

## Cryptocurrency Investing: Key Risks to Consider

Cryptocurrencies play an increasingly visible role in global markets. Also known as digital assets, currencies such as Bitcoin, Ethereum and Solana have attracted interest from investors seeking exposure to new technologies and alternative forms of value exchange. As this ecosystem evolves, it is important to understand the risks associated with cryptocurrency investing before deciding whether it fits within a broader financial strategy.<sup>1</sup>



### Price Volatility and Market Behavior

One of the most notable characteristics of cryptocurrencies is their price volatility. Digital asset prices can rise or fall sharply over short periods, often driven by changes in investor sentiment, market liquidity, regulatory developments or technological events. These swings tend to be more pronounced than those seen in traditional asset classes such as stocks or bonds and can result in significant gains—or losses.<sup>2</sup>

Market structure can also contribute to volatility. In some cases, ownership of a cryptocurrency may be concentrated among a relatively small number of holders. Large transactions by these participants can move prices quickly, particularly during periods of lower trading volume.<sup>2</sup>



### Technology-Driven Risks

Cryptocurrencies operate on blockchain technology, relying on software code, encryption and decentralized networks to validate transactions. While this structure enables direct peer-to-peer transfers, it also introduces risks that differ from those found in traditional financial systems.<sup>3</sup>

Software bugs, coding errors or weaknesses in network security can disrupt operations or result in the loss of assets. Because blockchain transactions are typically irreversible, errors or unauthorized transfers may not be recoverable. Access to digital assets is controlled through private keys stored in digital wallets, and losing access to those keys can mean permanently losing the associated assets.<sup>3</sup>



### Regulatory Uncertainty

The regulatory environment for cryptocurrencies continues to evolve and varies widely by region. While some jurisdictions have taken steps to provide greater clarity, future regulatory changes could affect how digital assets are traded, held or taxed. New rules may influence market participation, liquidity and valuations and, in some cases, could restrict access to certain platforms or services.<sup>4</sup>

Differences in regulatory approaches across countries may lead to fragmentation in how cryptocurrencies are used or valued globally, adding another layer of complexity for investors.<sup>4</sup>



## Scalability and Network Limitations

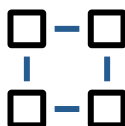
As blockchain networks grow, they must process increasing volumes of transactions. Some networks may struggle to scale efficiently, which can lead to slower processing times or higher transaction fees during periods of heavy usage. These limitations may affect the usability and long term adoption of certain digital assets, potentially influencing their value.<sup>3</sup>



## Fraud and Security Concerns

The rapid growth of cryptocurrency markets has attracted fraudulent activity, including scams involving fake investment opportunities, impersonation or social engineering tactics. Because cryptocurrencies often lack the consumer protections found in traditional financial systems, recovering losses caused by fraud can be difficult.<sup>5</sup>

Cybersecurity risks extend beyond scams. Hackers may target digital wallets and trading platforms, and security breaches can result in partial or total loss of assets.<sup>5</sup>



## Using Exchange-Traded Products (ETPs) to Access Cryptocurrencies

For some investors, ETPs offer a way to gain exposure to cryptocurrencies without directly holding digital assets. Cryptocurrency ETPs trade on regulated exchanges and are designed to track the price of an underlying digital asset or group of assets.

While ETPs do not eliminate market or regulatory risks, their structure may help reduce certain operational and security-related risks. Investors are not required to manage private keys or digital wallets, and custody is typically handled through established service providers.

ETPs carry their own risks, including fees, tracking differences and reliance on the issuer. Understanding how an ETP is structured is an important part of evaluating its suitability.



## Key Takeaway

Cryptocurrencies represent a developing asset class with distinctive features, potential opportunities and meaningful risks. Their volatility, technological dependence and evolving regulatory landscape underscore the importance of a measured approach. Understanding how these assets function—and the risks involved—can help investors more thoughtfully assess whether and how cryptocurrencies may fit within a broader financial strategy.

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<sup>1</sup> Investor.gov, Crypto Assets — <https://www.investor.gov/additional-resources/spotlight/crypto-assets>

<sup>2</sup> FINRA, Bitcoin Basics (June 26, 2023) — <https://www.finra.org/investors/learn-to-invest/types-investments/cryptocurrency>

<sup>3</sup> Bank for International Settlements, Annual Economic Report: Cryptocurrencies — <https://www.bis.org/publ/arpdf/ar2022e3.htm>

<sup>4</sup> U.S. Securities and Exchange Commission, Crypto Asset Risks — <https://www.sec.gov/spotlight/cybersecurity>

<sup>5</sup> Federal Trade Commission, Cryptocurrency Scams — <https://consumer.ftc.gov/articles/cryptocurrency-scams>

## Risk Considerations

Digital assets are highly volatile and unpredictable. Their value is influenced by, but not limited to, supply and demand, investor confidence and their willingness to purchase it using traditional currencies, inflation, interest rates, currency exchange rates, changing regulations in the U.S. and abroad, and economic trends. Investors also face risks such as price swings, flash crashes, fraud, and cybersecurity threats. Digital assets may be more vulnerable to market manipulation than securities.

**Blockchain** is a shared, immutable ledger that facilitates the process of recording transactions and tracking assets in a business network.

Cryptocurrency (notably, Bitcoin) operates as a decentralized, peer-to-peer financial exchange and value storage that is used like money. It is not backed by any government. Federal, state or foreign governments may restrict the use and exchange of cryptocurrency. Cryptocurrency may experience very high volatility.

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