

Understanding The Bitcoin Investment Trust (GBTC)

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Tips for Trading GBTC (the Bitcoin Investment Trust) in 2018 and Beyond

The Bitcoin Investment Trust (GBTC) is the only choice for investors to trade bitcoin on the stock market, and for this investors pay a premium.[1]

Below we explain the Bitcoin Investment Trust (GBTC), the pros and cons of GBTC, and why GBTC is a better investment than bitcoin in some ways (but not in others).

What is a trust? A trust (an investment trust) is a company that owns a fixed amount of a given asset (like gold or bitcoin). Investors pool money and buy shares of the trust, owning contracts that represent ownership of the asset held by the trust. In a gold trust, 1 share might be worth 1/10th an ounce of gold. With the Bitcoin trust, 1 share is worth about 1/1000th a Bitcoin (it was about 1/10th). The trust is managed by a company who charges a fee, in the case of GBTC that company is Grayscale.

Is GBTC the only Bitcoin stock? GBTC is the only stock offered on NASDAQ.com or any United States public stock exchange that holds bitcoin as its primary asset. It is also one of the only choices for investing in Bitcoin without buying Bitcoin directly as of early 2018 (this could change). It isn't the only way to invest in Bitcoin; it is simply the only choice for an investor who wishes to use the stock market to trade cryptocurrency as of February 2018. Learn other ways to invest in cryptocurrencies like Bitcoin.

What is GBTC?

GBTC is the ticker symbol for The Bitcoin Investment Trust, a trust run by Grayscale that holds 175,984,800 shares of 0.00100721 Bitcoins as of February 2018 (it was 1,868,700 shares of 0.09242821 Bitcoins as of August 31, 2017, but the stock split; see the update and explanation below).[2]

In other words, the trust holds about 175,000 bitcoins, and people can buy shares of that trust, each of which represents the ownership of about 0.001 Bitcoins (so if you own 1000 shares, you own a contract that represents just over 1 bitcoin).

This is similar to GLD, which is a gold trust; where each share of the gold trust represents about 1/10th a share of an ounce of gold held in storage.

UPDATE: GBTC trust's stock split 91 -1 in January 2018, now each share is now worth about 1/1000th of a Bitcoin.

TIP: Grayscale plans to launch a trust based on Ethereum classic as well. It isn't public yet but will work the same way as GBTC.

Is GBTC a Good Buy?

GBTC is, very generally speaking, a great buy for a casual investor who doesn't want to trade cryptocurrency on an exchange (but wants to trade Bitcoin). With that said, it trades at a pretty intense premium (due to high demand and limited supply).[3][4]

The premium can be very off-putting and paired with the volatility of the bitcoin market; it makes GBTC bought at a high premium a risky bet. However, there are still some reasons to choose GBTC over bitcoin (especially if you get in when the premium is low, or when bitcoin is bullish).

Consider these reasons to be cautious of GBTC:

In early September 2017, before GBTC shares split 91-1, Bitcoin traded at about \$4.5k and GBTC \$1k. That means GBTC was trading at over 100% premium. In other words, you could have bought 2 bitcoins for every 1 bitcoins worth of GBTC. Meanwhile, later that month GBTC went on to drop below \$500 while Bitcoin stayed above \$3k (making GBT a much better buy at that point than it had been). Thus,

as the story illustrates, you have to not only look at Bitcoin's market, but at the premium you are paying for GBTC. UPDATE: GBTC's price has changed over time, but it has historically traded at a premium. This was true before the split, and it remains true after the split. Here in early February 2018, GBTC is trading at roughly \$14.50 (priced like Bitcoin is worth \$14.5k), even though Bitcoin's current value is roughly \$8.7k.

An annual 2% fee is paid to the sponsor of the trust. That means the value of the trust is diminished over time.

GBTC is the only bitcoin stock on the market. The second there is an alternative, GBTC is likely to see its price drop (if there were more Bitcoin products, one could assume that GBTC would lose some of its premium; that poses a risk for GBTC investors).

GBTC trading tends to be more emotion-driven than the already volatile bitcoin. I've seen the price of GBTC change wildly while Bitcoin stagnated and I've seen GBTC stagnate while Bitcoin's price changed wildly. A stable trust would ideally track the price of Bitcoin, but GBTC tends to exaggerate the price of bitcoin some days and not react at all on other days.

GBTC only trades while the market is open; the cryptocurrency market however never closes. If cryptocurrency crashes on the weekend, there is no way out until the opening bell on Monday.

Bitcoin has instant transactions once you are set up and running with an exchange, that means you can sell and buy rapidly 24/7 on a cryptocurrency exchange, but are much more limited with GBTC and a brokerage account.

Some banks, like Bank of America / Merrill Lynch, have banned crypto related purchases (including GBTC). This can make investing in cryptocurrency and cryptocurrency related products tricky, and it can mean there is less buyers and sellers in the market to trade with.

Consider these reasons to buy GBTC anyway:

The cryptocurrency world is a bit like the wild west, you'll need a digital wallet, and you'll need to upload personal information to an exchange, then you'll be able to convert USD to cryptocurrency slowly as exchanges limit your spending and slowly draw your money from your bank. Meanwhile, GBTC is immediate, and your spending isn't limited.

When you trade bitcoin (for other currencies or USD) you often pay fees. The fees paid can quickly exceed the 2% fee paid to the trust (which is paid from the trust, not per transaction). If you aren't paying fees with your brokerage, or your fees are low, GBTC might be cheaper in this respect.

GBTC is the only bitcoin stock on the market. You either get GBTC, or you don't. Even with the premium, GBTC has performed very well at times. Despite its occasional inconsistency, it can be profitable if your timing is right.

Sometimes the premium works in an investors favor. If you buy when the premium is low, and wait until it is high, you can sometimes outperform Bitcoin with GBTC (although be warned, it can work the other way around too).

Now, consider these unknowns:

On GBTC and Bitcoin Cash (and other forks): GBTC was holding all their Bitcoin when Bitcoin did a hard fork and split into a second asset, Bitcoin Cash. That means GBTC was sitting on "a ton" of Bitcoin Cash (when a cryptocurrency forks like that, all holders of the coin get a proportional amount of the new cryptocurrency alongside their existing coin; i.e., they get what some call "free money"). There have been many potential Bitcoin forks since Bitcoin Cash. It is likely the trust will liquidate each fork and pay out those who hold the trust at specific dates. Thus, this could be an added benefit to holders of the trust as time rolls along. Read our updates on how GBTC is handling forks (Bitcoin Cash was sold and distributed, as was Bitcoin Gold; it is likely this will be how other forks are handled as well).[5]

GBTC was the only Bitcoin stock that managed to get onto the market. All the rest have been rejected. Sure "if" another entity can get an ETF out there it will hurt GBTC... but as the Spartans said, "if." In other words, so far there haven't been other ETFs and thus concerns over other ETFs diminishing GBTC's value have been without merit thus far.

TIP: See our page on "should I buy GBTC" for more.

TIP: The liquidity and limited supply are what is driving up GBTC's price. Anyone who claims GBTC should trade at the value of bitcoin (cough; Andrew Left) may not understand or admit how big a benefit it is to be able to trade a trust rather than cryptocurrency. A 120% premium is arguably absurd, but the trust trading at or below the price of bitcoin itself is even more absurd than that. One might assert that a 20% premium or less would be more reasonable a premium to trade at until other Bitcoin ETFs come out (but of course the market sets the price, not logic). "If" more cryptocurrency-based ETFs come out on the stock market, expect GBTC to trade at or around its "Net Asset Value (NAV)." Until then, one should look at the history of volume and price, that history shows us the premium is likely here to stay until more competition comes around. It also shows us the demand for Bitcoin is high, even if not everyone takes that demand to the traditional Bitcoin markets.

OPINION: One could argue that GBTC trades well above its NAV because it is trading based on future value. While this argument has some weight to it, especially considering it is the only Bitcoin stock on the market, the idea that future value justifies the premium isn't a very compelling argument in my opinion. GLD doesn't do this with gold to any great extent (generally speaking, if you want to trade the future price of gold, you trade gold futures and options, not a gold trust). In other words, you could argue GBTC's current price reflects future prices but that alone, in my opinion, doesn't justify the premium. Trading Bitcoin's value today is risky enough, never-mind trading its future value. If you want to trade the future price of Bitcoin, you can trade Bitcoin futures.

GBTC vs. Buying Bitcoin - The Bottomline

Trading GBTC means paying a premium for quick no limit trading. Meanwhile, trading actual bitcoin means dealing with all sorts of limits and transactions fees.

Do you want to be able to trade quickly and easily from your traditional brokerage account at the expense of limited trading hours and a premium? Or do you want way better profit margins with slower trades, transactions fees, a bigger learning curve, and some additional risks, but be able to trade instantly and at cost?

There is no good answer to what is better. My general suggestion would be to do both (but to remain cautious and not invest your life savings; someone suggested 1% of total funds to invest, that might be about right). There is no doubt that GBTC is overpriced in early 2017, but that could change. Still, one can make money on an overpriced asset; no rule says you can't.

Bottomline: The closer GBTC is to the cost of bitcoin (the closer it is to its NAV), the better buy it is. It has historically resisted going below a 20% NAV, so that is worth considering. All that said, even when it is trading at a somewhat absurd premium, there are still real reasons to buy GBTC rather than braving even the simplest and most user-friendly alternative Coinbase. If you understand the risks of GBTC, it can be a worthwhile bet if you understand what you are buying. If you are holding \$14 GBTC, you are essentially betting Bitcoin will be worth \$14k+. That is possible, and might even sound laughable if I don't update these numbers quickly enough, but the point isn't that. The point is, you need to realize the bet you are taking with GBTC before you make your choice.

TIP: Don't knock GBTC until you've tried dealing with the cryptocurrency exchanges. It is easy to scoff at the premium, but that premium comes with significant benefits for the casual investor looking to take a risk on the volatile Bitcoin market. The average person might not have the extra time to deal with the 24/7 cryptocurrency market and all its learning curves. GBTC offers exposure to cryptocurrency at a premium, and that is a trade-off that some will be willing to make (after-all, market demand is causing the current premium, not Greyscale, so the proof is in the pudding).