

CFA LEVEL 1

Alternative Investments

Introduction to Digital Assets

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INTRODUCTION

The candidate should be able to:

- describe financial applications of distributed ledger technology
- explain investment features of digital assets and contrast them with other asset classes
- describe investment forms and vehicles used in digital asset investments
- analyze sources of risk, return, and diversification among digital asset investments

- Digital assets are transforming how value is stored, transferred, and invested.
- This section explains what digital assets are and why they matter.
- Understanding digital assets is key to navigating modern financial markets.
- New investment products, risks, and opportunities are emerging from this space.

What Are Digital Assets?

- **Digital assets** are cryptographically secured digital representations of value or rights.
- They are stored on **distributed ledgers** like blockchains.
- Think of them as **programmable assets** with built-in rules.
- Examples: cryptocurrencies, tokenized securities, stablecoins, NFTs.

Types of Digital Assets (Overview)

- **Cryptocurrencies:** Digital cash (e.g., Bitcoin, Ether).
- **Stablecoins:** Pegged to fiat currencies (e.g., USDC).
- **Tokenized Real Assets:** Represent ownership of physical assets (e.g., real estate).
- **Utility Tokens:** Provide access to digital services (e.g., Filecoin).
- **Non-Fungible Tokens (NFTs):** Unique digital ownership rights.

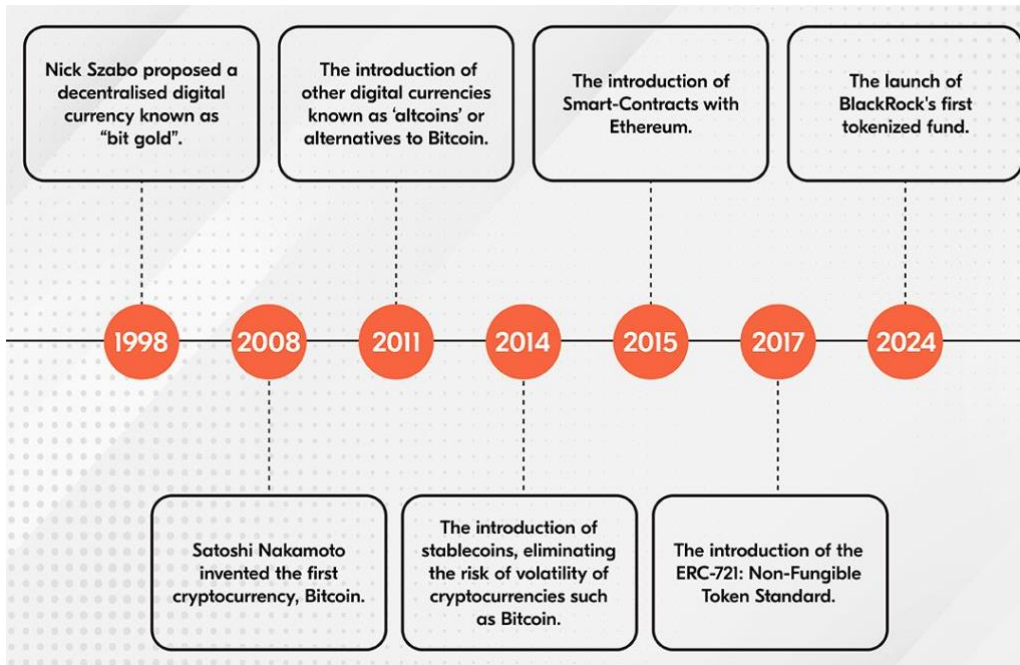
Types of Digital Assets (Overview)

Investment Form	Description	Investor Access	Risk Level
Direct			
Direct Crypto Purchase	Buy/store tokens in wallets	Open to all	High
Staking/Yield Farming	Earn rewards from holding or lending crypto	Moderate	High
NFTs	Buy digital collectibles on marketplaces	Easy	Very High
Indirect			
ETFs/Trusts	Public market access to crypto exposure	Easy	Moderate
Futures & Options	Leverage-based trading instruments	Advanced/institutional	Very High
Crypto Stocks	Indirect exposure via equity markets	Easy	Moderate
Crypto Hedge Funds	Managed exposure to crypto universe	Accredited only	High
VC/Private Crypto Deals	Early-stage investments in crypto/blockchain startups	Institutional/accredited	Very High

- **Growing Market:** Institutional and retail investors are entering the space.
- **Financial Innovation:** Enables 24/7 trading, fractional ownership, and global reach.
- **Diversification:** Offers **non-traditional return profiles**.
- **Risks and Volatility:** High volatility, regulatory uncertainty, technology risks.

Evolution of the Asset Class

- Bitcoin's launch in 2009 marked the start.
- Shift from **peer-to-peer money** to **decentralized finance** and **token economies**.
- Increasing **mainstream acceptance**: ETFs, custody services, and regulatory attention.



- Part of **Alternative Investments** topic area.
- High relevance for **portfolio construction, risk management, and due diligence**.
- Reflects growing importance of digital assets in the **real-world investment landscape**.

- Digital assets are **blockchain-based representations of value**.
- They come in various forms: currencies, tokens, asset-backed claims.
- This emerging asset class combines **technology and finance**.
- Understanding digital assets is now a **must-have skill** for modern investors.

Practice Question 1

Which of the following best describes a digital asset?

- A. An intangible good backed by a government guarantee
- B. A physical representation of equity or debt
- C. A cryptographically secured digital representation of value
- D. A fiat currency stored in a digital wallet

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- D. A fiat currency stored in a digital wallet

Correct Answer: C

Digital assets are cryptographically secured digital representations of value stored on distributed ledgers.

Practice Question 2

What was the significance of Bitcoin's launch in 2009?

- A. It was the first stablecoin to be used in banking.
- B. It introduced a global utility token standard.
- C. It marked the beginning of tokenized securities.
- D. It created the first decentralized digital asset on a blockchain.

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Correct Answer: D

Bitcoin was the first decentralized digital asset stored on a blockchain.

Practice Question 3

Which of the following is NOT a type of digital asset?

- A. Utility token
- B. Real estate investment trust (REIT)
- C. Stablecoin
- D. NFT

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- A. Utility token
- B. Real estate investment trust (REIT)
- C. Stablecoin
- D. NFT

Correct Answer: D

REITs are traditional financial products, not blockchain-based digital assets.

Practice Question 4

Why are digital assets considered important in modern portfolios?

- A. They offer guaranteed returns.
- B. They reduce all types of risk.
- C. They provide diversification and access to new markets.
- D. They are regulated similarly to government bonds.

Practice Question 4

Why are digital assets considered important in modern portfolios?

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Correct Answer: C

Digital assets offer alternative return profiles and access to emerging sectors.

- What digital assets are
- Why they matter in modern finance
- Major types and use cases
- Historical evolution and significance