Tom Mullooly:
Welcome back to the podcast. This is episode number 362, take two, because now we're hitting the record button. This is Tom Mullooly and my co-pilot today is Casey Mullooly. Hello.

Casey Mullooly:
Hey.

Tom Mullooly:
We're finally going to talk about Bitcoin and cryptocurrency.

Casey Mullooly:
Yeah, we're recording this on June 25th and there was a recent headline in The Wall Street Journal that reads, "Saving for retirement? Now you can bet on Bitcoin." Hmm. So it goes on to say that cryptocurrencies are among the world's most volatile assets and are searching for mainstream acceptance in the investment world.

Tom Mullooly:
Let's just hit the pause button right there, because they say it's one of the world's most volatile assets. I don't even know if it is an asset. I mean, there's plenty of people out there who still think that this is just a scam.

Casey Mullooly:
I think it's hard throwing cryptocurrencies under all the same umbrella, I feel like, because some of them are scammier than others.

Tom Mullooly:
I'm going to take a step back even further and talk about how cryptocurrencies, like Bitcoin, that's only one example, really grew out of a process called the blockchain. And there is truly real value to blockchain and it's a process that all businesses, I believe, could benefit from if they used it. But we could do three more podcasts on the blockchain. We're going to get a little off track if we start talking about that.

Casey Mullooly:
Right.

Tom Mullooly:
But we want to talk about these headline grabbing numbers that we see from these cryptocurrencies.

Casey Mullooly:
Yeah. The article argues that advisors are getting more questions about cryptocurrencies and more are interested in investing on their clients' behalf in cryptocurrencies. There's a stat that says advisors with clients inquiring about investing in cryptocurrencies, 17% of advisors said that they got questions about it in 2020 and that number has increased to 49% in 2021. So it seems like people want this stuff in their retirement accounts.

Tom Mullooly:
Well, they want it. We know that. I think there's still a lot of unknowns about this. And so, people are calling just because they said they're discovering that people they know are saying, Hey, I put a couple of bucks into this cryptocurrency a year ago or two years ago, and now I've got $650,000. You cannot ignore that.

Tom Mullooly:
And so, when we first got questions about Bitcoin and cryptos in 2017, I mean, we literally waved off those questions as if it were the paparazzi, like, no, no, that's totally inappropriate and unsuitable and all of that. But as time has moved forward, like these other advisors that they cited in the article, yeah, we're getting more and more questions. And we've had discussions here in the office where we can no longer just say, unsuitable, inappropriate. We're at a point now where we need to be talking about this and we need to be on top of this, because our clients are asking about it.

Casey Mullooly:
There's a difference between talking about it and investing in it. We can talk about it, but that doesn't necessarily mean that we have to be, or that we should be putting people's money into these cryptocurrencies. There are some other regulatory issues that need to, those chips need to fall first I think before we seriously start considering this, but I know that there's, I think it's VanEck has a Bitcoin ETF that the SEC is reviewing.

Tom Mullooly:
They're reviewing.

Casey Mullooly:
Reviewing for the fourth time?

Tom Mullooly:
Fourth time.

Casey Mullooly:
So they've reviewed it three times already, haven't approved it yet. So the SEC has to approve this ETF. Is it a Bitcoin or a crypto ETF?

Tom Mullooly:
I think it's a crypto ETF. And once that gets approval, then I think we're ... I'm presuming that it's going to get approval, but once it does, then it's going to be even harder to ignore if you are a brokerage firm or an advisor.

Casey Mullooly:
Right.

Tom Mullooly:

So right now, I think folks listening to this podcast need to understand that you cannot own Bitcoin if you have an investment account with a bank or brokerage. That includes places like Charles Schwab-

Casey Mullooly:
And TD Ameritrade.

Tom Mullooly:
TD Ameritrade, Fidelity. I mean, you can't do that.

Casey Mullooly:
You can't own it there.

Tom Mullooly:
Right. So even the article went on to say, everyday investors at Schwab and Fidelity can't purchase cryptocurrency, but they can buy shares in trusts that invest in them. So there's a Bitcoin trust that trades out there, which trades at, I mean, the last time I looked, it had something like a 50 or 60% markup to the value of Bitcoin. You're paying a wildly inflated cost for this. There's also, I'm trying to remember the name of the company that has a huge chunk of their balance sheet in crypto. That's another way to play this.

Casey Mullooly:
Well, Tesla had it.

Tom Mullooly:
Well, yeah, Musk is, I just wonder if he's going to get arrested someday for manipulating this whole market.

Casey Mullooly:
The SEC has got to be pulling their hair out.

Tom Mullooly:
He is making them earn their paychecks, because he is really pushing the envelope. And we could do an entire podcast just on Elon Musk and some of the goofy stuff that he's doing.

Casey Mullooly:
Right. So that's the first hurdle. We can't even for our retirement accounts at Schwab and TD, the two custodians that we use mostly here, we can't own it outside of the trust, which isn't a great way to own these cryptos. That needs to fall. And then, we have to cover ourselves as fiduciaries for our clients, which means we have to act in their best interest.

Casey Mullooly:
One way to think about that is we need to play it safe and protect our clients' assets. That's what they hire us to do. Some people are living off, a good amount of people are living off of the assets that we manage for them, because they're retired or they're on their way to retirement. And our view is, at least

it has been, we can't be risking people's money that they need to be living off of in the most volatile "asset class" that we've ever seen. That's the stance that we've been taking for the last couple years, and we probably will continue to take it into the future. But the other side of it is people are making a lot of money in these things and-

Tom Mullooly:
We can't ignore that anymore.

Casey Mullooly:
Isn't the role of a fiduciary to do what's best for their clients? Meaning if they can make a lot of money, shouldn't we be doing that for people?

Tom Mullooly:
No. Let me be clear about that. When we're acting as a fiduciary, we're supposed to act in the best interests of the clients. And so-

Casey Mullooly:
But isn't making the most amount of money in someone's best interest?

Tom Mullooly:
You can make money for clients. There's no law against that, but you have to do it with a measured amount of risk. It's going to be the darkest day in the world if cryptocurrencies get exposed to be just, the whole thing becomes a fraud. It's going to be a very, very bad day. I hope that doesn't happen. And I hope this thing is legit, but right now, we don't know enough about it. We don't have a systematic way to track it and get more information on it and trade it efficiently. So we can't do it, but we need to be talking about it.

Tom Mullooly:
I found it interesting that one of the online advisory firms, Betterment. There's Betterment, where if you're an individual investor, you can go to Betterment. Betterment was the original version of Robinhood. You could go to Betterment and open an account and just trade on your own there. But now they also have Betterment for advisors, where basically, Betterment comes to firms like ours and they're like, Hey, don't bother with a model portfolio. We'll build the model. Just pay us in basis points. And you can do all of your trading through there. It's all automated. We don't do that.

Tom Mullooly:
But I found it interesting that they, there's an article in The Journal, quoted the spokesman for Betterment and they also quoted Dan Egan, who's, his title is the VP of behavioral finance at Betterment. And he's really the brains behind all of this. And so, Joe Ziemer said that they're actively exploring offering cryptocurrency in IRAs and taxable accounts, but in a way that enables clients to do it in a responsible, advised manner.

Tom Mullooly:
And Dan Egan said anything over 1% in a portfolio is considered an aggressive allocation. And he backed

it up by saying, Hey, look, right now, cryptocurrency represents a half of 1% of the value of all the global stocks and bonds that are out there. Crypto is still really, really small. And so, you hear these people who say, oh, I could have bought crypto at 11,000 and now it's wherever it is. It's over. We're not even out of the first inning yet when it comes to this stuff. It's long, long way to go there. There's a lot of different takes on all of this.

Tom Mullooly:
The article goes on to talk about this firm called Kingdom Trust. They're an IRA custodian. And every now and then, we'll get a client who'll call and say, "Hey, I saw this commercial on Fox News that says you can own gold in your IRA, or you can own real estate in your IRA." And guess what? Now they are working on a way to offer 20 different cryptocurrencies in something called their Choice IRA. The quote that they gave was, "Some of our users are trading Tesla, GameStop, Bitcoin, and Ether in their IRAs. We believe our clients see an opportunity to be aggressive with their retirement accounts and also trade them, not just sit there and put money into cookie cutter funds like our parents did." I do want to add that the CEO, the chief executive officer of Kingdom Trust, 34 years old.

Casey Mullooly:
Right. That's the thing. People my age, I'm 27, we have a 50 year plus time horizon. It's like, yeah, we can be taking some excessive risks.

Tom Mullooly:
The boomers said that, because I heard them say that 30 years ago, and saying, our parents didn't know anything.

Casey Mullooly:
Yeah.

Tom Mullooly:
And so, here we are. I'm hearing the exact same arguments now, this time around, except I'm on the receiving end instead of the sending end. So-

Casey Mullooly:
I want to just pump the brakes a little bit though, and get your take on, is this normal behavior in a market, because it seems like there's a lot of excessive and unnecessary risk that's being talked about as seemingly as serious investing strategy? Whether it's meme stocks or cryptocurrencies, or getting levered up to your eyeballs, there seems to be a lot of people taking a lot of risk these days.

Casey Mullooly:
I know Jason Zweig wrote a recent article for The Wall Street Journal.

Tom Mullooly:
Same day.

Casey Mullooly:

Not the same day, a week before, but his argument was if you know nothing about an asset, but you put money into it, you're not an investor. You're a speculator. And it's pretty hard to know what these cryptocurrencies are doing. People just see that they're going up and they're investing based on that.

Tom Mullooly:
So there is an analogy for that. One of the first things I do ashamedly every morning is I check the futures market. And the futures market is basically the options and futures for the underlying indices, like the Dow and the S&P. So the futures market didn't exist in 1980. It didn't exist 40 years ago. And as soon as they opened up trading for these index options, 35, 40 years ago ... Remember, the Chicago Board Option Exchange, CBOE, where they trade most of these things in the pits, they would trade cattle futures, frozen orange juice, like they did in Trading Places, stuff like that.

Tom Mullooly:
Then they started trading index options and it totally revived that part of the market. It was pretty easy to just open an options trading account. And as soon as brokerage firms started finding out that, holy crap, the underlying basket of stocks that someone's buying when they're buying puts or calls on the S&P 500 is the dollar value of 500 of these stocks swinging around like this in these illiquid, unregulated markets, like, we got to do something about this.

Tom Mullooly:
And so, when the brokerage firms finally got their act together, honestly, they made it pretty difficult for individual investors to qualify to be able to trade options in their accounts. We had to send people a book on options disclosures, a book. I mean, I'll make you a bet. Somewhere in this office, there's these option disclosure booklets, because I used to have them sitting in my desk drawer because we would send them to people. They were a little smaller than an annual report.

Tom Mullooly:
And people had to sign a form saying that they received it and we had to get it back, and only then could they open their account for trading options. And they had to have a certain amount of income. They had to have, I forget if it was a hundred or $200,000 of income in 1983. That's a lot of money. They had to have two million in net worth in the market, liquid. They needed to have a certain number of years experience in trading equities before they would be approved for trading options.

Tom Mullooly:
And so, I really think that when crypto finally becomes a little more mainstream, brokerage firms are going to allow it, but they're going to make it a little harder for everybody to do this. And part of it is for the investor's protection, but let's be honest, part of this is for the brokerage firm or the advisor's protection too. And so, I really believe that once they do create an approved ETF, I don't know if VanEck is going to be the first. They probably should be the first, because they specialize in things like precious metals and gold funds.

Tom Mullooly:
But I think that once they get approved ETFs, it'll be like those triple levered inverse index funds that trade. Some firms just won't allow you to trade in them. Other firms say you have to be approved to

own it in an account, or you have to have a certain level of experience, net worth, capital requirements to own it. So I think there's probably going to be some hurdles to jump over before you can own this in your account.

Casey Mullooly:
Which is probably a good thing. Increasing the barrier to entry really gives people a chance to reflect and, hopefully reflect and think about whether or not this is really a good idea.

Tom Mullooly:
Right now, our answer for people, if they are insistent on owning crypto as part of their portfolio, is we'll send them a check out of their account and we'll tell them, "First of all, we can't buy it in an account for you at TD Ameritrade or Schwab or any other place, so you have to go somewhere else."

Casey Mullooly:
Go to Coinbase or one of these other platforms.

Tom Mullooly:
Right. Open an account.

Casey Mullooly:
Open an account. And if you're really adamant about it, go for it. Yeah. But think about the 1% that you mentioned, 1% of your net worth at most. You also have to think about some of the people that are claiming that they're, yeah, I'm up 300%, but you only put $5 into it. It's like you own 0.00002% of one Bitcoin. So, yeah, if you want to speculate on this stuff in a fun account or a play account, we're not going to stop you. It's not something that we're going to invest serious amount of people's money into right now, but-

Tom Mullooly:
But it's also something that we need to be talking about.

Casey Mullooly:
Yeah. I just want to make that distinction again, talking about and not investing in.

Tom Mullooly:
You got to know the risks.

Casey Mullooly:
You have to know the risks.

Tom Mullooly:
I want to zoom back in on the whole idea of owning this, like the headline says, saving for retirement. Now you can put Bitcoin, depending on where you're at, you can put Bitcoin in a retirement account. And I think some people lose sight of the fact, well, Hey, I can just trade my IRA. There's no taxes on it. But there will be taxes when you do take it out. It'll be ordinary income. There will be no capital gain.

When it comes to stuff like this, we have always looked at retirement accounts as income replacement. You're going to be using this money when you are no longer working. You're going to live off this money as if it were a salary in retirement. And so, we can't be taking crazy risks like that.

Tom Mullooly:
I believe it's, this is me in June of '21 saying, I don't think these types of vehicles belong in retirement accounts whatsoever. It's not prudent. It's just inappropriate. I think this would be better in a regular taxable investment account, because then, once you hold an asset for more than 12 months at a time, you're subject to long-term capital gains. So you'll hopefully get a reduced tax rate with something like that. I suppose at some point in the future, they'll create a Roth IRA version where you can own this, own some kind of cryptocurrency basket in a Roth. That'll be the next step.

Casey Mullooly:
Yeah, it's possible.

Tom Mullooly:
Yeah.

Casey Mullooly:
Look, there are a lot of other chips that have to fall before we, I don't want to say take this seriously, because we are taking it seriously, but we're more at an education stage at this point. And we're more at figuring out the risks and the logistics of owning these things. But it's not something that we're doing right now, but we're certainly talking about it here in the office. So we wanted to talk about it here on a podcast and let you all know our thoughts on it. And if you have any questions, be sure to get in touch with us, call us, shoot us an email, whatever's easiest for you. I think that's going to do it for episode 362 of the Mullooly Asset podcast. Thanks for listening and we'll see you for 363.

Speaker 3: