



Alternative Investment: What Are the Risks of Investing in Bitcoin?

Description

Bitcoin has suddenly come under the limelight. Some are criticizing it for the lack of regulation and the unprecedented growth. Warren Buffett even went ahead and called it a gambling device. But is Bitcoin a gamble or a form of investment? For this, you need to understand the nature of alternative investments. It is not every day you hear about alternative investments because it is not a conventional investment, like a stock or a bond. But it has its pros and cons, and [ETF](#) houses are bringing these alternatives to a retail investor.

What *is* an alternative investment?

Alternative investments include gold, commodity, real estate, hedge fund, or private equity. Generally, the top brass of the society invests in such alternative assets given the challenges and a keen eye for detail they need. These investments need risk-taking ability, which means even if you lose this money, it won't impact your wealth.

Why are alternative investments risky? Well, they are illiquid, lack regulation, and are prone to scams and frauds. The best example of alternative investment is real estate. You can't just sell a mansion in the market. Moreover, there is a huge risk of theft. You can get scammed if you don't know the rules of the game. The regulator can't get back all your money.

This is just the upper layer of the challenges. You also need to value the asset, which needs an expert. Although regulators have come up with certifications to verify the authenticity of the asset, you need to be on your toes for scams. Despite these challenges, people invest in alternative assets, as they are not affected by the economic condition.

Hence, you never see the top brass lose their wealth in a recession. The rich keep getting richer because their alternative investments hedge their assets against inflation. That is why pension funds and companies invest a small portion of the portfolio (less than 10%) in alternative investments. **Tesla** invested 7.7% of its cash reserve in BTC as an alternative investment.

Bitcoin faces the same risks as alternative investment

If you match the risks of alternative investments with the risk of Bitcoin, you will realize why Elon Musk and Bill Gates prevent you from putting your hard-earned money in it. BTC is unregulated and it is difficult to value this digital coin. It ain't easy to sell BTC, although it is very liquid compared to other forms of alternative investments.

BTC is prone to scams and needs someone with crypto expertise to avoid losing your money. The crypto frenzy is seeing new digital coins coming up now and then. Recently, the Chia coin [came up](#) and can be mined on **Amazon** Web Services. This makes it difficult to validate which crypto will become the future.

How retail investors can invest in Bitcoin

Many mutual funds and ETFs gave retail investors exposure to these alternative investments after conventional investments crashed in the 2008-2009 crisis. These ETFs invest in alternative assets and gives you exposure to the price fluctuation of the underlying asset. These ETFs trade on the stock exchange and comply with the exchange's rules, thereby removing the risk of liquidity, scams, and thefts. However, they carry other risks to the underlying asset. The **iShares S&P/TSX Capped REIT Index ETF** fell 24.5% in the March 2020 crash, while the **iShares Gold Bullion ETF** surged 24.5%.

If you want to invest in Bitcoin as an alternative investment, consider the **Purpose Bitcoin CAD ETF** ([TSX:BTCC.B](#)). The Purpose ETF has 18,899.19 BTCs. By buying this ETF you gain exposure to the value of its BTC asset. You can buy one unit of the ETF for less than \$11. Each unit represents 0.0001696 BTC. As the price of BTC fluctuates, so does the ETF price.

The ETF started trading on the exchange on February 18 and has surged as much as 18% in two months. During this period, BTC price surged 18.7%. Since then, both BTC and the ETF has declined.

Foolish takeaway

Remember, alternative investments are risky. Hence, invest only a small portion (less than 5%) of your portfolio in alternative investments.

CATEGORY

1. Investing
2. Personal Finance

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1. TSX:BTCC.B (Purpose Bitcoin ETF)

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