



## Cryptocurrencies

*“Everything you don’t understand about money combined with everything you don’t understand about computers.”*

That was the description of Cryptocurrencies on the March 11, 2018 episode of HBO’s *Last Week Tonight* with John Oliver.

As cryptocurrencies are in the headlines more and more, some investors are wondering if they should dedicate a portion of their portfolio to these new types of electronic monies. Cryptocurrencies represent innovation within financial services, but there are still many uncertainties about the future of their technology and their returns.

### 10 Largest Cryptocurrencies

Market Capitalization as of  
May 10, 2021\*

Name	Market Cap
Bitcoin	\$ 1,073,623,835,395
Ethereum	\$ 474,691,313,601
Binance Coin	\$ 101,358,278,327
Dogecoin	\$ 66,036,762,620
Tether	\$ 55,785,222,428
Cardano	\$ 55,603,778,876
XRP	\$ 53,869,809,836
Polkadot	\$ 36,950,916,274
Bitcoin Cash	\$ 27,008,543,469
Litecoin	\$ 25,982,637,493

\*Cryptocurrency markets are open 24/7, so these market capitalizations are always changing. The above market capitalizations are as of 8:30 a.m. PDT on May 10, 2021. Source: [coinmarketcap.com](https://coinmarketcap.com)

Cryptocurrencies, like Bitcoin, are represented by a string of computer code, and are stored in a digital wallet. Every transaction is recorded and stored in a decentralized ledger, often called a blockchain. To guard against manipulation, strong cryptography rules secure transaction records in the ledger to verify the transfer of ownership. Yet it can be difficult to navigate the nuances of the technology.

The global cryptocurrency market currently exceeds two trillion dollars in market capitalization. There are thousands of cryptocurrency alternatives. The fundamental technology is the same for all of these alternatives; however, each one has its own stated purpose or use. Two of the more popular cryptocurrency alternatives are Bitcoin and Ethereum, as shown in the table.

Cryptocurrencies have also had negative headlines in the last few months. A January 12, 2021 *New York Times* article highlighted the rising concern of ‘lost’ Bitcoins, as some users have lost access to millions of dollars worth of Bitcoin due to forgotten passwords, that can never be recovered. The article states that a prominent cryptocurrency consulting firm estimates that 20% of all outstanding Bitcoin can be categorized as stranded assets that are unavailable to their rightful owners. This is a cryptocurrency risk that does not apply to traditional investors in stocks and bonds.

The environmental impact of mining for Bitcoin has gained attention as well. ‘Mining’ involves using powerful computers to compile recent transactions into new blocks of the transaction chain through solving a highly complex mathematical puzzle, which delivers new coins into circulation. Investors who are concerned with sustainability may worry about the amount of energy required to mine for coins.



The increasing attention towards crypto coins has also brought increased scrutiny. Gary Gensler, the recently confirmed Chair of the U.S. Securities and Exchange Commission (SEC), appeared in front of the House Financial Services Committee on May 6, 2021. Chairman Gensler stated that Congress needs to create a regulatory framework to oversee U.S. cryptocurrency exchanges, because current laws don't really put any regulator directly in charge of them. On May 7, 2021, he told CNBC that he sees the attraction to Bitcoin for traders, yet regulation is needed to prevent fraud, and additional investor protections are needed in the markets for Bitcoin and other crypto assets (As you read this paragraph, we should mention that Gary Gensler, who previously taught classes about blockchain and other financial technology at MIT, believes that many crypto coins are trading like assets and should fall under the purview of the SEC).

At Oakwood, we are interested observers in the crypto coin phenomenon - it represents innovation as well as uncertainty. When reading the latest crypto headline or experiencing any fear of missing out from your friend of a friend who made a quick profit, we suggest you consider your goals for investing. A goal based approach using traditional stock and bond investments has helped investors to grow their wealth for decades.

This understanding and approach can assist us as we meet with clients, prepare financial plans and establish goals. Ultimately, we want a diversified portfolio that matches a client's tolerance for risk with their expectation for return and has an asset allocation that is designed to meet their long term wealth management goals.

### Contact us with any questions or comments

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