Beware of Bitcoin Futures ETFs

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As noted in *The New York Times Dealbook*, **Bitcoin comes to the big board** (NYSE) in the form or a **Proshares ETF** that tracks Bitcoin futures on the Chicago Mercantile Exchange, CME. From the viewpoint of cryptocurrency enthusiasts this move legitimizes Bitcoin and provides an investment opportunity without having to buy individual Bitcoins. If you are thinking that this will be just like investing in Bitcoins but easier, think again. Beware of Bitcoin futures ETFs as they represent a futures trading opportunity but not an easy way to invest long term.

What Does the Proshares Bitcoin ETF Do for You?

The new Bitcoin ETF (**ProShares Bitcoin Strategy ETF (BITO)**) does not give you an easy way to buy into Bitcoin. Rather this exchange traded fund will track Bitcoin futures on the CME. This is similar to what we described with our article about **investing in commodities** in which we noted that ETFs that track commodity futures are not a way to track or invest in the commodities themselves. They are a vehicle that traders can use to hedge risk and speculate on the ups and downs of commodity (or in this case Bitcoin) prices. The ProShares website says this:

> *ProShares Bitcoin Strategy ETF (BITO) is the first U.S. bitcoin-linked ETF offering investors an opportunity to* ***gain exposure to bitcoin returns in a convenient, liquid and transparent way****. The Fund seeks to provide capital appreciation primarily through* ***managed exposure to bitcoin futures contracts****.*
>
> *The fund* ***does not invest directly in bitcoin***
>
> *The* ***price and performance of bitcoin futures should be expected to differ from the current "spot" price of bitcoin***

The first day of trading of this ETF does not tell us much except that there have been more than 11 million shares traded in the first couple of hours. To get a glimpse of how this ETF will do over time consider an ETF that tracks commodity futures.

Futures traders can use such an ETF to hedge risk and profit through speculation but , just like with a commodity ETF, this is not a vehicle for long term investment. As an example, a fund that tracks the Bloomberg commodity index will have lost 40% of its value since its inception more than a decade ago.

Hedging Risk With a Futures-based ETF

The best rationales for using a futures-based ETF in the case of Bitcoin are that you do not need to buy or sell bitcoin, worry about losing your code for reclaiming your bitcoin or losing everything when your **Bitcoin exchange is hacked**. For folks who expect Bitcoin to keep going up over time there is still the problem of sharp spikes and deep valleys on the price chart. Futures are a way to hedge against sharp price changes without continually having to sell your holdings and purchase again. They are also a way to profit from the ups and downs of Bitcoin and not just the long term appreciation. This, however, is trading and not long term investing.

Tax Advantages of Futures and Futures ETFs

Taxes on Bitcoin profits are at your regular tax rate for short term gains and only taxed as long term gains if you hold the Bitcoin for more than a year. An attractive feature of futures is that profits are taxed 60% as long term gain and 40% as short term gains no matter how long you hold the contract! This is an attractive feature of the Bitcoin futures ETF but remember that in order to make money from this approach you will need to pay constant attention to the Bitcoin market. This is not a buy and forget, sleep soundly at night way to invest.

For more insights and useful information about investments and investing, visit www.ProfitableInvestingTips.com.

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