Bitwise

The Bitwise/ETF Trends 2021 Benchmark Survey of Financial Advisor Attitudes Toward Cryptoassets

Introduction

2020 was a milestone year in crypto. Crypto prices—as measured by the Bitwise 10 Large Cap Crypto Index—soared nearly 300%. Many institutional investors—from hedge fund managers like Paul Tudor Jones[1] and Stanley Druckenmiller,[2] to the chief investment officers of firms like BlackRock[3] and Guggenheim Investments[4]—either announced allocations to crypto or declared their interest in the space.

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 for the third consecutive year to conduct *The Bitwise/ETF Trends 2021 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 thinking about crypto after the developments of 2020, including whether and how they are allocating to crypto in client portfolios.

The findings were revelatory. Among the highlights:

CURRENT ALLOCATION

The number of advisors allocating to crypto in client portfolios rose 49% in 2020, from 6.3% to 9.4%.

FUTURE ALLOCATION

17% of advisors who do not currently allocate to crypto say they will either "definitely" or "probably" start an allocation in 2021, up from just 7% in 2020.

MOTIVATION

Crypto's low correlation to other assets is the No. 1 motivation for adding crypto to portfolios, highlighted this year by 54% of advisors completing the survey. This result is in line with last year's survey.

NEW INFLATION FOCUS

Crypto's role as a potential hedge against inflation moved front-and-center for advisors in 2021: 25% of advisors in this year's survey highlighted inflation hedging as an attractive feature of crypto, up from just 9% last year.

CLIENT INTEREST

Investor interest in crypto is growing: 81% of all financial advisors report receiving questions from clients on crypto in 2020, up from 76% in last year's survey.

CLIENT BEHAVIOR

76% of advisors think clients either are (36%) or may be (38%) investing in crypto on their own, outside of their advisory relationship.

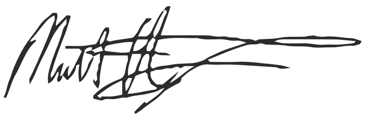
PRICE EXPECTATIONS

Advisors are increasingly bullish: 15% expect the price of bitcoin to exceed $100,000 within five years, up from just 4% last year. Meanwhile, the fraction expecting bitcoin's price to fall to zero decreased sharply, from 8% in 2020's survey to 4% this year. This continues a trend: In our 2019 survey, 14% of surveyed advisors thought the price would fall to zero.

1 Schatzker, E. *Paul Tudor Jones Buys Bitcoin as a Hedge Against Inflation.* Bloomberg. May 7, 2020.
2 Keely, A. *Billionaire Stanley Druckenmiller says that he's placed a bet on bitcoin.* The Block. November 9, 2020.
3 Stankiewicz, K. *BlackRock's Rieder says bitcoin can replace gold "to a large extent" and crypto is "here to stay."* CNBC. November 20, 2020.
4 Greifeld, K., and Hajric, V. *Guggenheim's Scott Minerd says bitcoin should be worth $400,000.* Bloomberg. December 16, 2020.

The survey's findings show a clear and notable rise in interest in and allocations to crypto among financial advisors. Still, they are also a reminder that we are still very early in the development of crypto as a mainstream allocation. Many advisors are still in the learning phase, and are waiting for key regulatory developments—including the launch of an ETF—before they invest on behalf of their clients.

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.



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Methodology

The goal of *The Bitwise/ETF Trends 2021 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 2020. 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 994 eligible, complete responses from financial advisors. That number is up significantly from the 415 eligible, complete responses received by last year's survey. The inaugural survey (2019) received 151 eligible, complete responses.

Respondent Profile

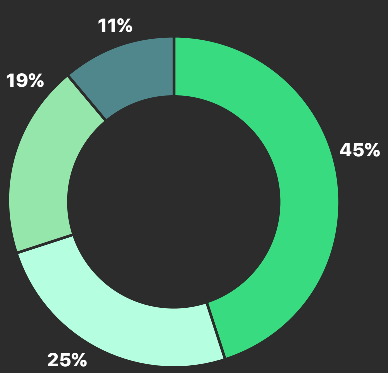
Independent RIAs represented nearly half of all respondents (45%), followed by independent broker-dealer representatives (25%), financial planners (19%), and wirehouse representatives (11%).

The breakdown in respondents was very similar to last year's survey. The biggest difference was in the total number of respondents, which rose 140%.

The mean advisor in the survey had between $50 million and $99.99 million in assets under management, but asset size was well-distributed: 24% of respondents had less than $25 million in AUM, while 45% had more than $100 million, and 9% had more than $1 billion. The asset breakdown was nearly identical to last year's survey.

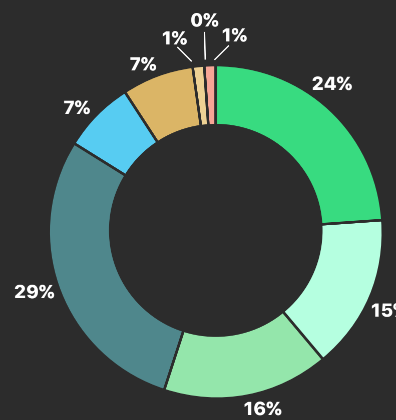
The percentage of advisors who reported owning crypto assets in their personal portfolios grew substantially in the past year: 24% of advisors said they own "bitcoin, ethereum, or other cryptoassets" in their personal portfolio in this year's survey, up from 17%.

RIAs and broker-dealer representatives were the most likely to own crypto, with 30% and 29% of all respondents in those categories responding positively to the question, respectively. That compared to 15% of financial planners and 14% of wirehouse reps.



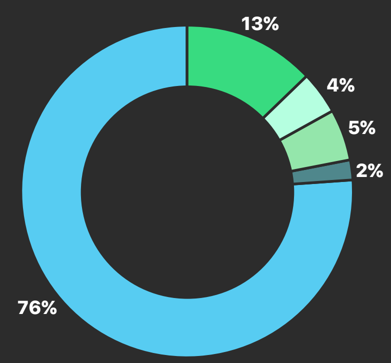
SURVEY RESPONDENTS BY ADVISOR TYPE

- *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?

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

Survey Findings

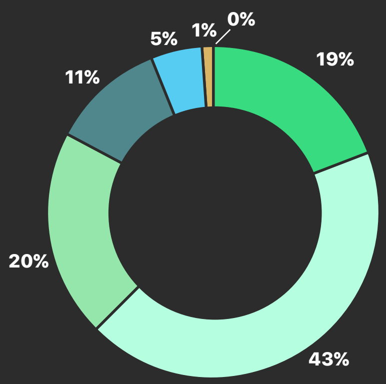
ARE ADVISORS' CLIENTS INTERESTED IN CRYPTO?

Client interest in crypto rose in the past year, with advisors reporting a significant uptick in questions from clients about the space.

Eighty-one percent (81%) 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 76% in last year's report. Still, most advisors (83%) reported receiving questions from a small number of clients (fewer than 10% of clients).

Nearly three-quarters (74%) of surveyed financial advisors thought their clients were or could be investing in crypto outside of their advisor relationship. Thirty-six percent (36%) of advisors reported that some or all of their clients were investing in crypto on their own, and 38% said they didn't know if they were investing or not.

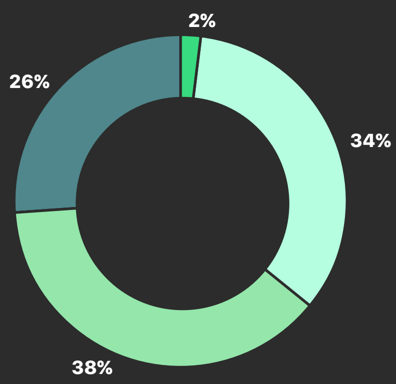
By comparison, just 26% of advisors were confident that their clients were not investing in crypto at this time. That number was down from 28% last year, and from 35% in the first year of the survey.



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

- *0%*
- *0.01% – 4.99%*
- *5.00% – 9.99%*
- *10.00% – 19.99%*
- *20.00% – 49.99%*
- *50.00% – 99.99%*
- *100%*

Note: Results may not add to 100% due to rounding.



DO YOUR CLIENTS INVEST IN CRYPTO ON THEIR OWN?

- *Yes – All of them*
- *Yes – Some of them*
- *Don't Know*
- *No*

ARE FINANCIAL ADVISORS ALLOCATING TO CRYPTO IN CLIENT ACCOUNTS?

The percentage of financial advisors who report allocating to crypto in client accounts rose more than 50% last year, from 6.3% to 9.4%. Still, with less than 10% of advisors reporting allocations, this remains the domain of early adopters.

Of those allocated to crypto, a majority (58%) 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, very few wirehouse representatives reported having an allocation to crypto in client accounts.

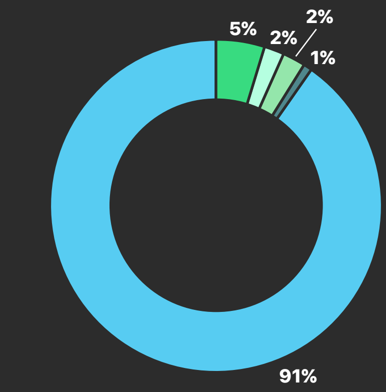
In a strengthening of last year's findings, the vast majority of advisors with clients invested in crypto also had personal investments as well: 82% of advisors reporting client allocations to crypto also reported a personal investment in the space.

Seventy-eight percent (78%) of surveyed advisors who have allocations to crypto in client portfolios intend to increase their clients' allocation to crypto in the next 12 months, and 22% intend to hold steady. No advisor with client positions today reported plans to decrease or eliminate their position.

The percentage of advisors planning to increase their clients' allocation to crypto rose substantially this year; last year, just 42% of advisors with client allocations reported plans to increase that allocation.

Seventeen percent (17%) of advisors who are not currently allocating to crypto in client portfolios said they will either "definitely" (2%) or "probably" (15%) allocate in the next 12 months. That is more than double the number who reported plans to allocate in the 2020 survey, when just 7% of advisors said they either "definitely" (1%) or "probably" (6%) planned to start an allocation.

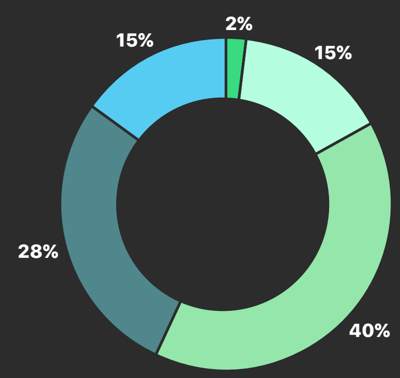
Beyond those advisors with explicit plans to allocate in client accounts, an additional 40% said they were "unsure" about whether they would allocate. Just 15% of advisors said they would "definitely not" allocate, and 28% said they would "probably not" allocate. That means more than half (57%) of advisors are open to allocating to crypto in client portfolios in the next year, up from 45% in last year's survey.



DO YOU CURRENTLY ALLOCATE TO CRYPTO IN CLIENT ACCOUNTS?

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

Note: Results may not add to 100% due to rounding.



IF NOT, DO YOU PLAN TO ALLOCATE TO CRYPTO IN CLIENT ACCOUNTS IN 2021?

- *Definitely Yes*
- *Probably Yes*
- *Unsure*
- *Probably Not*
- *Definitely Not*

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

This year's survey saw a sharp uptick in advisors highlighting crypto's "high potential returns" and its role in "inflation hedging" as key attractive features of the asset class.

Thirty-eight percent (38%) of advisors highlighted "high potential returns'' as an attractive feature of crypto, up from 30% in last year's survey. Of note, the Bitwise 10 Large Cap Crypto Index—a leading market-cap-weighted index of the largest cryptoassets—rose 294.8% in 2020, which may explain why performance was top of mind for advisors. ***[Past performance is not a guarantee of future returns. Please see "Disclaimers'' at the end of this document.]***

The biggest increase by far, however, was for "inflation hedging," which 25% of advisors highlighted as an attractive feature, up from just 9% in last year's results. There has been a significant rise in interest in inflation-hedging tools over the past year, and a number of well-known institutional investors publicly highlighted bitcoin as a potential hedge against inflation risks in the past year.

Other potential attractive features reported steady or rising interest as well. For instance, the percentage of advisors highlighting crypto's low correlation to other assets stayed steady at 54%; the percentage of advisors reporting that "clients are asking for it" rose from 26% to 27%; and the percentage reporting that "something new to offer clients" was attractive jumped from 23% to 28%.

Of course, not all advisors found positive things to highlight. Seven percent (7%) of all advisors surveyed (71 of 994 survey participants) did not select any of the five proposed attractive features. Many of these advisors wrote in comments saying there was "nothing" attractive about cryptoassets, with some noting that cryptoassets are "fake" and others wrote that crypto is "too risky" for their clientele.

WHAT IS ATTRACTIVE ABOUT ADDING CRYPTO EXPOSURE TO CLIENT PORTFOLIOS?

	2021 Survey	*2020 Survey*
Low or Uncorrelated Returns With Other Asset Classes	54%	54%
High Potential Returns	38%	30%
Something New To Offer Clients	28%	23%
Clients Are Asking for It	27%	26%
Inflation Hedging	25%	9%
Other	7%	9%

FROM WHERE WOULD YOU FUND AN ALLOCATION TO CRYPTOASSETS?

Advisors continue to have a clear view of where they would fund an allocation to crypto: 51% of advisors said crypto would come out of the “alternatives” sleeve of their portfolios. This number was down, however, from last year’s results, when 57% of advisors looked toward alternatives as a funding source for crypto.

Interestingly, “equities” overtook “cash” as the next most popular option, with the percentage of advisors turning to their equity sleeve to fund a crypto allocation rising from 12% to 18%. Cash rose slightly, from 15% to 17%, but couldn’t keep pace with the rise in the equity allocation.

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

	2021 Survey	*2020 Survey*
Alternatives	51%	57%
Equity	18%	12%
Cash	17%	15%
Commodities	10%	12%
Fixed Income	5%	4%

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

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

For the second year in a row, "regulatory concerns" topped the list of advisor worries, with 54% of advisors highlighting regulation as a key barrier, down slightly from 56% in the 2020 survey.

Other top concerns included worries that crypto is "too volatile" (39%, down from 43%), that advisors have "no idea how to value cryptocurrencies" (36%, down from 41%), and that advisors lack "easily accessible investment vehicles like ETFs or mutual funds" (37%, down from 39%).

A new option in this year's survey—"don't feel confident talking to clients about crypto"—attracted 22% of advisors.

Certain concerns about crypto faded from view this year: For instance, just 4% of surveyed advisors said they are worried that "cryptocurrencies are a scam," down from 6% last year and 11% in the 2019 survey.

Others, however, remained doggedly intact: 30% of advisors highlighted "custody concerns/fear of hacks" as a top concern, despite the progress that has occurred in that space over the past few years, with well-known names like Fidelity now offering custody solutions in crypto.

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

	2021 Survey	*2020 Survey*
Regulatory concerns	54%	56%
Too volatile	39%	43%
No idea how to value cryptocurrencies	36%	41%
Lack of easily accessible investment vehicles like ETFs or mutual funds	37%	39%
Custody concerns/fear of hacks	30%	34%
Lack of understanding	36%	31%
Cryptoassets are associated with criminal activity	12%	20%
Don't feel confident talking to clients about crypto	22%	*
Reputational risk with colleagues	8%	*
Cryptocurrencies are a scam	4%	6%
Don't know where they fit in a portfolio	*	14%
Cryptocurrencies are in a bubble	*	13%

** Indicates not asked in a given survey.*

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

"Better regulation" topped the list of developments that would make financial advisors more comfortable allocating to crypto for the third year running, with 51% of advisors highlighting regulatory progress as a key milestone for the future. This was down from 58% in last year's survey, but remained the most popular response.

The percentage of advisors highlighting "better education" and "the launch of an ETF" as key milestones, however, rose sharply this year. Fifty percent (50%) of respondents highlighted "better education" as a key step toward becoming more comfortable, up from 42% in last year's survey, and 47% highlighted the "launch of a bitcoin ETF," up from 37% last year.

Significant appetite still exists for better custodial solutions as well, with 39% of advisors highlighting this as a factor that would make them more comfortable allocating. That number is down slightly from the 2020 survey, when 42% of advisors highlighted better custody in this question, but remains significant.

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

	2021 Survey	*2020 Survey*
Better regulation	51%	58%
Better education	50%	42%
Launch of a bitcoin ETF	47%	37%
Better custodial solutions	39%	42%
Easier trading	32%	29%
Less volatility	25%	30%
Other	2%	6%

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, 64% of advisors chose "ETF." That finding was consistent with last year's results, when 63% of advisors highlighted "ETF" as their favored tool for accessing the space.

"Direct ownership of coins" was the distant No. 2 vote-getter, attracting 16% of surveyed advisors, while 10% of advisors highlighted a "traditional mutual fund" as the most attractive package.

Advisors are divided on the best strategy for an investment in crypto. Forty-three percent (43%) of advisors said they would prefer an actively managed fund, while 36% thought a diversified index fund was the best way to go. There was a significant uptick in the percentage of advisors highlighting "owning single coins" as the most attractive approach, with that number rising from 10% to 15% of surveyed advisors. Just 3% thought a hedge fund was the right approach.

WHAT IS THE PREFERRED VEHICLE FOR INVESTING IN CRYPTO?

	2021 Survey	*2020 Survey*
Exchange-Traded Fund	64%	63%
Direct Ownership of Individual Coins	16%	16%
Traditional Mutual Fund	10%	9%
Closed-End Fund	4%	5%
Private Fund	4%	3%
Hedge Fund	1%	1%

WHAT IS THE MOST DESIRABLE APPROACH TO INVESTING IN CRYPTO?

	2021 Survey	*2020 Survey*
Actively Managed Fund	43%	45%
Diversified Index Fund	36%	43%
Single Coin	15%	10%
Hedge Fund	3%	3%
Other	2%	N/A

EXPECTATIONS FOR THE PRICE OF BITCOIN IN 5 YEARS

Each year, we ask advisors where they think the price of bitcoin will be five years in the future, as one way of measuring sentiment toward the cryptoasset class. Importantly, this year's survey took place amid a rapid rise in the price of bitcoin: Bitcoin was trading at approximately $19,700 when the survey began on December 1, 2020, and at nearly $29,000 when the survey closed on December 31, 2020. Both numbers are up significantly from where bitcoin was when last year's survey was conducted: Bitcoin closed 2019 at $7,194.

This year's survey shows that advisors are strongly and increasingly bullish about the outlook for bitcoin. For instance, 15% of surveyed advisors expect the price of bitcoin to exceed $100,000 within five years, up from just 4% in last year's survey.

Nearly two-thirds (64%) of surveyed advisors expect it to exceed $25,000, up from just 15% in last year's survey.

Additionally, the fraction of advisors who expect bitcoin to fall to a value of $0 was cut in half this year, falling from 8% in last year's survey to 4% today.

WHAT WILL THE PRICE OF BITCOIN BE IN 5 YEARS?

	2021 Survey	*2020 Survey*
$0	4%	8%
$1 - $999	7%	10%
$1,000 - $6,999	7%	19%
$7,000 - $9,999	1%	11%
$10,000 - $24,999	17%	37%
$25,000 - $49,999	33%	8%
$50,000 - $99,999	16%	3%
$100,000+	15%	4%

Conclusion

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

Cryptoasset prices rose nearly 300% in 2020, as measured by the Bitwise 10 Large Cap Crypto Index. Crypto also regained mainstream attention, and a large number of institutional investors, hedge fund investors, and corporations made their first allocations to the space.

Financial advisors warmed to crypto significantly as well. As discussed, the percentage of financial advisors allocating to crypto in client accounts rose nearly 50% in the past year, and the percentage looking to start new allocations in the year ahead soared. Even the absolute number of respondents to this survey—994 vs. 415 last year—is indicative of rising interest.

Despite these facts, this year's survey is a reminder of how early it is in crypto's emergence as a mainstream asset class: After all, just 10% of advisors surveyed currently have an allocation to crypto. Still, things are progressing quickly: That number is expected to more than double in 2021, with an additional 17% of advisors indicating that they will either "definitely" or "probably" start an allocation this year. The biggest developments that could increase this number revolve around regulation and the launch of a bitcoin ETF.

2021 is looking like a pivotal moment from crypto for financial advisors—the year that crypto transitions from a specialized allocation for cutting-edge financial advisors to something more mainstream.

Advisors are clearly considering the space, building their understanding, and increasingly finding ways to serve their clients' interests and activity in this new asset class.

About Bitwise Asset Management

Bitwise Asset Management is a leading provider of index and beta 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 asset management executives, 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 is a trusted partner to financial advisors, RIAs, multifamily offices, hedge funds, and other professional investors as they navigate the crypto space. 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**.

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