

Investors have always sought early-stage opportunities in emerging businesses and innovative ideas. Blockchain and smart-contract technologies, along with their networks, represent a transformative opportunity that can revolutionize business models and change how investors manage their assets.

Self-Custody vs. Spot-Crypto Exchange-Traded Products (ETPs)

Today, investors have multiple avenues to gain exposure to cryptocurrencies, most notably buying spot-crypto via self-custody on a crypto exchange or through a spot-crypto based ETP. Each route to crypto ownership has different features, which largely come down to your preferences for control versus convenience.

Self-Custody vs. Spot-Crypto ETP: A Closer Look

Feature	Self-Custody	Spot-Crypto ETP
Held Within Traditional Brokerage Account	No	Yes
Trading Hours	24/7	Stock Market Hours
Price Tracking	Yes	Yes
Setting Up a Digital Wallet	Cold wallet or hot wallet	Not applicable
Transaction Fees	Fluctuate based on purchase amount	Based on issuer fee structure
Direct Ownership	Yes	No
Regulated Investment Vehicle	No	Yes
Security Oversight	The individual investor bears the risk of theft or loss	Financial institutions provide custody and security management for assets
Simplified Tax Reporting	No	Yes
Can Purchase Within Retirement Account	No	Yes

Self-Custody:

- **Setting Up a Digital Wallet:** Investors can choose between a cold wallet (a physical, offline device) or a hot wallet (an online wallet). Managing a crypto wallet involves handling private keys, updating software, and maintaining security, which may require some effort and technical knowledge.
- **Transaction Fees:** When buying crypto directly, you pay transaction fees on the exchange and may face network fees and withdrawal fees when moving funds. The fee may fluctuate based on how much you are purchasing.
- **Direct Ownership:** When you purchase crypto on an exchange, you own it directly, which may be beneficial for those who prefer direct control over their assets.
- **Tax Reporting:** Tax reporting for cryptocurrencies can be complex and time-consuming, requiring investors to track all transactions, including buys, sells, and transfers, to accurately report capital gains and losses to tax authorities.

Spot-Crypto ETP:

- **Convenience:** Your crypto investments remain within the same forum as your traditional assets, making it easier to trade and manage in a familiar setting. No need to navigate the complexities of a separate crypto exchange.
- **Transaction Fees:** ETPs involve management fees, which cover the cost of managing the underlying assets. Management fees may vary based on issuer.
- **Regulated Exposure:** ETPs are regulated investment vehicles, providing investors with a traditional, portfolio-integrated exposure to cryptocurrencies.
- **Security:** ETPs are typically custodied by reputable financial institutions, reducing the risk of theft or loss that can be associated with self-custody via insurance coverages.
- **Simplified Tax Reporting:** ETPs simplify the tax reporting process, as they are treated similarly to traditional securities, reducing the complexity and potential errors in tax filings.

While buying spot crypto directly offers direct ownership and control, the hassle and risks associated with self-custody, transaction fees, and market volatility can be daunting for many investors. On the other hand, crypto ETPs provide a regulated, convenient, and secure way to gain exposure to the exciting world of cryptocurrencies, making them an attractive option for both new and experienced investors.

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