

Bitcoin ETFs - The Good, The Bad, and The Ugly

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We are into the second week of trading for the Bitcoin ETFs and we have learned a lot since our initial impressions – [An Eclectic Mix of Things](#).

The Good

There have been some “good” things since the Bitcoin ETFs launched.

- The launches seemed to go well from a logistics standpoint and premiums/discounts to NAV quickly settled into a narrow range. So, simply from a **logistical or an operational standpoint**, things are going well.
- Trading **volumes were high**, but I think that was expected. Net flows seem to have been **out of high cost providers and into lower cost/household name providers**. Again, probably expected rather than “good”, but I’m feeling generous today.
- **Lots and lots of marketing**. From TV to landing pages on financial websites, you cannot avoid Bitcoin ETFs, even if you wanted to.

The Bad

Some of this should maybe be more under the term “convoluted” than bad, but let’s stick with the theme.

- **If Bitcoin is “better than money,” why do we need an ETF?** I think about a lot of markets where ETFs have been instrumental in getting more traction and investors involved. Near and dear to my heart is high yield. With High Yield, it is difficult to own individual securities (it is designed to trade in million dollar clips), so ETFs provide access (even more so for leveraged loans). Gold is another one where ETFs helped a lot. But it was expensive and inconvenient to own “physical” gold. It is heavy and requires storage, etc. Foreign stocks weren’t well designed to be held by foreigners, and while ADRs already existed, ETFs made it easier. **Bitcoin though is supposed to be different**. It seems awkward, at best, that Bitcoin is so good you need an ETF to own it! That is a bit convoluted, in my opinion. Sure, 5 years ago, maybe it was difficult to own Bitcoin, but it has gotten easier and easier to own, so what do the Bitcoin ETFs really solve? Taking something that is in theory accessible 24/7 across the globe and making it into something more cumbersome to attract new flows doesn't inspire confidence.
- **Inflows have been muted, in my opinion**. Net inflows of just over \$1 billion so far (with big outflows from GBTC and positive inflows into the remainder). For an asset class worth almost \$800 billion (Bitcoin market cap), that seems like a trivial amount, especially since it was well telegraphed that this was coming, and as previously mentioned, there is no shortage of advertising. Trading volumes are high, but that isn’t translating into inflows. On Monday, there were net outflows reported (I am not sure whether there is a day or even 2 day lag, or if it is posted immediately, but that seems disappointing). I would have thought “slow” money that was very interested in crypto would have done more adding by now.
- **What is the Bitcoin use case?** I realize that for the last few months (maybe longer) the Bitcoin bulls seemed to focus on the ETFs in their “pump” messages. Okay, but why does Bitcoin deserve to be bought? Its use case seems to keep shifting (medium of exchange, inflation hedge, etc.), but this remains unconvincing to many. The biggest reason I’m hearing on calls why managers should add Bitcoin is because the price action has been great and the past 5 and 10

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year performances crush other asset classes. Fair enough, but what does it do?

- **No new chatter.** Yes, it is early in the life of the ETFs, but not only has the use case been ignored of late, but also the same people talking about Bitcoin (nonstop) are the same people who were talking about it last month (and the month before, and the year before, and years before that). I'm not sensing a lot of conversion or new enthusiasm. That could change over time, but it seems disappointing that a whole new group of cheerleaders hasn't emerged from the woodwork.

The Ugly

Hatred of TradFi (Traditional Finance) is no excuse for not understanding ETF mechanics.

- I was shocked at the naivety of some of those touting Bitcoin ETFs as the next big wave for crypto. Many of the "hype" messages seemed to not understand how ETFs work. I kept wondering if I was missing something, but I wasn't. Even as the trading has commenced, I am still stunned that a few people "viewed ETFs as crucial, but didn't understand well enough how ETFs work." **That I think led to a lot of pre-positioning of Bitcoin ahead of the ETF launches.** Much of it likely uses leverage. This has led to ugly price action.

Bottom Line

The price action in Bitcoin has been ugly since the launch and I think that more is to come given the pre-positioning, the leverage, the lack of ETF understanding, and the fact that the pre-launch hype hasn't been matched by post-launch hype. **There is time for this to turn around**, but a new class of buyer (in size) needs to emerge, and I'm dubious about that, though many RIAs will take time to approve crypto and allocate to it.

So, hope remains for a solid bounce, but I think that there is more downside first.

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