

Episode Title: Crypto's next chapter: impact and outlook

Episode Description: We discuss the ways investors like you can add crypto to your portfolio *and* actually use it. We also get into what the regulatory market looks like and how the Fed plans to tax all your hard-bought coins.

Transcript:

Alex Lieberman ([00:04](#)):

What's up, everyone? I'm Alex Lieberman, co-founder and executive chairman of Morning Brew. This is season three of Fresh Invest, your favorite investing podcast sponsored by Fidelity Investments and powered by Morning Brew. This season, we're getting you the answers that can help you build financial confidence during economic uncertainty. Last week, we explored crypto's recent activities in the market and looked at how its adoption and value fluctuations as an asset class are influencing investor sentiment.

([00:32](#)):

This week, we'll chat about how it's developing, how businesses are approaching crypto, and how crypto-curious investors can decide if it's a right addition to their portfolio. Plus, we'll explore what all this means for your taxes. I'm excited to welcome Chris Kuiper, director of research at Fidelity Digital Assets, to talk through crypto. Let's get into it. Chris, welcome back to the show.

Chris Kuiper ([01:00](#)):

Thank you so much, Alex. Glad to be here. My pleasure.

Alex Lieberman ([01:03](#)):

For those listeners that didn't tune in to last season of Fresh Invest, you mind just reintroducing yourself?

Chris Kuiper ([01:09](#)):

Yeah, sure. My name's Chris Kuiper, director of research at Fidelity Digital Assets. I help our clients there understand digital assets, how it might fit into their portfolio, some of the different investment thesis, as well as all of the risks.

Alex Lieberman ([01:24](#)):

Obviously, crypto has had quite the year. Are you seeing that crypto is susceptible to the same cycles as more traditional assets, and if so, how might that impact the traditional retail investor?

Chris Kuiper ([01:37](#)):

Yeah, sure. It used to be that we could look at, let's say, Bitcoin for example, and it was not very correlated to traditional financial assets. Correlation metrics, if it has a perfect one, it means it's completely correlated, it moves directly in sync, and a negative one would be zigging the other way, right? Zero would be completely non-correlated. That's what you want in a portfolio, you want uncorrelated assets. That's the only free lunch in finance, we like to say. Bitcoin used to be fluctuating

between 0.2 and -0.2. This was against everything, stocks, bonds, real estate, commodity, even gold, and so you had this potential to add something that diversified your portfolio.

[\(02:21\)](#):

Now, a year and a half ago we started to see correlations move up especially with stocks, especially things like tech stocks, and so you kind of got this narrative that Bitcoin and other digital assets were like a growth stock on steroids. They moved even more than stocks did on the way up and they moved even more than stocks did on the way down. For example, during the COVID crash, markets went down 30%, 35%. Crypto, like Bitcoin, went down 50%, but then they shot up even more on the way back up, right? The big question is, does that correlation continue to stay high? Does it continue to stay correlated to these assets and these cycles like you're talking about, or does it decouple, and do we go back to an uncorrelated asset? Me personally, I think we do revert back. It's so different than these other traditional financial instruments and I think investors will come around to that. Those are the things you need to think about, especially as a retail investor if you're looking at adding it to your portfolio.

Alex Lieberman [\(03:18\)](#):

Last episode, I spoke to one of your colleagues, Jack Neureuter, and one of the things that we spoke about was just how incredibly complex and quickly evolving crypto is and how it's important for just any investor as they're trying to do research to try to find a niche that they are particularly interested in exploring within crypto so that they don't get so overwhelmed by the sheer amount of noise and content in the space. From your perspective, what are things for new investors in this space to consider? For example, where should they start from an education perspective if they literally have not consumed anything about crypto and they want to start today?

Chris Kuiper [\(03:55\)](#):

Yeah, great question, and it should be something everyone should be considering when they start out, "Where do I start?" Right? A lot of people think crypto broadly, they think of whatever headline they saw, or they think of, "Oh, I got to understand the underlying blockchain technology." Me personally, I've found the best success when I'm talking to people, and I've done this a lot of times now, the best success is if people start with Bitcoin, and that's not to say you have to consider only Bitcoin as an investment, or anything like that, or it's the only one out there, but it was first. In some ways, it's the simplest. Other things have come after Bitcoin and tweaked the technology or done different things to it, so it really makes sense to understand the underlying technology of Bitcoin first, how it's different, how it's this global payment network, how the token is potentially this world's first non-sovereign, non-bank money that we've ever seen.

[\(04:51\)](#):

Then you can branch out from there and things make a lot more sense. Then more abstract things like blockchain technology make a lot more sense. When you start from an education perspective that way, that also leads into shaping your investment thesis. We actually wrote a paper about a year ago now called Bitcoin First: Why Investors Need to Consider Bitcoin Separate from Other Digital Assets. Again, it's not a value statement on Bitcoin being better, it's just a statement of saying, "Here's Bitcoin in one camp, or bucket, and it does these things, and then everything that has come after it makes sense to put into a different bucket." Those things are a lot more like a venture capital bet, or a technology bet, and so they make a lot of trade-offs, good and bad, but they have a lot more competition.

Alex Lieberman [\(05:37\)](#):

Totally. One interesting topic, especially with Bitcoin but with other cryptocurrencies as well, has been what are the jobs that Bitcoin can or should serve? Some folks have just said it's a speculative asset that really doesn't do anything but act as a speculative asset right now. Others will say that it's a store of value, so in inflationary times, it would retain its value. There's some questions about if that's the case right now. Then the third is that it can be a medium of exchange. I would say that's the one where there's been the most critique, especially with Bitcoin over the last few years. For investors who have been holding onto Bitcoin or just any cryptocurrency and they are trying to decide if they want to turn it into a medium exchange, or actually spend the asset, how should they think about if it makes sense for them?

Chris Kuiper ([06:26](#)):

Yeah, great question. I'm glad you kind of set it up with Bitcoin based on my previous comments there. Let's just talk about Bitcoin first. Like you said, there's this idea as Bitcoin is an emerging form of money, an aspirational money, right? As we know, couple of the big things that money does is act as a medium of exchange and/or a store of value, right? There's quite a debate within the community even about the theory and history of money. Does it first have to become a medium of exchange and then people will hold it and think it holds value, or does it first have to become a store of value and then people will want to spend it, right? It's kind of a chicken-or-egg thing. I myself am in the latter camp. I think as people adopt it and as they hold it to store value over the long term, and again we're talking years or perhaps decades, and I think Bitcoin particularly has this characteristic to fulfill this role because there's a hard cap, there's only going to be so much they can't make more of it, you can be assured in its supply.

([07:29](#)):

As people adopt it as a store of value, they're not going to want to spend it, right? They're going to want to hold it. If you're buying it as an investment and you're anticipating or hoping that it increases in its purchasing power because there's only a limited amount, you're not really going to want to spend it. That doesn't mean to say you can't spend a little bit of it. There's all kinds of major retailers that accept it through different partnerships. Microsoft accepts it, Starbucks accepts it, Home Depot. There's a company out there called Strike. There's no affiliation or endorsement, but just as an example, they've partnered with National Cash Register NCR for ways to spend it at your local gas station, so these things are coming, and if people want to spend it, they certainly can. But it gets back to what you think is the use case, and then there's also a lot of different hurdles that we could talk about, too, with spending it in terms of taxes and all kinds of other things as well.

Alex Lieberman ([08:21](#)):

We will definitely get to taxes. I know that is a big, not just debate, but it's, I would say, a point of complexity that a lot of people don't understand how taxation works with holding crypto. But let's talk about for a second financial planning overall. How should investors be thinking about crypto when it comes to their overall financial picture and how they financial plan in general?

Chris Kuiper ([08:44](#)):

Yeah, great question. We've done a lot of research work on this in terms of where does Bitcoin and other digital assets potentially fit in a portfolio, does it fit at all? If you look at the historical record of it, you could best sum it up as a little goes a long way. Even just a few percentage points can give a portfolio potentially a lot of return without taking on too much risk. But the more that goes into the portfolio, the risk goes up exponentially. You get a lot more volatility, a lot more swings in your portfolio. Again, that's just looking at the historical data. No indication that pass could continue in the

future. But again, it should be considered a high-risk, high-volatile investment, but with a potential high reward. There's that asymmetric part of it, right? I mean, if you just held something like Bitcoin, the most it can go down is a hundred percent, but of course, it can perform much higher than that as we've seen in the past.

[\(09:40\)](#):

Now, how to think about it in your portfolio, some of it goes back to that correlation we talked about, but I like to bring it back especially for Bitcoin in terms of how is it different, right, than the other stuff in your portfolio. If you think of Bitcoin in terms of this potential monetary asset, and we think it makes sense to think of it as a monetary good, it has this very credible hard cap of 21 million, and so if you look at it against all the other currency of the world, and we're currently seeing a lot of news headlines right now hitting with Bank of England intervening and other agencies and central banks calling on other central banks to print more money, it's potentially a hedge against this currency debasement, right?

[\(10:24\)](#):

That's different than the inflation argument. We don't argue that it's directly a hedge against inflation, but it's a hedge against this potential currency debasement that's going on, and could happen again in another wave when we get the next crisis, or the next downturn, or the next recession. That's where I think it matters as a asset that has no counterparty risk and it's not concurrently someone else's liability. Very few to none financial assets have that characteristic and it's something that investors may rediscover again in the future if things get a little crazy.

Alex Lieberman [\(11:00\)](#):

Yeah, you alluded to the craziness, so let's talk about it. As of recording this podcast, Bitcoin specifically, and I would say generally the crypto market using Bitcoin as the example again is roughly 58% year to date, hovering somewhere within 19 handle, 19,000 something per Bitcoin. How should crypto holders be thinking about all of this volatility and also the possibility of future government regulation when it comes to tax season and thinking about crypto or Bitcoin as a taxable asset?

Chris Kuiper [\(11:37\)](#):

Yeah, so we have gotten a little bit of guidance and clarity on the tax situation, at least in the US. Now, I'm in finance, all my friends think I can do their taxes for them. I'll be the first to say I know very little of taxes, so nothing I say here should be construed as tax advice, but I can tell you that if you open up your 1040 and you're going to do your taxes, the very first question right after you fill out your name and your address and your Social Security number is did you transact in cryptocurrencies this tax year? The IRS added that one or two tax seasons ago, and if you do it on TurboTax, or whatever, you're going to get asked that question as well.

[\(12:13\)](#):

The bottom line is it's treated like property, like a share of stock, so if you buy a share of Apple, you don't necessarily have to report that you bought a share of Apple, but you do need to report when you sell it or transfer or dispose of it. Digital assets are no different. If I buy Bitcoin, I don't necessarily have to do anything in terms of taxes, but as soon as I sell it, I trade it, I swap it for another asset, or I buy a good, even a cup of coffee with it, all of those things are technically a taxable event, and so you'd have to calculate your cost basis, basically how much you paid for it versus how much you sold it for or what the price was when you bought that cup of coffee, and you'd have to figure out whether you've had a long-term or short-term gain or loss. That's where it stands today. Of course, we'd love even more clarity around this and we're hoping to get more clarity around it.

[\(13:03\)](#):

But then in terms of the regulation side, that's also where we have even less clarity, right, in terms of what securities and what's not, and so we're still waiting on that. I think it will come, but overall, I like to just remind people as negative as it can seem, or as big of a risk as regulation can seem, take a step back and just think about the fact that we are talking about regulation, and so if this whole thing were what some people still think is a big Ponzi scheme, there's nothing here, crypto is not here to stay, if that were true, if it were all a house of cards, there'd be nothing to regulate, right? Regulators wouldn't care, it would go away. But the fact that it keeps coming up and we have multiple bills being worked on, one of them is for a de minimis amount, so if you buy a cup of coffee, a certain transaction under a few hundred dollars, you don't have to calculate your taxes.

[\(13:55\)](#):

That's in the works. It's not law yet, so don't think that's a law yet. But the fact that we're talking about all this means that to me it's here to stay. Lawmakers are talking about it, they're talking about regulation, there's obviously something of value to regulate, and so hopefully, we'll get more clarity, but in the meantime, we'll continue to just watch and wait.

Alex Lieberman [\(14:14\)](#):

We spoke about this last episode, but I would say generally, people get afraid of this word, "regulation." They fear that it's going to create some huge issue for crypto, but as we discussed, I think it's generally a net good because it gives people a sense of rules and guardrails by which they can operate, and so a lot of, whether it's individuals or institutions, may be skittish to even play in the space right now because they don't know the rules by which they're playing.

Chris Kuiper [\(14:41\)](#):

Yeah, absolutely. It's one of the top reasons we do an annual survey of institutional investors, but I imagine it's the same for retail that one of the top concerns is regulation. If that can get cleared up, I think you take away one of the big hurdles, especially for people who have to be really on their game when it comes to regulation in terms of fiduciary duty and everything else. It could be a great thing once we get past it.

Alex Lieberman [\(15:05\)](#):

For sure. One of the cool things about this podcast and the fact that we have access to five million-plus subscribers within Morning Breweries, we ask our subscribers about the topics that we're going to discuss on Fresh Invest. Of course, we had to ask them about crypto and we asked our subscribers whether they're bearish or bullish about crypto specifically, and as it turns out, probably not surprising at this moment, 75% of the responses from our audience lean bearish. But I would love to get your take on today at this very point in time where you see crypto adoption and development heading in the next year or so, so less focused on over the next week, but from a macro perspective, the way the asset is developing, how do you feel about it?

Chris Kuiper [\(15:51\)](#):

Obviously, not surprising that you see those numbers, and of course, they're going to follow along with the price, right? But what's interesting is we track a lot of the chain fundamental type of data around this space, and if you took out anything that has to do with price, you would not believe we're in a bear market. For example, even though the dollar amount on exchanges is way down, that's just the product of the price being down. The number of coins such as the actual Bitcoin tokens being exchanged in a lot

of exchanges is up. The number of Bitcoin addresses, they're a little off the high, but they've stabilized, they're trending up again. Hash rate, a measure of Bitcoin's computing power, the power behind the network, and that's protecting it, all-time high. We've never seen an all-time high and hash rate with prices down so much, which tends to lead us to believe that these miners and people in the industry really believe in this, right? They're turning on more machines, they're facing tougher margins here.

[\(16:50\)](#):

Then on the adoption and the building side, again, you wouldn't believe we're in a bear market. We've got potentially another record year in terms of venture capital money flowing into the space, more deals than ever continue to go on, and every day, or every week, at least, I hear or read about some new product, some new infrastructure being built, some new piece that is necessary. We're up to maybe, it's hard to estimate, but around 200, 250 million Bitcoin users, just to take one example. Sounds like a lot, but then you realize that's about the number of people that were on the internet in the late '90s, '98, '99.

[\(17:27\)](#):

I mean, we are still so early. We still need so much work in terms of the UI, the infrastructure, the wallets, the custody, all these things that make it work, just like all the things I'd had to come along with the internet. They had to have the browsers and the email systems and people had to understand how to use these things and get up to speed. It's all happening, it just takes time, it takes work, it takes money, it takes, takes talent, but it's happening under the surface despite the price being down, and the people I work with every day truly believe in this, and absolutely, I do as well. I think it's one of the greatest technical innovations we've ever seen and it's one of the greatest economic and monetary innovations we've ever seen. I think this is just par for the course we've been here before with bear markets and we'll continue to keep building.

Alex Lieberman [\(18:13\)](#):

Love it. Chris Kuiper, as always, thank you for joining Fresh Invest. It's good to see you in the flesh versus as a cartoon avatar in the metaverse.

Chris Kuiper [\(18:20\)](#):

That's right. Very surreal, right?

Alex Lieberman [\(18:24\)](#):

Thanks for coming on board.

Chris Kuiper [\(18:25\)](#):

My pleasure. Thanks so much for having me.

Alex Lieberman [\(18:30\)](#):

Thanks so much for tuning in to Fresh Invests. I hope this episode has answered some of your lingering questions about what crypto's wider adoption means for your investing strategy. It's really easy to get caught up in the hype around popular asset classes and especially newer ones like crypto, so getting to the bottom of all of its intricate nuances and cutting through the regulatory jargon has been super insightful. Whether you're already investing in crypto, or are thinking about doing so, gaining a better understanding of how crypto can impact your portfolio now come tax season and for the long haul will only make you a more confident investor. I hope you feel empowered by the strategies we touched on

and feel more informed about the development of decentralized currencies as they get picked up by more institutions and adopted on a broader scale.

[\(19:17\)](#):

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Alexandra Bass [\(19:44\)](#):

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