

Crypto 101 For Financial Advisors



At BlockFi, we know that cryptocurrency is the future of finance. Blockchain technology, which powers cryptocurrencies like Bitcoin, has the power to bring [financial empowerment and crisis prevention](#) to people on a global scale by creating a system based on security, transparency, and responsible scalability.

As cryptocurrency continues to become more popular and accessible, clients may become more interested in how to include crypto in their financial portfolio. BlockFi is here to help you understand the basics of cryptocurrency and how it can positively impact the reach and growth of your clients' portfolios.

Intro to Crypto & Bitcoin

To fully understand what cryptocurrency is and how it can benefit your clients, it's important to know the grandparent of all cryptos - Bitcoin. Since its creation, Bitcoin has risen out of fringe economics and entered the main stage. PayPal [now offers](#) its customers the ability to buy, sell, and hold Bitcoin and other cryptocurrencies. This announcement comes after other popular fintech companies have entered the crypto market, such as [Square, Inc.](#) and [RobinHood Markets, Inc.](#) Bitcoin has established respect in the traditional finance world, creating a bullish environment for investors and incredibly widespread acceptance and accessibility.

Satoshi Nakamoto introduced the concept of Bitcoin in a [whitepaper](#) in 2008. (Note: The name Satoshi Nakamoto is a pseudonym. The creator of Bitcoin is not currently known.) He created Bitcoin in the midst of a rise in electronic transactions created by a sharp increase in internet shopping.

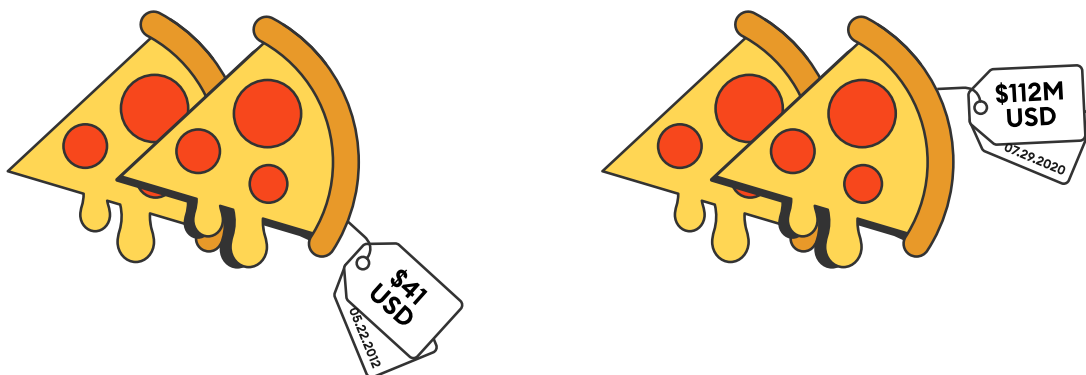
During this time, all electronic transactions required an intermediary, e.g. PayPal, to facilitate transactions. Intermediaries, however, introduce costs and risks not present in cash transactions. For instance, intermediaries have fixed costs that ultimately get passed along, either to the distributor, store, or directly to the consumer, and create a floor for minimum transaction amounts. Customers also lose the anonymity of cash transactions, as intermediaries demand information from their clients in the case of government audits.

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Bitcoin was conceived of as having no associated fees and offering true anonymity – both of which were impossible with the use of intermediaries.

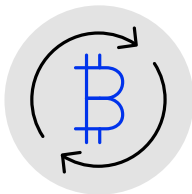
One interesting thing to note is that bitcoin did not always have a monetary value. In its infancy, bitcoin was simply mined, or created, and not speculated on or spent. The first valuation of bitcoin came in 2010 from an [unlikely source](#). An early holder of bitcoin decided to use 10,000 bitcoins to pay for two pizzas. Based on the price of bitcoin as of October 30, 2020, that would mean those two pizzas cost more than 135 million dollars. And they weren't even larges!

In 2010, someone bought two pizzas for 10,000 BTC...

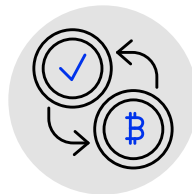


What is Bitcoin?

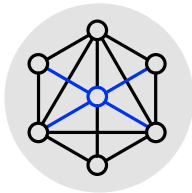
That’s a good question. Even if you understand how it can be used and why it’s important, the *what* of bitcoin can still feel esoteric. Simply put, bitcoin uses blockchain, an electronic ledger. In this case, the ledger is used to track transactions, but blockchain can be utilized in any number of ways.



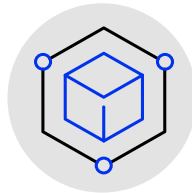
A new **transaction** is created



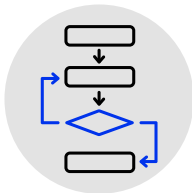
Available nodes in the network verify all three data points to ensure the transaction is **verified**



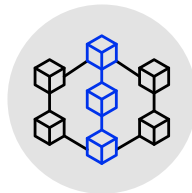
The transaction is broadcast to Bitcoin’s **peer-to-peer (P2P) network**, a decentralized network of computers, or nodes



The transaction is then bundled with other verified transactions to create a new block of data for the **blockchain**



Each transaction contains **three essential data points**: the input (where the Bitcoin is coming from), the output (where the Bitcoin is going), and the transaction amount



The new block is added to the **existing blockchain** as part of the public ledger

Source: Blockgeeks

Blockchain, the fundamental technology behind bitcoin, is designed to be secure, anonymous, and decentralized. It is a time-stamped series of unchanging data that is managed by a network of computers, rather than by any single entity or agency.

Blockchain is used by bitcoin to keep a history of transactions. Individuals create transactions (e.g., trading for other crypto currencies, purchasing goods), and groups of transactions are lumped together in what we call “blocks.” A series of blocks are secured and bound to each other using cryptographic principles and form a blockchain. Each transaction keeps a piece of information of the transaction that took place before it, which is available for public verification. This keeps the integrity of the blockchain sound by ensuring all information is linked and verified by the network of computers the blockchain lives on.

Because there is no centralized intermediary verifying each transaction, blockchain allows for the possibility of anonymity.

Exchanges are platforms where you can use cash to buy bitcoin or other cryptocurrencies. They are generally operated by a centralized entity that helps facilitate trades between buyers and sellers through an order book. Additionally, funds (fiat or cryptocurrency) are stored on the exchange itself, providing quick and easy access to your assets. The success of an exchange is largely driven by high-trading volumes. This provides an exchange with the liquidity to place orders (buys or sells) and have it filled quickly.

The revolutionary blockchain technology created by Satoshi Nakamoto and championed by bitcoin provides the foundation for the rest of the cryptocurrency market. There is an abundance of other cryptocurrencies, including Ethereum, Litecoin, Stablecoins (which are based on the values of various fiat currencies), and thousands of others. Many are based on the same blockchain technology that bitcoin is based on, while others, like Ethereum, pioneer other technologies.

Why should your clients use crypto?



Retirement

Investing in crypto for retirement isn't the same as adjusting your investment allocation in your 401(k). After all, most 401(k) plans offer a limited number of investments, and cryptocurrencies aren't likely to be an option.

You can, however, invest in cryptocurrencies in a self-directed IRA. Traditional IRAs and Roth IRAs typically allow investors to choose from a pre-selected menu of stocks, bonds, certificates of deposits, and exchange-traded funds. A self-directed IRA provides the same tax-advantages as other IRAs, but allows investors to hold unique and varied investment options in their retirement account.

CUSTODIAN CONTROLLED SELF-DIRECTED IRA.

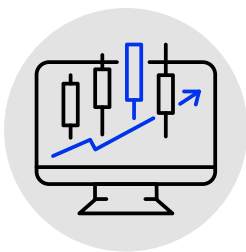
Knowing how many investors are interested in alternative assets, some financial institutions have jumped on the self-directed IRA bandwagon. While some non-traditional investments, such as real estate or tax liens, may be allowed, the custodian may still limit your investment choices. Before you invest, you need to get approval from the custodian. You'll be charged a fee for their review of the transaction, and there's no guarantee that they will approve your investment.

CHECKBOOK-CONTROLLED SELF-DIRECTED IRA.

With a checkbook-controlled self-directed IRA, you have total control over your investments. Essentially, you set up a limited liability company (LLC) owned by your IRA account. Then you purchase any investments you're interested in—including cryptocurrencies—using a checkbook, debit card, or wire transfer without needing approval from the custodian.

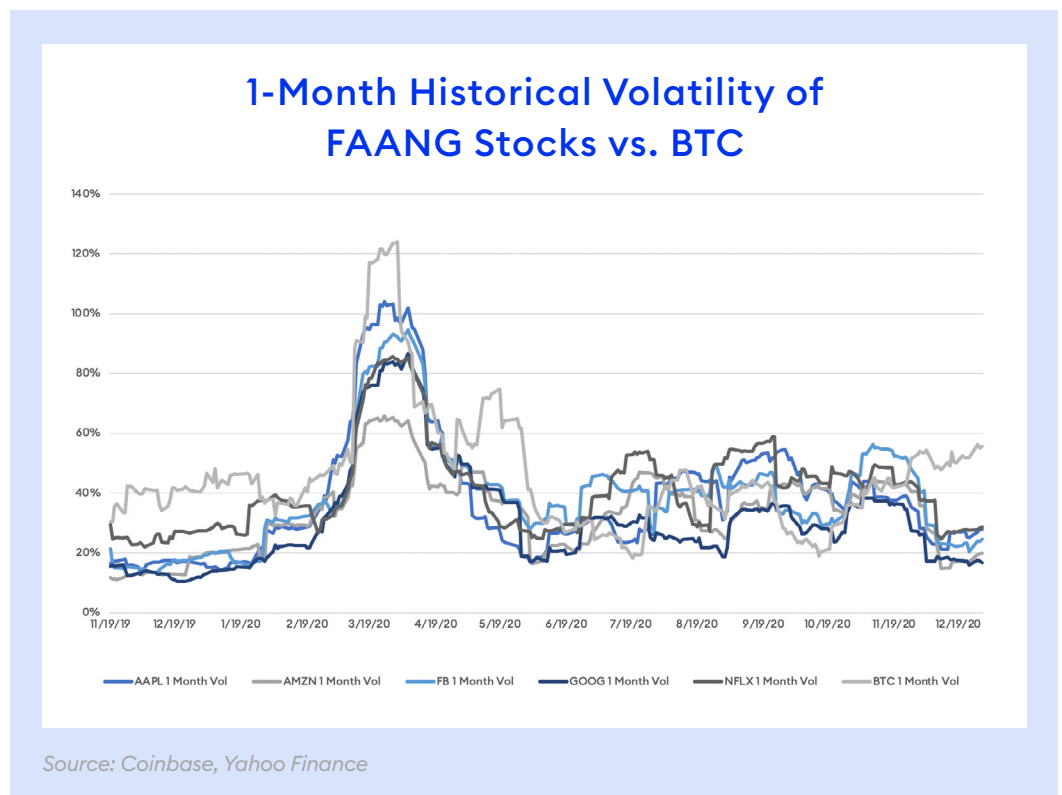
Of course, some believe that opening a self-directed IRA and purchasing a large volume of one type of cryptocurrency isn't always the best move, especially if those cryptocurrencies account for a disproportionately large ratio of your retirement portfolio. That's why cryptocurrency index funds have become more popular.

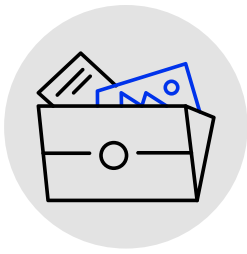
A cryptocurrency index fund follows the same concept but invests in a collection of various cryptocurrencies. Investors buy shares in the fund rather than investing directly into cryptocurrencies, and thus have a more diversified crypto portfolio than they would if they'd invested by themselves.



Volatility

Bitcoin has often faced criticism for being too volatile for investment. However, as adoption of bitcoin and development of investment products and derivatives grows, bitcoin's volatility has decreased. As more institutional investors enter the space and sentiment begins to shift, volatility patterns have shifted as well. From September through October, Bitcoin's volatility remained below FAANG stocks, falling to 20%. In comparison, we see Apple, Amazon, and Netflix volatility at 40%.





Portfolio

REAL ESTATE. Many digital assets holders have a majority of their investment portfolio in cryptocurrencies. However, diversifying your investments is one way to make sure your portfolio is safe from market fluctuations. A popular way to do this is by investing in real estate.

Some people will purchase a vacation home, purchase a second home to rent out as an additional income source, or even purchase a commercial property. For people who sit on a large amount of crypto, leveraging your Bitcoin or Ether can be a great way to simultaneously diversify your investments with real estate while taking advantage of the crypto’s value without having to sell.

STOCKS. For many investors, obtaining capital to increase their stock positions is always a challenge. This is especially true for cryptocurrency investors. Now that the Blockchain ecosystem also offers the ability to long and short cryptocurrencies, there are even more financial products to take advantage of.

Cryptocurrency holders can also leverage their crypto holdings towards a USD loan, meaning they don’t need to sell and actualize their capital gains to access the liquidity of their investment portfolio.



Real Estate



Stocks

How BlockFi Can Help Your Clients



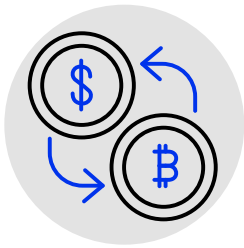
Crypto Loans

Many crypto owners have a long-term view of their investments. Although they plan to hold their cryptocurrencies, sometimes circumstances force investors to sell their crypto for USD. Rather than selling, investors can use their cryptocurrencies as collateral towards a [cryptocurrency backed loan](#). This allows them to maintain ownership of their funds while gaining access to the USD they need to fund their projects.

Crypto moves fast, and so do crypto loans. BlockFi can fund loans on the same business day we receive a client's collateral. Clients can apply for a loan and be funded in USD, GUSD, or USDC directly into their bank accounts or wallets in as few as 90 minutes.

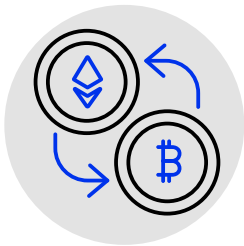
Crypto-backed loans are extremely cost-effective and offer an efficient process for managing an investor's cryptocurrencies when they need access to USD. BlockFi clients tend to use their loans toward a number of different purposes, including:

- BUYING A HOME – traditional lenders will not let you pay for a home with crypto
- DIVERSIFYING INVESTMENTS – lower the risk of your portfolio with diversification
- PAYING OFF HIGH-COST DEBT – refinancing debt from credit cards or student loans
- FUNDING A BUSINESS – access credit for business expenses using crypto



Buying crypto

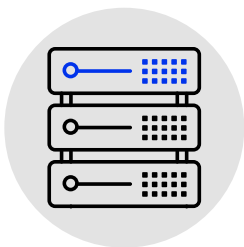
Places to purchase cryptocurrency have been evolving for several years, becoming more secure and accessible for less crypto-inclined users. At first, bitcoin could only be purchased via underground markets, done person-to-person, out of sight from the general public. These days there are many trustworthy cryptocurrency service providers, like BlockFi, that make it much easier to enter the newest revolution in digital currency.



Trading crypto

Fund an account with fiat or cryptocurrency, find the cryptocurrency you would like to buy, and use the funds in your account to purchase it. It's really that simple! With easy-to-use platforms like BlockFi, you can [trade crypto](#) before you even have your first cup of coffee.

Of course, there is a whole lot more you can do with crypto trading. In addition to trading fiat money into crypto, you can also trade cryptocurrencies for other cryptocurrencies. In fact, more advanced trading involves regularly, or "actively," trading between cryptocurrencies to take advantage of fast-moving price fluctuations.



The BlockFi Interest Account

[BlockFi's Interest Account \(BIA\)](#) can offer your clients a strategy to help them grow their investment holdings and build overall wealth. The BIA enables individuals and companies that own cryptoassets to earn interest in crypto on their crypto held at BlockFi without having to trade to take advantage of market fluctuations. Interest is paid out at the beginning of every month and the interest earned by account holders [compounds](#), increasing the annual yield for our clients.

Do more with your crypto.

Learn More



EARN
INTEREST



BORROW
USD



TRADE
CURRENCY

In Conclusion

Crypto is an incredibly diverse and exciting investment opportunity at the forefront of financial technology advancement. Whether your client wants to earn interest, diversify their portfolio, get a loan quickly, or bolster their retirement funds, crypto can be their answer.

Visit [BlockFi for Financial Advisors](#) to learn more about how crypto can fit into your clients' investment portfolios

BlockFi does not provide financial or tax advice and you should consider your financial situation and seek appropriate financial and tax advice before deciding to use our services. Rates for BlockFi products are subject to change. Digital currency is not legal tender, is not backed by the government, and BIA accounts are not subject to FDIC or SIPC protections.