

## **Bitcoin Spot ETF, What is it and the Future of Cryptocurrency**

The idea of a Bitcoin Exchange Traded Fund (ETF) is not a novel concept and the first application of a Bitcoin ETF was first submitted in 2013. The strict prerequisites set out by the SEC ensured that application after application was denied. However, with the Bitcoin ETF applications approved by the SEC on 10/1/2024, this will mark a major turning point for the cryptocurrency landscape as it is the beginning of its widespread acceptance into mainstream traditional investment portfolios.

For the uninitiated, an ETF is a financial derivative that is utilised by retail and institutional investors. An ETF pools together invested capital from investors which is managed by a fund manager and acquires a variety of assets under the fund. The nature of the acquired assets depend largely on the investment thesis and objective(s) of the fund manager. This model enables investors to participate in the performance of the underlying asset without actually owning the asset. Hence, ETFs are generally regarded as a less risky investment tool compared to traditional stocks as investors do not directly take on the risk from owning the underlying asset.

As the name of an ETF suggests, they are publicly traded on stock exchanges and stakes in ETFs can be bought and sold just like a normal stock. The main benefit of buying into an ETF versus a stock is that a share in an ETF ensures that the investor is buying into a diversified portfolio which would otherwise require a significant sum of capital to craft a diversified portfolio. Additionally, ETFs offer similar liquidity to stocks which further adds to the attractiveness of ETFs.

When the US Bitcoin ETFs started trading on 11/1/2024, data provider LSEG reported that the trading volume of US-listed Bitcoin ETFs reached a high of \$4.6 million by the afternoon. This was spurred by investors' eager participation in the landmark cryptocurrency linked investment product. The first trading day for these ETFs also saw BlackRock, Fidelity and Grayscale dominating trading volumes. The SEC approval marks the beginning of a crucial period for the wider cryptocurrency market as it remains to be seen if cryptocurrencies, often regarded as risky investment products, will gain widespread acceptance into the portfolios of retail investors.

With numerous financial institutions offering the Bitcoin ETFs, there is a frenzy to gain market share promptly as these institutions are offering attractive fees of between 0.2% - 1.5% with some even offering fee waivers for a stipulated period or certain dollar amount of assets. The initial exuberance over the SEC approval should be treated with some skepticism as there remains numerous factors that the cryptocurrency must overcome before it gains widespread acceptance into traditional investment portfolios. NIACE welcomes the SEC approval as we anticipate and look forward to the further development of the cryptocurrency industry.

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