



What to say to someone who says that crypto is too risky

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Key Takeaways

- ❖ We explore how “risky” Bitcoin and Ether truly are when compared to a number of popular technology stocks that have been common investments in recent years
- ❖ We see **evidence indicating the relative safety of Bitcoin and Ether in <2.5% drawdowns when comparing against the “SMART” stocks and Tesla, Inc.**
- ❖ Drawdowns below 5% show less favorable figures for Bitcoin and Ether, but these have rapidly improved in the recent time horizon and getting better
- ❖ Most notably, **Bitcoin and Ether lead the group in daily closes of 2.5%+, with Ether topping the chart across the time periods we are looking at**
- ❖ In terms of absolute drawdowns, **Bitcoin and Ether demonstrate notably lower risk than the “SMART” group and the China Concepts Stocks**
- ❖ Data for **Bitcoin is particularly encouraging, demonstrating lower loss potential than both Netflix, Inc. and Meta Platforms, Inc.**
- ❖ Bitcoin’s strongest open in 2022 was just under \$47.5k, whereas the weakest open was at \$36.3k, representing a 23.6% maximum unrealised loss this year. Perhaps we can compare this to NVIDIA Corp (30.6% max. unrealised loss), Meta Platforms, Inc. (45.0%), Roku, Inc. (57.2%) and then talk about what is truly “risky”!

Overview




As cryptocurrency continues to proliferate the mainstream and we increasingly find casual coffee shop chit chat turning to discussions on the next major token, we should prepare ourselves for the inevitable appearance of the infamous crypto skeptic. While adoption is on the rise and basic understanding is slowly improving, all too often do we hear a skeptic exclaim “Oh, crypto? That’s too risky for me!”. It is to counteract this very assertion that we have prepared this short piece comparing Bitcoin and Ether with other popular technology stocks. Next time a skeptic downplays crypto but mentions their recent purchase of Tesla, you can be sure to have something to add. Ahead, **we explore the perceived risk of Bitcoin and Ether when compared with a basket of popular technology stocks and show what truly is the “risky” choice.**




How do Bitcoin and Ether compare with popular technology stocks?

In dispelling the rumors regarding crypto being a “riskier” asset class, we consider an analysis of the **frequency with which Bitcoin, Ether and other popular technology stocks (and an ETF) drawdown by 2.5% and 5.0% at the daily close.** We also look at the **number of instances with which the asset’s experience a rally of 2.5% or above.**

The frequency of the moves have been counted since April 2020 and split into four different categories.

Figure 1 - Frequencies of Bitcoin, Ether and BNB & Tech Stocks +2.5%, -2.5% and -5.0%

	% drawdown				Block	Match Group	Alteryx	Roku	Trade Desk	"SMART" Average	Tesla	Microsoft	NVIDIA	Intel	ARRK ETF	Big Tech Average
Since April 2020	> 2.5%	122	167	153	105	72	89	104	102	94	106	13	79	23	60	56
	< 2.5%	59	62	57	78	73	80	77	71	76	66	21	56	28	64	47
	< 5%	40	58	67	31	13	23	34	31	26	36	1	17	3	18	15
Since April 2021	> 2.5%	61	85	79	49	34	37	52	53	45	44	5	42	8	35	27
	< 2.5%	39	38	30	37	38	37	44	43	40	29	10	25	11	31	21
	< 5%	28	35	42	21	6	9	18	16	14	15	0	9	0	12	7
Last 6m	> 2.5%	27	38	34	31	18	26	29	31	27	29	3	25	7	26	18
	< 2.5%	18	17	17	24	26	22	24	28	25	10	10	19	9	20	14
	< 5%	14	14	17	18	4	7	14	13	11	14	0	9	0	12	7
YtD	> 2.5%	13	20	19	22	10	15	18	18	17	17	2	14	6	17	11
	< 2.5%	9	11	7	11	13	13	15	15	13	8	8	11	7	14	10
	< 5%	6	7	9	14	4	3	9	9	8	8	0	5	0	9	4

	% drawdown				Alibaba	Baidu	DiDi	JD.com	Tencent	China Concepts Average	Meta	Apple	Amazon	Netflix	Alphabet	"FAANG" Average
Since April 2020	> 2.5%	122	167	153	40	60	-	59	85	79	40	26	35	43	17	32
	< 2.5%	59	62	57	41	51	-	43	69	53	36	27	37	45	23	34
	< 5%	40	58	67	5	9	-	9	23	26	4	1	1	3	0	2
Since April 2021	> 2.5%	61	85	79	22	27	41	33	39	44	19	8	16	14	7	13
	< 2.5%	39	38	30	25	31	39	25	47	33	16	7	16	19	10	14
	< 5%	28	35	42	5	2	26	6	16	16	3	0	1	1	0	1
Last 6m	> 2.5%	27	38	34	17	20	26	19	26	26	15	7	13	12	6	11
	< 2.5%	18	17	17	18	18	25	15	24	19	15	5	14	17	10	12
	< 5%	14	14	17	5	2	19	5	10	11	3	0	1	1	0	1
YtD	> 2.5%	13	20	19	7	12	17	13	14	15	11	4	9	8	5	7
	< 2.5%	9	11	7	9	12	15	8	13	11	12	3	9	11	9	9
	< 5%	6	7	9	4	1	14	5	7	8	2	0	1	1	0	1

Source: Binance Research




Key Observations




- ❖ **Bitcoin moves in a more controlled manner than Ether**, with the second largest crypto showing more instances of both rallies and troughs. This would be in line with popular narrative painting Bitcoin as a store of value and Ether as a slightly more speculative asset and would, on a basic level, indicate Bitcoin more suitable to a “HODL” strategy, while Ether may potentially show more favor to traders
- ❖ Considering total frequencies since April 2020, our **crypto coins demonstrate the largest amount of sub 5% drawdowns**. However, **all of the “SMART” group of companies, Tesla, Inc., Tencent Music and the Ark Innovation ETF have a higher total of sub 2.5% drawdowns**

- ❖ **The “FAANG” group of companies have notably lower levels of volatility**, with Apple Inc. and Alphabet Inc. displaying particularly low levels of risk. Amazon, Meta and Netflix have low levels of sub 5% closes, but have a fair share of those below 2.5%, particularly in recent times
- ❖ **Time has been favorable for Bitcoin and Ether**, with more recent data for drawdowns showing relatively higher amounts of volatility in the “SMART” and China Concepts groups and other stocks such as NVIDIA Corp. and Baidu, Inc.
- ❖ The most notable observation is drawn from the fact that **Bitcoin and Ether undoubtedly lead the group in terms of closes above 2.5%**, with Ether winning in almost every category. Clearly, assuming participants do not sell at local bottoms, the **potential for consistent profits in just the top two cryptocurrencies is worth noting**

The next aspect we consider are absolute drawdowns. These represent the maximum unrealized loss if one bought the asset at the highest price and held it to the lowest point i.e. the largest decrease in the value of an asset from its high.

Figure 2 - Maximum drawdowns of Bitcoin, Ether and BNB and popular technology stocks

				Block	Match Group	Alteryx	Roku	Trade Desk	"SMART" Average	Tesla	Microsoft	NVIDIA	Intel	ARRK ETF	Big Tech Average
Since April 2020	-46%	-50%	-61%	-70%	-50%	-72%	-79%	-53%	-65%	-43%	-21%	-37%	-36%	-67%	-65%
Since April 2021	-46%	-50%	-61%	-70%	-50%	-43%	-79%	-53%	-59%	-43%	-21%	-37%	-36%	-60%	-59%
Last 6m	-46%	-50%	-45%	-68%	-50%	-36%	-71%	-53%	-56%	-43%	-21%	-37%	-22%	-58%	-56%
YtD	-24%	-36%	-30%	-49%	-38%	-6%	-57%	-43%	-47%*	-41%	-19%	-31%	-22%	-46%	-47%

				Alibaba	Baidu	DiDi	JD.com	Tencent	China Concepts Average	Meta	Apple	Amazon	Netflix	Alphabet	"FAANG" Average
Since April 2020	-46%	-50%	-61%	-76%	-67%	-89%	-61%	-90%	-72%	-51%	-17%	-27%	-52%	-18%	-33%
Since April 2021	-46%	-50%	-61%	-69%	-53%	-89%	-54%	-86%	-67%	-51%	-17%	-27%	-52%	-18%	-33%
Last 6m	-46%	-50%	-45%	-58%	-42%	-81%	-54%	-65%	-59%	-46%	-17%	-26%	-52%	-18%	-32%
YtD	-24%	-36%	-30%	-45%	-37%	-66%	-47%	-59%	-50%	-45%	-17%	-20%	-62%	-18%	-29%

Source: Binance Research

Key Observations







Bitcoin and Ether demonstrate notably lower amounts of risk, by our measure, than the "SMART" group and China Concepts group. Of note, **Bitcoin shows a lower potential for losses than both Meta Platforms, Inc. and Netflix, Inc.**

- ❖ It is worth noting the **significant drawdown risk in the China Concepts group, including the average, which remains elevated, despite including the top 20 companies by market cap⁽¹⁾**

- ❖ In a similar note to Figure 1, time has been helpful, with **Bitcoin and Ether showing lower volatility when compared to a large number of competing stocks in recent months**
- ❖ **Example:** Bitcoin's strongest open this year was just under \$47.5k, whereas the weakest open was at \$36.3k, representing a 23.6% maximum unrealised loss. Compare this to NVIDIA Corp (30.6% max. unrealised loss), Meta Platforms, Inc. (45.0%), Roku, Inc. (57.2%), Netflix, Inc. (44.7%) and DiDi Global Inc. (66.2%) and you can tell me what is truly "risky" !

The final analysis we completed revolves around investment. Quite simply, for those that invested \$100 at the start of the year - how much is that worth now?

Figure 3 - Current value of \$100 investment in Bitcoin, Ether and BNB and popular technology stocks







\$100 invested on Jan 3rd is now...				Block	Match Group	Alteryx	Roku	Trade Desk	"SMART" Average	Tesla	Microsoft	NVIDIA	Intel	ARRK ETF	Big Tech Average
	\$88	\$82	\$76	\$70	\$64	\$114	\$48	\$72	\$74	\$85	\$85	\$72	\$93	\$58	\$79
\$100 invested on Jan 3rd is now...				Alibaba	Baidu	DiDi	JD.com	Tencent	China Concepts Average	Meta	Apple	Amazon	Netflix	Alphabet	"FAANG" Average
	\$88	\$82	\$76	\$75	\$82	\$39	\$78	\$63	\$70	\$59	\$94	\$92	\$37	\$89	\$74

Source: Binance Research

Key Observations

- ❖ Both **Bitcoin and Ether are among the top assets to have held year-to-date**, with Bitcoin ranking in the top 10 (excluding Apple Inc., Amazon.com, Inc., and Alphabet Inc., Bitcoin ranks in the top 5)
- ❖ Only **one stock in the group (Alteryx, Inc.) has appreciated in value** across the year so far
- ❖ Investing in Bitcoin and Ether would have put you in a better financial place than investing equally among the rest of the group

Figure 4 - Current value of \$100 Jan-21 investment in Bitcoin, Ether and BNB and popular technology stocks

\$100 invested in Jan-21 is now...				Block	Match Group	Alteryx	Roku	Trade Desk	"SMART" Average	Tesla	Microsoft	NVIDIA	Intel	ARRK ETF	Big Tech Average
	\$127	\$253	\$1,049	\$51	\$55	\$63	\$32	\$83	\$57	\$136	\$129	\$164	\$96	\$44	\$114
\$100 invested in Jan-21 is now...				Alibaba	Baidu	DiDi	JD.com	Tencent	China Concepts Average	Meta	Apple	Amazon	Netflix	Alphabet	"FAANG" Average
	\$127	\$253	\$1,049	\$39	\$56	\$11**	\$61	\$22	\$50	\$73	\$125	\$94	\$42	\$146	\$96

Source: Binance Research

Key Observations

- ❖ This comparison from January 2021 particularly highlights the divergence between Bitcoin, Ether and tech stock performance in the recent time period, with **crypto looking materially more attractive**
- ❖ The **best performing asset in our bucket is Ether**, up 153% in the time period. This is a **4x better performance than the "SMART" and China Concepts averages, and 2x+ better than "FAANG" and Big Tech averages. Bitcoin also joins Ether in outperforming all other averages**
- ❖ **Tesla, Microsoft, NVIDIA, Alphabet and Apple have been the only featured stocks that would leave you in profit today from a \$100 investment at the start of 2021.** The vast underperformance of the China Concepts group and the "SMART" group is particularly notable

Conclusion

Comparing Bitcoin and Ether to some of the more popular technology stocks that make up many conventional investment portfolios highlights **two key messages**. First and foremost, assuming one has invested in some of the leading technology stocks, **deeming crypto as “too risky”, is at least a somewhat unfair statement that deserves further examination and, as our data shows, may not stand up to close scrutiny.**

Next, and perhaps more importantly for some, the **potential for consistent gains in crypto, particularly when taking into account the relatively limited level of maximum drawdowns, is notable and an undeniably important aspect to remember when designing any investment portfolio.**

Let's not forget that **the “FAANG” group has a market capitalization nearly 6x that of Bitcoin and Ether combined**, with Apple alone being valued 2.4x higher at current valuations. The question is not ***if*** we see some of that value flow into the crypto markets, it is a matter of ***when***. Safe to say, one could reasonably expect a significant amount of 2.5%+ positive price moves in Bitcoin and Ether, and the broader crypto markets, to come in the future.

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Binance Research is the research arm of Binance, the world's leading cryptocurrency exchange. The team is committed to delivering objective, independent, and comprehensive analysis and aims to be the thought leader in the crypto space. Our analysts publish insightful thought pieces regularly on topics related but not limited to, the crypto ecosystem, blockchain technologies, and the latest market themes.



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