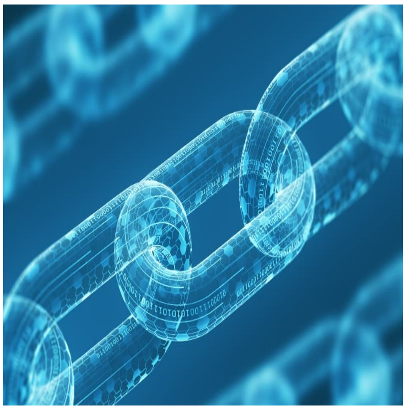

How to Invest During a Crypto Winter

Description

We're now in the midst of crypto winter. That means cryptocurrencies and digital assets are in a bear market. Several companies in this space have gone bankrupt and some tokens have lost nearly 90% of their value in recent months.

The crypto market is deeply cyclical. These boom-bust cycles are nothing new. However, each cycle is relatively larger and more painful for new investors. The latest bust has destroyed trillions in investor capital at a rapid pace. There could be more pain ahead, but some investors might also find interesting opportunities.

Here's how to navigate this ongoing crypto bear market.

Mitigate risk

Startups have an incredibly high failure rate. In the crypto sector, this volatility is magnified by the underlying digital assets and opaque financial instruments. **Voyager Digital's** loans to 3AC have put it on the verge of bankruptcy now. Pure-play crypto companies are heavily exposed to such risks.

To mitigate the systemic risk, investors could focus on companies that have a solid business model and reliable cash flow. **Shopify** is a good example. Merchants on the Shopify network can accept crypto payments. The company also introduced a non-fungible token-based community marketing tool recently.

This means the tech giant can capture much of the upside from a crypto rebound. But if crypto fails and never rebounds, the core e-commerce business should be fine. Investors should consider such proxy bets.

Focus on utility

Most digital assets fail because they never find a legitimate use case. As capital dries up, only the most useful cryptocurrencies could survive the crypto winter.

Bitcoin (CRYPTO:BTC) and **Ethereum** (CRYPTO:ETH) are prime examples of this. The world's most popular cryptocurrencies are also considered to be the most useful. Bitcoin has already been added to several corporate balance sheets and is treated as a reserve asset in at least one sovereign nation. Meanwhile, Ethereum is used by developers and corporations across the world for smart contracts and digital goods.

These two assets have survived previous busts. They could be relatively safer than other digital assets in this environment.

Spread your bets

Instead of picking winners and losers, you could make a broad bet on the resurgence of the crypto sector via exchange-traded funds (ETFs). **Global X Blockchain ETF** (NASDAQ:BKCH) is one of the few multi-asset funds in this sector. Its portfolio includes 25 holdings ranging from cryptocurrency exchanges to Bitcoin-mining firms.

This spreads the risk across the whole sector. If Bitcoin rebounds and has another boom in the future, at least some of these firms will survive and deliver returns. On average, the returns from winners could offset the losers.

Adding a crypto ETF instead of a single stock or digital asset is probably the best way to add exposure. During a market downturn, these diversified ETFs should mitigate some of the downsides. Risk-averse investors should have BKCH on their watch lists.

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