

Are You an Informed Investor?

What You Need to Know about Crypto ETFs

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Since the first Crypto Exchange-Traded Funds (ETFs) were approved in 2021 by the Canadian securities regulators and the U.S. Securities Exchange Commission (SEC), these financial products are increasingly available for both retail and institutional investors. Before investing in crypto ETFs, it is important to do your research and understand these funds.

What Are Crypto ETFs?

A crypto ETF is a regulated investment vehicle that allows investors to gain exposure to crypto's price movements without directly owning or managing crypto assets. These funds, whose value is based on an underlying crypto asset like Bitcoin or Ethereum, are traded on traditional

stock exchanges, making them accessible through standard brokerage accounts. There are two kinds of crypto ETFs: spot crypto ETFs and crypto futures ETFs. Understanding the key differences between the two types is important for prospective investors.

A spot crypto ETF is designed to track the price of a specific crypto asset by holding the actual asset in reserve. Spot crypto ETFs track the cryptocurrency's real-time price by holding the crypto asset in secure digital wallets managed by custodians. Each share of a spot crypto ETF corresponds to a specific fraction of the crypto assets held in reserve.

A crypto futures ETF provides investors with exposure to the

price movements of a crypto asset through futures contracts, rather than holding the cryptocurrency directly. These contracts obligate involved parties to buy or sell crypto at a set price on a future date regardless of the market valuation at that time.

Considerations for Investors

Crypto ETFs have been approved by the SEC and Canadian securities regulators and are a regulated way for investors to get exposure to crypto assets in a more traditional way. However, like any investment, crypto ETFs have risks that are important to understand:

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- **Volatility:** The value of crypto ETFs is tied directly to the price of the underlying crypto asset, which can be highly volatile.
- **Deferred Prices or Futures Premiums:** Crypto futures contracts may not perfectly track spot prices due to deferred pricing or futures premiums. This is also known as contango, which occurs when the futures price of a commodity is higher than the spot price. In this situation, investors risk a loss in value because the contract terms obligate the fund to sell the crypto asset for less than it is currently worth.
- **Fees:** Like traditional ETFs, crypto ETFs charge management fees. Investors should compare fees to determine whether this product is suitable for their investment goals.
- **Market Timing:** Crypto ETFs only trade during normal market hours. However, the value of the underlying crypto asset changes constantly regardless of market trading hours. The price of the crypto asset could drop substantially when markets are closed and investors will be unable to react to that drop in

value in real time.

How to Be an Informed Investor

- **Conduct due diligence:** Ensure you understand crypto ETFs before investing in them. Review the prospectus and consult with an investment professional whom you have verified is registered with your state or provincial securities regulator.
- **Know your risk tolerance.** Crypto ETFs are tied to the price of crypto assets, which can be volatile. Consider your risk tolerance and investment objectives before making any investment decisions. Remember: Even though the crypto ETF may be a regulated product, that does not mean it is without risk.

The Bottom Line

The important thing to remember about crypto transactions, is that they are designed to be anonymous and instantaneous. Most investment losses due to cryptocurrency investments are unrecoverable and your money is gone forever. For more tips and information about how to be a better informed investor, contact your state or

provincial securities regulator. Contact information is available on the NASAA website, at <https://www.nasaa.org/contact-your-regulator/>.

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