

WHAT IS A BITCOIN FUTURES ETF?

A bitcoin futures exchange-traded fund (ETF) issues publicly traded securities that offer exposure to the price movements of bitcoin futures contracts.

Here's how it works: An investment company creates a subsidiary that acts as a commodity pool. The pool in turn trades bitcoin futures contracts typically in an effort to mimic the spot price of bitcoin. But there are costs involved like "roll premiums" and management fees, among others. Plus, futures contracts don't track spot prices exactly, so returns may never be as high as, or in sync with, spot market prices.

LET'S BREAK IT DOWN...

Bitcoin is considered a commodity and is the underlying asset in bitcoin futures contracts. Bitcoins that sell for cash are said to trade on the "spot" market. With limited exceptions, the bitcoin spot market is not regulated by the CFTC or the SEC.

Bitcoin futures contracts — like other commodity futures contracts such as corn futures, market index futures, or gold futures — are regulated by the CFTC and must trade on CFTC-regulated exchanges. Bitcoin and bitcoin futures can be highly volatile. Leverage created by futures contracts can significantly amplify both gains and losses. Futures contracts are standardized, time-limited contracts that convey the right to buy or sell the underlying asset at some point in the future. The contracts do not convey ownership in the asset itself. As contracts approach expiration, they must be settled or traded for new contracts. Many times, the selling prices of expiring contracts are below the purchase prices of contracts expiring further in the future. This situation is known as contango and means that traders suffer a small loss, or "pay a roll premium," when contracts are routinely rolled from the expiring month to a future month.

ETFs are investment companies regulated by the SEC. The shares issued by the ETF are securities that must be registered with the SEC. Like mutual funds, ETFs have stated investment objectives and use professional money managers to meet those objectives. In the case of managed commodity futures funds, though, investment companies commonly set up subsidiaries that serve as commodity pools.

A commodity pool is an investment trust or similar entity that trades commodity futures contracts for the benefit of investors. The CFTC regulates commodity trading advisors and commodity pool operators—the people who make trading decisions and run the pools, respectively. Management fees and other expenses also must be paid. In the case of managed commodity futures funds, there is the management of the subsidiary commodity pool to consider as well as the management of the parent investment company.

THE BOTTOM LINE

Regulated doesn't mean risk-free. The risks and returns of a bitcoin futures ETF will differ from the risks and returns of buying bitcoin on the spot market, or when trading bitcoin futures.

BEFORE INVESTING:

1. Make a Plan

- What's your individual risk tolerance? How much can you afford to risk (and how much could you afford to lose)?
- How does this investment fit into your overall portfolio?

2. Learn the Markets

- Understand how the spot and futures markets function, and how they could impact your investment.
- Consider how roll premiums, management fees, and expenses will affect overall performance.

3. Know the Risks

- Review disclosure documents carefully and monitor market risks that could cause prices to rise and fall.
- How much of your ETF investment will go into bitcoin futures contracts and how much would be held in other assets?
- Can the commodity pool operator make changes to the announced trading strategy, and under what circumstances? Can changes be made without notifying participants?

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