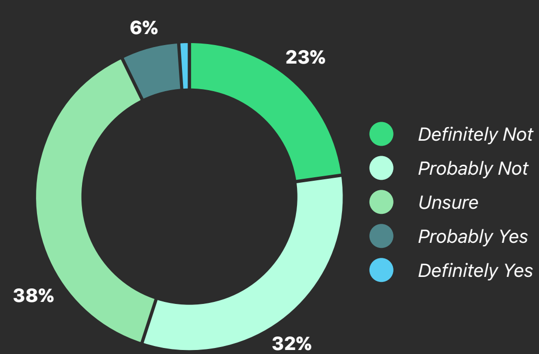
Among advisors who are not currently allocating to crypto in client portfolios, 7% say they will either "Definitely" (1%) or "Probably" (6%) allocate in the next year. If they follow through, that would more than double the percentage of advisors allocating to crypto in client accounts.

Beyond those advisors with explicit plans to allocate in client accounts, an additional 38% said they were "unsure" about whether they would allocate. Just 23% of advisors said they would "definitely not" allocate, and 32% said they would "probably not" allocate. This means nearly half (45%) of advisors are open to allocating to crypto in client portfolios in the next year.

DO YOU CURRENTLY ALLOCATE TO CRYPTO IN CLIENT ACCOUNTS?



IF NOT, DO YOU PLAN TO ALLOCATE TO CRYPTO IN CLIENT ACCOUNTS IN 2020?



WHAT ARE THE REASONS FOR ADDING CRYPTOASSET EXPOSURE TO CLIENT PORTFOLIOS?

For the second straight year, financial advisors reported the most attractive motivation for allocating cryptoassets to client portfolios was the low or uncorrelated nature of crypto returns when compared with traditional asset classes. 54% of all surveyed advisors highlighted this merit. That number was up significantly from last year, when 42% of respondents identified crypto's low or uncorrelated returns as attractive.

That finding aligns with Bitwise's qualitative view of how the primary narrative surrounding the investment aspects of crypto evolved in 2019. From our perspective, 2019 saw a significant uptick amongst both the mainstream media and traditional Wall Street analysts in discussing crypto as a "safe haven asset" and a new form of "digital gold." That messaging appears to have resonated with the financial advisor community.

The next-most-popular attribute highlighted in this year's survey was the "high potential returns" of cryptoassets (30%), followed by "clients are asking for it" (26%), and "something new to offer clients" (23%). The rank order of those attributes is identical with the rank order of favored attributes in last year's survey, suggesting a stable view on the role crypto can play.

Just 9% of advisors identified "inflation hedging" as an attractive attribute of crypto in this year's survey. That may reflect skepticism in crypto's ability to act as an inflation hedge, or may simply reflect the fact that inflation is not a significant concern among financial advisors today.

WHAT IS ATTRACTIVE ABOUT ADDING CRYPTO EXPOSURE TO CLIENT PORTFOLIOS?

Low or Uncorrelated Returns With Other Asset Classes	54%
High Potential Returns	30%
Clients Are Asking For It	26%
Something New To Offer Clients	23%
Inflation Hedging	9%

FROM WHERE WOULD YOU FUND AN ALLOCATION TO CRYPTOASSETS?

Advisors have a clear view of where they would fund an allocation to crypto: 57% of advisors said crypto would come out of the "alternatives" sleeve of their portfolios. Cash was the next-most-popular selection, at 15%, while equities and commodities tied, at 12%.

Interestingly, the percentage of advisors saying they would fund an allocation to crypto from their commodity portfolio doubled over the past year, from 6% to 12%. As discussed, this may reflect the rising interest in bitcoin as a form of "digital gold." Moreover, the percentage of advisors who would fund from alternatives or commodities increased, and cash decreased, suggesting, in our view, a maturation in advisors' understanding of crypto's performance characteristics and the role it's best suited to play in portfolios.

FROM WHERE WOULD YOU FUND AN ALLOCATION TO CRYPTO IN CLIENT PORTFOLIOS?

Alternatives	57%
Cash	15%
Equities	12%
Commodities	12%
Fixed Income	4%

WHAT IS PREVENTING YOU FROM ALLOCATING TO (OR ADDING TO YOUR ALLOCATION TO) CRYPTOASSETS?

Advisors highlighted a wide variety of issues when asked, "What is preventing you from either increasing your investment in cryptoassets or making your first allocation?"

The most popular response this year was "regulatory concerns," which was highlighted by 56% of advisors. That number was up significantly from last year, when 42% highlighted regulatory concerns as an impediment.

The result is interesting, because, from Bitwise's perspective, regulators made significant progress in the past year, with successful enforcement actions cleaning up the excesses of the 2017 crypto boom, additional BitLicenses granted by the New York State Department of Financial Services, and solid progress toward the approval of regulated investment products, including the recent approval of the first 1940 Act bitcoin fund (a limited interval fund). It may be that the extremely high-profile coverage of the regulatory and legislative response to Facebook's Libra proposal last summer has overshadowed quieter but significant progress on the regulatory front.

Beyond regulatory concerns, other top concerns were that crypto is "too volatile" (43%), advisors have "no idea how to value cryptocurrencies" (41%), and that advisors lack an "easily accessible investment vehicles like ETFs or mutual funds" (39%).

Some legacy concerns about crypto, however, continue to fade from view: Just 6% of surveyed advisors said they are worried that "cryptocurrencies are a scam," down from 11% last year; and only 13% expressed a concern that "cryptocurrencies are in a bubble," down from 19% last year.

WHAT IS PREVENTING YOU FROM EITHER INCREASING YOUR INVESTMENT IN CRYPTOASSETS OR MAKING YOUR FIRST ALLOCATION?

Regulatory concerns	56%
Too volatile	43%
No idea how to value cryptocurrencies	41%
Lack of easily accessible investment vehicles like ETFs or mutual funds	39%
Custody concerns / fear of hacks	34%
Lack of understanding	31%
Cryptoassets are associated with criminal activity	20%
Don't know where they fit in a portfolio	14%
Cryptocurrencies are in a bubble	13%
Cryptocurrencies are a scam	6%

WHAT WOULD MAKE YOU MORE COMFORTABLE ALLOCATING TO CRYPTOASSETS IN THE FUTURE?

For the second year running, "better regulation" was cited as the most common improvement that would make advisors more comfortable with allocating to (or increasing their allocation to) crypto; it was flagged by 58% of surveyed advisors. That number was up slightly from last year when 54% of advisors highlighted the need for better regulation. This is an important finding, as many market observers assume that other factors, such as crypto's high volatility or the lack of a bitcoin ETF, are the most important impediments to advisor adoption. The survey shows that regulatory clarity remains a significant hurdle.

Other top answers included "better custodial solutions" and "better education," which were highlighted by 42% of advisors each as key steps toward making them more comfortable about investing. "The launch of an ETF" was chosen by 37% of advisors as a key factor.

The rank order of concerns was consistent with last year's findings.

WHAT WOULD MAKE YOU MORE COMFORTABLE ALLOCATING TO CRYPTOASSETS IN THE FUTURE?

Better regulation	58%
Better custodial solutions	42%
Better education	42%
The launch of an ETF	37%
Less volatility	30%
Easier trading	29%

A NOTE ON CUSTODY

Crypto advocates may be surprised by the high number of advisors who cite "better custodial solutions" as a top concern given the rapid evolution of the crypto custody market in recent years and the existence of a large number of regulated, insured custodians. It's important to remember that many advisors take a conservative approach to custody, and will want to see new custodians "season" in the market before feeling comfortable.

In addition, generalist advisors often do not follow the day-to-day evolution of the market as closely as crypto advocates do. For instance, 75% of financial advisors surveyed this year were not aware that Fidelity Digital Assets offers custody services for bitcoin.

HOW WOULD YOU PREFER TO INVEST IN CRYPTO?

Surveyed advisors overwhelmingly would prefer to buy crypto in an ETF package compared with all other options. When asked what the most appealing investment vehicle for crypto would be, 65% of advisors chose “ETF.”

“Direct ownership of coins” was the distant second vote-getter, attracting 16% of surveyed advisors. These results were consistent with last year’s survey, although the percentage of advisors with a preference for an ETF increased year over year, up from 62% to 65%.

Advisors are divided on the best strategy for an investment in crypto. 45% of advisors said they would prefer an actively managed fund, while 43% thought a diversified index fund was the best way to go. Owning single coins was selected by 10% of advisors, while just 3% thought a hedge fund was the right approach.

HOW WOULD YOU PREFER TO INVEST IN CRYPTO?

Exchange-traded fund	65%
Direct ownership of individual coins	16%
Traditional mutual fund	9%
Closed-end fund	5%
Private fund	3%
Hedge fund	1%

ACTIVE VS. PASSIVE APPROACH

Actively managed fund	45%
Diversified index fund	43%
Single coin	10%
Hedge fund	3%

EXPECTATIONS FOR THE PRICE OF BITCOIN IN 5 YEARS

Advisors were asked to predict the price of bitcoin on Dec. 31, 2024, five years from now. In total, 395 advisors responded with qualifying answers ranging between $0 and $1 million.

A strong majority of financial advisors—64%—expected the price to rise between now and 2024. That number was up significantly from last year when 55% of advisors expected the price of bitcoin to rise. The move came even though bitcoin’s price appreciated from $4,000 in December 2018 to $7,000 in December 2019.

Although not broken out in the table, a detailed analysis of the submitted answers revealed that 35% of surveyed advisors expect the price of bitcoin to at least double in the next five years, and 5% expect the price to rise by at least 10X.

Not all advisors are so sanguine, however: 8% expect bitcoin to be worth exactly $0 in 2024.

WHAT WILL THE PRICE OF BITCOIN BE IN 5 YEARS?

$0	8%
$1 - $999	10%
$1,000 - $6,999	19%
$7,000 - $9,999	11%
$10,000 - $24,999	37%
$25,000 - $49,999	8%
$50,000 - $99,999	3%
$100,000+	4%

Conclusion

The Bitwise / ETF Trends 2020 Benchmark Survey Of Financial Advisor Attitudes Toward Cryptoassets took place at an interesting moment for crypto.

2019 was, in many ways, a quiet year for cryptoassets. While crypto prices surged—the Bitwise 10 Large Cap Crypto Index rose 51% on the year—crypto wasn't as front-and-center as it was in either 2017, when prices rocketed higher, or 2018, when the bear market took crypto prices down more than 80%.

Despite this, advisor interest in crypto remains significant, and for good reason. More than three-quarters of all advisors are receiving questions about crypto from clients, and most advisors either know or suspect their clients are investing in crypto on their own. In addition, advisors have noticed crypto's unique ability to deliver both high and uncorrelated returns, and find those attributes attractive.

It will be interesting to see how the market evolves in the next 12 months. After all, the number of advisors explicitly looking to allocate to crypto is expected to double in the next year, and there are many highly anticipated industry developments on the horizon.

What's clear is that advisors are continuing to look at the space, seeking to build their understanding, and are increasingly finding ways to serve their clients' interests and activity in this new asset class.

About Bitwise Asset Management

Bitwise Asset Management is the leading provider of index and beta funds for the cryptoasset space. The firm created the world's first and largest cryptoasset index fund in 2017, and today manages multiple funds serving high net worth individuals, financial advisors, family offices, multifamily offices, investment managers, and institutions. Its indexes serve as the benchmark for dozens of financial institutions and crypto funds. Based in San Francisco, Bitwise's team combines expertise in technology with decades of experience in traditional asset management and indexing—coming from firms including Facebook, Google, Wealthfront, BlackRock, Fidelity, Deutsche Bank, IndexIQ, and ETF.com. Bitwise is backed by leading institutional investors and is a frequent commentator on crypto in the press. It has been profiled in Institutional Investor, CNBC, Barron's, Bloomberg, The Wall Street Journal, The New York Times, and many other leading publications. The firm exists to be a trusted partner to investors as they navigate the cryptomarket. For more information, visit **www.bitwiseinvestments.com**.

About ETF Trends

ETF Trends was founded in 2005 by industry luminary Tom Lydon, who has carved out an enviable position as a true thought leader and tireless educator of the financial advisor community regarding ETFs. ETF education is delivered daily via multiple digital mediums including web, webcasts, research, video, podcasts, surveys and virtual summits. ETF Trends has become the leader in ETF industry coverage and evolving trends. It's where top-producing financial advisors and self-directed investors come together for a one-stop update on what's new, what's important, and how, why, and which ETFs are performing. News stories focus intently on educating investors regarding specific offerings, current market trends, sectors, asset classes, economies, and sentiment about every ETF market. The ETF Trends editorial team offers insightful content to readers to help them make the most of ETF investing and ETF trends. For more information, visit **www.etftrends.com**.

Disclosures

This White Paper ("Paper") is being presented for informational purposes only.

This Paper is neither an offer to sell nor a solicitation for an offer to buy Interests in any Fund. Bitwise Asset Management, Inc. and its affiliates (collectively, the "Manager") has produced and distributes this Paper for informational purposes only and in relation to a potential opportunity to subscribe for limited liability company interests ("Interests") in any of several Funds offered only to certain Accredited Investors by the Manager, including the Bitwise 10 Private Index Fund, LLC; the Bitwise Bitcoin Fund, LLC; and the Bitwise Ethereum Fund, LLC.

Any offer to sell or solicitation of an offer to buy Interests in those Funds will solely and exclusively be made through definitive offering documents, identified as such, in respect of each Fund and in compliance with the terms of all applicable securities and other laws. Such definitive offering documents, if any, will describe risks related to an investment in the Funds (including loss of the entire investment) and will qualify in their entirety the information set forth in this Paper.

The Units and the Shares (the "Interests") of the Funds have not been registered under the Securities Act of 1933, the securities laws of any state, or the securities laws of any other jurisdiction, nor is such registration contemplated. The Interests will be offered and sold under the exemption provided by Section 4(a)(2) of the Securities Act of 1933 and Rule 506 of Regulation D promulgated thereunder and other exemptions of similar import in the laws of the states and jurisdictions where the offering will be made. The offer and sale of the Interests have not been registered with or approved or disapproved by the Securities and Exchange Commission (the "SEC") or the securities commission or regulatory authority of any state, or foreign jurisdiction.

No Advice on Investment; Risk of Loss
Prior to making any investment decision in respect of a Fund, each investor must undertake its own independent examination and investigation of the Fund, including the merits and risks involved in an investment in the Interests, and must base its investment decision—including a determination whether Interests would be a suitable investment for the investor—on such examination and investigation and must not rely on the Manager of the Fund in making such investment decision. Prospective investors must not construe the contents of this Paper as legal, tax, investment, or other advice. Each prospective investor is urged to consult with its own advisor with respect to legal, tax, regulatory, financial, accounting, and similar consequences of investing in a Fund, the suitability of the investment for such investor, and other relevant matters concerning an investment in the Fund. Do not place undue reliance on this Paper.

Information May Change and Be Inaccurate, Incomplete, or Outdated
The information in this Paper is for informational purposes only, and no representations or warranties are given or implied. The information contained in this Paper is subject to further discussion, completion, and amendment. All of the information presented herein is subject to change without notice. This Paper may be updated to provide additional information or to remove information. Any use of this Paper is on an "as is" and "as available" basis and is at the user's sole risk.

Contact Us

VISIT: www.bitwiseinvestments.com

EMAIL: matt@bitwiseinvestments.com

PHONE: 1-415-837-8782

Bitwise