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A Beginner's Guide to Bitcoin ETFs

Bitcoin exchange-traded funds (Bitcoin ETFs) allows investors to gain exposure to bitcoin without actually owning any.

A bitcoin exchange-traded fund (ETF) tracks the value of bitcoin. ETFs can be bought, sold and traded on traditional stock market exchanges instead of cryptocurrency trading platforms. It is a solid way to give mainstream investors and speculators bitcoin price exposure through a reliable vehicle with which they are likely already familiar.

Exchange-traded funds are not a new invention and are common in the financial sector. ETFs can be found to gain price exposure to different assets and industries, including commodities and currencies, or can be set up to focus on companies that are environmentally friendly or focus on diversity.

Currently, the United States has yet to approve a spot bitcoin ETF, though investors can invest in bitcoin futures ETFs. The difference between the two is a spot bitcoin ETF is backed with actual bitcoin (BTC), while bitcoin futures ETFs are backed by bitcoin derivatives.

The addition of a bitcoin ETF would expand the pool of available options to U.S. investors.

Pros and cons of bitcoin ETFs

Although anyone can buy bitcoin from a cryptocurrency exchange or through a bitcoin ATM, an ETF would offer various benefits, including:

- Convenience: An ETF doesn't require learning how to use a crypto walletor opening accounts at crypto exchanges.
- Users do not own BTC directly, gaining price exposure without asset ownership through investment vehicles they are more familiar with and tax rules they know.
- Portfolio diversification: An ETF can hold more than one asset. A bitcoin ETF could hold actual BTC, bitcoin-related stocks and other assets as part of the fund. Even if it only holds BTC, investors gain an option to diversify their portfolios held in traditional markets.
- Although these benefits are significant, a bitcoin ETF can only do so much. There will always be some things one may consider to be a disadvantage:
- Fees: ETFs often have management fees baked into the fund, meaning that a percentage of the money in the pool is going not to investments but to pay the people/company managing the fund. Check out what the "expense ratio" listed on an ETF is before investing – you want it to be as low as possible, under 1% ideally.
- No actual bitcoin ownership: A bitcoin ETF cannot be exchanged for other cryptocurrencies as holders do not own the asset but merely gain price exposure.
- More rigid trading hours: Crypto can be bought or sold 24/7, but financial exchanges like the New York Stock Exchange (NYSE) are open only Monday to Friday from 9:30 a.m. ET to 4 p.m. ET, so if there is significant movement in BTC's price overnight you can't do anything about it until the market re-opens.
- Inaccurate pricing: A bitcoin price increase/decrease may not be reflected in the ETF value in real time, especially if the ETF has multiple holdings.

Get access to bitcoin ETFs

While the U.S. has yet to approve any kind of bitcoin ETF, it exists in other regions. The growing popularity of the cryptocurrency industry has enabled various providers to issue a bitcoin exchange-traded fund in other countries. Notable examples include:

- Canada: 3IQ Coinshares, Purpose Bitcoin and CI Galaxy Bitcoin
- Europe: 21Shares Bitcoin ETP, BTCetc – ETC Group Physical Bitcoin, VanEck Bitcoin ETN, Iconic Funds Physical Bitcoin ETP and Bitpanda Bitcoin ETC
- Brazil: QR Capital's Bitcoin ETF
- Jersey: WisdomTree Bitcoin

While there isn't a spot bitcoin ETF in the U.S., there are bitcoin futures ETFs and ways to invest in ETFs that focus on bitcoin-invested or adjacent companies. These ETFs may hold companies that invest in bitcoin such as Tesla (TSLA) or support mining infrastructure or other technology.

Bitcoin ETF advance in the U.S.

Many people look toward the United States to get truly excited about a bitcoin exchange-traded fund. Gaining approval by the U.S. Securities and Exchange Commission (SEC) has proven challenging, with over a dozen applications and proposals rejected over the past few years. For the longest time it appeared as if nothing would change for the better, although things look a bit different in 2022.

The SEC allowed the first bitcoin futures exchange-traded fund in October 2021, the ProShares Bitcoin Strategy ETF, and approved Teucrium's Bitcoin Futures ETF in April 2022. That progress has rekindled hope in the minds of some cryptocurrency investors, but as of writing, the prospects of approval for a spot bitcoin ETF still seem low.

Grayscale Investments had hoped to convert its Bitcoin Trust (GBTC) to a spot bitcoin ETF, but the SEC rejected its application as well as Bitwise's application for a spot bitcoin ETF on June 29, 2022 (Grayscale is a CoinDesk sister company).

The SEC stated concerns around preventing market manipulation and others as reasons for its rejection in its filing. Grayscale, in response, has filed a lawsuit against the SEC asking the U.S. Court of Appeals for the District of Columbia Circuit to review the SEC's order.

While there are a few companies who have re-filed applications to the SEC for approval of bitcoin ETFs, it looks unlikely that U.S. investors will have access to a spot bitcoin ETF in the near future.

Bitcoin ETFs or owning bitcoin – which one is better?

There is no clear-cut answer to this question. Every investor has different needs and expectations. For example, a bitcoin ETF does not represent BTC ownership but it still offers the necessary price exposure. Moreover, an ETF can be more useful to those who prefer a more passive price exposure, users who are wary of bitcoin, or traders looking to diversify their portfolios conveniently.

On the other hand, owning bitcoin is good for those who want to engage in regular trading, spend BTC as a currency, or venture deeper into cryptocurrencies through trading or other means.

Anyone can buy BTC from a crypto exchange, broker or ATM after verifying their identity, and spot bitcoin ETFs have not yet been approved by the SEC. Futures-based ETFs exist for bitcoin, but only price exposure may not be enough for everyone.

Get Started