



NOVEMBER 2025 CLIENT QUESTION OF THE MONTH:

BITCOIN

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Over the past decade, Bitcoin has evolved from a niche digital concept into a globally traded asset that has attracted broad attention across financial markets. Interest from investors, companies, and regulators has grown as the technology and its potential use cases continue to develop. While Bitcoin remains a relatively new and volatile asset, its growing prominence has led many investors to take a closer look at what it represents, how it functions, and the potential risks and uncertainties associated with it. At Winthrop Wealth, we have all types of clients with varying goals and tolerances for risk. For those who are interested in learning about Bitcoin or digital assets, we have prepared this general information overview for further discussion.

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What Are Cryptocurrencies?

At its core, a cryptocurrency is a form of digital currency that uses cryptography for security and operates on a decentralized network known as a blockchain. Unlike traditional currencies issued by governments and central banks, cryptocurrencies are maintained through distributed networks of computers (nodes) that validate transactions without a central authority.

Bitcoin, created in 2009 by an anonymous figure or group known as *Satoshi Nakamoto*, was the first cryptocurrency and remains the most well-known and valuable by market capitalization. Its primary purpose was to provide a decentralized form of money that could serve as a peer-to-peer payment system without relying on traditional financial institutions. This is achieved through the Bitcoin mining process – participants use computational power to solve complex mathematical problems that validate transactions and permanently record them on the blockchain, earning newly "mined" coins as rewards. The issuance rate of these new coins halves roughly every four years, enforcing Bitcoin's programmed scarcity and capping the total supply at 21 million coins.¹

Since Bitcoin's inception, thousands of alternative cryptocurrencies ("altcoins") have emerged, with varying use cases ranging from decentralized finance (DeFi) to digital art (NFTs). Bitcoin, however, continues to occupy a unique position as the most widely recognized and widely held digital asset. It can be held in several ways, including self-custody through private digital wallets, storage with centralized crypto exchanges, or indirect ownership via institutional vehicles such as ETFs.

U.S. Policy Developments on Cryptocurrency

In recent years, the regulatory framework for cryptocurrencies in the United States has evolved significantly, with a focus on improved access, investor protection, financial stability, and the prevention of illicit activity. Here are several key developments that investors should be aware of:

- **Bitcoin ETFs Approved:** In early 2024, the U.S. Securities and Exchange Commission (SEC) approved several Bitcoin-related securities, including ETFs – a milestone that had been years in the making. These products allow investors to gain exposure to Bitcoin via traditional brokerage accounts without having to buy and store the digital asset directly. This development was hailed as a sign of maturation for the crypto industry and has been a major contributor to mainstream adoption. The SEC has since approved general listing standards for exchange-traded products of cryptocurrencies beyond Bitcoin.^{2,3}
- **Executive Order on Digital Assets:** In March 2025, an executive order established a Strategic Bitcoin Reserve and a U.S. Digital Asset Stockpile from seized assets, with the goal of creating a cohesive management strategy for government-held digital assets.⁴
- **SEC's "Project Crypto":** The SEC launched "Project Crypto" in July 2025 to develop a clearer regulatory framework for cryptocurrencies. This includes modernizing rules for custody, transfer agents, and trading of digital assets.⁵
- **GENIUS Act:** Also passed in July 2025, this is the first comprehensive legislation for stablecoins – cryptocurrencies pegged to fiat currencies like the U.S. dollar. The goal is to ensure transparency, reserve requirements, and operational standards for issuers. While not directly about Bitcoin, this effort reflects growing government engagement with the digital asset ecosystem which can bring more legitimacy to the crypto space.⁶

Together, these developments signal a structural shift for Bitcoin. Easier access, clearer U.S. regulation, and expanding mainstream acceptance all strengthen the narrative for Bitcoin as a legitimate asset class. However, Bitcoin still faces uncertainty from macroeconomic factors, the pace of institutional adoption, and further evolving regulations. The White House has taken a pro-crypto stance, supporting innovation and regulatory clarity, but there is no guarantee of a similarly accommodative approach from future administrations. Given these headwinds, Bitcoin continues to behave more like a speculative asset, exhibiting bouts of extreme price volatility.

Bitcoin's Volatility Profile: What Investors Should Know

The performance of Bitcoin over the past two decades has been undeniably extraordinary. Prices have exploded from pennies at inception, to \$200 in 2015, to over \$100,000 today. As with other asset classes though, the cost of admission for extreme returns is extreme volatility.

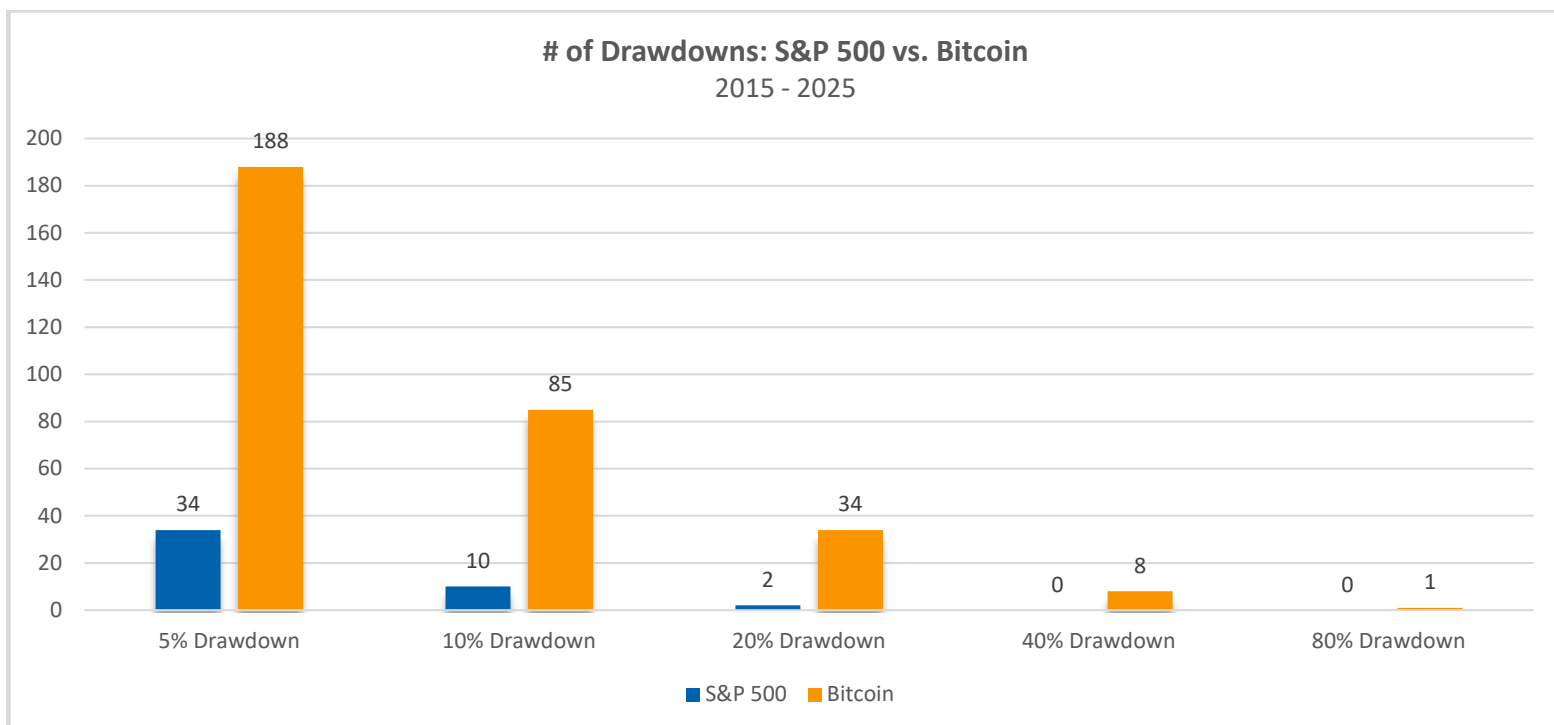
Bitcoin's price movements are far more dramatic than those of traditional investments such as equities or bonds. A combination of factors contributes to this:

- **Speculative Market Behavior:** Much of Bitcoin's price is driven by investor sentiment and short-term speculation, rather than underlying fundamentals.
- **Limited Historical Data:** As a relatively new asset without conventional valuation anchors, Bitcoin lacks the long-term track record and regulatory framework that traditional markets rely on.
- **Market Sensitivity:** News about regulation, technology upgrades, or macroeconomic trends can trigger rapid price swings.
- **Liquidity and Supply Factors:** With a fixed supply of 21 million coins and uneven trading volume across exchanges, large transactions, especially those involving leverage, can meaningfully move the price.

This volatility is evident throughout Bitcoin's price history, with significant price swings both upward and downward since its creation in 2009. In an effort to negate the radical volatility Bitcoin experienced in the early days of inception, we focused on its behavior starting in 2015. Even during this less volatile period, Bitcoin had an annualized standard deviation of 54.4% vs. 13.0% for the S&P 500. It has gone through multiple boom-and-bust cycles during this period, most notably:

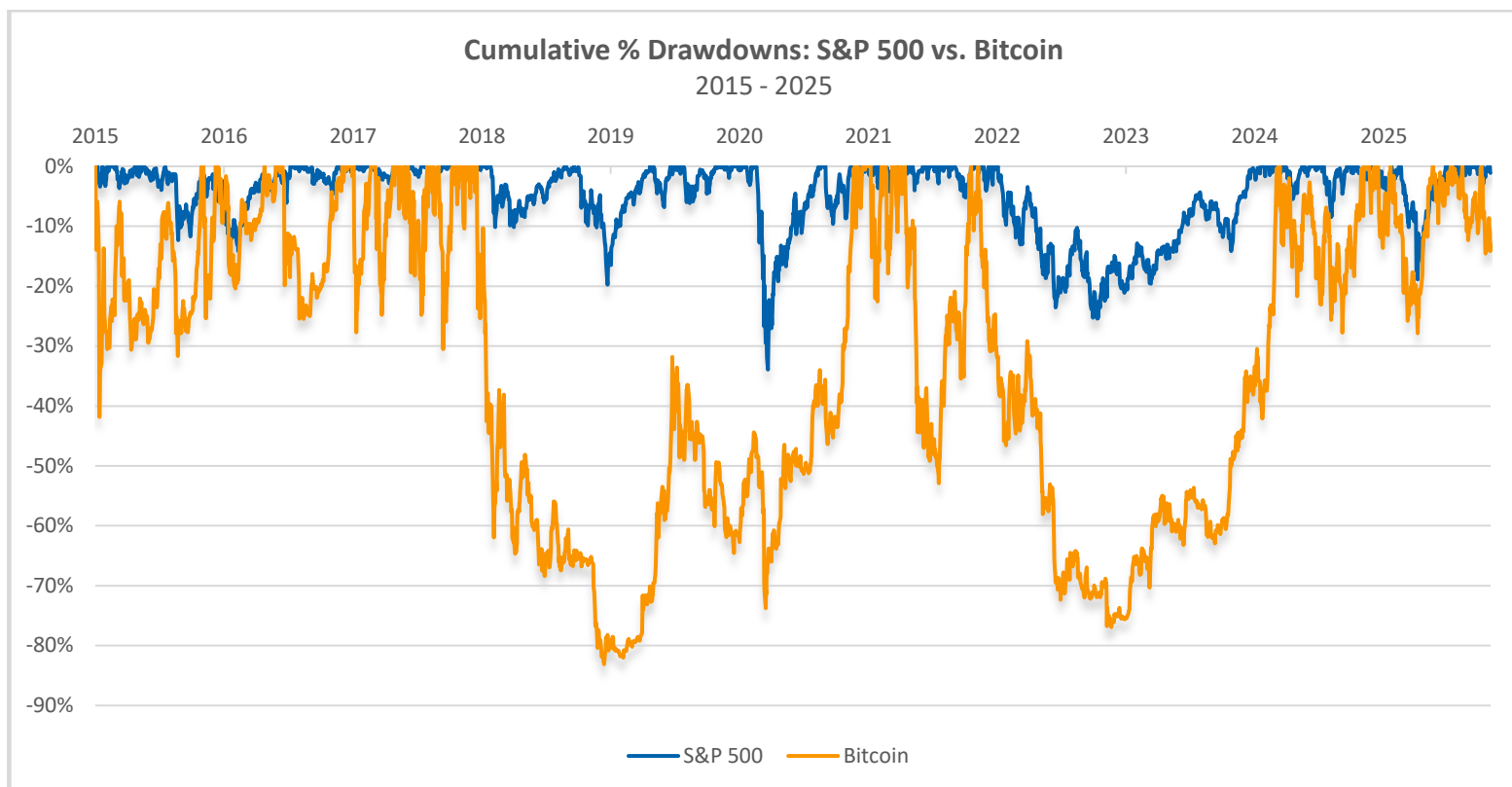
- **2017:** Bitcoin surged from under \$1,000 to nearly \$20,000 – before crashing to around \$3,000 in 2018.
- **2021:** It reached an all-time high of nearly \$69,000 – only to fall below \$20,000 in 2022 following the collapse of the FTX exchange, often referred to as the "crypto winter."
- **2024:** Following ETF approvals, Bitcoin rebounded again, climbing above \$60,000 before facing renewed volatility on its way to +\$100,000.

To get a sense of the frequency of declines over the past 10 years, we quantified Bitcoin's drawdowns of varying magnitude compared to the S&P 500 in the chart below. Perhaps most notable is the frequency of bear markets. A bear market is defined as a decline of -20% on a closing basis without a subsequent +20% increase. Going back to 2015, Bitcoin has experienced 34 separate bear markets, compared to just 2 for the S&P 500. This means that on average, a bear market would be experienced once every 5 years while invested in the S&P 500, compared to 3.4 times *per year* while invested in Bitcoin.



Source: Bloomberg

Furthermore, the following chart overlays Bitcoin's drawdowns with the S&P 500 over the same time period in percentage terms, highlighting their severity. The maximum drawdown of the S&P 500 was just under 34%, while that of Bitcoin was over 83%.



Source: Bloomberg

Implications for Investors

Maximum drawdowns are perhaps the foremost consideration when deciding whether to invest in digital assets or related securities. We believe it is critical for investors to only allocate an amount of money where they would not be materially impacted if drawdowns of similar historical magnitude were to occur.

These declines present opportunities, but also significant downside risks, especially for investors without a defined plan. Behavioral risk is a factor that must be managed – such volatile assets can provoke emotional decision-making, prompting people to buy high during surges or panic-sell during crashes, potentially locking in losses. It is easy to forget that in order to realize the unprecedented returns from Bitcoin's meteoric price rise, investors had to endure daunting drawdowns and hold the asset through multiple violent boom-and-bust cycles. This level of risk is difficult for many to stomach. For those who have found volatility in equity markets unnerving or overwhelming, cryptocurrencies are likely not an appropriate investment.

The inclusion of Bitcoin in a portfolio must be approached with clear-eyed awareness of the risks. Investors should be mindful of the price volatility, ongoing regulatory uncertainty, limited historical data, as well as custody and security concerns – particularly for those investing directly rather than through ETFs. Understanding its risks and appropriate role within both a comprehensive financial plan and diversified portfolio is essential. At Winthrop Wealth, our goal is to help clients approach emerging assets with clarity, discipline, and a long-term strategy aligned with their financial goals.

Sources

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