

CFA LEVEL 1

**Alternative
Investments**

**Introduction to
Digital Assets**

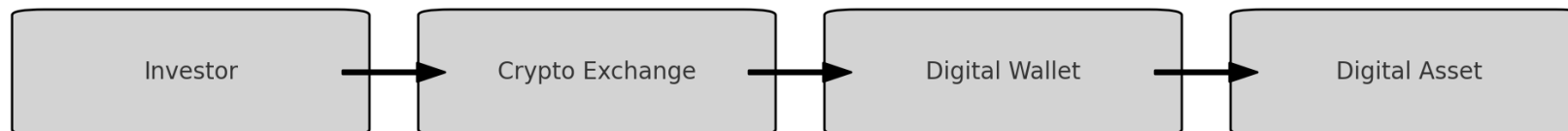
CHARTER DOOZY

**DIGITAL ASSET
INVESTMENT
FORMS**

- Investors can access digital assets **directly** or **indirectly**.
- **Direct forms** involve owning the actual token (e.g., Bitcoin).
- **Indirect forms** offer exposure via **traditional financial products** (e.g., ETFs).
- Investment method affects risks, regulations, and accessibility.
- Knowing the difference helps in assessing client suitability and portfolio impact.

Buy the Token, Own the Asset

- Investors purchase tokens like BTC or ETH through **crypto exchanges**.
- Ownership is secured by **private keys** and managed via **digital wallets**.
- Offers **full exposure** to the underlying digital asset.
- Risks: custody, hacking, regulatory uncertainty.



Exposure Without Holding the Token

- Indirect methods include:
 - **Public equities** (e.g., crypto mining firms)
 - **ETPs/ETFs** tracking crypto prices
 - **Futures and options** on regulated exchanges
 - **Private investment vehicles**
- May offer easier access and lower operational risk.

Bridging Traditional and Crypto Worlds

- Traded like stocks on traditional exchanges.
- Backed by:
 - **Physical crypto holdings**, or
 - **Futures contracts**
- Types:
 - Spot crypto ETPs
 - Futures-based crypto ETPs
- Advantage: accessible via standard brokerage accounts.

Derivatives for Hedging or Speculation

- Includes **futures**, **options**, and **perpetual swaps**.
- Available on:
 - Regulated exchanges (e.g., CME)
 - Crypto-native platforms (e.g., Binance)
- Allow exposure with leverage and hedging strategies.
- Require understanding of **margin**, **volatility**, and **liquidity** risks.

Crypto Exposure via Listed Companies

- Invest in companies:
 - Holding crypto on balance sheet (e.g., MicroStrategy)
 - Operating in blockchain or mining sectors
- Exposure is **indirect and diluted** by other business activities.
- Affected by both crypto markets and equity market dynamics.

For Qualified Investors Only

•Includes:

- Crypto hedge funds
- Venture capital funds in blockchain

•Often structured as **private placements** or **limited partnerships**

•May offer early-stage access but are:

- **Less liquid**
- **Higher fees**
- **Limited transparency**

Securing Digital Asset Holdings

- **Hot wallets:** connected to internet (convenient but riskier)
- **Cold wallets:** offline storage (safer but less accessible)
- **Custodians:** third-party service providers for secure storage
- Institutional investors may require **regulated custodians**.

Regulation Varies by Product and Jurisdiction

- **Direct token ownership:** lightly regulated in some countries
- **ETPs and derivatives:** often under securities or commodity regulators
- Regulatory clarity is evolving → affects investor access and compliance.

- Direct vs. indirect digital asset exposure has different risk-return profiles.
- ETPs and derivatives offer tradability via traditional platforms.
- Public equities and private vehicles provide alternative exposure.
- Custody and regulation are critical considerations in portfolio design.

An investor wants full ownership of a digital asset and control of the private keys. Which form is most appropriate?

- A. Crypto ETF
- B. Public equity with crypto exposure
- C. Derivative contract
- D. Direct token purchase

Practice Question 1

An investor wants full ownership of a digital asset and control of the private keys. Which form is most appropriate?

- A. Crypto ETF
- B. Public equity with crypto exposure
- C. Derivative contract
- D. Direct token purchase

Correct Answer: D

Direct token purchase gives the investor full control.

Which of the following is an advantage of crypto ETPs over direct crypto ownership?

- A. Higher expected returns
- B. Complete anonymity
- C. Ease of access via brokerage accounts
- D. Full control of private keys

Practice Question 2

Which of the following is an advantage of crypto ETPs over direct crypto ownership?

- A. Higher expected returns
- B. Complete anonymity
- C. Ease of access via brokerage accounts
- D. Full control of private keys

Correct Answer: C

ETPs allow access without dealing with digital wallets.

Futures and options on cryptocurrencies are commonly used for:

- A. Mining operations
- B. Portfolio insurance or speculation
- C. Token issuance
- D. Regulatory compliance

Practice Question 3

Futures and options on cryptocurrencies are commonly used for:

- A. Mining operations
- B. Portfolio insurance or speculation
- C. Token issuance
- D. Regulatory compliance

Correct Answer: B

Derivatives are used to hedge or speculate on price movements.

Practice Question 4

Which of the following investment forms is most likely to provide exposure to early-stage blockchain startups?

- A. Public equity
- B. Crypto ETF
- C. Private investment vehicle
- D. Spot ETP

Practice Question 4

Which of the following investment forms is most likely to provide exposure to early-stage blockchain startups?

- A. Public equity
- B. Crypto ETF
- C. Private investment vehicle
- D. Spot ETP

Correct Answer: C

Venture funds and hedge funds access early-stage opportunities.

Practice Question 4

A cold wallet is best described as:

- A. A secure offline storage for digital assets
- B. An internet-connected storage solution
- C. A trading strategy for crypto
- D. A regulated brokerage account

Practice Question 4

A cold wallet is best described as:

- A. A secure offline storage for digital assets
- B. An internet-connected storage solution
- C. A trading strategy for crypto
- D. A regulated brokerage account

Correct Answer: A

Cold wallets are disconnected from the internet for security.

You Mastered

- Direct vs. indirect investment forms

ETPs, derivatives, public equity, and private funds

Custody considerations and wallet types

Regulatory implications