The Most Exciting News in Crypto in 10 Years – *and why you must temper your enthusiasm*

by Ric Edelman

The entire crypto community – and investors nationwide – are thrilled about the launch of the first–ever spot bitcoin ETFs.

My prediction: These ETFs will collectively represent the most successful ETF launch in history, ultimately receiving hundreds of billions of dollars in asset flows over the next three years.[1]

I also predict that $150 billion will flow into these new spot bitcoin ETFs from independent RIAs.[2] Add in the flows from financial advisors working at the nation's largest brokerage firms, regional and independent broker-dealers, as well as institutional and individual investors, and we could easily see trillions of dollars flowing into bitcoin over the next few years.

While the spot bitcoin ETF sponsors are understandably excited about this potential asset flow, investors themselves are ecstatic – because everyone is assuming that these massive new flows will cause bitcoin's price to skyrocket. Bitwise (which offers one of the new ETFs) says the price of bitcoin will be $80,000 by the end of 2024. Standard Chartered, one of England's biggest banks, says bitcoin will end 2024 at $100,000. Venture Capitalist Tim Draper says bitcoin will be $250,000 by year's end.

My view? I haven't said much about 2024, but I have been vocal about 2025: I believe bitcoin will be $150,000 within two years. I'm not alone in this prediction; AllianceBernstein also says that.

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And what might its price be by 2030? Techopedia predicts bitcoin will reach $120,000. JP Morgan says $150,000, Coinpedia says $350,000, and ARK Invest (another ETF sponsor) says bitcoin's price will hit $1.48 million.

I'm not aware of anyone predicting that bitcoin's future price will be lower than its 2023-ending price.

The above price predictions call for bitcoin to rise 2x to 6x in 2024; 4x to 9x by 2025; and 3x to 35x by 2030.

It's easy to get excited, especially when you compare those projections to the stock market, which might deliver a 2x gain by 2030. No wonder three in four financial advisors say

[1] That easily beats the ETF I invented, the iShares Exponential Technologies ETF, which at the time was the 2nd most successful ETF launch when it immediately attracted a mere $750 million.

[2] Here's how I reached that number: Independent Registered Investment Advisors collectively manage $8 trillion. Our research shows that 77% of these advisors say they haven't added crypto to their clients' portfolios because no spot ETFs exist, but that when those investments become available, they'll allocate an average of 2.5% of assets to them. Do the arithmetic: $8 trillion x 77% x 2.5% = $154 billion.

they plan to allocate 1% to 5% of client assets to these new spot bitcoin ETFs.[3]

Given all this excitement, my message is this: we all need to temper our enthusiasm. The mere launch of these ETFs will not cause bitcoin's price to double, triple or quadruple overnight.

The SEC's approval is not a light switch; it's going to take time for asset flows to occur – and those who don't realize this important fact are likely to experience disappointment from unfulfilled expectations. The disappointment could morph into regret when negative headlines highlight the fact that asset flows in the first weeks aren't as high as expected.

I'm predicting that independent RIAs will place $150 billion into spot bitcoin ETFs over the next two to three years. But initially, asset flows will be muted. To understand why, let's look at the advisory field as a business – because that's what it is. Financial advisors work in one of three channels: wirehouses, IBDs and RIAs.

Wirehouses are the nation's big brokerage firms – Merrill Lynch, Goldman Sachs, Morgan Stanley, JP Morgan, Wells Fargo, UBS and such. These massive corporations move slowly and bureaucratically; just because the SEC allows spot bitcoin ETFs onto the market doesn't mean that any of these firms will let their financial advisors offer them to clients. Instead, the wirehouses will evaluate the new products: their Investment Committees will decide which to approve for use, while their Legal & Compliance Officers will write policies governing which advisors can offer them, and which clients are permitted to invest in them (and how much each client is permitted to invest). All that will take time.

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For example, most wirehouses generally don't make new ETFs available to their advisors until those ETFs have at least $100 million in assets. The reason: the firms want confidence that the ETFs have sufficient liquidity to handle the massive trading flow that their tens of thousands of reps might generate. Thus, it could be a year or more before wirehouses allow their advisors to offer these ETFs to their clients.

The IBDs – Regional and Independent Broker-Dealers – such as Raymond James, A.G. Edwards, Edward Jones, and LPL – are often faster to move than the wirehouses, but they too are unlikely to let their financial advisors use these new ETFs immediately.

The quickest to act are the independent RIAs. Although each is small – typically with one to 10 advisors – there are 300,000 advisors operating in this channel. Most act as their

[3] Why such small allocations if the predictions for gains are so large? It's because a little goes a long way. A small 2.5% allocation can have an outsized impact on the overall portfolio's return, but if everyone is wrong and bitcoin becomes worthless, the 2.5% loss won't materially harm clients. They'll still be able retire in financial security and comfort. Thus, a low single-digit allocation offers an excellent risk/reward ratio, consistent with Modern Portfolio Theory and the Efficient Frontier.

own Compliance Officer, and few have a formal investment committee. That translates into agility, and since they process their trades through such custodians as Schwab, Fidelity, Pershing and others where the ETFs are immediately available, these advisors can act immediately as well.

Bitcoin is an outstanding addition to a long-term diversified portfolio, using all the traditional investment strategies you've mastered over the years, such as rebalancing, dollar cost averaging and tax-loss harvesting.

But even they won't move instantaneously. Let's face it: most advisors have not paid much attention to crypto. They don't understand blockchain, and they don't know how to explain bitcoin to clients.[4] Only after they get past that hurdle are advisors ready to tackle the big tactical questions: which of your clients should invest in these ETFs? What allocation is best for them? How will you communicate this recommendation, and how will you respond to their questions and objections?

For all these reasons, it's going to take time for assets to flow into these new spot bitcoin ETFs. So, make sure you have realistic expectations. Otherwise, you're going to be disappointed.

Even if the flows occur, bitcoin's price still might not rise as fast as you expect. While the new spot bitcoin ETFs will be buying bitcoin, other investors will be selling bitcoin. Some will be locking in their 2023 profits, and others will be rebalancing their portfolios.

And let's not forget the bankruptcy trustees. The Mt. Gox Rehabilitation Trust and the trustees managing FTX's bankruptcy are under court orders to sell their bitcoin holdings and return the proceeds to the victims of those frauds. The Mt. Gox Trust will be selling $5 billion worth of bitcoin this year; the FTX trustees will unload another $3.5 billion. This downside selling pressure will offset some of the upside buying frenzy.

In the long-term, I fully expect bitcoin's price to be in the low to middle six figures. But it won't happen overnight. This makes bitcoin an outstanding addition to a long-term diversified portfolio, using all the traditional investment strategies you've mastered over the years, such as rebalancing, dollar cost averaging and tax-loss harvesting.

But triple-digit gains instantly? Help your clients temper their enthusiasm.

[4] That's why I created the CBDA professional designation. By becoming Certified in Blockchain and Digital Assets, you develop the knowledge you need so you can serve your clients with this new asset class. Learn more at DACFP.com.