

INSIGHTS FROM CFA SOCIETY SINGAPORE

Why financial advisers struggle to embrace Bitcoin's rise

The scepticism lingers despite recent shifts in market trends, such as the rise of Bitcoin exchange traded funds and the marketing push from giants like BlackRock



ROB PRICE

BITCOIN is one of the most powerful technologies of our time. It has delivered financial freedom to millions and disrupted established financial players.

Yet, many of my fellow financial professionals remain deeply sceptical of its worth.

This scepticism has stubbornly remained despite recent shifts in market trends, such as the rise of Bitcoin exchange traded funds (ETFs) and the marketing push from giants like BlackRock.

BlackRock's iBIT (iShares Bitcoin Trust ETF) has received US\$100 billion worth of flows, making it one of the most successful ETFs in history. Clearly, many investors are taking notice.

JPMorgan said in October it would allow institutional clients to use Bitcoin as loan collateral. The Trump administration is examining adding crypto to the list of approved 401-k investments.

So why the resistance?

Tech friction

In any shift from old to new, there will always be resistance. There was a learning curve to the Internet, and more recently, to artificial intelligence, as with any other breakthrough technology.

The launch of crypto ETFs in the US in January 2024 changed this dynamic, allowing anyone with a brokerage account to invest. I expect there will be other solutions which make self-custody security (security without a third-party intermediary) easier for non-technical users, allowing them to utilise the technology day to day, but it takes time for all these functional layers to be built.

We must also appreciate that there is a difference between using the Internet to search for a product online and storing significant portions of one's wealth in a new financial technology.

The stakes are higher with crypto, and this could be hampering financial professionals' approval. The higher stakes draw in some investors but have also put off others

who would rather wait until the risks have declined, and the technology is second nature.

But financial professionals are smart, tech-savvy people. Technical friction does not explain the visceral reaction when speaking to your resident economist.

Economic ideology

Bitcoin is a non-state monetary asset. Its monetary policy is determined without a central bank. The mindset required to understand its value and its unique proposition runs directly against economic orthodoxy.

In contrast, traditional economists assume that central banks are necessary to set interest rates and manage inflation. In fact, many economists work at central banks, treasury departments, or private banks. They have a personal stake in maintaining the status quo. These same institutions dominate not just the profession, but also economic academia. As a result, this line of thinking is what gets taught to 95 per cent of economics students around the world, many of whom end up as financial professionals.

Economic ideology is similar to political ideology and religion—it is deep rooted and difficult to change.

Once we have been taught that this is the way the world works and we have espoused the virtues of that school of thought, we are deeply entrenched in its continuity. Financial professionals probably have far stronger ideological biases than we would like to admit.

Financial valuation

Investments are grounded in quantitative methods, and for good reason. We want substance behind these important decisions. As the field of finance developed over the years, a set of generally accepted valuation methodologies has emerged.

For example, dividend discount models, discounted cash flow models, credit spreads, and option-adjusted spreads are all well-established approaches to valuing different asset classes. But Bitcoin doesn't have earnings, dividends, yields, or interest rates.

The many ways to think about valuing Bitcoin do not neatly fit into traditional methodologies. This asset requires more abstract thinking.

You may need to question the



Bitcoin has outperformed the S&P 500 by 40% over the past year to end-October, and by almost 300% over the last five years. PHOTO: BLOOMBERG

long-term sustainability of the dollar monetary system or the inherent value of our current forms of money. This kind of conceptual thinking and its clash with conventional valuation methods fuel both ideological and technological friction.

How do you explain to Warren Buffett that the valuation methods he relies on do not apply to this asset? It sounds suspicious. From his perspective, scepticism makes sense.

Regulatory restrictions

Finance is a heavily regulated industry. Professionals have significant reporting requirements and are often mandated to hold specific approved assets.

Regulators are almost always behind the ball when it comes to innovative technology, so it has taken them a long time to respond to Bitcoin, which has been around for more than 15 years now. Still, reg-

ulated Bitcoin instruments are not available to many investors in various jurisdictions.

Financial professionals are incentivised to promote the products that they manage and are licensed to sell. If Bitcoin is not on this list, then there is a major incentive misalignment. Even if a financial professional had a constructive view on Bitcoin in his personal capacity, he may have to rein in his views when speaking to clients or in the media.

With the advent of Bitcoin ETFs in the US and the Genius Act, which regulates stablecoins, regulatory restrictions are shifting. But regulations take time, and they still serve as another barrier hindering support from the financial institutions.

Career risk

Financial professionals spend years studying, achieving the Chartered Financial Analyst designa-

tion, PhDs, MBAs, CFPs, CPAs, and more. We have built a major barrier to entry for the powerful industry, of which we are custodians. And for good reason: There is a lot of knowledge required, and we invest a lot of time and energy in accumulating it.

Serious and highly educated financial professionals are now confronted by 20-year-olds who have made US\$1 million in their base-ments in a few months. Not only that, they are shouting it from the rafters, posting about their winnings all over social media platforms like X, and driving Lamborghini around town.

That sounds too good to be true, and often it is. There are many swindles in crypto. Sam Bankman-Fried's infamous blowup at FTX set the industry back a few years.

Then there are the many news stories of people making poor investment decisions and losing their life savings.

They just do not shout about it as loudly as the "crypto bros" scream about their winnings. It only takes one of these stories for a financial professional to label crypto a "scam".

As custodians of client money, reputation is everything to us. We cannot be associated with scams.

The reality is that there are nu-

merous reasons why it has historically been challenging for many financial professionals to embrace Bitcoin. But there is another reality that we must simultaneously confront.

Performance pressure

Bitcoin has returned 50 per cent annually over the past five years. Simply buying and holding Bitcoin would have outperformed most time horizons.

Bitcoin outperformed the S&P 500 by 40 per cent over the past year to end-October, and by almost 300 per cent over the past five years.

Of course, buying and holding Bitcoin is harder than it sounds. It requires patience and a reasonable appreciation of the risks of central banking.

However, it does not necessarily require 10, 15, or 20 years of study. And yet, the outcome can be that a simple strategy dramatically outperforms the work of highly credentialed professionals.

From a financial professional's perspective, that is a difficult pill to swallow, and it naturally leads to reticence in green-lighting the asset class.

Overcoming our biases

There are structural factors that make adoption and support from the financial industry more challenging.

It's not just the technological leap; it's the economic ideology that runs contrary to Bitcoin. It's the financial models built in a fiat era, centred on assumptions of monetary continuity. It is the way this technology sidesteps the traditional halls of power, raising questions for bankers, asset managers, and regulators.

Bitcoin, with all its flaws, questions our assumptions. History suggests that when our assumptions are challenged, and we remain open to change, we usually come out stronger on the other side.

With all the time, evidence, and adoption increasingly weighing in Bitcoin's favour, the question is not whether financial professionals will embrace Bitcoin, but for how long we can afford not to.

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