Crypto Investors: Avoid the Next Voyager Digital (TSX:VOYG)

Description

Voyager Digital (TSX:VOYG) faces an uncertain future after the company indicated it could lose more than $650 million it had loaned to the struggling Three Arrows Capital hedge fund. The news resulted in the stock crashing by more than 60%. As a result, the stock is down by more than 97% from its 52-week high.

There could be other crypto service providers on the brink of failure, as this downturn continues. Here's what investors can learn from Voyager's stumble and how to avoid the next blowup.

Voyager's struggles

The company has been under immense pressure ever since cryptocurrencies imploded from record highs. With its subsidiaries, it operates a crypto asset brokerage firm. It also operates a digital platform that enables people to buy and sell crypto assets.

The Toronto-based company says it had loaned Three Arrow Capital $350 million worth of stablecoin USDC and 15,250 **Bitcoins**. But with the company failing to meet margin calls to several lenders, Voyager Digital could lose everything.

Voyager Digital's struggles highlight how crypto service providers could be riskier than investors anticipated. Underlying financial instruments like private loans could add dangerous exposure that puts the core business at risk.

It is still unclear whether Voyager Digital held any collateral for the amount it loaned the embattled hedge fund. The company's sentiments in the market have turned sour if a plunge to record lows of $0.55 per share is anything to go by. Given the current situation, things could get worse before improving.

Safeguard your crypto bets

The crypto ecosystem was built on decentralization, so one way to mitigate risk is to go directly to the underlying asset. By adding Bitcoin or **Ethereum** to your portfolio directly, you avoid the counter-party risk of a corporation.

A service provider like Voyager could have private loans or special contracts on the book that complicate its financial position. However, Bitcoin and Ethereum's financial position is publicly available on the blockchain. There's full transparency on how many accounts hold these digital assets and where they're held. That doesn't make it safer, but it certainly makes these networks less opaque.

Another way to mitigate risk is by betting on traditional businesses with crypto exposure. Payments company **Nuvei**, for instance, added crypto payments last year. If the market rebounds, Nuvei could see this segment of the business expand. However, if crypto fails, Nuvei's core business of fiat payment processing is unaffected. The risk-to-reward ratio is simply better.

Bottom line

We're in the midst of a severe bear market. Digital assets have lost tremendous value, which has created contagion in the crypto services sector. Investors should be cautious about their exposure right now. The best way to mitigate risk is to either hold time-tested digital assets directly or bet on traditional financial or tech companies with limited crypto exposure.

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