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Digital assets: a new building block for your portfolio

Digital assets like Bitcoin and Ethereum have now found their place in the world of asset management. Even the world's largest investment company, BlackRock, recommends that its clients invest up to 2% of their entire portfolio in Bitcoin – and with good reason. Thanks to their low level of correlation with traditional asset classes, digital assets present an attractive opportunity for investors to diversify their portfolios. In practice, the addition of digital assets yields an impressive effect that many people are not yet aware of. The addition of just 2 to 3% of carefully selected crypto assets can markedly increase a portfolio's potential return – without significantly increasing volatility and thus the level of portfolio risk.

Reasons why crypto assets are an attractive proposition

It is undisputed that digital assets have now established themselves as an asset class to be taken seriously. However, for sceptical investors, one key question remains: how can the high degree of volatility exhibited by this asset class be reconciled with a solid investment strategy?

It is important to understand that this volatility can actually be used to the benefit of investors if it is handled correctly, making crypto assets an attractive proposition. The appeal of crypto assets primarily lies in their alternative performance drivers, which stand out from traditional asset classes. One example here are the regular halving events, which see the reward for Bitcoin mining halved every four years. At the same time, crypto assets are seeing an increasing level of acceptance and regulation by both businesses and governments.

Thanks to their alternative performance drivers, digital assets exhibit a relatively low level of correlation with traditional asset classes. This low correlation allows investors to achieve advantageous diversification effects in their portfolios. This helps to balance out fluctuations, spread risk more broadly and improve both the stability and return potential of the portfolio.

Consequences for investment activity

Even the small addition of 2 to 3% of crypto assets is enough to achieve this diversification effect. In making such an addition, it is crucial not to view the digital assets as short-term speculative objects, but rather as long-term investments. The exact time of entry likewise plays a subordinate role, as the focus is on the long-term investment horizon.

Experienced crypto investors follow the principle according to which an investment in digital assets should be held for at least one whole crypto market cycle. As history has shown, such a cycle typically lasts approximately four years. This minimum holding period makes it possible to balance out the fluctuations on the crypto markets and fully tap into the potential offered by this asset class.

When selecting suitable crypto assets, focus should preferably be placed on Bitcoin (BTC) and Ethereum (ETH). The reason for this lies in the availability of extensive and reliable data series for these assets, making a well-founded quantitative analysis in a portfolio context credible. Both assets have already passed through several market cycles and provide a solid basis for integration into a long-term investment strategy.

With respect to market capitalisation, Bitcoin remains the market leader among crypto assets by some distance. Ethereum, on the other hand, is not only the largest altcoin by market value, but is also often regarded as a representative proxy for the entire altcoin market. As such, these two digital assets offer investors a stable basis for entering this emerging asset class.

Greater returns with the same risk

Enough theory – what does this look like exactly in practice? For the comparison, we analyse two almost identically structured portfolios. Both comprise 2% liquidity, 29% bonds, 10% indirect real estate and 12% alternative investments. The difference between the portfolios lies in the allocation of equities and crypto assets.

The first portfolio without a crypto component contains 47% equities. In the second portfolio, 2% of equities is

reallocated to digital assets, with 1% invested in Bitcoin and 1% in Ethereum.

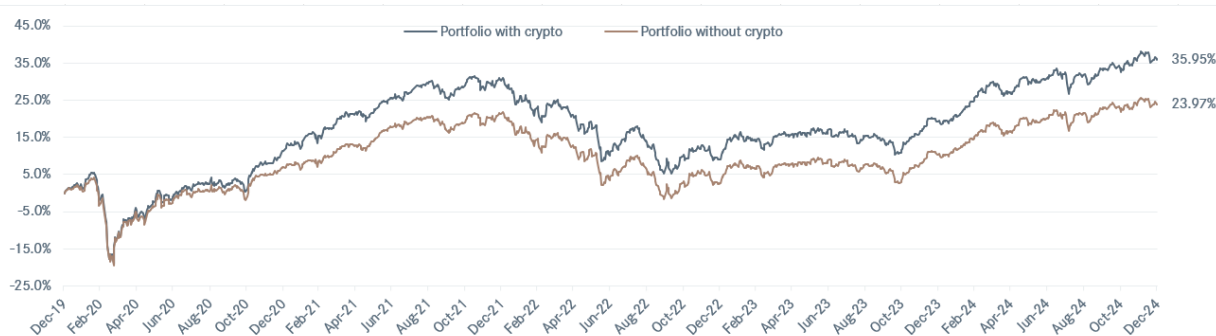
The respective allocations of the two portfolios

	Portfolio without crypto	Portfolio with crypto
Liquidity	2%	2%
Bonds	29%	29%
Indirect real estate	10%	10%
Equities	47%	45%
Alternative investments	12%	12%
Bitcoin	0%	1%
Ethereum	0%	1%
Total	100%	100%

Even a small addition of 2% Bitcoin and Ethereum can considerably improve a portfolio's risk/return ratio. This means that a portfolio containing crypto assets generates a significantly higher return than a portfolio without crypto investments – without being subjected to a marked increase in portfolio risk.

This is illustrated by a concrete example: investors who invested 1% of their portfolio in Bitcoin (BTC) and Ethereum (ETH) in December 2019 had achieved a total return of 35.95% by December 2024. Without the crypto addition, however, the return over the same period stands at 23.97%.

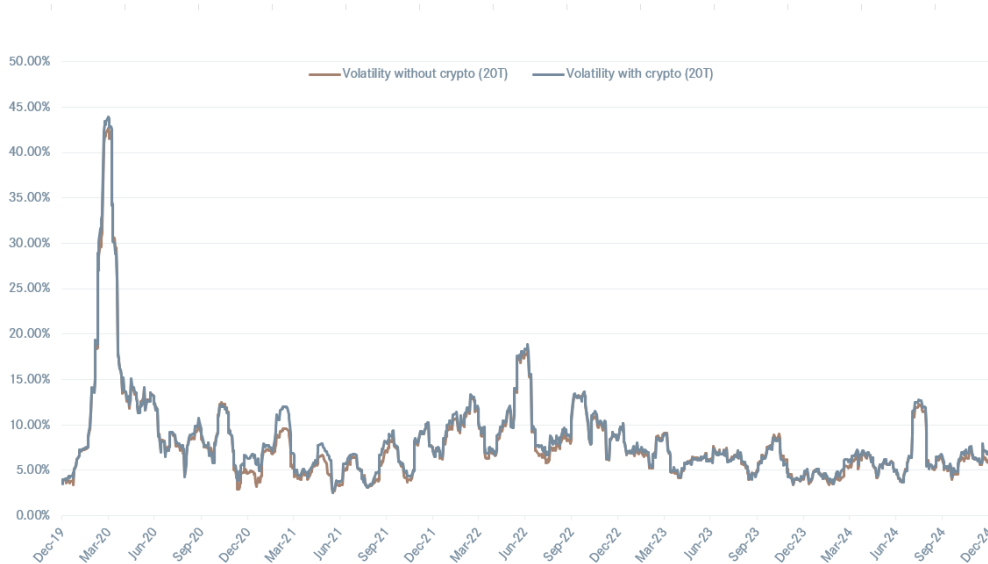
With the addition of crypto, the portfolio's performance is almost 12% higher without a significant increase in the level of risk



The fascinating thing about the addition of crypto is that, despite general expectations, the level of volatility does not change excessively. Although the portfolio's return increases markedly with the inclusion of crypto, there is hardly any difference in terms of volatility. For the five-year period observed, the volatility of the portfolio with

crypto stood at 10.13%, while the portfolio without crypto exhibited volatility of 9.78%. This difference of just 0.35% is negligible and underlines the fact that a small addition of crypto assets hardly increases the level of portfolio risk.

The volatility of the respective portfolios only differs minimally



The risk/return ratio improves, as the portfolio's return increases significantly thanks to the addition of crypto, while the minimal difference of 0.35% in volatility is largely insignificant by comparison. Furthermore, the correlation between the two portfolios remains identical at 0.98, as 98% of the portfolio composition comprises the same investments.

These figures illustrate that even a small allocation in digital assets represents an attractive opportunity to increase a portfolio's return potential without significantly increasing its risk.

Active management pays off

From an investor perspective, it is important to rebalance the portfolio with crypto additions at regular intervals so as to ensure that the original distribution of the asset classes is maintained. Only in this way is it possible to reliably adhere to the agreed risk parameters.

Strategy module plus

The diversification with up-and-coming asset class such as crypto assets recommended in this publication can be mapped with the strategy module plus. This further optimises the risk-return profile, providing an attractive offering that is unparalleled on the market. The strategy module plus follows the strategic and tactical asset allocation determined by our experienced Investment Committee.

Increase your return potential by adding crypto assets with our strategy module plus!

ARCHIP Crypto Certificate

The ARCHIP Crypto Certificate offers the opportunity to invest in the price development of cryptocurrencies without having to hold them directly in your own wallet. It can be traded quickly and easily in the same way as traditional investment products. The certificate is a collateralised pure Swiss solution and meets the highest security standards. The certificate not only invests in digital assets directly, but also via derivatives or funds.

Would you like to add digital assets to your asset allocation? Get in touch with us.

In practice, quarterly rebalancing has proven to be close to optimum. When more frequent adjustments are made, short-term fluctuations are over-compensated for, meaning that the positive effect of the crypto additions is not fully realised. If, by contrast, rebalancing is carried out less frequently, for example on a semi-annual or annual basis, the return may well increase even more, but the portfolio risk also rises significantly. Well-coordinated rebalancing is therefore vital for the successful addition of digital assets.

Summary

The results clearly demonstrate that even a small addition of crypto assets like Bitcoin and Ethereum can markedly increase a portfolio's return potential without leading to a significant rise in risk. The low level of volatility and the low degree of correlation with traditional asset classes make digital assets a sensible addition as part of a balanced investment strategy. However, active management of the portfolio, in particular in the form of regular rebalancing, is crucial to success. This underlines the fact that digital assets are not only an emerging asset class, but also a viable and forward-looking asset class that can likewise benefit traditional investors.

Konstantinos Ntefeloudis
Head Investment Management
Maerki Baumann & Co. AG



Pascal Hügli
Crypto Investment Manager
Maerki Baumann & Co. AG



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Maerki Baumann & Co. AG
Dreikönigstrasse 6, CH-8002 Zurich
T +41 44 286 25 25, info@maerki-baumann.ch
www.maerki-baumann.ch