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Economico

info@economico.ch
Dr. Ueli Mettler, c-alm AG
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Economico Flash #25

Investment strategy: (No) cryptocurrencies

Chart der Woche: Die erfolgreichsten Kryptowährungen 2014 und 2024

Ranking by market capitalization

January 2014	March 2024	March 2024: 2014 Leaderboard
1. Bitcoin	1. Bitcoin	1. Bitcoin
2. Litecoin	2. Ethereum	6. XRP
3. XRP	3. Tether USDT	9. Dogecoin
4. Peercoin	4. BNB	20. Litecoin
5. NXT	5. Solana	1050. Peercoin
6. Omni	6. XRP	1'110. Namecoin
7. Dogecoin	7. USDC	1'880. Quark
8. Namecoin	8. Cardano	7'458. Omni
9. Quark	9. Dogecoin	7'890. NXT
10. BitShares	10. Shiba Inu	? BitShares

Source: coinmarketcap.com

The Economico standard portfolios are lean in terms of asset classes. Many asset classes are missing. We will pick out two prominent examples in the next two flashes: Cryptocurrencies and private market investments (private equity).

Do cryptocurrencies belong in a portfolio? Honestly, I don't know. Proponents compare the development of cryptocurrencies with the emergence of the internet at the end of the last millennium and see the high volatility and constant changes in the pecking order of this industry (see chart of the week), similar to the dotcom crisis in 2003, as the usual side effects of the unstoppable triumphal march of a new, groundbreaking technology. Opponents draw parallels with the Dutch tulip mania of 1636/37 - one of the biggest speculative bubbles in economic history. Then as now - according to the opponents - the behavior of the players is characterized by herd instinct, or the buzzword FOMO (fear of missing out).

Back to the basics: The return on any capital investment is made up of a return on capital and an appreciation component. The return on capital can be derived from the yield to maturity in the case of nominal values, from the profit or dividend yield derived from this in the case of shares and from the income from use or rental income in the case of real value investments such as real estate. Less costs. The value or price change component is positive if the demand for the capital good exceeds the supply. And vice versa. Predicting changes in value therefore requires the prediction of demand and supply behavior. Value investors focus on investments with a high return on capital and accept changes in price and value as hardly predictable background noise.

Investments in cryptocurrencies are - apart from the generation of staking and mining income, which entails additional costs and risks - investments without capital gains and therefore pure price bets. This price bet can only work out if the demand for cryptocurrencies increases steadily. Anyone who participates in this price speculation must therefore be convinced of this constant growth in demand.

Finally, the implementation: You can invest in cryptocurrencies directly by setting up a "wallet" for them. Various technology providers offer to set up such wallets. Indirect investment involves the purchase of exchange-traded funds / ETFs that invest in either individual cryptocurrencies or a basket/index of cryptocurrencies. Be aware of the costs - the TERs of these vehicles vary from 0.2% to over 2%. If you would like to include a proportion of cryptocurrencies in your asset management mandate, please discuss this with your provider. Various providers in the Economico provider universe also explicitly offer this option.

Takeaways

- Cryptocurrencies do not generate a return on capital.
- An investment in cryptocurrencies should therefore be seen as a (volatile) price bet.