

Digital assets data points

A timely digital assets market check in

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Topic of the day

BTC and ETH: Why include both in your digital assets portfolio

As investors navigate the vast and evolving landscape of digital assets, two giants prominently stand out: Bitcoin (BTC) and Ethereum (ETH). Known for their groundbreaking roles and unparalleled influence, these cryptocurrencies dominate the market. While Bitcoin serves as a digital fortress of stability, Ethereum fuels the fires of innovation. By weaving both into a portfolio, investors can harness a powerful synergy of security and cutting-edge growth potential. Explore the dynamic partnership of BTC and ETH and discover why a balanced investment approach could transform your financial strategy.

Bitcoin (BTC): The Digital Gold Standard

- Scarcity and Store of Value:** Bitcoin is often likened to digital gold due to its limited supply of 21 million coins. This scarcity underpins its role as an attractive store of value, particularly in times of economic uncertainty or inflation.
- Decentralization and Security:** Bitcoin's decentralized nature and robust security through its consensus mechanism make it a stable and reliable choice for those looking to protect their wealth over the long term.
- Safe-Haven Asset:** Much like gold, Bitcoin is increasingly seen as a hedge against inflation and geopolitical instability, making it a cornerstone in many diversified portfolios.

Ethereum (ETH): The Backbone of Blockchain Innovation

- Utility and Innovation:** Unlike Bitcoin, Ethereum's primary value lies in its blockchain platform, supporting decentralized applications (dApps) and smart contracts. This makes Ethereum pivotal in the realms of DeFi, NFTs, and beyond.



2. **Growth Potential:** As the leading platform for decentralized applications, Ethereum drives significant blockchain innovation, thereby offering substantial growth potential as the digital economy evolves.
3. **Transformative Impact:** With its programmable blockchain, Ethereum underpins a wide array of disruptive technologies, offering investors exposure to cutting-edge advancements.

Advantages of Holding Both BTC and ETH

Diversification Across Market Segments:

- **Distinct Use Cases:** Bitcoin serves primarily as a store of value, similar to gold, while Ethereum functions as a platform for building decentralized applications (dApps) and executing smart contracts. This distinction allows investors to diversify their holdings within the crypto market, minimizing risk compared to investing in similar assets.
- **Market Needs:** BTC satisfies the need for a secure, decentralized currency, whereas ETH caters to the rapidly growing decentralized finance (DeFi) and non-fungible token (NFT) markets. Diversifying across these segments can protect against volatility concentrated in a single market area.

Reduced Volatility:

- **Non-Perfect Correlation between BTC and ETH:** Despite a high positive correlation between their price movements, BTC and ETH do not move together perfectly. This means that fluctuations in one can sometimes be offset by stability or opposite movements in the other, effectively reducing the overall portfolio volatility. Over the past 5 years, the data indicates a strong positive correlation of approximately 92% between these two assets, suggesting a close relationship. However, the R-square (coefficient of determination) of around 84% reveals that while the two move together, their prices are also affected by other factors.
- **Risk Mitigation:** Combining assets with varying sensitivities to different market factors can lead to a more stable portfolio. The differing market drivers for BTC and ETH mean they respond to news and regulatory changes differently, smoothing out potential extreme peaks and troughs.

Exposure to Different Aspects of the Market:

- **Bitcoin Exposure:** Provides stability and growth through adoption as a widely accepted digital store of value. Bitcoin's resilience against traditional market failures adds a layer of stability to the portfolio.
- **Ethereum Exposure:** Opens up opportunities in the burgeoning fields of smart contracts and blockchain-based applications (dApps). This exposure is vital for capturing growth in sectors driving technological advancements and innovation.

Potential for Relative Higher Returns:

- **Growth Trajectories:** Historically, ETH has shown higher growth potential due to its fundamental role in supporting the blockchain ecosystem. BTC's limited supply ensures its value potentially increases with demand.
- **Performance Metrics:** Historical data shows that while BTC and ETH demonstrate different performance trends, having both allows investors to benefit from outperformance in either. The different characteristics driving their prices mean that they can provide varying returns in contrasting market cycles. In addition, the data indicates that over the past 5 years, BTC has underperformed ETH by around 18% per annum, whereas the FTSE Digital Asset Bitcoin Ethereum Index (FDABE) outperformed BTC by around 4%. On the other hand, while ETH underperformed BTC by about 64% in the past one year, the FDABE outperformed ETH by over 46%.

Hedging Against Different Risks: Both BTC and ETH are often viewed as hedges against inflation, due to their limited supply and rising demand. However, they hedge against different risks:

- **Bitcoin as a Hedge:** Acts as a safeguard against macroeconomic uncertainties, such as inflation and geopolitical tensions. It is less affected by technology-specific risks due to its straightforward use case as digital currency.
- **Ethereum's Innovation Hedge:** Offers protection against technological obsolescence and captures the upside of regulatory acceptance and technological advancement in digital interactions, though it is more susceptible to scrutiny in areas like DeFi and smart contracts.

FTSE Digital Asset Bitcoin Ethereum Index

To help track the two assets in a bucket, FTSE Russell have created the FTSE Digital Asset Bitcoin Ethereum Index, which measures the performance by circulating weight.

Characteristics

Table 1:

Index Name	Tokens In Issue	Price USD	Market Cap USD	Daily Volume*
Bitcoin	19,665,942	64,950.37	1,277,310,141,830.04	6,209,932,595
Ethereum	120,140,782	3,236.08	388,784,720,781.05	4,070,847,848

Date as of 31 July 2024. Source: FTSE Russell, Digital Asset Research. Past performance is no guarantee of future results.
 *Daily Volume is the aggregated volume of the previous 24 hours from the FTSE DAR Participating and Watchlist Exchanges.

Performance Overview

Table2:

Index Name	Return pa (%)	Volatility pa (%)	Reward Risk Ratio	Maximum Drawdown (%)
FTSE Digital Asset Bitcoin Ethereum Index (FDABE)	64.18085	71.26702	0.90057	-77.04373
FTSE Bitcoin Index (FTBTC)	61.64099	70.00338	0.88054	-76.96195
FTSE Ethereum Index (FTETH)	75.33537	86.73800	0.86854	-78.68889

Date as of 31 July 2024. Source: FTSE Russell, Digital Asset Research. Past performance is no guarantee of future results.

FDABE Relative Performance to FTBTC and FTETH

Table3:

Index Name	Relative Return pa (%)	Tracking Error pa (%)	Information Ratio	Correlation (%)
FTSE Bitcoin Index	4.12042	9.44942	0.43605	98.72060
FTSE Ethereum Index	-14.80648	33.99155	-0.43559	88.40761

Date as of 31 July 2024. Source: FTSE Russell, Digital Asset Research. Past performance is no guarantee of future results.

Performance over 5 Years

Table 4:

Index Code	1 month (%)	3 month (%)	6 month (%)	YTD (%)	1 Year (%)	3 Year* (%)	5 Year* (%)
FDABE	2.47631	8.05737	50.44200	49.93807	108.79275	8.05125	46.02814
FTBTC	5.03789	7.92384	53.13964	52.63513	122.24367	8.98239	42.25100
FTETH	-5.12522	8.44998	42.19785	41.69775	74.41369	5.43510	66.71421

Date as of 31 July 2024. Source: FTSE Russell, Digital Asset Research. Past performance is no guarantee of future results.

* Annualised

Volatility* Over 5 Years

Table 5:

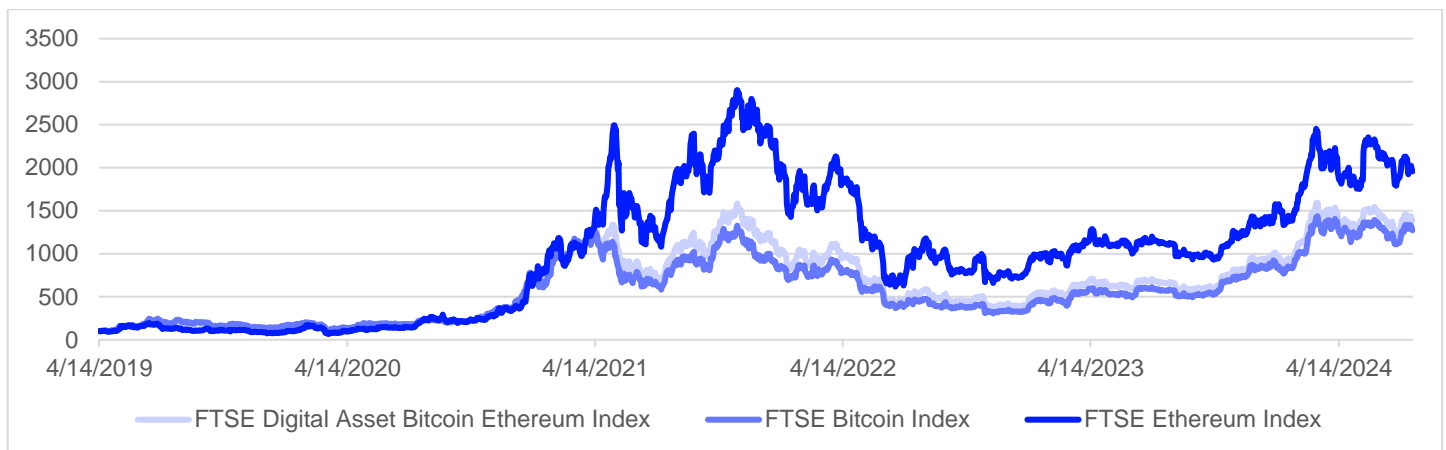
Index Code	1 month	3 month	6 month	YTD	1 Year	3 Year	5 Year
FDABE	65.41115	54.51343	55.82100	55.53058	50.41664	60.93527	69.81681
FTBTC	63.45395	53.52794	55.67136	55.72477	50.84316	59.18849	68.18879
FTETH	79.31776	70.71604	67.80663	66.64687	59.36047	72.91394	86.41450

Date as of 31 July 2024. Source: FTSE Russell, Digital Asset Research. Past performance is no guarantee of future results.

* Annualised assuming 365 days

Performance Chart Over 5 Years

Figure 1:



Date as of 31 July 2024. Source: FTSE Russell, Digital Asset Research. Past performance is no guarantee of future results.

Values rebased to 100 as of 14 April 2019.

Conclusion: A Balanced Approach for Growth and Stability

Investing in both Bitcoin and Ethereum allows you to participate in the potential upside of the leading digital assets, each representing different facets of the space. This approach can offer a balanced risk

profile, capturing the strengths of both a digital store of value (BTC) and a programmable blockchain platform (ETH).

Important Considerations

Risk Tolerance: Digital assets are highly volatile. Ensure your investment aligns with your risk profile.

Investment Horizon: Digital assets are generally considered long-term investments. Short-term price fluctuations should not dictate investment strategy.

Diversification: Avoid overconcentration in one asset-class. Consider diversifying your portfolio beyond digital assets.

By holding both BTC and ETH, investors can enjoy a balanced entry into digital assets, gaining the value storage of Bitcoin alongside the innovative, technological potential of Ethereum. This dual approach not only diversifies risk but also enhances the chance to benefit from each blockchain's unique contributions to the digital economy.

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