

After the Sell-Off

Takeaways

Cryptocurrency prices fell dramatically alongside other public markets during Q2, resulting in negative performance for most crypto investors' portfolios. Despite the sell-off, some of the largest portfolios have crypto positions for the first time and longer-term holders continued to add to their positions. Both smaller portfolios and those portfolios that more recently invested in crypto for the first time decided to scale back their exposures. Key highlights from Q2 include:

- For portfolios that hold crypto, average allocations dropped to 1.5% in capital terms and 8.3% in risk-weighted terms, largely driven by falling crypto prices.
- Portfolios that have held crypto for at least one year were on aggregate net buyers during Q2, while portfolios that invested in crypto within the past year became net sellers during the period.
- Even with the market turbulence, there was a positive adoption rate (1% increase) among the largest portfolios, while in aggregate 0.3% more portfolios liquidated their crypto positions than entered into the asset class for the first time.
- Despite the drawdown, large portfolios with crypto exposures outperformed their peers who didn't have such exposures by 1.1%. The smallest portfolios with crypto exposure on average underperformed their peers by 3.3%.

Cryptocurrency Allocations Q2 2022

In a challenging second quarter, total allocations among Addepar clients toward cryptocurrency and blockchain-related technologies fell from 41bps to 33bps, largely driven by falling crypto prices. As shown in Figure 1, this resulted primarily in decreased allocations to coins and crypto hedge funds, while blockchain private capital investment sizes remained constant. Valuations in private capital tend to lag public markets. Among cryptocurrency holders on Addepar, total holdings fell from 177bps on average to 147bps.



We continue to see that portfolios with at least \$100mm in assets are allocating more of their capital toward cryptocurrencies, but in more modest proportions compared to smaller portfolios. Interestingly¹, the proportion of \$100mm+ portfolios with crypto exposure rose slightly from 21% to 22% over the past quarter despite the market turbulence, perhaps indicating that some investors saw this as an opportunity to enter the market.

Figure 1

Dollar-Weighted Allocation to Cryptocurrencies and Blockchain Technologies
Q2 2022

Portfolio Size	All Investors				Crypto Holders			
	Coins	Hedge Funds	Private Capital	Total	Coins	Hedge Funds	Private Capital	Total
0–1mm	0.03%	0.02%	0.01%	0.06%	1.38%	1.10%	0.52%	3.01%
1mm–3mm	0.02%	0.02%	0.01%	0.04%	0.89%	0.61%	0.27%	1.77%
3mm–10mm	0.02%	0.02%	0.01%	0.06%	0.53%	0.55%	0.37%	1.45%
10mm–30mm	0.03%	0.01%	0.03%	0.07%	0.44%	0.21%	0.50%	1.15%
30mm–100mm	0.04%	0.02%	0.05%	0.11%	0.37%	0.22%	0.49%	1.08%
100mm+	0.21%	0.11%	0.13%	0.45%	0.70%	0.38%	0.42%	1.50%
<i>Total</i>	0.15%	0.08%	0.10%	0.33%	0.67%	0.37%	0.43%	1.47%

Cryptocurrency Exposure Q2 2022

A small investment in cryptocurrencies can have a large effect on portfolio returns due to crypto’s extremely high volatility², which can be seen in Figure A in the appendix. The smallest portfolios with crypto exposures continue to highly overweight the asset class on a risk-weighted basis.

¹ Analysis not shown here.

² For context, Bitcoin was 3.4x more volatile than the S&P 500 and 5.63x more volatile than the typical 60% equity/40% bond portfolio for the rolling year ending June 30, 2022.

Figure 2

Dollar and Risk-Weighting of Crypto Positions in Portfolios

June 30, 2022

Portfolio Size	All Portfolios		Crypto Holders	
	Dollar Value	Risk-Weighting	Dollar Value	Risk-Weighting
0–1mm	0.06%	0.35%	3.01%	16.93%
1mm–3mm	0.04%	0.25%	1.77%	9.96%
3mm–10mm	0.06%	0.32%	1.45%	8.16%
10mm–30mm	0.07%	0.42%	1.15%	6.46%
30mm–100mm	0.11%	0.62%	1.08%	6.07%
100mm+	0.45%	2.53%	1.50%	8.47%
<i>Total</i>	0.33%	1.88%	1.47%	8.28%

Cryptocurrency Flows Q2 2022

Sentiment toward cryptocurrencies differed among short-term and long-term holders of the asset class in Q2. Portfolios that had held crypto for a year or less tended to sell crypto during the quarter, while portfolios that had been invested in crypto for over a year were either neutral or net buyers during the sell-off.

Crypto sentiment is calculated as the relative share of individual portfolios that are net buyers of crypto assets versus those that are net sellers, or net neutral. A positive reading³ indicates that relatively more portfolios added crypto risk and a negative reading indicates that relatively more portfolios subtracted crypto risk.

Figure 3 shows that the length⁴ that portfolios had held cryptocurrency exposure played a role in their behavior during the 2022 Q2 downturn. Contextually, individual portfolios tend to more

³ Sentiment is computed by taking the number of portfolios with net positive cryptocurrency-related flows in a period with flows greater than 10bps of portfolio asset under management (AUM), subtracting the number of portfolios with net negative cryptocurrency-related flows less than -10bps of portfolio AUM, and dividing that by the total number of portfolios with cryptocurrency positions in that period.

⁴ Note that this analysis is dependent upon the timing at which Addepar's clients added their cryptocurrency holdings to the platform.



heavily fall into the one-year-or-less bucket, while family offices are more likely to be holders of 3+ years.

Portfolio behavior during this sell-off differs from that during the last major downturn in crypto markets in 2021. From October 2020 through March 2021, Bitcoin prices rose nearly 450% due in part to higher savings rates during the pandemic. But when the market crashed in Q2, Bitcoin prices pulled back by over 40%. As prices fell, new portfolios poured more money in aggregate into the asset class while portfolios with longer-term holdings appeared to take profits.

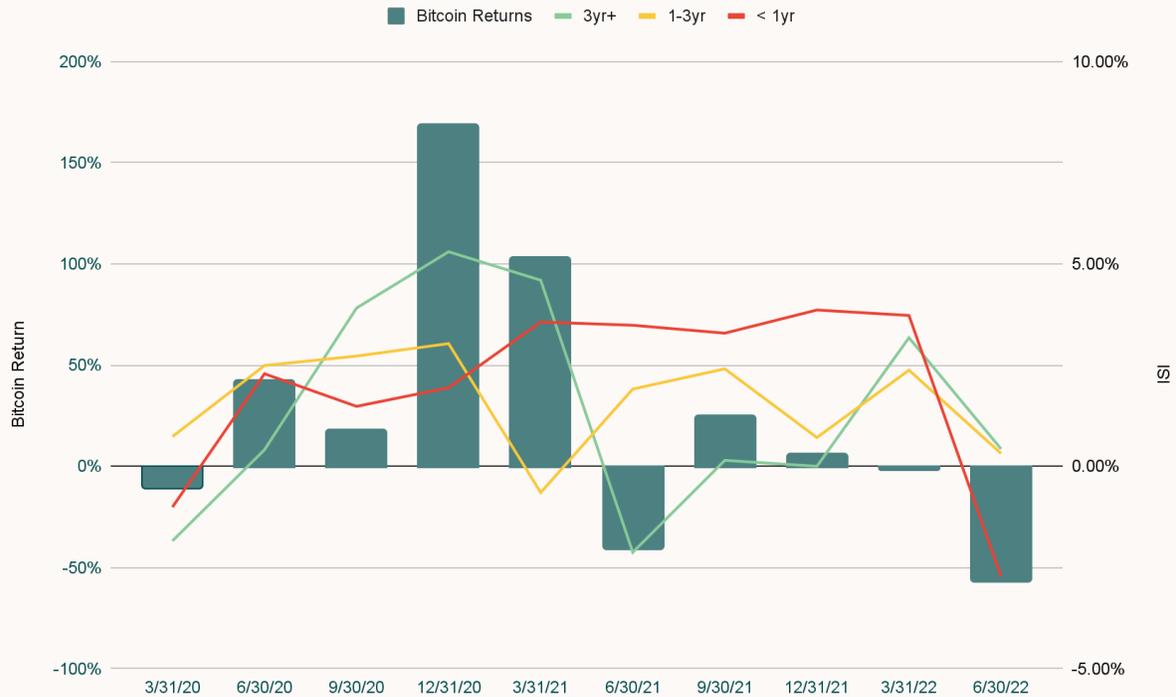
Fast forward to Q2 2022, and this time portfolios with more recent initial investments in crypto had not experienced outsized returns on their crypto assets, while longer-term holders were still mostly in the black. With that context, newer crypto-invested portfolios decreased their holdings on average, while longer-term portfolios were slight buyers in aggregate.

Figure 3 sets Bitcoin returns against investor sentiment across three groups of investors: new crypto investors, defined as those who first invested less than a year ago, longer-term investors who invested in crypto more than three years ago, and those in-between.



Figure 3

Investor Sentiment Index across Length of Portfolio's Investment in Crypto
 Q1 2020–Q2 2022



Cryptocurrency Adoption

For the first time since the beginning of the pandemic, the proportion of portfolios holding crypto-related assets declined during Q2. This again stands in contrast to what we saw during the 2021 Q2 sell-off, in which portfolios as a whole seemed to view the fall in prices as a buying opportunity.

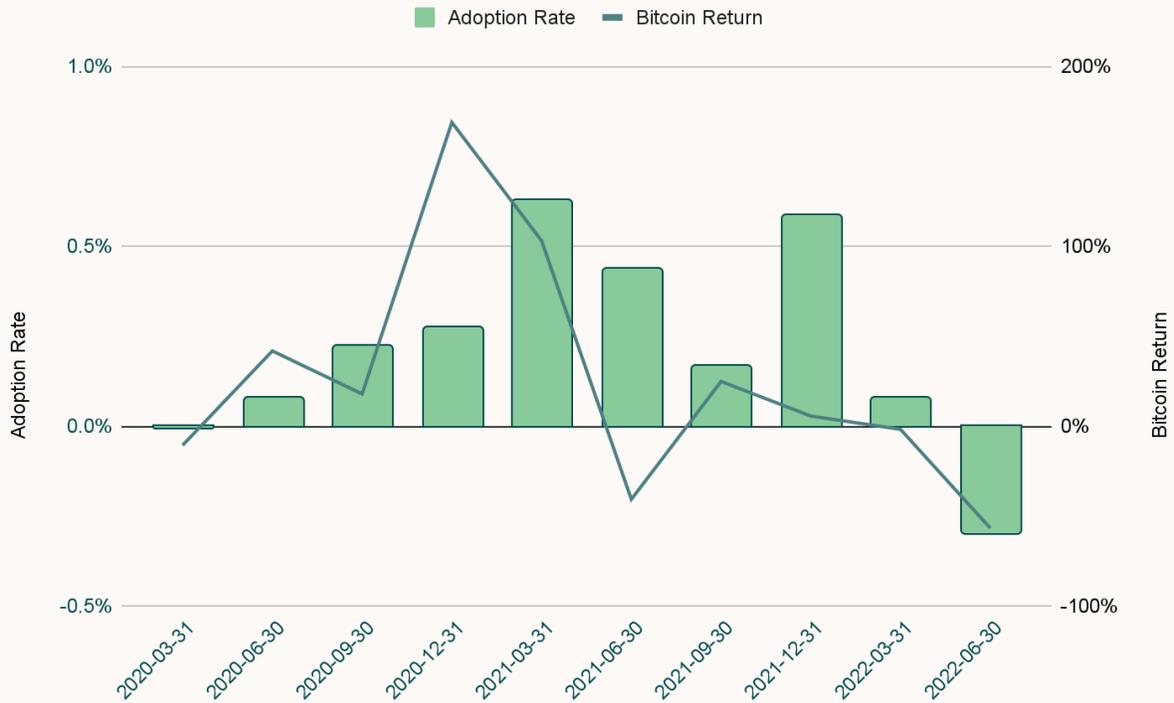
Most of this fall in allocation was driven by fewer portfolios holding coins either directly or via investments in ETFs. Indeed, blockchain-related alternatives have been much stickier, with roughly as many portfolios holding those investments now as they did at the end of Q1.



Figure 4

Crypto Adoption Rate vs. Bitcoin Prices

QoQ Change in % of Portfolios



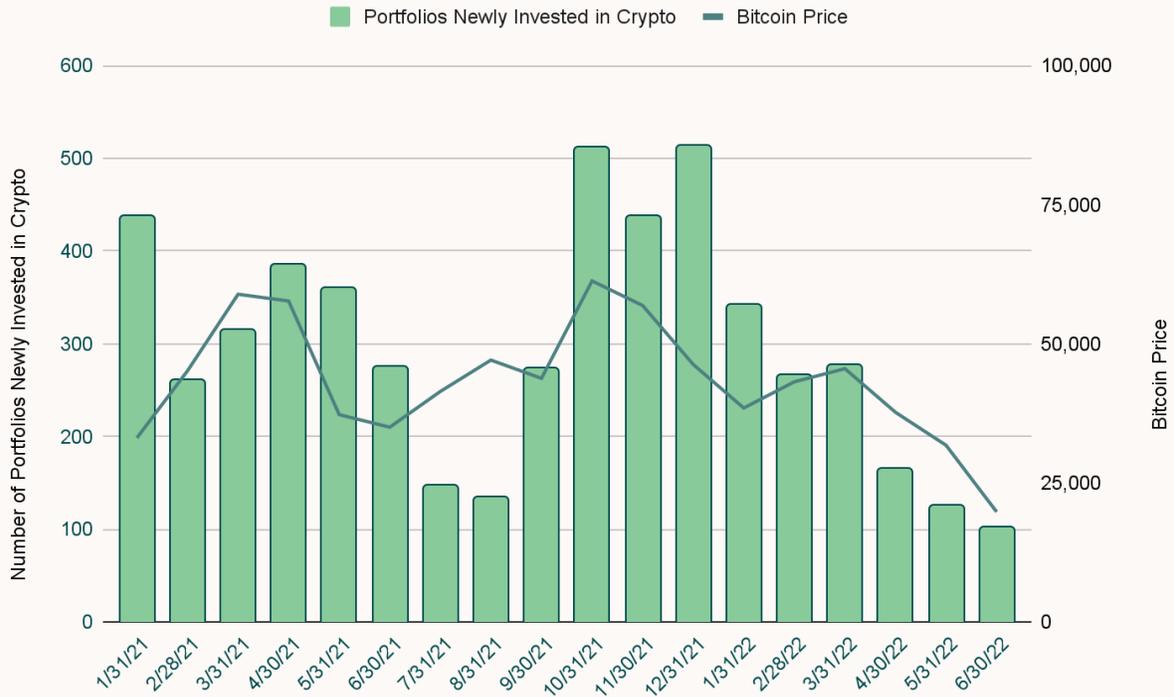
Having fewer portfolios invested in crypto-related assets may be partially driving this decrease in adoption. As shown in Figure 5, the number of new crypto-invested portfolios tends to rise with the price of Bitcoin. Note that the decrease in new portfolios was transient during the 2021 Q2 sell-off, so it will be interesting to watch whether that trend continues after this most recent sell-off.



Figure 5

Number of Portfolios Newly Invested in Crypto vs. Bitcoin Prices

Monthly count of portfolios with first-time crypto investments



Performance Q2 2022

We see that overall portfolio performance among crypto-invested portfolios increased with wealth across all months of Q2. In particular, portfolios that had less than \$3mm in total assets performed worse overall compared to the typical portfolio. This is not altogether surprising given crypto's poor Q2 performance, coupled with the propensity for smaller portfolios to hold outsized amounts of crypto market risk.



Figure 6

**Portfolio Performance of Crypto Investors by Size of Portfolio vs. Typical⁵ Portfolio
Median Monthly Portfolio Returns Q2 2022**

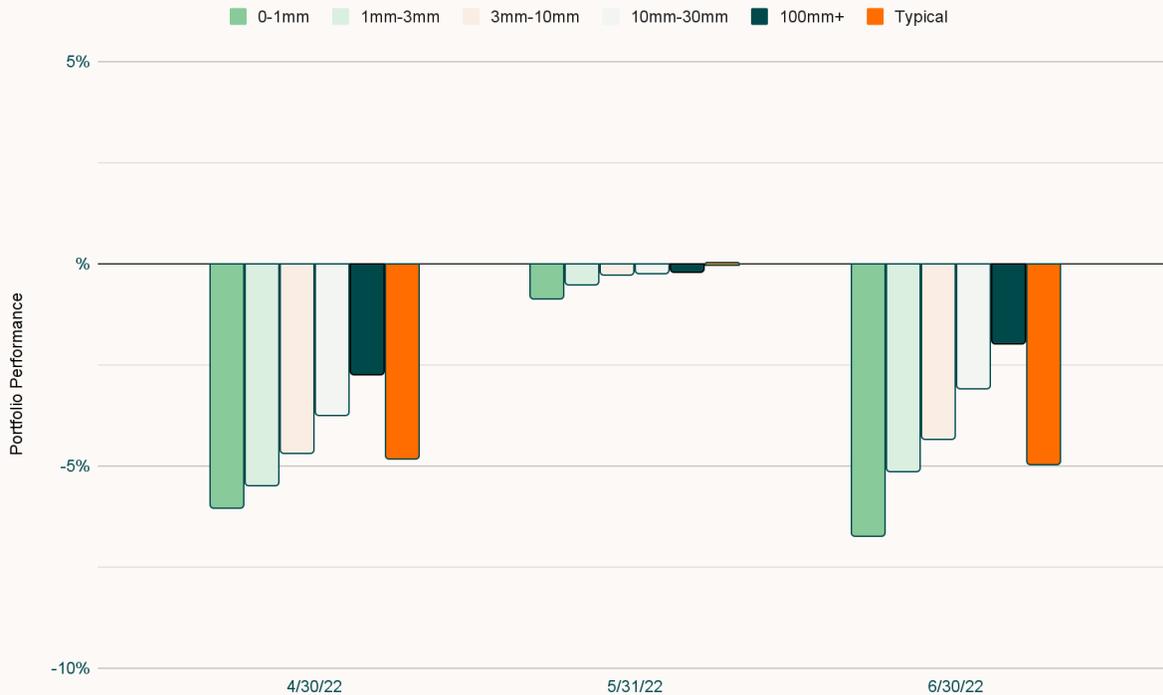


Figure 7 shows that the smallest portfolios with crypto holdings performed far worse in Q2 than peer portfolios that didn't invest in crypto. This is likely due to two factors. As previously mentioned, smaller portfolios with crypto exposures tend to overweight crypto in terms of risk-weighting, which leads to lower returns during market sell-offs. In addition, smaller crypto portfolios tend to have the majority of their crypto holdings in highly volatile coins, as opposed to the steadier blockchain private capital funds held by their more wealthy counterparts.

⁵ The typical portfolio's return is representative of the median portfolio's performance across all portfolios (crypto and non-crypto holders) of all sizes in a given month.



Figure 7

Portfolio Performance of Crypto vs. Non-Crypto Portfolios by Size of Portfolio
Portfolio Returns for Q2 2022



Conclusion

In this research note, we provided new ways of examining crypto portfolio behavior during the recent downturn. Overall allocations fell slightly QoQ, but risk exposures continue to be elevated, particularly for those portfolios with less than \$1mm in assets.

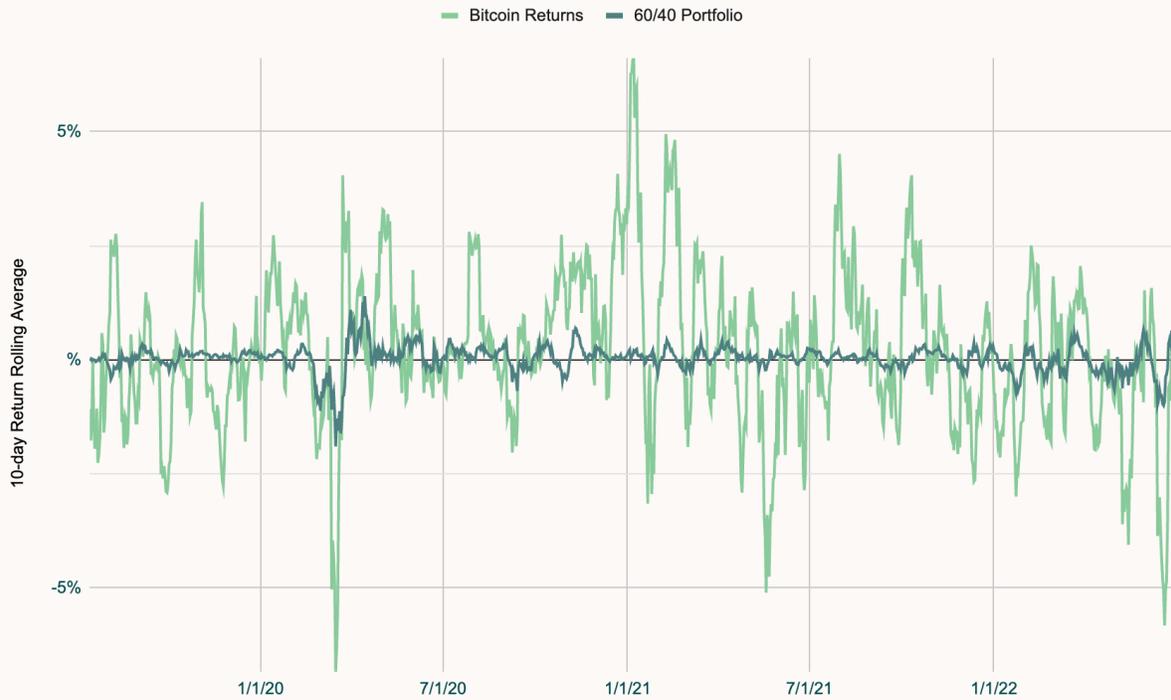
This note explained that a portfolio's flows in Q2 depended upon when an investor first added crypto. It also illustrated that adoption of the asset class has slowed in aggregate but has continued to increase for portfolios with \$100mm+ in assets. Performance continues to be positively tied to wealth, with portfolios with less than \$1mm in assets under-performing their crypto-less counterparts.



Appendix

Figure A

Bitcoin Returns vs. Typical 60/40 Portfolio Returns
2-Week Moving Average of Returns Q2 2019–Q2 2022





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