Andrew 0:00

Welcome. My name is Andrew Barron, and this is, *Well… It Depends,* the podcast where we present pros and cons of financial decisions so that you, the audience feel more informed and confident in your choices. We are sponsored by John G. Ullman & Associates, a comprehensive wealth management firm, since 1978. If, after listening, you'd like to discuss your situation with one of our CFPs, please email info@JGUA.com. Before we began a short disclaimer, we are recording this on January 11, 2022 to the contents of this podcast are strictly for informational purposes only, and nothing said should be taken as investment tax or legal advice. Any strategies discussed may not be suitable for the listener specifically, and so we strongly encourage consulting with your advisor before implementing any strategies to ensure they meet your individual objectives. In this episode, we ask the question “should I be in crypto?” Here to help me answer that is Executive Vice President and Chief Operating Officer Jason Nickerson. Welcome, Jason.

Jason 1:23

Thank you, Andrew. Pleasure to be here again with you.

Andrew 1:26

Just to begin, should I be in crypto, the thing that's going to catch most people's eyes are the investment returns. If we look at last year, 2021, a coin that initially I think had a lot of hesitation and maybe even mockery, focus on the coin, ended up being one of the best performing assets of all time. So Shiba Inu or Shib, trader symbol SHIB, did a eye-popping 43,000,000% increase in 2021. That is from January to December, and if we look at traditional markets, I don't think anything else even come close to that, especially being in the million percent increase. If we look at a little bit longer duration and they go to Bitcoin, which is the biggest cryptocurrency by market share, and it was also the first, so it's been around the longest, so we have a longer history, over the last ten years since its recent high in November 2021, it outperform the Nasdaq 100, which was second best, by 100 times, which is really incredible to see that difference between the first and second place finishers.

Jason 2:37

Andrew, you hit it on the head. I mean, some of that information is eye popping, but it's interesting that you noted as of November of 2021, why don't you take our listeners through the journey from November to now? What does now look like?

Andrew 2:51

So if we do compare bitcoin's all-time high, which was around $68,000 to $69,000 till now, it's about $42,000. So it's actually suffered a 40% downswing in about two months. If you look at traditional markets, traditional markets are flat to slightly under, so that's quite a big change.

Jason 3:13

Yeah. And I think, you know, while investment returns are certainly one of the things that attract investors to assets like cryptocurrency, I think, you know, keep in mind, one of the key point I would make in answering the question Should I be in crypto? Is the volatility. Can you handle the volatility because it's not just over the last two months that we've seen such volatility two or three months. It is actually been synonymous with cryptocurrency since bitcoin sort of hit the markets a number of years ago. So I think if you know, again, going back to answering the question, should you be in it? The question is, can you stomach a roller coaster ride if you can? Maybe the answer is yes, but you have to understand that there is a great deal of volatility.

Andrew 3:57

The other side of that right is if you can take advantage of this market momentum and the swings and sell close to the top and by close to the bottom, you can do quite well in actually the investment return if you think about it.

Jason 4:10

Absolutely true, and I think the other thing that contributes to that volatility is something we'll probably talk about more, is the markets in which cryptocurrency trades. It is a 24/7 market. And so volatility on assets when they're constantly traded in that way, unless you're not going to sleep at night, then suddenly you also have to understand as well, certainly as a contributing factor.

Andrew 4:35

Moving into some other aspects to consider one of the big points in this, maybe why we have listeners, is cryptocurrency is kind of hard to understand. I think this can work here benefit in the sense, as an investor, you can be early to projects and still get in, while other more establishments maybe have hesitation through due diligence, and it kind of gives the small fish a bigger shot.

Jason 5:03

Yeah, it's a great point. I'm going to I'm going to give you some counter points that Andrew would see how you feel about it. If I was to take a step back and look at more traditional investing that is older and more well understood, it's almost as if you're taking the traditional stock market, publicly traded companies, and combining it with private equity companies, right? And when I say that when we're trading in publicly traded companies Microsoft, Amazon, Google companies like that part of the regulation is information, right? Information must be out there. So it's widely available, it's widely understood balance sheets, P&L statements and so on, right? So you have that as an investor available to you before entering the investment. And the reason I'm saying it's cryptocurrency sort of like combining the two worlds of private equity and publicly traded equity is the lack of information in crypto is similar to that. Like a PE firm where there's only so much information you can kind of get into and dig into, and that's available to you to get in. But yet cryptocurrencies traded, you know, 24/7 and even more easily traded these days.

But beyond those things, just the information available. I think you also have to take a step back. Some of the conversations I've had is people look at cryptocurrency as, OK, this is currency. And what they don't understand is the foundation on which it's built on, which is a technology called blockchain. And once you start diving a little deeper into that, you know, you start to see the eyes glaze over and you start to see that people really don't understand what the basis is for some of this, and I would say I, I know slightly more than some and a lot less than others.

You know, I think the usefulness or the or even the titling of cryptocurrency is becoming something that is not true to its form. Once you start moving away from things like bitcoin, because now you have all sorts of projects out there that are issuing cryptocurrencies based on projects that are very technology based and aren’t currency at the foundation.

Having said all of that, it goes back to your point of while the lack of understanding, maybe lack of information allows you and early in on a project which can be exciting and provide very high returns. We would typically tell investors and individuals, make sure you have a good sense, doesn't mean you have to understand everything, but make sure you have a good sense of what you're getting into and where the earnings are coming, and you know where the value of what you're investing in is going to come from. And I would say that blockchain and cryptocurrency is at a level that it takes some time to kind of get a base understanding.

Andrew 7:48

I absolutely agree. But don't forget that traditional markets have very complicated products like annuities or stock derivatives or mortgage backed securities, which no one had heard about before the year 2000. It is a complicated system.

Jason 8:07

Well, that very well said. Continuing on, Andrew, to what I was saying in terms of lack of clarity, information hard to understand. I think it's also I had touched on publicly traded securities in a part of that being that they're regulated and required to dispense information to the public. And I think that brings up another point, you know, sort of from my side of the conversation that there is a high level of concern around the regulation of cryptocurrency and the lack thereof, or what might be coming down the line at some point in the near future again. Government has come out and there's debate at all levels as to are these really securities or are they currency? And if they are securities, then they should be listed and higher regulated, whereas different forms of currency don't necessarily need that. And then you have the tax conversation. How should these be taxed if they're property versus securities and so on When you have lack of regulation? Combine that with lack of understanding of cryptocurrency and blockchain really is, it is ripe for scams and ripe for fraud.

There's a number of these cryptocurrencies that are coming out that are probably going to be worthless at some point in the future, and it's hard for investors to decipher which are the better investments to make if they decide they're going to make them.

So there's the fraud, the scams, the security, lack of customer service around how to make your investments. I mean, this is very hands off by the institutions putting a lot of the work back on the individual investor. And while there is some information out there, it is very, very light and you do need to understand technology at some level before you get in. It's sort of a venture capital on steroids, if you will.

Andrew 9:50

Moving on to talk about security, also one of the highly touted benefits of cryptocurrencies. But I think we should probably pause for a second and maybe talk about the difference between what a hot and a cold wallet is For those completely unfamiliar, to even began entering cryptocurrency, you need to have a digital wallet that can receive and send currencies. The way people traditionally enters through a centralized exchange or CEX, and buying with U.S. dollars or Euros or whatever your normal currency is to purchase cryptocurrencies. This would be a hot wallet since it is connected directly to the internet. It does have how that layer of protection, whether it be custodians by a Coinbase or Binance. So a hot wallet is not all that secure in and of itself.

A cold wallet is something that is not connected to the internet. It's actually funny, but something in the digital world the most secure thing you can have is a physical hard drive. And so a couple of companies make them, Ledger and Trazer are two big companies that make physical wallets. And this adds a layer of protection since you must physically have a device to sign or transmit any authentication that happens with the wallet.

Jason 11:14

I'm glad you brought this up because, you know it sort of falls right next in line under regulation when you start talking about security. When I hear you talk about it, Andrew, I mean, you obviously know a fair amount about cryptocurrency and these wallets, but if you sit back and you're the everyday person trying to understand if you if you should get into crypto or not and understand that you have to have this, what I'm going to call sort of this virtual wallet right is not the thing that you're putting in your back pocket, although the Ledger hard drive type product is essentially that, while that is a way to secure your cryptocurrency, I want to take the security discussion to another level that other level is forget the security of a an online hack, so to speak, right.

For a moment, because we'll put that off to the side. Let's say you have this device, this physical hard drive of sorts that is built to handle your cryptocurrency. While it's not connected to the internet, so you're not subject to internet hacks, we have this similar discussion when clients ask us about investing in gold and silver is we talk about this the storage of such a thing, right? And keeping it in your home unlocked is not the best thing because home thefts do happen. Well, this isn't a whole lot different. Now a thief comes in or you lose your ledger device or someone steals your ledger device unless there's some way to find out your key is pretty much worthless. But again, therein lies, it's not just security from separate security in such a way that you are able to recover it and you're able to utilize the the assets that are on those things.

And then, you know, to enter back into the world of both soft and hard wallets are hot and cold wallets, you know, digital or an actual device. You know, there is still that threat that you are transacting in cryptocurrency and you've been solicited for your identity key, and you feel it's from a reliable source, but in fact, it is not. You give that up and your cryptocurrency is gone, and it's interesting, I've heard stories on both sides where, you know, people have accidentally given up their keys. I've also read a story where someone accidentally threw out their ledger device with their cryptocurrency on it, and they have to go searching through the garbage and so on for security. I think the security discussion of getting comfortable investing in these things is. are you comfortable with the technology that is built around securing your cryptocurrency from outside attacks and so on? But you also have to be comfortable securing it such that you can re-access those assets at some point in the future

Andrew 13:55

That kind of leads to the next point I wanted to hit, which is portability. Cryptocurrency allows you to transact at any time of day and of the week versus traditional weekday, you know, 9-5, 8-5, maybe that your bank does, being able to just log on, and if you know your key, being able to just summon your currency, even if you didn't have access previously, as long as you are able to generate your passcode phrase, you can just regenerate an account, which is very handy if you need it to suddenly restore something which is faster than, let's say, your debit card or credit cards are able to be returned to you.

Jason 14:32

I'll give you on the portability aspects. I am total agreement that cryptocurrency and the blockchain was actually built partially to combat the issues with traditional financial institutions and the delays of moving monies and paying monies. And the other thing I tend to think about, too, is we are only more and more becoming a globalized economy.

People are retiring from the U.S. to foreign countries, things like this. So the ability to make payments and transacting cryptocurrency has created through this borderless financial situation that sort of leads into one of the things that I would talk to someone about is just when you're starting to get comfortable and excited about this borderless payment system, currency system and the ability to move and transact freely is traceability right? Is can you reverse a transaction? And I think if you start to dig in, Andrew, you can tell me if you agree or not. I think once you kind of enter a transaction, what's done is done right? And as an example, I decide I want to make a gift with stock that I own, a publicly traded stock, and the Broker X Y Z sends it to the wrong institution that are making this gift to, there's usually a recall or a way to undo that a reversible, you know, that's a reversible transaction and then correct it with cryptocurrency. I don't believe there is such a thing. And I think what's done is done.

Andrew 15:57

Yes, for the most part, once you click the submission, that is entered, it is possible if you happen to have a delay, it's possible to cancel the transaction. I guess one thing we should mention is that for most of these cryptocurrencies, there is a gas fee, or an extra fee, just to transact to move things through the blockchain. It's something to be aware of, I guess.

Jason 16:22

Yeah. And I know and you're not going to get around some of that, even in traditional financial institutions. There's wire fees and there's still such thing as commissions and things like this. You know, there are certainly some parts that are going to maintain between the two.

Andrew 16:36

I do admit that once you know there is no customer service or as we were mentioning, if you, for whatever reason, lose your passphrase or forget it, there's no one you can call, there's no reset. It is gone. So that is something to fully understand before you commit your life savings to something like this.

Jason 16:52

Right? Unlike, you know, a traditional financial institution like a Vanguard, Fidelity, Charles Schwab, you forget your password or your log in you can easily reset that. Now, I will say that and this again, sort of talking about all of these things combined in terms of security and access and so on. In the crypto world, you have a key and if something were to happen to you and this is passing on to your spouse or children or whatever, they also have to have that key, right? And in today's financial institutions, traditional institutions, if you've given your heirs or your executor, let's say your log in information, that's certainly one thing, but they're probably in today's world also going to need your cell phone because a lot of these logins have two factor authentication.

Now you're still facing some of those types of issues of beyond the owner's life. How do you access these assets? It’s still, you know, sharing of a key or a password and likely a cell phone that's going to receive a text code or something to access.

Andrew 17:51

One last point I wanted to mention is the transparency of cryptocurrency. And so while there is a layer of anonymity where you don't necessarily have your name broadcasted there is a public address that other people can see. This is beneficial for projects because in real time, you can monitor a project’s treasury and see if the funds are doing what they say they're doing or if they're being sucked out to the founder's account and kind of see if you're being scammed in real time versus, let's say, Bernie Madoff happened during that era.

Jason 18:24

Again, another one of the key components of the blockchain is transparency, and it goes back to sort of the regulation or deregulation in this case where it's secured by the users, if you will, right? Whether it's proof of work or proof of stake or these different terms, you know, these are the folks that are sort of managing and regulating the blockchain, versus, you know, in a traditional financial institution, sense there is the SEC involved or banking commission, things like this that are more centralized control. And I guess that goes back to your sort of transparency in a traditional financial institution sense. I would suggest that there's more transparency in terms of our information versus those that are regulating our information or our assets, right?

So there's more ability for them to see my information versus me to see what they're actually doing in terms of regulation and oversight. And in some regards, I guess, and kind of putting a nice, neat little bow on this conversation, Andrew, is that if you're an investor and you're asking this question, should I be in crypto, and as the podcast suggests, you know, we tend to say it depends in this conversation. It depends on what side you're on. If you are more risk averse and you are comfortable with traditional financial systems because of regulation, because of information which is easily accessible and digestible to you, then cryptocurrencies may not be a solid investment for you. Because it does, I would encourage anyone looking to maybe get into it to develop a certain level of knowledge or understanding of what cryptocurrency and blockchain is.

Andrew 20:05

I loved how you said that Jason and I would encourage our audience, if you're wondering how this affects you, please email info@JGUA.com to speak with one of our CFPs and talk about your situation. Thank you for being the inaugural guest on my podcast, Jason.

Jason 20:25

I'm absolutely honored, Andrew, thank you. I had the opportunity to be a guest on the old one, which I always felt you did a great job and what a great way to kick this new one off and I'm honored. It's a hot topic these days and happy to be a part of the conversation with you.

Andrew 20:39

To conclude, questions you should be asking yourself are am I interested in high investment returns, coupled by can I handle the volatility that comes along with those possible returns? Do I want to learn the ins and outs of investing in crypto? Or am I OK and comfortable investing in something I don't fully understand?

Another great question to ask yourself is, can I handle the unregulated wild west of crypto? Remember that due to the decentralized nature and lack of clear rules, crypto can be ripe for scams and manipulation, and the responsibility for protecting, storing and avoiding scams is solely on the user because assets cannot be held directly in a traditional brokerage account.

Another question would be Do I need the portability and security that crypto can provide? Am I comfortable without a customer service or a backup if things happen unexpectedly?

And so to answer the question, should I be investing in crypto? Well, it depends!