How Do These Bitcoin ETFs Offer Monthly Dividends?

Description

Last year, a **Bitcoin** exchange-traded fund (ETF) would have been “too exotic.” Now, there’s a wide selection of ETFs focused not only on Bitcoin but also the rest of the emerging cryptocurrency sector. Most of these funds offer the same benefit to investors: exposure to a new asset class with fewer complications.

However, Purpose Investments, the company managing the following innovative ETFs, wants to add another layer of benefits: passive income. The newly launched **Purpose Bitcoin Yield ETF** (TSX:BTCY.B) and **Purpose Ether Yield ETF** (TSX:ETHY.B) offer exposure to the two most popular cryptocurrencies as well as *monthly dividends.* Let’s dig in to figure out how this is possible.

How does it work?

ETFs have simple mechanics. A fund invests in a certain asset and then issues shares on a public exchange so that investors can buy and hold pieces of the asset like they own regular company stocks.

That’s how most Bitcoin ETFs work, too. For instance, **Purpose Bitcoin ETF** (TSX:BTCC.B) holds 24632.44568 BTC in total. Each unit of the fund represents 0.0001313 BTC. This structure is common. What’s uncommon is using derivatives on the underlying asset to generate a yield.

The Purpose Investments team behind BTCY.B and ETHY.B writes covered calls on their Bitcoin and **Ethereum** holdings. This means they give traders the option to buy BTC and ETH at a certain strike price. In return, the ETF management company collects a fixed fee.

Traders buy these call options to magnify their capital gains if the price of Bitcoin or Ethereum skyrockets. However, they must pay the fixed fee regardless of what happens to the underlying price of these assets. This means the strategy is a way for the ETF management company to generate safe, reliable and passive returns on an otherwise volatile asset.

What are the implications?

Purpose Investments believes it can generate annual yields of 8-10% with this strategy. This yield offsets the losses if the cryptocurrency market falls but also offsets some gains when the market rises. In other words, these dividend-paying crypto ETFs are most appropriate for investors who want less volatility and safer returns from the digital assets sector.

Purpose cannot predict the exact yield it will generate in any given year. However, it expects yields to remain elevated because of the significant demand for crypto derivatives. It also expects the yield to be high enough to justify a monthly dividend payout structure.

Bottom line

A Bitcoin or Ethereum ETF would have been unimaginable just a few years ago. Now, investors have plenty of options and some even offer monthly dividends. That's a testament to the fact that the digital assets space is rapidly maturing.

The monthly dividend crypto ETFs are interesting. They're particularly appealing for investors who want stable, high-yield investments. However, if you're looking to maximize gains and have an appetite for risk, you may want to consider the traditional crypto ETFs instead.

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