

# Intro to Crypto Allocations

## Takeaways

- **New research note:** This is the first in what will be a series of periodic notes from Addepar Research outlining aggregate cryptocurrency exposure on our platform.
- **Increasing adoption:** Over the year ending May 2022, the percentage of investors with crypto-related holdings rose from 1.3% to 2.4%.
- **Aggregate holdings:** The average crypto investor has nearly 5% of portfolio risk allocated to cryptocurrency and blockchain-related investments. **Portfolio-size effect:** Smaller crypto investors tend to hold a proportionally larger allocation to crypto. On a risk-adjusted basis, this can represent a 15–20% risk share of their portfolios.

## Introduction

Cryptocurrencies and blockchain-related assets<sup>1</sup> are becoming a larger driver of portfolio returns for high-net-worth (HNW) investors. This is driven in part by cryptocurrency's continued maturation because there are now many new ways of gaining crypto exposure (both directly and indirectly). Most investors are aware of how to make direct investments in crypto via buying tokens through exchanges or decentralized protocols, purchasing shares in ETFs that own tokens, or buying crypto futures. However, investors can also indirectly gain exposure to crypto through the growing number of private capital funds that specialize in defi, web3, cryptocurrency and blockchain-related investments. This note offers insight into how HNW investors have chosen to invest in this growing asset class.

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<sup>1</sup> Blockchain-related assets include investor positions in hedge funds and private capital funds that primarily invest in companies utilizing blockchain technologies, such as web3 and decentralized finance.



# Cryptocurrency Allocations Q1 2022

Across Addepar's platform, we've found that the average allocation toward crypto-related products across investors is 28bps<sup>2</sup>. However, the majority of our clients hold (or report) no crypto investments, while the minority that do own crypto hold an average of 1.3% of their portfolios in these assets. Most of this allocation is through direct investment in tokens and crypto-related fund structures. Among holders of crypto, smaller portfolios hold a larger allocation to crypto than larger ones. This is particularly noteworthy as larger investors tend to be the most aggressive adopters of alternative assets.

**Figure 1**

Dollar-Weighted Allocation to Cryptocurrencies and Blockchain Technologies

Data as of March 31, 2022

Firm Size	All Investors				Crypto Holders			
	Coins <sup>3</sup>	Hedge Funds	Private Capital	Total	Coins	Hedge Funds	Private Capital	Total
0-1mm	0.06%	0.01%	0.01%	0.08%	3.48%	0.77%	0.40%	4.66%
1mm-3mm	0.07%	0.01%	0.01%	0.08%	2.62%	0.41%	0.21%	3.24%
3mm-10mm	0.06%	0.02%	0.00%	0.09%	1.68%	0.55%	0.13%	2.36%
10mm-30mm	0.07%	0.01%	0.01%	0.10%	1.20%	0.25%	0.25%	1.69%
30mm-100mm	0.08%	0.02%	0.04%	0.14%	0.93%	0.18%	0.38%	1.49%
100mm+	0.19%	0.08%	0.08%	0.35%	0.68%	0.30%	0.28%	1.25%
<b>Total</b>	<b>0.16%</b>	<b>0.06%</b>	<b>0.06%</b>	<b>0.28%</b>	<b>0.72%</b>	<b>0.29%</b>	<b>0.28%</b>	<b>1.29%</b>

<sup>2</sup> Crypto exposure is likely undercounted because not all investors represent their crypto holdings on the Addepar platform.

<sup>3</sup> Bitcoin was the most widely held coin by investors. Ethereum was second and all other coins held in minimal amounts.



# Cryptocurrency Exposure Q1 2022

A small investment in cryptocurrencies can have a large effect on portfolio returns due to crypto's extremely high volatility<sup>4</sup>. Indeed, the average investor has a higher risk-weighting towards crypto-related investments than they do gold (also considered an alternative store of wealth)<sup>5</sup>. The smallest crypto investors are now allocated over 17% towards crypto on a risk-weighted basis<sup>6</sup>.

**Figure 2**

Dollar and Risk-Weighting of Investors in Crypto and Gold

Data as of March 31, 2022

Firm Size	All Investors				Crypto Investors			
	Dollar Value		Risk-Weighting		Dollar Value		Risk-Weighting	
	Crypto	Gold	Crypto	Gold	Crypto	Gold	Crypto	Gold
0-1mm	0.08%	0.86%	0.31%	0.86%	4.66%	2.70%	17.46%	2.70%
1mm-3mm	0.08%	0.96%	0.31%	0.96%	3.24%	2.39%	12.14%	2.39%
3mm-10mm	0.09%	0.95%	0.33%	0.95%	2.36%	1.98%	8.85%	1.98%
10mm-30mm	0.10%	0.86%	0.37%	0.86%	1.69%	1.50%	6.35%	1.50%
30mm-100mm	0.14%	0.93%	0.51%	0.93%	1.49%	1.34%	5.60%	1.34%
100mm+	0.35%	0.72%	1.32%	0.72%	1.25%	0.98%	4.68%	0.98%
<b>Total</b>	<b>0.28%</b>	<b>0.78%</b>	<b>1.05%</b>	<b>0.78%</b>	<b>1.29%</b>	<b>1.02%</b>	<b>4.84%</b>	<b>1.02%</b>

<sup>4</sup> For context, Bitcoin was 2.8x more volatile than the S&P 500 and 3.75x more volatile than gold from May 2019 through May 2022.

<sup>5</sup> There is no correlation between holders of gold and crypto. This may suggest that crypto investors are generally not invested in crypto as an alternative store of wealth.

<sup>6</sup> Note that we are using Bitcoin to proxy the overall volatility of the crypto universe as a whole.



# Cryptocurrency Adoption

While still a niche investment, crypto is becoming a more widely adopted asset class. The percentage of investors holding crypto has increased from 1.3% to 2.4% in the past year. This has occurred during a period of continued high volatility within the crypto space, with Bitcoin falling 23% and Ethereum rising 71% during the year ending March 2022 and amidst a substantial (~50%) drawdown from crypto's highs of last autumn.

**Figure 3**

Percentage of Investors on Platform who are Invested in Crypto-Related Assets

Firm Size	All Investors			
	3/31/22	12/31/21	9/30/21	3/31/21
0-1mm	1.2%	1.0%	0.8%	0.5%
1mm-3mm	2.6%	2.4%	1.8%	1.3%
3mm-10mm	3.4%	3.5%	2.7%	1.9%
10mm-30mm	5.6%	5.5%	4.8%	3.7%
30mm-100mm	8.9%	8.3%	7.4%	5.8%
100mm+	18.1%	17.4%	15.8%	12.1%
<b>Total</b>	<b>2.4%</b>	<b>2.3%</b>	<b>1.8%</b>	<b>1.3%</b>



# Methodology

Cryptocurrency coin assets were chosen based on their position name in the Addepar dataset. We included all coins with over a \$10 billion market cap as of May 1, 2022. In this field, we additionally included Bitcoin futures, forwards and positions in the largest crypto ETFs. This methodology likely undercounted the amount of cryptocurrency held by Addepar's investors. This is because crypto is manually entered into our systems and not all of Addepar's clients choose to track their crypto holdings on our platform.

Cryptocurrency private equity and hedge fund holdings were matched to funds sourced from the Preqin database, and included all private capital funds whose investment verticals included cryptocurrency or blockchain.

Gold positions were chosen based on their position name in the Addepar dataset. We included all physical gold holdings (bullion, coins), as well as holdings in the ten largest gold mining companies and in gold ETFs.

Across all time periods, positions were winsorized at the 1 and 99 percentiles based on overall dollar-weighting towards cryptocurrency assets. For the period ending March 31, 2022, this equated to removing all holdings that were within 1bp of zero and all holdings that were greater than 81% of total portfolio AUM.

We calculated the risk-weighting of crypto in comparison to gold by taking the ratio of 3-year Bitcoin daily closing price return vol to gold vol from May 2019 through May 2022.



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