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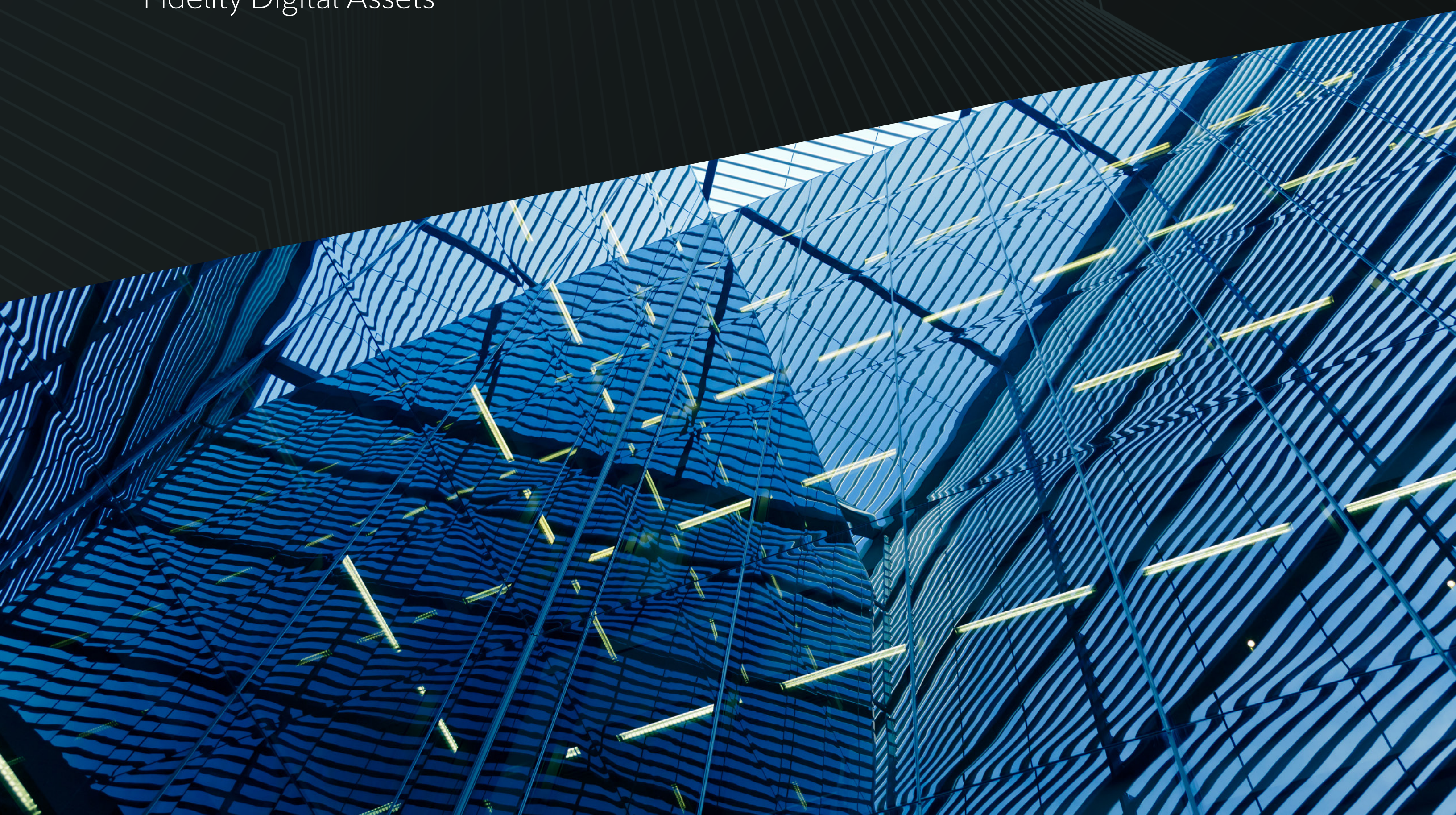
Bitcoin's Evolving Role as an Alternative Investment

Understanding where bitcoin can fit in a portfolio

Fidelity Digital Assets®



About This Report

At Fidelity Digital Assets®, our team has conversations with investors at various stages in their digital asset journeys. These discussions have allowed us to identify common perspectives that may drive interest and investment in bitcoin and could continue to evolve and gain traction in the future. In this report, we revisit our thesis on bitcoin's role as an alternative investment and view it through an updated lens. We analyze bitcoin's properties, compare bitcoin to other alternative investments, and assess how it could benefit a modern portfolio's performance as an alternative asset.

Introduction

Bitcoin is many things to many people—why someone chooses to hold bitcoin depends on their individual circumstances, views of what bitcoin is today, and what it could become. Historically, such debates have revolved around whether the bitcoin token is a store of value, medium of exchange, alternative asset, a combination of these functions, or none of the above.

We believe that as the ecosystem matures, Bitcoin could simultaneously serve multiple functions—either foundationally or through incremental layers. One of the fascinating things about Bitcoin is that its success is not predicated on serving a singular purpose.

In our 2023 Institutional Investor Digital Assets Survey, we found that 28% of the investors surveyed who think digital assets have a place in a portfolio believe they belong with alternative investments and 30% believe it is its own independent asset class. Below, we seek to reassess the recurring narrative that bitcoin is an uncorrelated asset that can serve a similar role as an alternative investment in improving a portfolio's risk-adjusted returns.

Additional key points discussed throughout this report include:

- Investors' rationale for including alternative investments in a portfolio
- Bitcoin's characteristics that may offer sustainable portfolio diversification
- Historical analysis of bitcoin's impact on a portfolio

What Are Alternative Investments?

The broadest classification of an alternative investment is anything that is not a traditional investment. Traditional investments consist of a long position in public equities, fixed income (public debt issued by corporations and governments), or cash. More specifically, investments can have one or multiple attributes that make them "alternative" including if they:

1. Provide exposure to nontraditional returns that are not highly correlated with those that underlie traditional stocks and bonds (e.g., venture capital, art, farmland)
2. Provide unusual risk exposures (e.g., hedge funds via leverage/short sales)
3. Generate nontraditional payouts (e.g., collateralized debt obligations)

While there is no definitive list, certain investments are widely accepted as alternatives for the reasons outlined above. For example, investments commonly thought of as alternatives include hedge funds, private equity (venture capital, leveraged buyouts, risky debt), real assets (real estate, infrastructure, commodities, natural resources, intangible assets), and structured products.

Rationale for Allocating to Alternatives

Investors may use alternatives to play one or more roles in a portfolio, such as diversification and risk reduction, return enhancement, and yield generation. Each of these use cases are further examined below:

Portfolio Diversification

Alternative assets could increase diversification because they are imperfectly correlated. They are driven by different risk and return factors relative to traditional investments, which may help reduce volatility and could offer downside protection when traditional assets fall. Diversification can also lower portfolio risk without necessarily causing an offsetting reduction in expected return. Therefore, diversification is generally viewed as a highly desirable method of enhancing risk-adjusted returns.

Return Enhancement

Alternatives can improve a portfolio's risk and return profile and increase its total return by accessing a broader set of investments and strategies. In periods of stock market downturns, alternatives have often been more resilient to the downside while still capturing some stock market upside. Venture capital may generate higher returns based on the idea that, on average, the upside potential (and risk) of early-stage companies is higher than later stage companies. Moreover, access to early-stage companies can be limited as most are private. Private equity firms often generate strong returns by investing in less efficient markets where there is less price discovery and greater opportunity to identify undervalued assets.

Income Generation

Alternatives like private debt, real estate, and infrastructure may offer higher yields than traditional investments—especially during periods of low interest rates. Investments in real assets, such as real estate and infrastructure, can generate income that is higher relative to financial assets with less than half the volatility of public equities, lower correlations with traditional asset classes, and lower equity beta.

Rationale for Allocating to Bitcoin

Some investors' reasons for allocating to bitcoin are similar to their rationales for allocating to alternative investments: they may be seeking or searching for portfolio diversification and return enhancement. Additionally, interest in bitcoin and other non-yield-generating alternative investments could also grow in response to central banks' increasingly inflationary monetary policies since the COVID-19 pandemic. In a world where investors risk losing more purchasing power over time due to persistently higher inflation, the opportunity cost of not allocating to investments that can hedge inflation has historically been higher.

Portfolio Diversification

The phrase "the only free lunch in investing is diversification" is attributed to Nobel laureate Harry Markowitz and refers to the idea that a portfolio can lower its overall risk by adding different asset classes. This is particularly relevant to asset classes that have low correlations to each other.

Bitcoin's correlation to other major asset classes such as equities, fixed income, and other real assets may be relatively low, ranging from a correlation coefficient low of 0.14 to a high of 0.52 for the previous four years calculated monthly. As a reminder, correlation coefficients fall within the range of negative one (perfectly negatively correlated) to positive one (perfectly positively correlated).

Asset Class	BTC	US Stocks	Int'l Stocks	EM Stocks	U.S. Bonds	U.S. HY	Gold	Comm.	Real Estate
Bitcoin	1.00	0.52	0.42	0.32	0.24	0.46	0.14	0.15	0.44
US Stocks	0.52	1.00	0.89	0.66	0.66	0.84	0.23	0.33	0.88
Int'l Stocks	0.42	0.89	1.00	0.80	0.73	0.81	0.31	0.39	0.83
Emerging Market Stocks	0.32	0.66	0.80	1.00	0.67	0.64	0.42	0.33	0.64
U.S. Investment-grade bond	0.24	0.66	0.73	0.67	1.00	0.77	0.40	(0.02)	0.68
U.S. High Yield Corp Bonds	0.46	0.84	0.81	0.64	0.77	1.00	0.30	0.23	0.75
Gold	0.14	0.23	0.31	0.42	0.40	0.30	1.00	0.11	0.25
Commodities	0.15	0.33	0.39	0.33	(0.02)	0.23	0.11	1.00	0.33
Real Estate	0.44	0.88	0.83	0.64	0.68	0.75	0.25	0.33	1.00

Source: Fidelity Digital Assets Research via portfoliovisualizer.com, 06/27/24; data for 06/01/20 – 05/31/24 based on monthly returns.

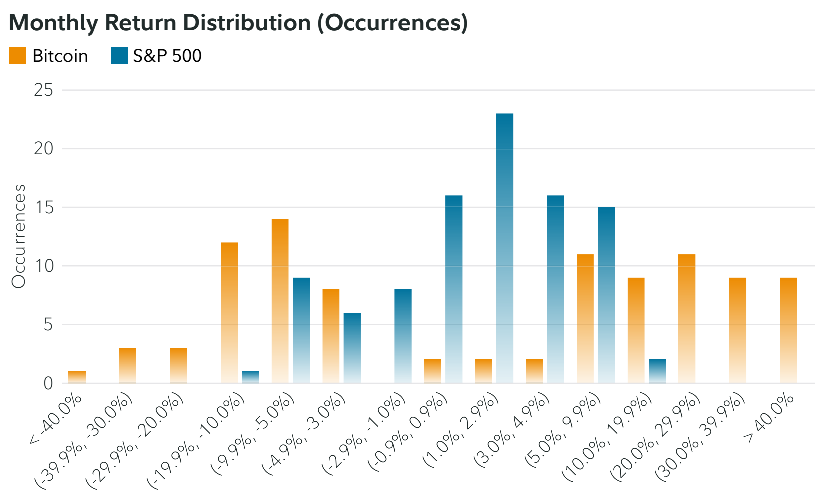
As with any study, the time period used is a key consideration. We believe when analyzing bitcoin, it is important to use four-year increments of study because bitcoin has historically moved in large, four-year cycles. Longer or shorter multiples of four will therefore produce skewed results where there is an opportunity to cherry-pick tops and bottoms.

If we were to extend the period studied to the previous eight years, correlations would be even lower:

Asset Class	BTC	US Stocks	Int'l Stocks	EM Stocks	U.S. Bonds	U.S. HY	Gold	Comm.	Real Estate
Bitcoin	1.00	0.32	0.28	0.18	0.21	0.31	0.16	0.12	0.28

Source: Fidelity Digital Assets Research via portfoliovisualizer.com, 06/27/24; data for 06/01/20 – 05/31/24 based on monthly returns.

Another aspect of bitcoin's diversification and low correlation can be seen by examining its monthly return distribution. Generally, returns from traditional asset classes are normally distributed. Comparatively, bitcoin has demonstrated the inverse with the lowest number of occurrences in the range of the S&P 500 and the highest number at the "tails" or extreme positive and negatives. However, there are many more extreme positive return occurrences than negative, resulting in a positive skew for bitcoin:



Source: Bloomberg, 02/29/16 – 02/29/24.

Evolving Narratives

At any given time, the narratives around bitcoin have ranged from bitcoin being a means of payment, a reserve currency for digital assets, a store of value asset, or a portfolio optimization tool—among others. This lack of consensus could be an important reason why bitcoin has not traded in-line with other assets to date. If the lack of consensus on bitcoin's narrative persists, it may continue to be uncorrelated with all other assets. On the other hand, if bitcoin's narrative converges on a single thesis, its correlations to other assets with similar investment cases could converge as well.

A salient narrative since the Federal Reserve's unprecedented monetary response in 2020 has been that bitcoin is an emerging store of value asset. We expand on this theory in detail in an earlier report, "Bitcoin as an Aspirational Store of Value Revisited." This store of value narrative is broadly supported by bitcoin's digital and verifiable scarcity, programmatically declining new token issuance, and maximum total supply.

While bitcoin's volatility has often yielded inconsistent short-term price action, it was the single best-performing investment asset of the last decade according to Bloomberg and has consistently outperformed the benchmark S&P 500 since its inception. This trend accelerated in 2020 when corporate treasurers started buying hundreds of millions of dollars of bitcoin instead of traditional stores of value to protect their purchasing power.

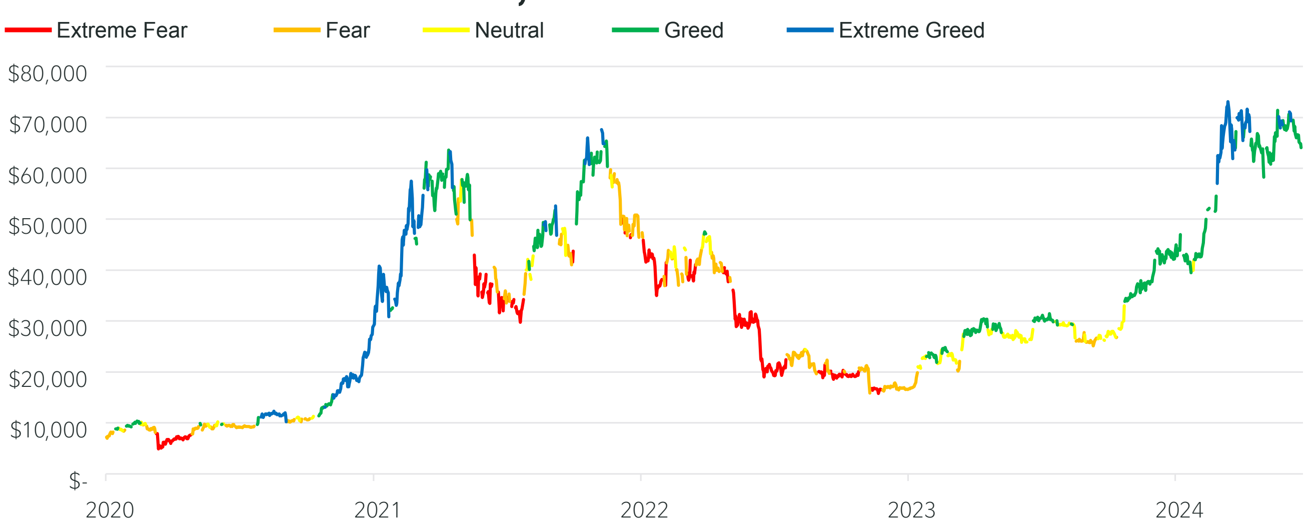
Differing Return and Risk Factors

As mentioned above, alternatives generate returns that do not mirror the returns of traditional assets and provide unusual risk exposures. A Yale study conducted by economists Aleh Tsyvinski and Yukun Liu examined whether the returns of digital assets (specifically bitcoin, ether, and ripple) behave like the returns of other asset classes (stocks, traditional currencies, and precious metals).

Based on Tsyvinski's and Liu's analysis, the return behavior of all digital assets (including bitcoin) could not be explained by the risk factors that account for the returns in stocks, currencies, or precious metals. Additionally, they could not be explained by macroeconomic factors such as non-durable consumption growth, durable consumption growth, industrial production growth, and personal income growth.

Rather, the economists found that bitcoin's performance is driven by "cryptocurrency-specific factors," such as the momentum effect and proxies for average and negative investor attention. The momentum effect refers to the trend that an asset is likely to continue increasing in value if it has just increased in value. This is in line with the idea that bitcoin is reflexive in that price and sentiment experience a self-reinforcing effect. The second factor that influences bitcoin price is investor attention as measured in part by X (formerly known as Twitter) post counts for "bitcoin." This can be seen via the Fear & Greed Index.

Bitcoin Price with Fear & Greed Overlay



Source: Alternative.me, 01/01/20–06/23/24.

Note: The Crypto Fear & Greed Index is an indicator from Alternative.me that aims to capture investor sentiment in a single number by incorporating data from multiple sources. The index ranges from 0 to 100, where 0 denotes "extreme fear," and therefore times of exaggerated negative investor sentiment. On the other hand, 100 means "extreme greed" or exaggerated positive investor sentiment.

It is worth noting that the factors driving returns in digital assets like bitcoin may change as the asset matures. For example, performance has not been historically connected to the change in bitcoin's fundamental metrics. Over time, as the investors and market participants analyzing and participating in bitcoin markets evolve, its performance may be tied to a greater extent to fundamental adoption variables and to a lesser extent to reflexivity and sentiment.

Global investor sentiment certainly has an impact on bitcoin's price, but bitcoin has distinct underlying fundamentals that are not directly affected or influenced by central bank monetary policy, interest rate changes, or geopolitics.

Starting in 2020, several corporate treasuries began making substantial allocations in response to unprecedented levels of central bank money printing, global political and economic uncertainty, and the risk of storing excess free cashflow in fiat or other assets commonly used in corporate treasury. This trend started when business intelligence company MicroStrategy Incorporated (MSTR) adopted bitcoin as its primary treasury reserve, initially buying 21,454 bitcoin for $250 million in August 2020.[1]

Despite MicroStrategy's strategy to initially invest up to $250 million in one or more alternative assets, the company chose to invest the full sum in bitcoin. Over the next four years, several other companies and institutional investors such as Stone Ridge also announced one or multiple bitcoin allocations to their balance sheets.[1,2] As of September 2024, MicroStrategy (MSTR) has amassed 252,200 bitcoin, over 1% of the entire bitcoin supply.

Risks

As a digital asset, bitcoin faces several potential risks. This includes the threat of cybercriminals and hackers stealing bitcoin from exchanges and other centralized services. Once bitcoin is taken, it can be very difficult to recover because it is a bearer asset. Moreover, the network faces technological risks from potential unknown bugs in the code. There are also regulatory risks for bitcoin as the governmental approach to the digital asset varies widely by country.

Bitcoin is also highly volatile compared to many other alternative investments as it can fluctuate in value significantly over a short period of time. It is important for potential investors in bitcoin to weigh these risks before considering an allocation.

Institutional and Retail Adoption

In the early days of bitcoin's existence, events and sentiment affecting traditional markets had little to no impact on bitcoin markets. Bitcoin's trading infrastructure was completely independent of both traditional market infrastructure and bitcoin's ability to react to current events affecting traditional markets in real time was limited.

As digital asset infrastructure has matured over time, participants in both markets have started to overlap. For instance, institutional investors can trade bitcoin futures and options on the same platform they use to trade derivatives of other assets (e.g., CME, Bakkt). Another example of this overlap is that retail investors can buy and sell bitcoin on certain platforms that allow them to trade stocks (e.g., Fidelity, Robinhood, Block formerly known as Square). Institutional and retail investors can also now buy spot bitcoin exchange-traded products (ETPs) and spot ether ETPs directly on some traditional investment platforms.*

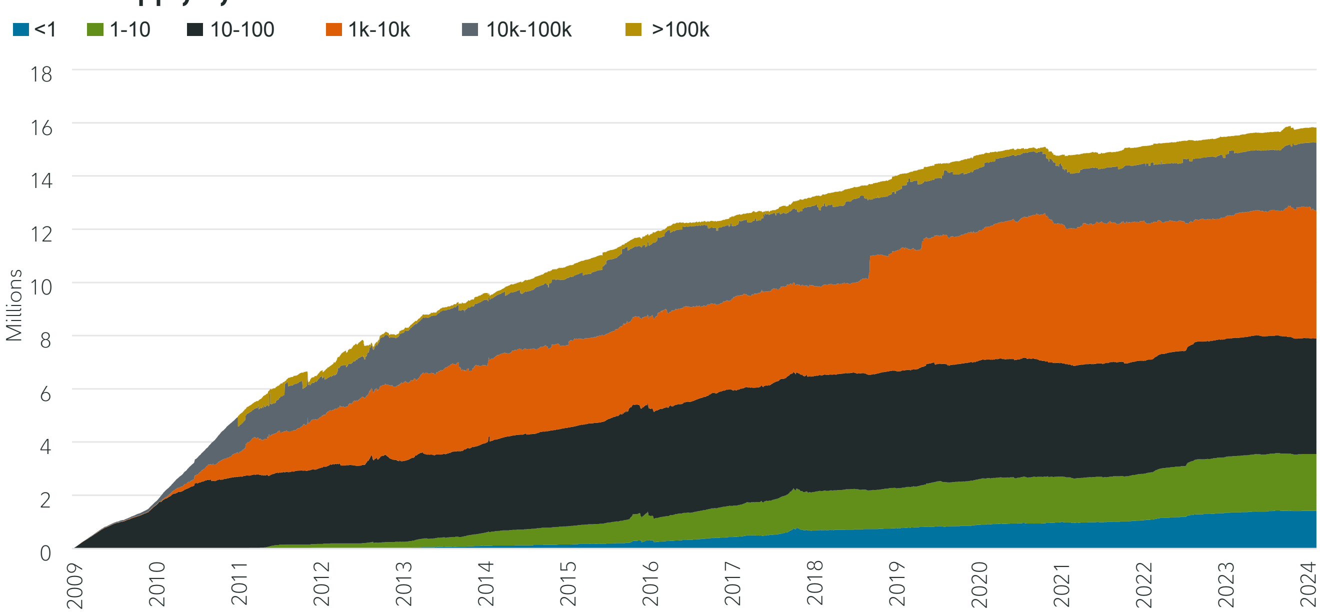
As bitcoin matures and its market participants expand to include more traditional market investors, bitcoin could become more correlated (positively or negatively) with other assets.

Retail-Driven Phenomenon

As more institutions allocate to bitcoin, this investor segment could have a significantly greater impact on bitcoin markets. However, there is reason to believe retail investor influence will persist.

Bitcoin started as a retail asset and continues to have the attention of many retail investors. One potential proxy to gauge retail interest is the number of addresses holding less than one bitcoin—though there is no way to say definitively that it is all retail. As demonstrated below, the number of addresses with less than one bitcoin has been steadily increasing over time. As of June 2024, there was 1.4 million bitcoin held by these addresses versus 843,000 bitcoin at the start of 2020.

Bitcoin Supply by Address Balance



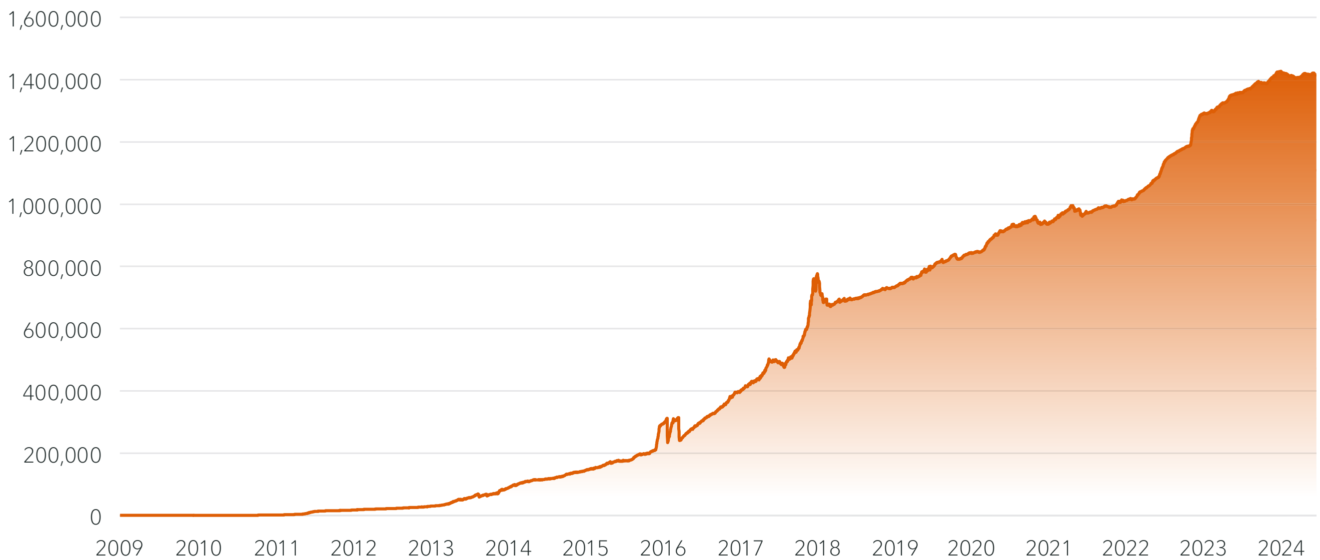
Source: Fidelity Digital Assets Research via Glassnode, 06/24/24.

*Spot crypto ETPs, are not investment companies registered under the Investment Company Act of 1940 (the "1940 Act") nor are they commodity pools under the Commodity Exchange Act of 1936 (the "CEA"). As a result, shareholders of spot crypto ETPs do not have the protections associated with ownership of shares in a registered investment company nor are shareholders afforded the protections of investing in an CEA-regulated instrument or commodity pool.

Digital assets are highly volatile, and their market movements are very difficult to predict. Various market forces may impact their value including, but not limited to, supply and demand, investors' faith and their willingness to purchase it using traditional currencies, investors' expectations with respect to the rate of inflation, interest rates, currency exchange rates, an evolving legislative and regulatory environment in the U.S. and abroad, and other economic trends. Investors also face other risks, including significant and negative price swings, flash crashes, and fraud and cybersecurity risks. Digital assets may also be more susceptible to market manipulation than securities. The performance of each fund or funds will not reflect the specific return an investor would realize if the investor actually purchased cryptocurrency. Investors in either fund will not have any rights that cryptocurrency holders have and will not have the right to receive any redemption proceeds in the underlying cryptocurrency.

Even though there are many retail holders, non-retail holders account for significantly higher levels of bitcoin. In the chart below, the total number of bitcoin held in addresses with less than one bitcoin is approximately 7% of the circulating supply (19.7 million) as of June 2024. While the number is low, the number of bitcoin held in addresses with less than one has been rising over time and has increased by 2% since our original report.

Total Held by Addresses with <1 Bitcoin



Source: Fidelity Digital Assets Research via Glassnode, 06/24/24.

We are also witnessing the era of the retail investor in traditional markets with the rise of zero-fee trading and easy-to-use, mobile-first platforms for trading. The channels that retail investors rely on for financial information and advice have been shifting to platforms such as X, Reddit, Telegram, YouTube, and TikTok. Compared to traditional closed channels, information dissemination is much more viral and rapid.

The adoption of bitcoin has been and continues to be driven by conversations taking place openly and online, explaining the correlation between bitcoin performance and social media mentions discussed above. As new waves of retail investors familiarize themselves with these channels, some of their attention could continue to flow to bitcoin and other digital assets.

Potential Return Enhancement

The acceptance of bitcoin in institutional portfolios today can be compared with the acceptance of emerging and frontier equities in portfolios in the late 1980s and early 1990s. The resistance to the inclusion of emerging markets was driven by concerns about factors such as volatility and liquidity. However, over time, investors recognized the growth rates and low correlations between developing and developed market equities. From 1988 to 1993, emerging markets outperformed developed markets by a wide margin.

Comparatively, bitcoin is a drop in the bucket when looking at markets it could disrupt (e.g., stores of value, alternative investments, settlement networks). As of August 2024, Bitcoin had a market cap of approximately $1.2 trillion.

Today, the CAIA Association sizes the alternative investment market at $22 trillion in assets under management (15% of global assets under management, sized at ~$146 trillion). If bitcoin were to capture 10% of the alternatives market as measured by CAIA, that would expand its market size by an additional $2.2 trillion, more than doubling bitcoin's current market cap.

We can also consider the impact of bitcoin capturing a share of potential flows out of fixed income in investors' desperate search for yield and inflation-adjusted returns. If central banks globally once again cut benchmark interest rates to historically low levels that were common from 2008 to 2021, then interest in alternative investments like bitcoin and other digital assets could increase.

The Bank of International Settlements (BIS) estimates the largest bond market (the U.S.) totals over $51 trillion as of 2022.[3] A flow of 1% of bonds (as measured by the WEF) to bitcoin equates to an incremental $510 billion.

While this is a simplified approach, the point of this exercise is to examine bitcoin's potential asymmetric upside as a feature that may appeal to investors in addition to its lack of historical correlation to other assets.

Alternative Investment Benefits without the Friction

To potentially benefit from the enhanced return and diversification effects of certain conventional alternative investments, investors must typically accept certain limitations, such as reduced liquidity, limited accessibility, and high fees. Conversely, bitcoin can allow allocators to complement their illiquid alternative investments with another liquid, accessible, and low-fee asset that offers similar benefits in a portfolio.

Liquidity

Bitcoin trades 24/7 with substantial volume (over $40 billion per day as of August 2024), is relatively easy and inexpensive to enter and exit, and has returns that are easy to observe.[4] Depending on the channel used to gain exposure to bitcoin, there are no lock-up provisions that prevent its immediate sale. Bitcoin can provide investors with the flexibility to meet unanticipated liquidity needs, make short-term tactical decisions, and rebalance portfolios.

Accessibility

Certain alternative investments are also limited in their accessibility. The most lucrative traditional alternatives (e.g., venture capital and private equity, real estate, art, and collectibles) may be reserved for the largest institutional investors. Bitcoin is unique because it democratizes access. While certain on-ramps and off-ramps restrict access (e.g., only to those within a given region or to those willing to undergo Know Your Customer/Anti-Money Laundering regulations), bitcoin itself does not discriminate based on investor profile or geography. It has been open, public, and accessible by anyone with a cell phone or computer and internet connection from its inception.

Low Fees

Alternative investments may be accompanied by fees that reduce the net returns investors receive, such as management and performance fees. Similarly, the only fees associated with a direct investment in bitcoin are a relatively inexpensive management fee for many spot ETPs, the cost of the trade for the "physical" token, and the cost to custody the assets if a third-party custody provider is used. Additionally, like natural resources (e.g., oil) or commodities that have sizeable futures and options markets, investors can leverage bitcoin futures to replicate "physical" exposure to bitcoin.

Bitcoin's Historical Impact on a Traditional Portfolio

After exploring the qualitative explanation behind the rationale to consider allocating to bitcoin, it is also important to consider the historical quantitative impact of including bitcoin in a portfolio.

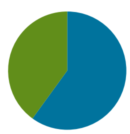
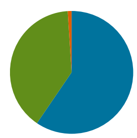
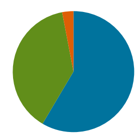
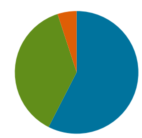
A 5% allocation to bitcoin in a traditional 60/40 equity and fixed income portfolio from June 1, 2020, through May 31, 2024, rebalanced quarterly, would have improved risk-adjusted returns as measured by the Sharpe ratio by as much as 40%. Additionally, annualized returns were 450 bps higher for the portfolio with the highest allocation to bitcoin (5%).

While the volatility of portfolios with bitcoin was higher, the magnitude of the increase was significantly lower compared with the increase in returns. Interestingly, the max drawdown (the greatest loss of a portfolio from peak to trough over a given period) was only incrementally higher for all portfolios with bitcoin exposure. This suggests the power of the low correlation of bitcoin to traditional asset classes.

In the chart on the next page, we summarize the impact of varying allocations to bitcoin on the portfolio's annualized returns and cumulative excess returns, annualized volatility, and risk-adjusted returns.

We measure the impact of a 1%, 3%, and 5% allocation to a portfolio with a ratio of 60/40 equities and fixed income. We use iShares Core S&P 500 ETF (IVV) as a proxy for equities. We use iShares Core US Aggregate Bond ETF (AGG) as a proxy for the US dollar denominated bond market. Bitcoin is the spot price of Bitcoin over the time period. As previously discussed, we believe when evaluating historical bitcoin performance in a portfolio it is most intellectually honest to use multiples of four-year time frames as bitcoin has historically exhibited four-year price cycles. Any longer or shorter than four-year multiples will result in inherently picking tops or bottoms for the time period. We have chosen the shorter and more conservative four-year period of May 31, 2020 through May 31, 2024 as the longer period would result in much better results for including bitcoin due to its higher price performance over this time.

We use total returns, which assumes all dividends are reinvested. However, the fees and expenses associated with building and maintaining the portfolio are not deducted in our hypothetical analysis. Bitcoin returns do not factor in hard forks or airdrops. Portfolios assume quarterly rebalancing.

Stocks/Bonds/Bitcoin	60%/40%/0%	59.5%/39.5%/1%	58.5%/38.5%/3%	57.5%/37.5%/5%
				
Annualized Returns	8.82%	9.73%	11.54%	13.32%
Change vs. 0% BTC (bps)	*N/A*	*91*	*272*	*450*
Annualized Volatility	12.31%	12.60%	13.28%	14.08%
Change vs. 0% BTC (bps)	*N/A*	*29*	*97*	*177*
Sharpe Ratio	0.57	0.62	0.72	0.80
Change vs. 0% BTC (bps)	*N/A*	*9%*	*26%*	*40%*
Max Drawdown	-20.08%	-20.42%	-21.11%	-21.80%
Change vs. 0% BTC (bps)	*N/A*	*-34*	*-103*	*-172*

Source: Fidelity Digital Assets Research via portfoliovisualizer.com, 06/27/24. Legend: Green – Bonds, Blue – Stocks, Orange – Bitcoin
Past performance is no guarantee of future results. This chart is for illustrative purposes only and does not represent actual or future performance of any investment portfolio or strategy.

Considerations

Maturation

Bitcoin's historical performance may be a consequence of early-stage behavior. Its ability to enhance the returns of a portfolio in the accelerated way it has over the period studied may not continue. In other words, bitcoin's performance going forward may diminish over time. However, another consequence of bitcoin entering a more mature and steady stage of its lifecycle is that we expect its volatility to decline in tandem as discussed in "A Closer Look at Bitcoin's Volatility," potentially resulting in continued favorable risk-adjusted returns.

Based on Historical Data

Our and similar analyses are back-tests and are based on historical returns. The challenge is that historical performance is not necessarily indicative of future results. While the use of historical realized returns to make investment decisions is debatable, investment analysis and decision making is often at least partially informed by evaluating historical risk-adjusted returns.

Volatility

Given bitcoin's volatility relative to other assets, an allocation to bitcoin may deviate from its target allocation frequently, which requires an active rebalancing strategy. This could require investors to pay more attention to actual versus target allocations on a more regular basis.

Consider a portfolio with a target allocation of 5% bitcoin. If the bitcoin allocation outperforms and rises to 10% of the portfolio, a disciplined rebalancing strategy would dictate selling some bitcoin to bring its allocation back to the 5% target. Then, the investor would use the remaining funds to increase the allocation to other asset classes, which have drifted below their target allocation.

If bitcoin underperforms and declines to 1% of the portfolio, investors would hypothetically buy more bitcoin and sell positions in other asset classes that are above their target allocation. An advantage of rebalancing is that it dictates having the discipline to buy low and sell high.

Conclusion

If investors view bitcoin as a component of their alternative investments bucket, it could be beneficial given a growing interest in alternatives. Additionally, other potential tailwinds for alternatives, such as widely anticipated interest rate cuts—leading to a lower-yield economy again—and the potential for cash to flow out of fixed income into other asset classes could be beneficial for bitcoin.

Bitcoin's lack of correlation in its early days may be partially explained by the retail-driven market, bitcoin's separation from traditional markets, and the lack of overlap between institutional participants in traditional and bitcoin markets. Bitcoin's growing institutional investor base could also lead to its growing correlation with other assets, depending on their narrative for bitcoin.

However, this may not be the case due to bitcoin's distinct differences from other alternative assets. Bitcoin's fundamentals are relatively shielded from the economic impact of central bank monetary policy and geopolitics because bitcoin's functionality is not predicated on profitability or production. Bitcoin is also unique in that it continues to be influenced by retail investor sentiment. This means that bitcoin can capitalize on a largely retail investor-base as well as the transfer of wealth to the significantly younger and more digitally native Millennial and Gen Z cohorts through roughly 2040.

Our report explores the analytical reasons why some investors believe bitcoin can serve a similar role as other alternative investments in a portfolio. A less complicated explanation is that bitcoin simply does not fit into traditionally defined asset categories. It also has dynamic narratives, which make it difficult to define—and easy to call an "alternative."

Today, bitcoin is relatively small in terms of market size and trading volume compared with traditional asset classes. However, as bitcoin grows and matures and investors study its characteristics, being classified as an alternative investment for now does not preclude bitcoin from continuing to grow into an independent asset class of its own. Independent and alternative are not necessarily mutually exclusive—many independent asset classes (e.g., commodities, real estate, infrastructure) may simultaneously be classified as alternative investments depending on the investor.

Overall, bitcoin can be considered a unique investable asset with several compelling differences compared to traditional asset classes and other conventional alternative investments. It is these differentiators that could make bitcoin a beneficial addition to investors' portfolios in the years ahead.

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[1] https://www.forbes.com/sites/michaeldelcastillo/2020/10/13/stone-ridge-reveals-115-million-bitcoin-investment-as-part-of-billion-dollar-spin-off/?sh=5ee4e4959850

[2] https://www.sec.gov/ix?doc=/Archives/edgar/data/0001050446/000119312520215604/d921849d8k.htm

[3] https://www.weforum.org/agenda/2023/04/ranked-the-largest-bond-markets-in-the-world

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