Introduction to Digital Asset Investments

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Since the emergence of Bitcoin in 2009, digital assets have gained popularity at an exponential rate. Digital assets encompass a wide range of electronically created and stored items that hold value, including cryptocurrencies, tokens, and digital collectibles (Smith, 2025). At the core is blockchain technology, which utilizes encryption techniques to ensure the authenticity of digital assets, creating new paths of innovation across multiple channels of life and business. Cryptocurrencies offer a pathway to new forms of value exchange. As investments, digital assets present opportunities for substantial returns, albeit with heightened volatility. Establishing a comprehensive regulatory framework is vital for the widespread adoption of cryptocurrencies.

Regulatory Environment

The regulatory environment for digital assets has been both dynamic and volatile. In 2013, FinCEN issued guidance subjecting cryptocurrencies to anti-money laundering laws, establishing their credibility (Johnson, 2024). The SEC's approval of the first Bitcoin futures ETF in the United States in 2021 provided an early pathway to investing in vehicles holding cryptocurrency futures, not necessarily cryptocurrency itself, which paved the way for spot Bitcoin ETFs, which gained SEC approval in early 2024 (Brown, 2025).

In 2022, then-President Biden issued an executive order calling for actions, studies, and reports from all federal agencies with a regulatory interest in digital assets, creating a consumer protection framework, preventing systemic risks, and addressing national security concerns (White House, 2022). One of the most significant regulatory events came from Europe with the MiCA Regulation (Markets in Crypto-Assets), a European Union framework that became fully applicable in December 2024. This regulation created a unified approach for cryptocurrencies across all EU members, providing distinctions for various crypto-asset types and establishing market integrity standards (European Commission, 2024). Adding to its credibility as a form of investment, the IRS finalized rules in 2024 requiring crypto brokers to report transactions (Thompson, 2024).

Applications & Opportunities

The applications of cryptocurrencies and blockchain technology are far-reaching. By 2024, the number of crypto owners worldwide had grown to 617 million, up from 66 million in 2020 (Statista, 2025). Stablecoins, designed to maintain value by pegging to assets like fiat currencies or commodities, play a crucial role in decentralized finance (DeFi). Operating on blockchain technology, they enable secure and rapid transfers between cryptocurrencies and fiat currencies (Davis, 2025).

DeFi, primarily through Ethereum, provides a financial system operating on blockchain technology that removes third parties from financial transactions and uses smart contracts for the automated execution of agreements (Wilson, 2025). Despite challenges and risks centered on potentially higher volatility in DeFi assets and complexity for new users to navigate, decentralized finance allows for open access and faster transaction times.

Web3, leveraging blockchain technology, has emerged as the third generation of the World Wide Web, aiming to create a more decentralized internet experience. Historically, a few major companies, such as Alphabet and Meta, dominated the original Internet framework. However, blockchain technology offers a decentralized alternative, allowing users to directly own their data and creating a more genuinely decentralized internet. Through cryptocurrencies and tokenization, consumers become partners in this new environment (PWC, 2025), extending to the gaming universe, where users can engage in real-world economic opportunities by trading in-game assets, participating in virtual economies, and creating and selling non-fungible tokens (NFTs).

The tokenization of real-world assets is accelerating, particularly in real estate, intellectual property, and financial assets. This process enhances data security and facilitates regulatory compliance by replacing sensitive data with tokens.

 See important disclosures on page 5

A prime example is Walmart's use of tokenization through its integrated Hyperledger Fabric platform to track information ensuring safety and quality in its food supply chain (Thompson, 2024).

The intersection of artificial intelligence and cryptocurrencies is evolving rapidly. AI plays a crucial role in improving the security of cryptocurrency transactions, creating sophisticated trading systems, and enhancing the functionality of smart contracts by continuously monitoring for vulnerabilities (Garcia, 2025).

Cryptocurrency adoption is expanding into government services. In 2022, Colorado and Utah began accepting cryptocurrency for state tax payments. By mid-2025, Detroit will become the largest U.S. city to accept cryptocurrency for taxes and other city fees, further emphasizing the growing popularity of digital currencies (Roberts, 2025).

Market Dynamics

Despite its volatility, the cryptocurrency market has experienced exponential growth. As of January 2025, Bitcoin's market capitalization reached $2 trillion, while Ethereum's stood at approximately $400 billion (YCharts, 2025). The total cryptocurrency market capitalization exceeded $3.5 trillion (CoinCodex, 2025).

Investment avenues in cryptocurrencies are diverse, ranging from direct investment through credible platforms to ETFs linked to Bitcoin or Ethereum prices. Many companies developing blockchain technology offer investment exposure to the growth in this sector. In the private market, venture capitalists are shifting focus towards scalability and interoperability, addressing the need for more efficient and interconnected blockchain networks (ICR, 2025).

Investing in Digital Assets

As of June 2023, the cryptocurrency market included over 25,000 different digital currencies, with more than 40 of them boasting a market cap exceeding $1 billion. **Bitcoin**, valued at $1.95 trillion, holds nearly six times the market value of the second-largest cryptocurrency, Ethereum, and more than double the combined market value of the next 10 leading cryptocurrencies (Forbes, Digital Assets, 2/22/25). Unlike most blockchains, such as Ethereum and Solana, which were created as versatile platforms for smart contracts, Bitcoin's primary aim is to establish and maintain independent money. For clients interested in Bitcoin, exchange traded funds (ETFs) can provide direct exposure to Bitcoin in the crypto market. ETFs offer a way to gain exposure to Bitcoin through a more traditional investment vehicle, allowing investors to buy and sell shares on an exchange like stocks. This can be a convenient option for those looking to include Bitcoin in their investment portfolios.

The digital assets sector is filled with public companies offering investment opportunities. Instead of placing bets on individual cryptocurrencies or specific blockchain technologies, a **digital asset equity ETF** provides investors with exposure to a diverse range of companies operating within the space, such as cryptocurrency exchanges, blockchain developers, and infrastructure firms related to digital assets. This approach allows investors to participate in the growth of the digital asset ecosystem without directly purchasing cryptocurrencies, focusing on the companies that enable the industry rather than the assets themselves.

Galaxy Digital Holding (TSX: GLXY) reports that **venture capital** investment in the digital asset sector, particularly in crypto and blockchain startups, totaled approximately $11.5 billion in 2024, compared to a global total of $368.5 billion (Pitchbook, 1/23/25). A large share of this venture capital has been directed towards early-stage Web3, DeFi, and infrastructure development projects. These investments have made up a significant portion of the overall venture capital market, with crypto-focused funds actively contributing to these deals.

For clients wary of the extended capital lockup often associated with private markets, **multi-strategy hedge fund** investments present an all-in-one opportunity to tap into the digital asset ecosystem. These funds offer flexibility, diversification, and the ability to leverage arbitrage across both liquid and private markets, along with expertise across various sectors, technologies, geographies, and portfolio managers in this fast-changing industry. The key is choosing the right investment manager with deep expertise in technology, operations, and regulatory compliance.

<u>Recent Developments & Risks</u>

Significant developments and persistent risks mark the cryptocurrency landscape in 2025. The Trump administration has supported cryptocurrency adoption by creating a new Crypto Task Force by SEC Commissioner Hester Peirce (U.S. Securities and Exchange Commission, 2025). This task force aims to establish a clear regulatory framework for digital assets, potentially leading to more investible products like derivatives and staking token ETFs. More recently, President Trump announced plans to create a "Crypto Strategic Reserve" for the United States, which involves the government buying and selling various cryptocurrencies. Despite ongoing uncertainty about the impact on cryptocurrency prices, this move signifies a substantial change in the country's approach to cryptocurrency policy compared to the previous administration.

Despite increased government support, investing in digital assets still carries substantial risks. Cryptocurrencies remain highly volatile, with Bitcoin being 3-4 times more volatile than U.S. equity indices over the past four years. Like gold, determining the value of cryptocurrencies remains difficult. While progress is happening, the regulatory environment remains a patchwork of policies. Additionally, many cryptocurrencies trade on unsupervised trading platforms without regulatory oversight, increasing risk. The 24/7 nature of cryptocurrency trading can lead to increased volatility during periods of lower trading volume.

Risks of scams, hacking, and cyberattacks persist, with nearly one in five current crypto owners having experienced difficulties withdrawing funds from custodial platforms (Security.org, 2025). Many cryptocurrencies fund new projects that may fail, necessitating research into technology, use cases, and governance. Lightly traded coins are susceptible to price manipulation, and transactions on distributed ledgers are irreversible, with loss of private keys meaning permanent loss of access to assets.

While the cryptocurrency market shows promise for growth in 2025, investors must carefully navigate these risks and stay informed about evolving regulations and market conditions. The integration of decentralized and traditional financial systems, coupled with the surge in stablecoin adoption and the digitization of tangible assets, is transforming the global financial ecosystem.

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Glossary

Blockchain: A decentralized, distributed digital ledger that records transactions across a network of computers, using cryptography to ensure security and transparency.

Defi (Decentralized Finance): An umbrella term for peer-to-peer financial services conducted on public blockchain, allowing users to earn interest, borrow, lend, and more without intermediaries.

Web3: A decentralized internet built on blockchain technology, emphasizing user control over user data and digital assets through decentralized applications and protocols.

Tokenization: The process of converting physical or digital assets into digital tokens on a blockchain or distributed ledger, allowing for secure, divisible, and transferable ownership.

Stablecoin: A type of cryptocurrency whose value is pegged to a stable asset, such as a fiat currency or commodity, with aim of reducing volatility and facilitating everyday transactions.

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