

Research report:

# **Financial advisors and cryptoassets**

October 2018



# Foreword



We have commissioned this research in order to start a dialogue with the UK IFA community about crypto.

As a regulated platform we fully understand many of the concerns around cryptoassets, however, our aim is educate and inform. Today, there are still many misconceptions about cryptoassets. While there is mass market awareness of the terms crypto and bitcoin, most people do not fully understand what they mean.

Advisers have a vital role to play in our financial ecosystem. Clients turn to their adviser for insight, guidance and advice. Our aim is to help advisers better understand cryptos so they are well equipped to answer any questions from their clients.

eToro was founded in 2007 with the vision of opening up the global markets for everyone to trade and invest in a simple and transparent way. While this may sound like motherhood and apple pie, it is important to us as it has not only informed the way our business has grown but also explains why we are so excited about crypto.

We believe that investors are looking for three things: 1) access to the assets they want, 2) knowledge and insight, and 3) someone to make the process easy.

eToro gives investors of all types access to the assets they want today from commodities and stocks, through to cryptoassets. They also benefit from being part of a global community of more than 10 million registered users who share their investment strategies and insights and anyone can follow the approaches of those who have been the most successful. It is simple and easy to set up an account, then buy, hold and sell assets.

Today, eToro's mission is to leverage the blockchain to bridge between traditional multi-asset and newer tokenised security offerings. We are the only platform where investors can hold traditional assets such as stocks or commodities alongside 'new' assets such as bitcoin.

We believe in crypto. For me the easiest way to try and explain the significance of crypto and the blockchain technology that underpins it is to compare it to the internet. The relationship between blockchain and cryptoassets is similar to the one between the internet and email. Much like email is just one use case of the internet, cryptoassets – namely bitcoin the first crypto – is the original use case of blockchain technology. We believe that blockchain will transform finance in the same way that the internet revolutionized communications.

If you would be interested in learning more about crypto or would like us to share any of our simple guides and educational resources then please do get in touch.

**Iqbal V. Gandham**  
UK Managing Director at eToro

A handwritten signature in black ink, appearing to read 'Iqbal V. Gandham'. The signature is fluid and cursive.

# About this report

It is almost ten years since the anonymous Satoshi Nakamoto set out the idea for a decentralised currency called bitcoin. Although there were precursors to bitcoin, it was the invention of blockchain technology – the decentralised digital ledger underpinning it – that changed the game. Hence, bitcoin is considered the original crypto.

Since the publication of the bitcoin whitepaper in October 2008 we have seen a proliferation of cryptocurrencies, tokens and commodities collectively known as cryptoassets. The aim of our research was to test the views of IFAs on their understanding and attitude towards these assets.

To our knowledge, we have conducted one of the first pieces of research examining the views of financial advisers on cryptoassets. It is certainly the first that asks questions about crypto to both independent financial advisers (IFAs), advised clients, and other retail investors in the UK.

In the following pages we examine the opinion of advisers on the investment case for cryptoassets, and the differences in attitude between advised clients and crypto investors more generally.

We also examine whether advisers are seen as a potential source of help for those seeking to invest in crypto, and whether IFAs would consider offering such guidance.

For now, our data suggests the majority of advisers remain sceptical of cryptoassets.

Yet, regardless of their doubts, the research suggests advisers are being asked regularly about the asset class. A majority have received client inquiries while advised clients are significantly more likely to have made crypto investments than other retail investors.

Overall, clients of IFAs are roughly five times more likely to hold crypto investments than the general public.

As awareness of cryptoassets continues to grow and the regulatory landscape develops, this suggests a need for IFAs to at least learn about cryptoassets in order to provide an informed view.

Perhaps this is one reason why a small portion of IFAs have taken on this challenge by investing in crypto themselves.

## 6 key findings

- More than a quarter (**26%**) of advised clients (for pensions and investment advice) hold or have held cryptoassets.
- More than three in five (**63%**) IFAs have been asked about cryptoassets by their clients.
- Less than two fifths (**38%**) of advisers hold any level of confidence discussing crypto with clients.
- Around a quarter (**24%**) of investors would like the help of an IFA when seeking guidance on cryptoassets. This increases to **38%** of investors already receiving advice on pensions or investments.
- Almost a fifth (**19%**) of advisers have considered investing in crypto themselves, although only 3% currently hold the asset.
- **76%** of advisers want to see regulation put in place for cryptoassets.

# Chapter 1

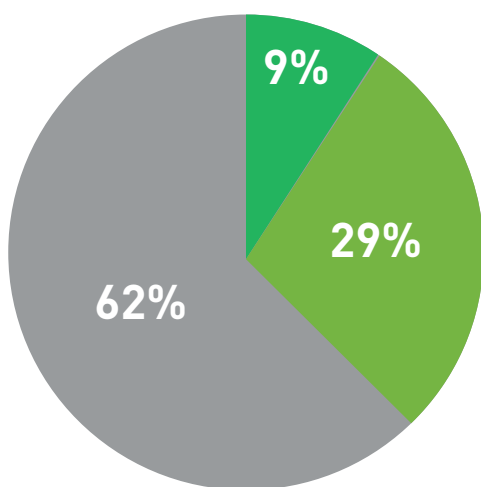
## Adviser attitudes on crypto

Cryptoassets have only been in existence for a decade and in the public consciousness for perhaps half that time. Nevertheless, many clients are already asking their adviser about them. In response, IFAs have some clear views on their status as an investment choice, and on their future regulation.

### Nearly two thirds of IFAs have been asked about crypto

Crypto is clearly on the radar of a lot of clients. However, whether IFAs can service this demand for information is a different question.

Less than two fifths (38%) are confident in their ability to discuss cryptoassets with clients. While a mere 14% would consider directing clients to a regulated platform to access crypto.



### The majority of IFAs lack confidence discussing cryptoassets

- Highly confident
- Some confidence
- Not confident

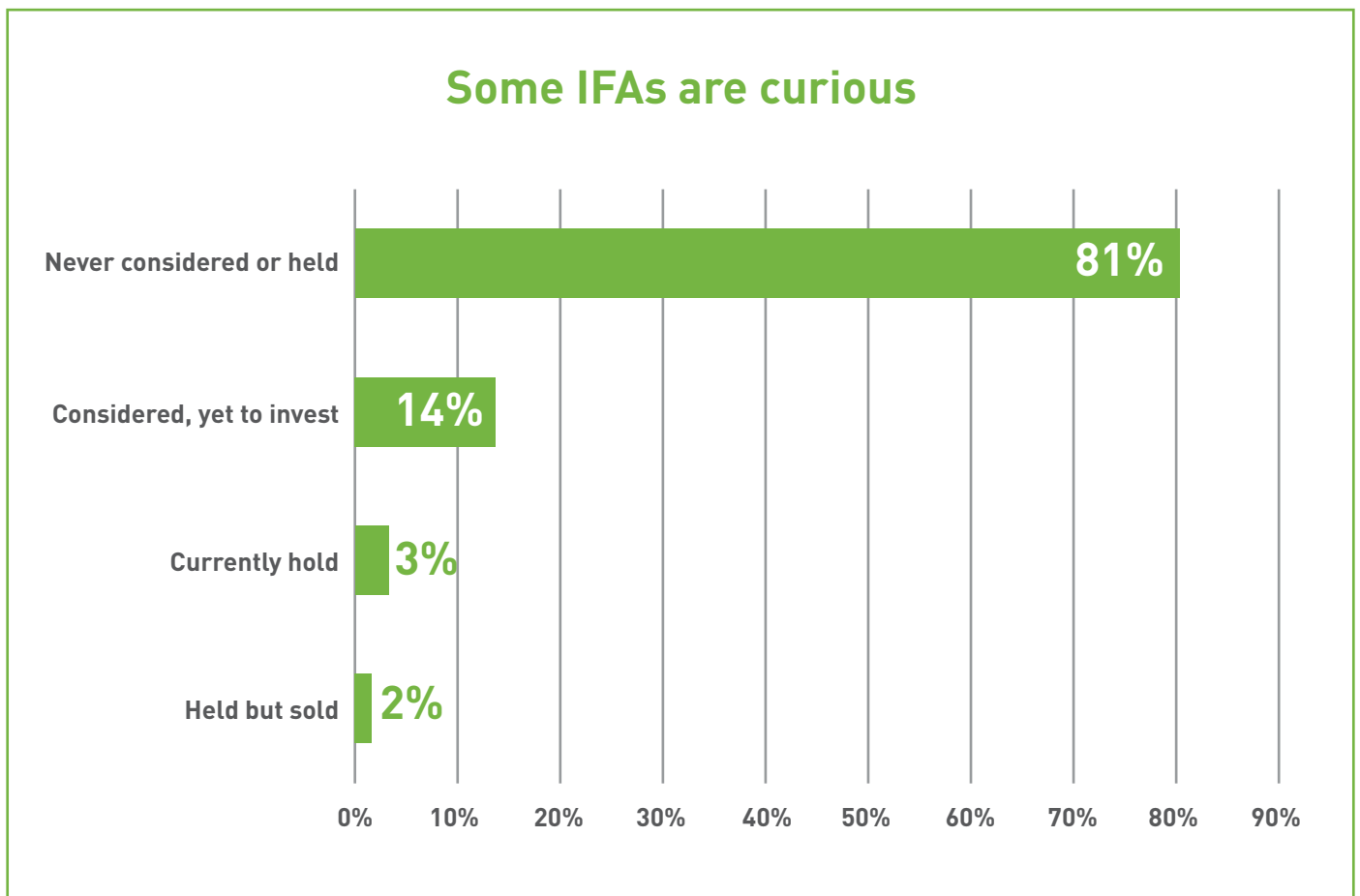
## Adviser view

“As an adviser, you would apply some common sense to whether you would direct them and it depends on the client. If it is a client that you know well and who understands the firm and their relationship, you might say, I can’t advise on that, but as you have told me you are going to do it anyway, I understand that there is a platform... A little bit like I might guide someone who was selling shares to a stock broker where they can sell them. Even then, there is an element of worry because you could almost be seen as being part of the process.”

## Around a fifth have or would consider investing themselves

While most are yet to invest, some IFAs (5%) have added exposure to cryptoassets to their own portfolios. A further 14% have actively considered doing so, but are yet to invest.

Not all IFAs have held on to their investments however, with 40% of crypto investing advisers having chosen to since divest. This may be a reflection of the depreciation in prices since the start of 2018.



## Although most don't see crypto becoming a large part of portfolios

The majority (66%) disagree with the idea that cryptoassets may become a significant part of client portfolios in the future.

Similarly, when asked whether crypto may play a similar role outside a main advised portfolio to hold or self-trade as stocks do currently, only one in ten (11%) see this becoming the case.

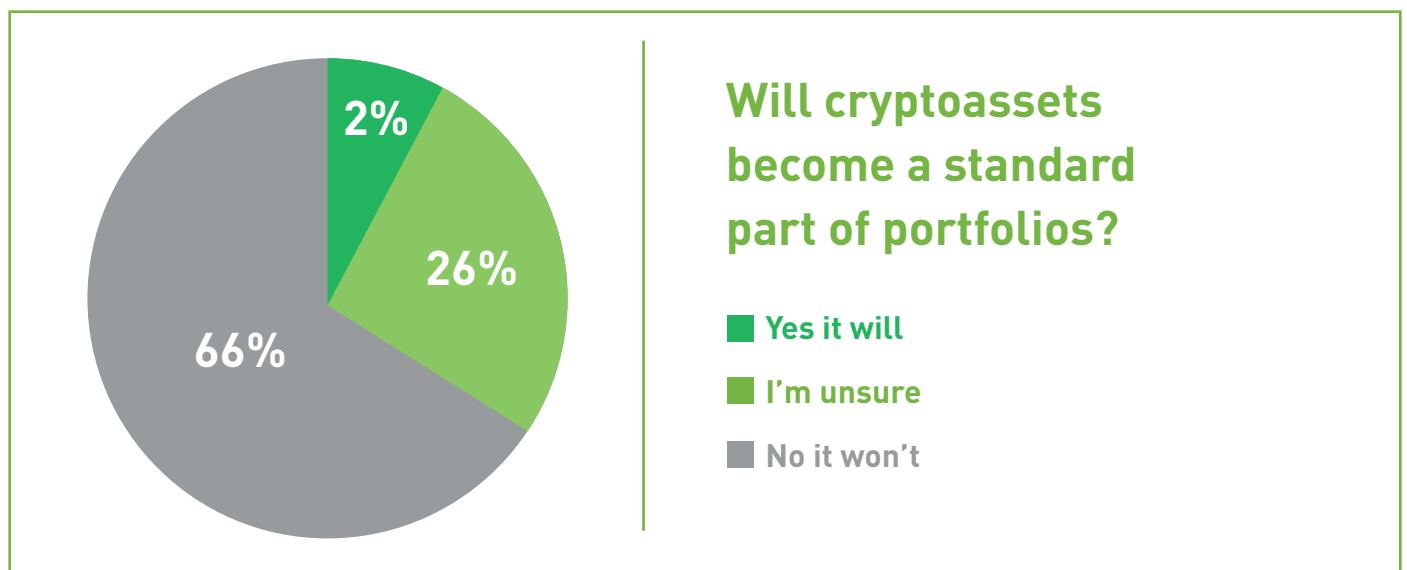
**14% have actively considered investing, but are yet to invest**

## Concerns remain about the asset class

There are several clear perceptions about cryptoassets among IFAs. These are likely holding back appetite for the asset class and creating fear or scepticism about providing advice to clients.

IFA doubts are focused on two areas. Investment concerns centre on volatility, with nearly three quarters citing too much risk in the asset class (albeit recent evidence suggests volatility is dropping). A lack of knowledge is also cited by 38%. Interestingly, doubts about the long-term nature of crypto investments are far less prominent.

Beyond investment fundamentals, broader concerns include the potential for cryptoassets to be linked to fraud, something noted by 68%. As might be expected, a lack of regulation on the asset class is also a major concern.

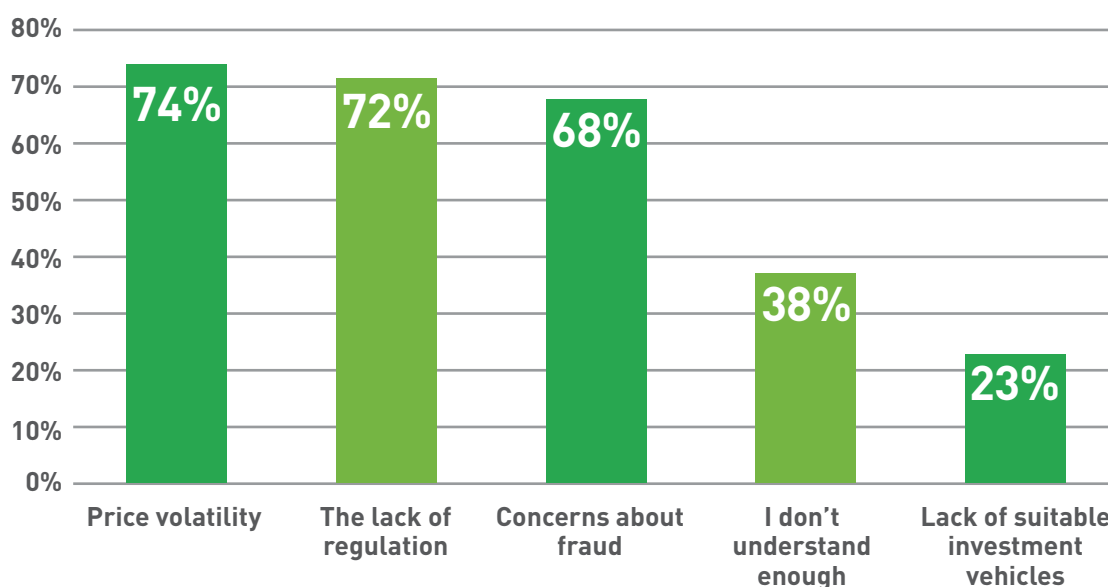


**A lack of regulation on the asset class is also a major concern**

## IFAs want regulation

Over three quarters (76%) of advisers signal their support for the regulation of cryptoassets. Those in favour of regulation see it as a key way to prevent crime or fraud in the sector (80%), increase transparency (73%), and limit investor (66%) losses.

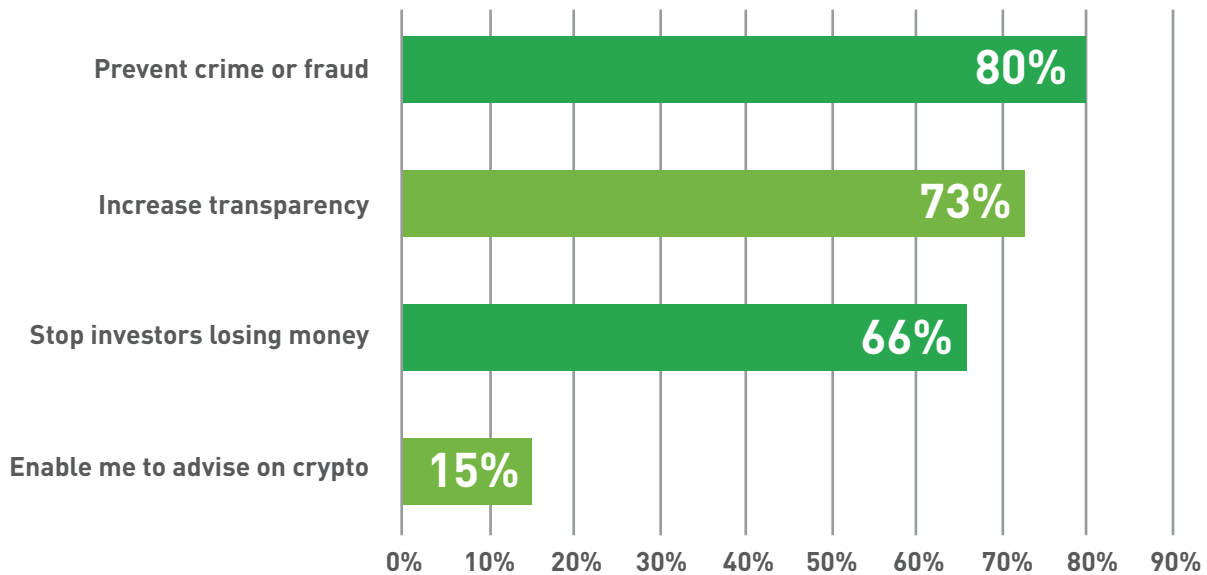
### Investment and broader concerns hold IFAs back



## Adviser view

"My biggest concern with any investment is that people don't understand how it works. In a way it is like a barter system. Things only work in a certain way. There has to be immense trust with this sort of set up. If you look at the Indian sub-continent - the way they move money around - that is in many ways a non-electronic version. But we really don't like this mining stuff. I accidentally sold my computer. Now I have lost it all. That sort of story puts us off."

## Regulation would enable several things say IFAs



### Adviser view

"People believe that they are protected when they are invested. They don't get it when things are unregulated. You are either regulated or not. If it went wrong, they would come for us."



# Chapter 2

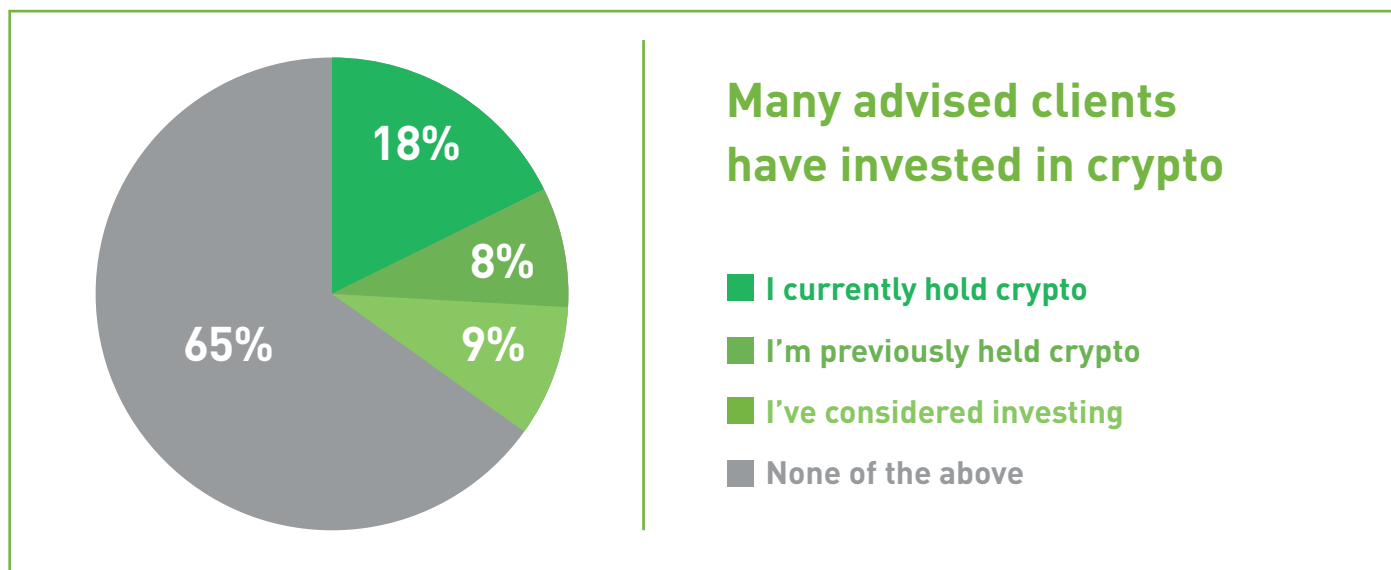
## Investors' approach to crypto and where they access help

Like any financial decision, understanding the opportunities and risks associated with cryptoassets is key for investors. Where they get their information from varies, but advisers have a leading role to play as more and more clients ask about these assets.

### Advised clients are more likely to invest in crypto

Investors who have sought advice on pensions or investments or currently have an adviser are significantly more likely to have invested in cryptoassets. Overall, more than a quarter (26%) who have used or are using an IFA for investment or pension advice have invested in cryptoassets.

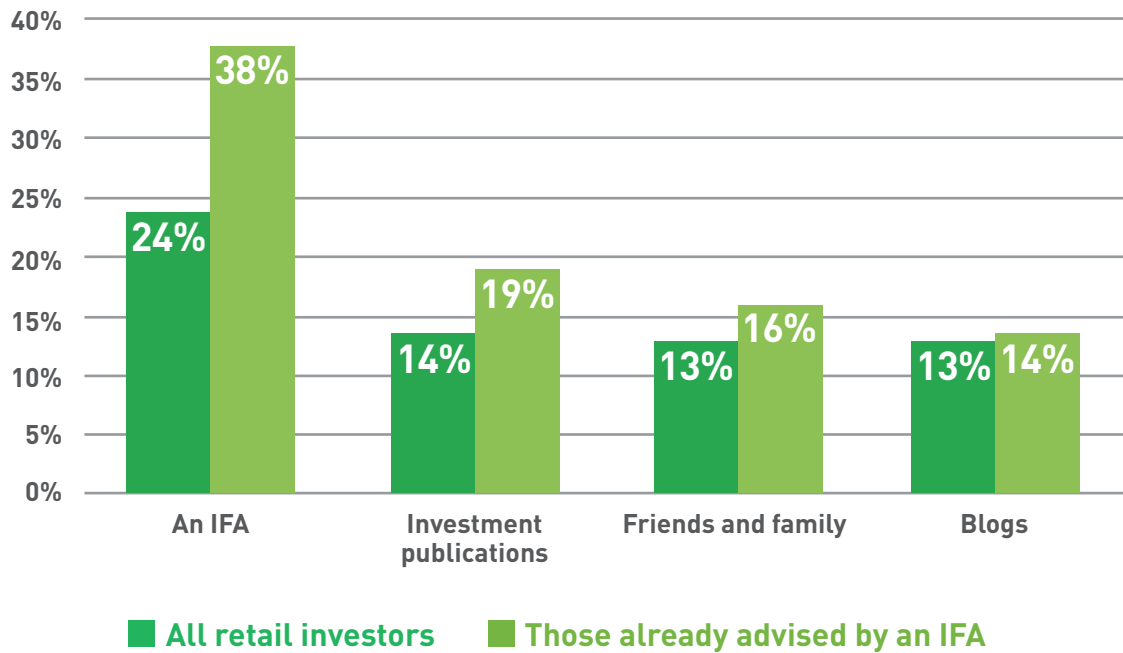
Indeed, clients of IFAs are around five times more likely to hold crypto investments than the general public according to our analysis.



### Adviser view

"If you regard this as a hobby and an interest and if you are in the position that if you lost every penny tomorrow then it wouldn't make a difference to your lifestyle, then why not. If it is anything more than that, i.e. I've got to do this because it is going to make me wealthy and so I retire early, as soon as you are in that space, it is off the table. The risks are multi-dimensional.

## Investors turn to IFAs first for a view on cryptoassets



### Adviser view

“We talked to someone who had made a significant sum from a cryptocurrency. We said that we’d talk to them when it is in pounds sterling. We also had to be very careful not to give advice on timing. We had to be careful of the tax situation. This person said ‘okay I have this amount in my bank account’ although we now had to say we have money laundering checks. Once all that had been established, it was then a normal conversation. We explained the regulations, the indemnity, and the issue of unregulated investments. He was initially put out. Once he had understood our position, it was fine. He is recommending others.”

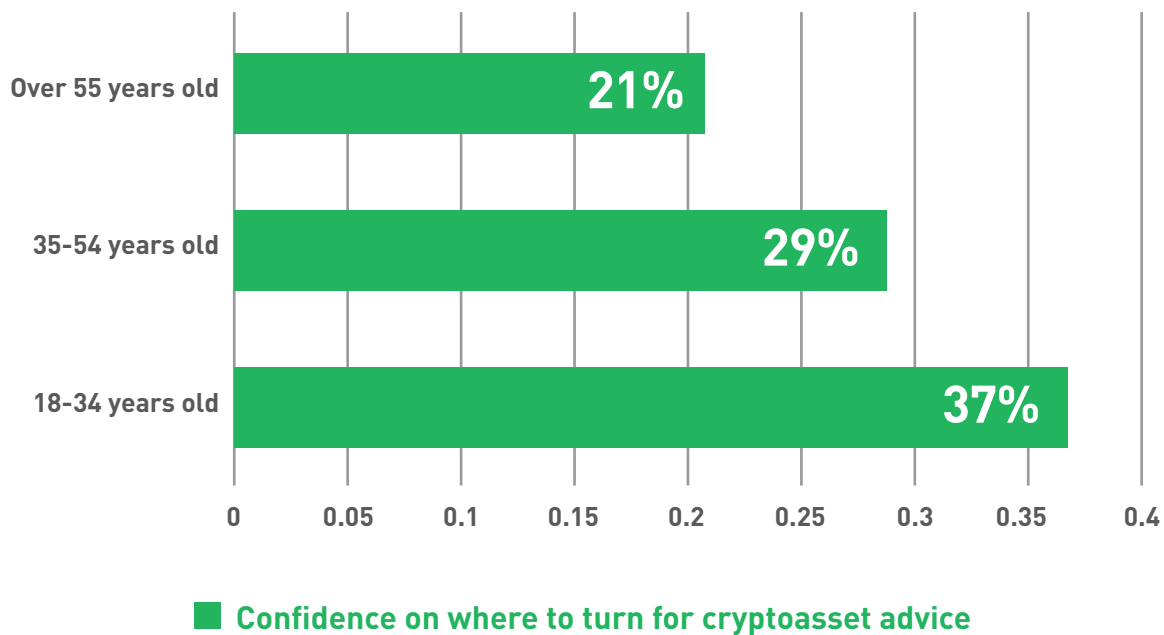
## Although older investors are less certain

Contrary to traditional assumptions about investment knowledge, older investors are less certain on where to seek advice regarding cryptoassets. Indeed, more than a third (34%) of investors over the age of 55 admit they wouldn't know where to turn.

Instead, it is younger investors who are more confident on the subject. Less than 30% of investors under 35 wouldn't know where to turn for crypto advice. Relevant blogs, websites and technology experts are also more likely sources of information of this group.

Those investors who already use an IFA are also far more confident knowing where to turn for advice on this asset class. Only 21% of this group wouldn't know where to turn, compared to 37% of investors without an adviser.

### Younger investors know where to go for crypto advice



## Adviser view

"If they were regulated, we might look at crypto. We would never say never. It's a bit like crowdfunding. You start thinking I can't ignore this anymore. If it becomes more mainstream, perhaps with more competition and transparency, but it feels very early. But we might look at it."

# Conclusion

For now, it's clear that a host of factors including regulation, price volatility and the nascent nature of the industry are holding most financial advisers back from exploring cryptoassets. That said, a small but significant minority are investing in crypto themselves.

The most significant finding of the research is the gulf between adviser knowledge and customer demand. Cryptoassets have clearly struck a chord with some retail investors. Yet there remains a significant gap between that interest and the ability of advisers to provide information or guidance in response.

Perhaps the attitudes currently held shouldn't be a surprise. History suggests almost every emerging investment opportunity generates a cautious response among advisers at first. Prudence is every bit as important as opportunity when serving their clients.

The path towards regulation, which is something most IFAs appear to support, is likely to be a significant factor in changing the current mindset. Recent falls in volatility and a more predictable price curve should likewise generate more interest in these assets.

As one IFA noted in the course of our research, the attitude toward investing in gold was no different at one time. A few decades ago, the idea of holding a significant portion of assets in an emerging markets fund would have likewise caused significant concern.

Today, cryptoassets remain a mystery to many and an opportunity to just a few among the IFA community.

The history of investment, and development of the crypto industry however, suggest this may not be the case in another decade's time.

# Methodology

The data contained in this report is based on two pieces of market research conducted by Opinium Research.

A sample of 2,003 UK adults were surveyed online between 4th and 7th September 2018.

A sample of 206 independent financial advisers were surveyed online between 5th and 11th September 2018.

The data collected on UK adults was weighted to meet nationally representative criteria.

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