Retirement Savers Should Resist the Bitcoin Lure

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BY ELLEN CHANG
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Prices of bitcoin and other cryptocurrencies have faced a lot of volatility during the past 12 months, beginning at $1,200, rising to $20,000 in December and standing at $8,500 on March 16. Advisers are recommending that investors resist the lure of this this speculative asset in retirement portfolios.

While bitcoin remains the primary cryptocurrency, it has shed 59.8% of its value from the Dec. 17 high of $20,089. The daily high for bitcoin hasn't topped $10,000 since March 8.

Bitcoin showed be viewed as a hyper volatile currency, said David Twibell, president of Englewood, Colo.-based Custom Portfolio Group. While the blockchain technology that is the backbone of bitcoin is innovative, buying it doesn't provide an investor with any access to its applications.

The problem with owning bitcoin, especially as part of a retirement portfolio is that it is not a long-term investment, "any more than owning the Japanese yen" and is more akin to currency trading, he said.

Too many individual investors are "under-allocated to the stock market because they're squeamish about risk," said Greg McBride, chief financial analyst for Bankrate, a New York-based financial data and content company.

Buying bitcoin and hoping that it rises to new all-time highs instead of holding a proper allocation to the stock market is "sheer lunacy," he said.

Because bitcoin lacks an intrinsic value, there is no way to price it, making it purely a speculative trade, said Bill DeShurko, president of 401 Advisor, a registered investment advisory in Centerville, Ohio.

Conducting a transaction in bitcoin means the price could fluctuate dramatically between the time of purchase and payment delivery.

"Say you are selling a car for $15,000," he said. "Would you accept $15,000 in bitcoin, not knowing if it would be worth $11,000 or possibly $18,000 by the time you were paid?"

Since the value is in the blockchain technology, people who want to make an investment should examine the companies that are using it to make their businesses more efficient and less costly.

"It's not as exciting, but some actual investments are American Express (**AXP** - *Get Report*) , Western Union (**WU** - *Get Report*) and the Australian Stock Exchange," DeShurko said.

Crypto is far too volatile for a stable investment, said Jason Spatafora, co-founder of Marijuanastocks.com and a Miami-based trader and investor known as @WolfofWeedST on Twitter. Even though he dabbles mainly in volatile markets, cryptocurrencies make up less than 2% of his portfolio, he said.

"I've invested in it for personal education with zero expectation of return," he said. "If my parents asked me if they should invest in bitcoin, I'd prefer to buy them some lotto tickets or just take them to a casino."

Fear of Missing Out

While bitcoin is enticing, and it's spurring on people who are usually fearful of taking on investment risks, these so-called investors are anxious that they're missing out on something big, said Joe Duran, CEO of United Capital, a Newport Beach, Calif.-based wealth management firm.

Investors who are fearful of missing out on the latest investment craze should only purchase these assets in small amounts.

"Observe its trajectory in the market," Duran said. "Watch how volatility makes its valuation swing and use FOMO as a gut check."

The only way to profit from bitcoin means that speculators rely on the "greater fool theory, that some greater fool will come along and pay you more than your purchase price," said Robert Johnson, president of the American College of Financial Services in Bryn Mawr, Pa.

"One can certainly get very wealthy if your speculation is correct," he said. "You don't want to find yourself without a chair when the music stops."

Adding bitcoin to an investor's portfolio is acceptable only if that person has savings for an emergency fund, contributes to a 401(k) plan and paid off high interest rate debt, said David McCormick-Goodhart, a financial adviser with Savant Capital Management, a Rockford, Ill.-based wealth management firm.

"There is nothing wrong with an investor putting a small piece of his or her portfolio in cryptocurrency as a speculative investment, but only after all other financial ducks are in a row," he said.

While the IRS does not prohibit investments in cryptocurrencies in retirement accounts such as IRAs, many IRA providers will not facilitate the purchase of them, said Don Shelly, a finance professor at the Cox School of Business at Southern Methodist University in Dallas. Many investors will need to move the IRA to a self-directed IRA, which allows the IRA owner to invest in any asset the law allows.

"A self-directed IRA allows for investments such as real estate, notes or private placements," he said. "The only specifically prohibited investments are life insurance and collectibles."

A broker typically charges commissions between 10% to 25% to buy and sell IRA-owned cryptocurrencies, wrote Adam Bergman, a tax partner with New York-based IRA Financial Group and president of IRA Financial Trust Company, in a March 14 Forbes article. Buying bitcoin in a self-directed IRA means investors pay fees between 0.15% to 2% to the cryptocurrency exchanges, he wrote.

Investors should use the funds from their IRA to buy bitcoin, said Henry Yoshida, CEO of Rocket Dollar, an Austin, Texas-based self-directed IRA and solo 401(k) provider which includes alternative investments such as startups, real estate or cryptocurrencies.

Younger investors could allocate 5% to 10% of their investable assets in cryptocurrency. Many of them should opt to buy a fund that invests in cryptocurrency and not attempt to speculate on the future price of bitcoin. One drawback is that investors will find it difficult to determine which funds are well-managed and reasonable from a fee standpoint, he said.

Purchasing bitcoin during a bear market makes more sense, said Dennis Lee, co-founder at USDX Protocol, a London-based a cryptocurrency and stablecoin firm.

"Bitcoin can play an important role in a retirement portfolio, but when it's deployed is important," he said.

Adding digital currencies to retirement accounts is tricky, said Grant Easterbrook, co-founder of Dream Forward 401(k), a New York-based low-cost 401(k) plan provider.

"If retirement is 20 to 40 years away, digital currencies will probably look totally different by then and who knows which ones will still be around and which ones will take off," he said.

Bitcoin IRAs are an attractive investment, but buying it is a "gamble," said Mick Sherman, co-founder of Hercules Tech, a New York-based company specializing in analyzing data for alternative asset classes.

Investors should be invested in multiple asset classes to avoid major correlations and while adding bitcoin in an IRA or 401k is risky, it is highly uncorrelated to the rest of the market.

"It would also be prudent to include assets like ethereum which has unique use cases and may survive if bitcoin doesn't," Sherman said.

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