BWM FINANCIAL

Decoding Crypto: A Guide through the Emerging Field of Digital Assets known as "Cryptocurrencies"

Webinar

The information contained herein is intended to be used for educational purposes only and is not exhaustive. Diversification and/or any strategy that may be discussed does not guarantee against investment losses but are intended to help manage risk and return. If applicable, historical discussions and/or opinions are not predictive of future events. The content is presented in good faith and has been drawn from sources believed to be reliable. The content is not intended to be legal, tax or financial advice. Please consult a legal, tax or financial professional for information specific to your individual situation.

Blockchain, the Building Blocks of Digital Assets

BWM
FINANCIAL

Moving to Web 3.0 – The Next Wave of Internet

First things first, what is the Blockchain?

Investopedia

A blockchain is a distributed database that is shared among the nodes of a computer network. As a database, a blockchain stores information electronically in digital format.

Forbes ADVISOR

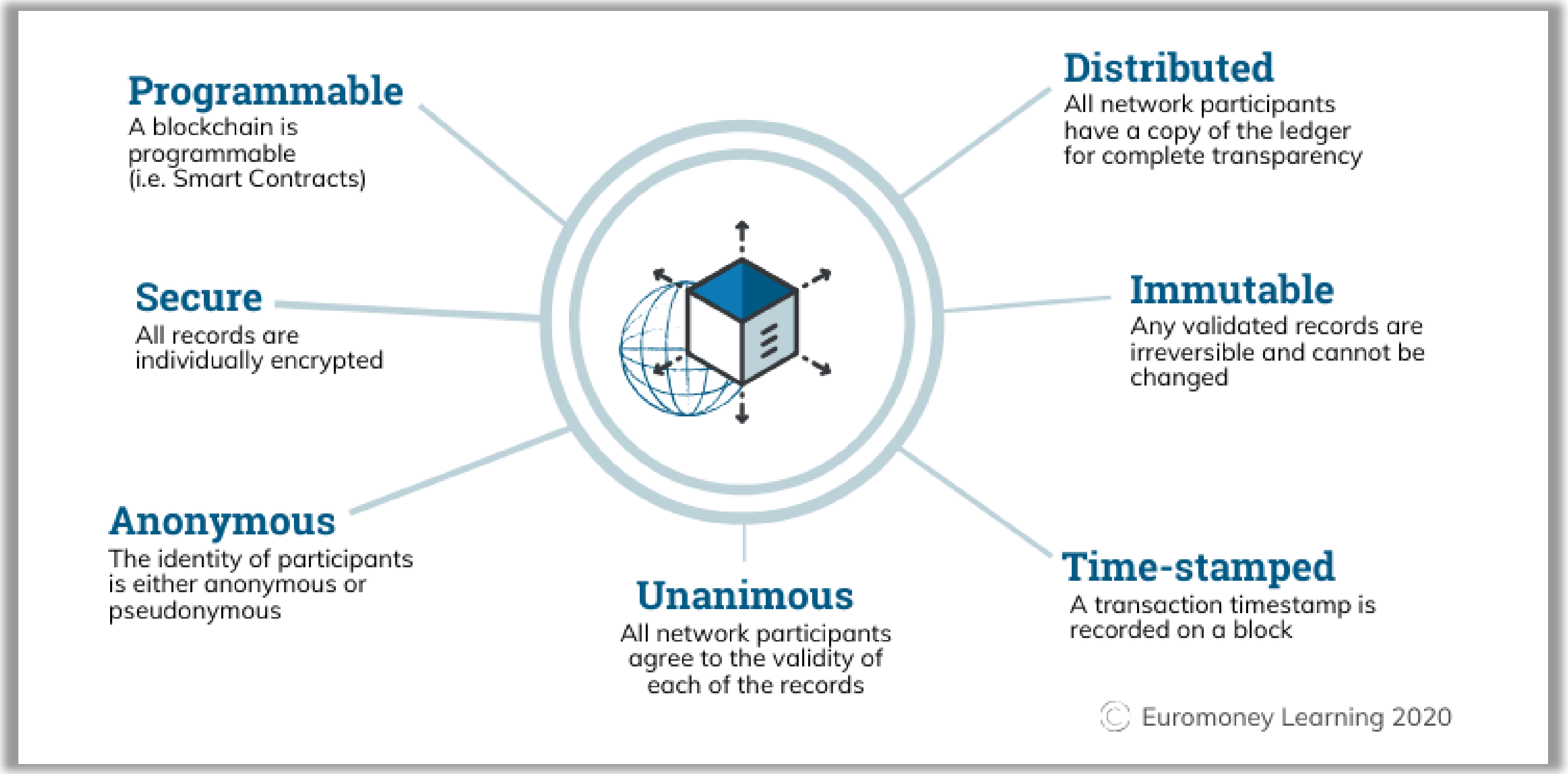
At its core, blockchain is a distributed digital ledger that stores data of any kind. A blockchain can record information about cryptocurrency transactions, NFT ownership or DeFi smart contracts.

While any conventional database can store this sort of information, blockchain is unique in that it's totally decentralized.

What Differentiates the Blockchain?

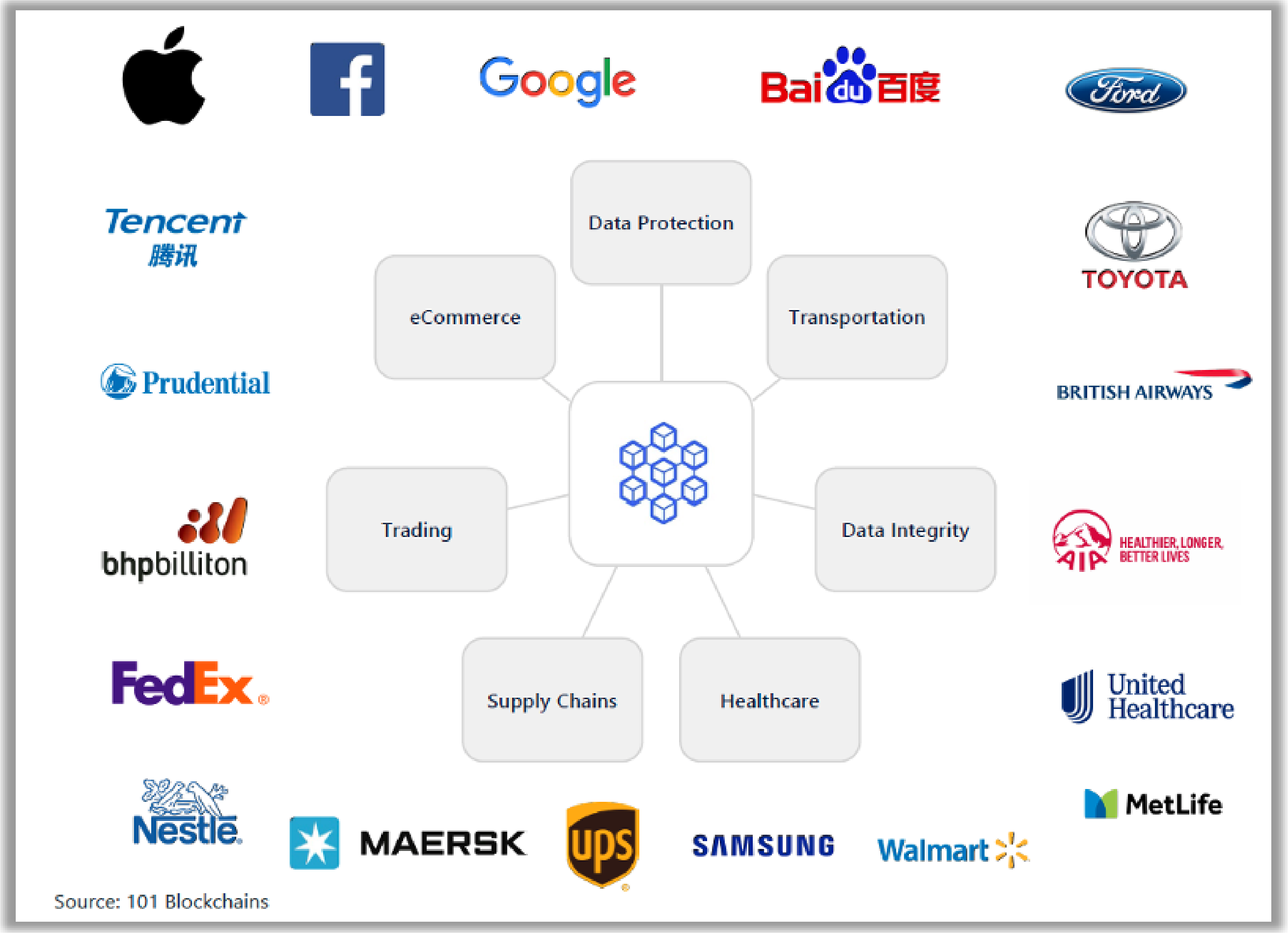
"The whole point of using a blockchain is to let people — in particular, people who don't trust one another — share valuable data in a secure, tamperproof way."

— MIT Technology Review



Companies Are Using the Blockchain as We Speak

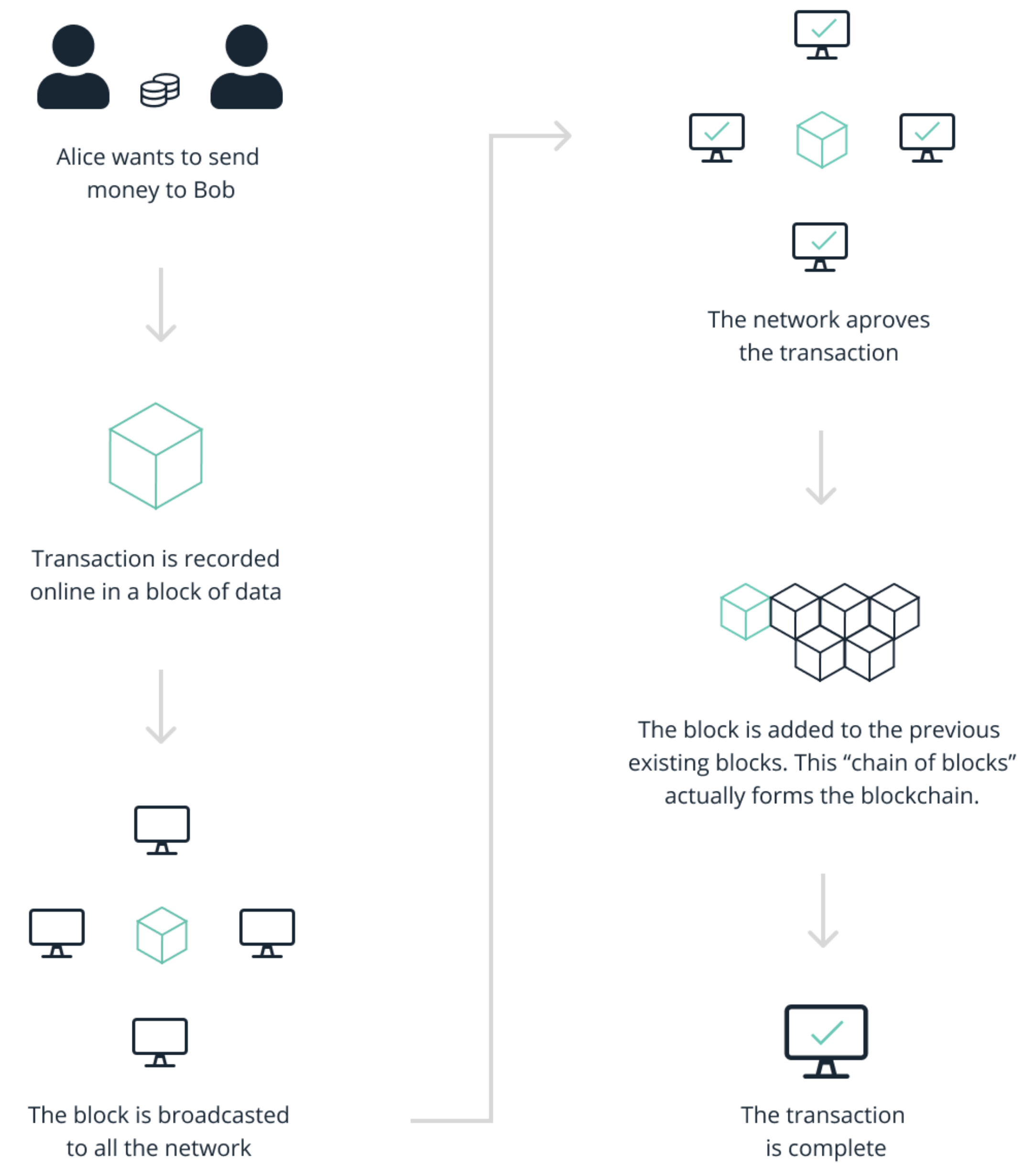
Across governments, Fortune 500s, and more – Blockchain is already being used every day for technology and transactions.



What a Transaction Looks Like on the Blockchain

- Blockchain enables bitcoin and other cryptocurrencies as these currencies are transacted on top of the blockchain.
- Blockchain remains a public ledger for all transactions which results in more transparency for every transaction.
- The blockchain allows for direct, peer-to-peer transactions, removing the intermediary and transaction costs/time.

Source: thecryptoguide.co



The World of Digital Assets and Tokens

BWM
FINANCIAL

Defining the Digital Asset Ecosystem

There are Three Primary Types of Digital Assets

Payment Tokens

Payment/exchange tokens are a means of payment for goods or services. Bitcoin is the best example of this.

Security Tokens

Security tokens may provide to the holder, the ownership of assets and entitlements to use them, profit sharing, and voting rights. DAOSs have emerged as popular security tokens.

Utility Tokens

Utility tokens provide token holders with access to a function provided directly by the token issuer. Often referenced as the future for tokens such as NFTs.

"Digital currency has the potential to completely change how society thinks about money." - Forbes

The Two Most Popular Digital Assets: Bitcoin and Ethereum

Bitcoin: Born through the mistrust of 2008

- 2008, the financial crisis that altered the lives of millions. The mistrust created through this crisis gave way to the evolution of Bitcoin which was introduced in a whitepaper by Satoshi Nakamoto titled, “Bitcoin – A peer to peer electronic cash system”

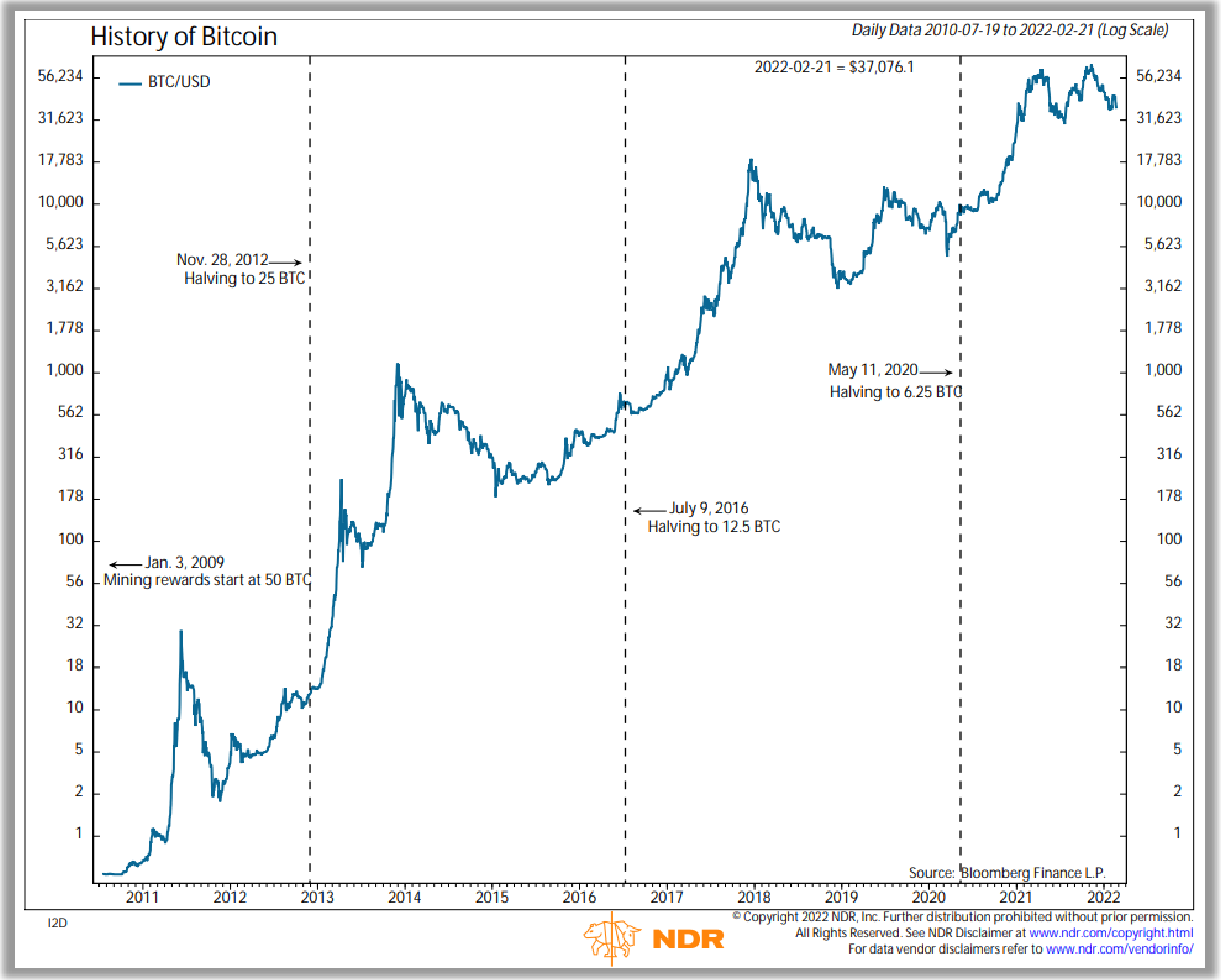
- Bitcoin is traded on the bitcoin network, a peer-to-peer payment network that operates by broadcasting digitally signed messages to the network using bitcoin cryptocurrency wallet software. Bitcoin can be exchanged quickly and with little cost, reducing ‘friction’ in the financial system.

- When you use bitcoin to buy something, it records the transaction on the blockchain, where the ledger entries can't be modified or erased.

Bitcoin's scarcity has turned it from a 'currency' to a store of value

Bitcoin's verification process, called "Proof of Work" is done through a series of complicated transactions that are rewarded though "Mining".

There are only ~18.5 million bitcoins "released". There will only be a total of 21 million by 2140 making it a 'scarce asset'.



Bitcoin is the Fastest Asset to Reach a $1 Trillion Market Cap

Launch: 2009
Years to Hit $1T: 12

Launch: 1976
Years to Hit $1T: 42

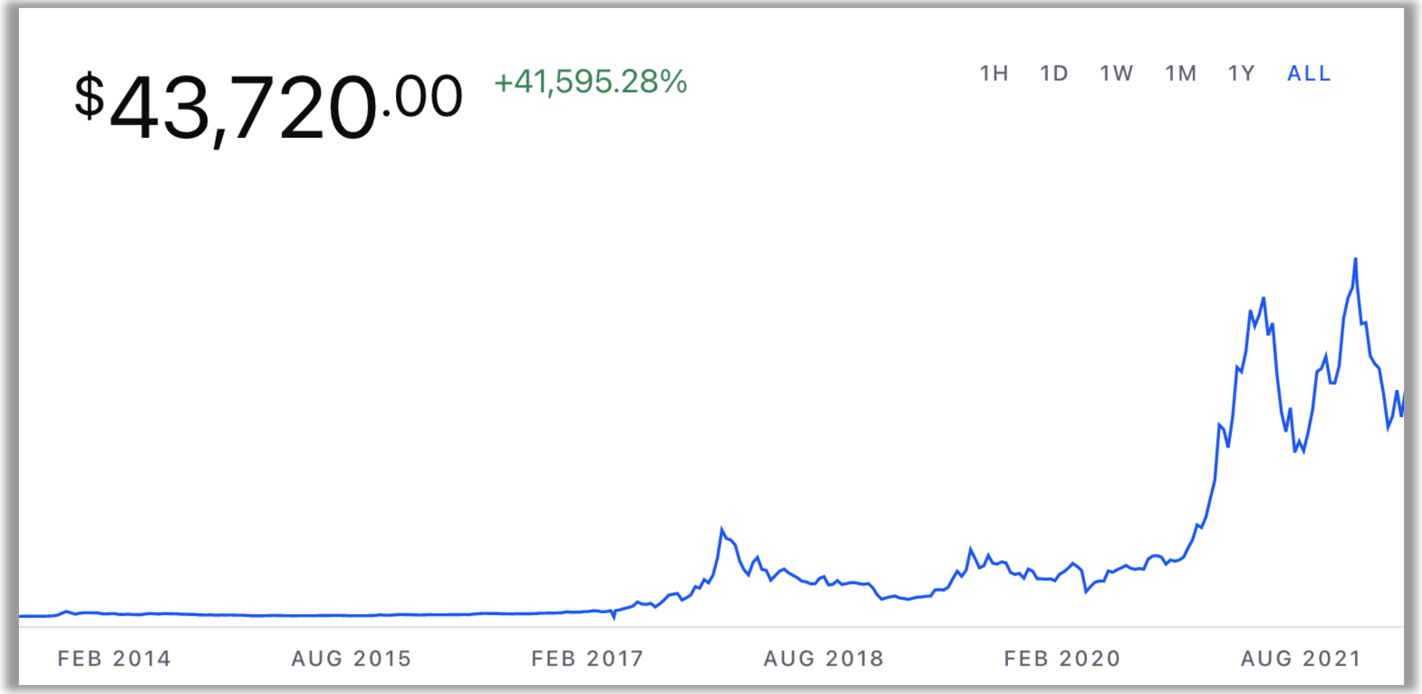
Launch: 1975
Years to Hit $1T: 44

Launch: 1998
Years to Hit $1T: 21

Launch: 1994
Years to Hit $1T: 24

The Size and Popularity of Bitcoin

Roughly **46 million Americans** own Bitcoin, and **more than 80%** of people with financial advisors want to learn more about this cryptocurrency.



Source: Coinbase & Exploding topics.

Breaking Down Ethereum: The Quick Hits

- Like Bitcoin, Ethereum was born to help decentralize economies, sectors, and payments systems around the globe.

- Ether, the cryptocurrency of the Ethereum network, is the second most popular digital token by market cap ($352B).

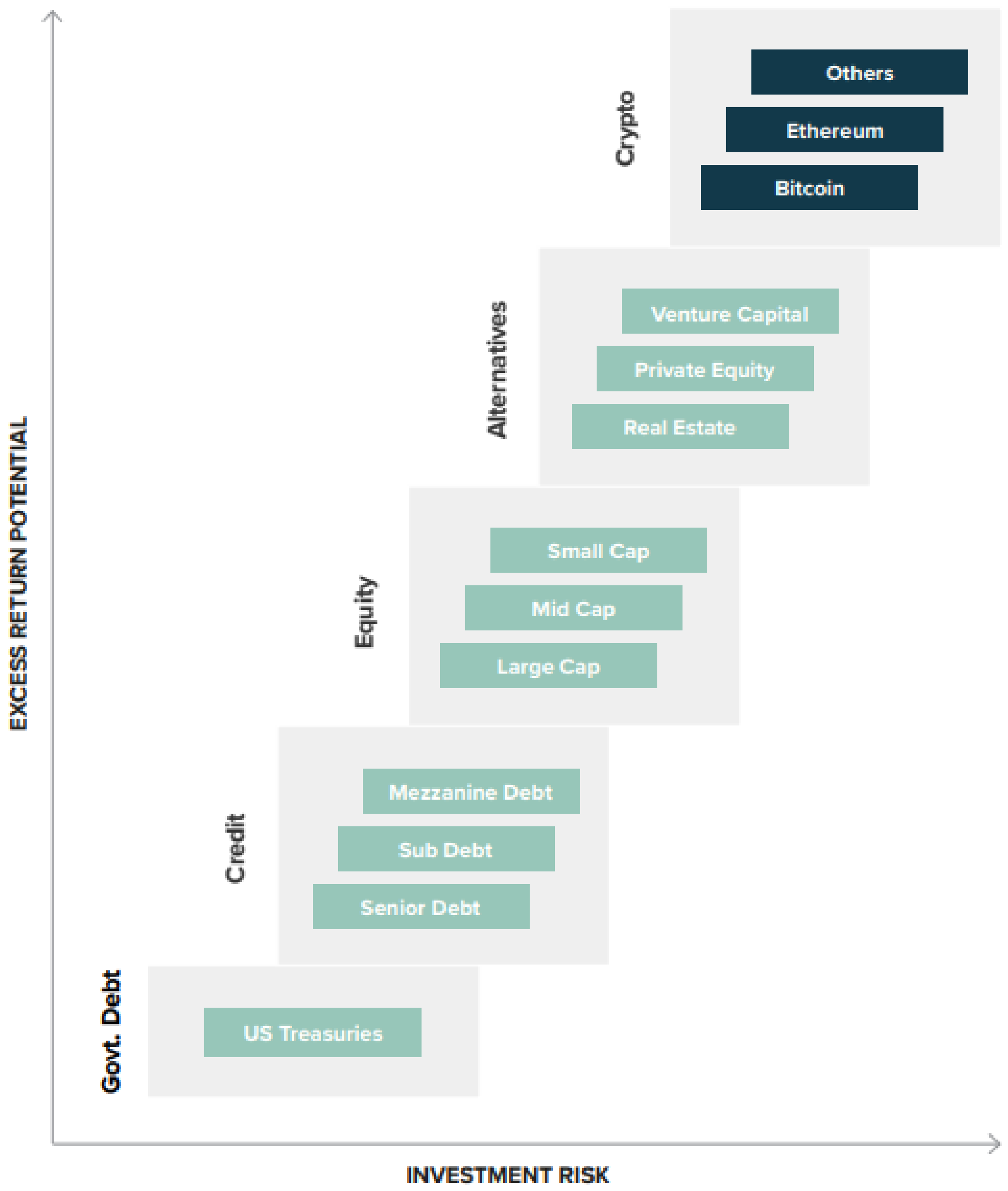
- Ethereum is a platform and has more utility than Bitcoin, as it is not just a currency – it also can be used to power decentralized financial contracts and apps including DeFi, smart contracts, and NFTs.

- While not as direct a comparison as Bitcoin and gold, some experts compare investing in Ethereum to investing in a tech company.

What Role Do Digital Assets Play in the Portfolio

BWM FINANCIAL

Cryptocurrency and Digital Assets Among the Riskiest of All Current Asset Classes



3. Grayscale, John Street Capital inspired, Illustrative generalization based on data from Figure 10, Figure 11, and Appendix 3

BWM FINANCIAL

How Do You Incorporate Digital Assets Into Your Portfolio

Want to Invest? Follow this Process

1. Assume your digital asset can go to zero
2. Test your current equity/bond/digital asset (DA) allocation to understand what the long-term return would have been if your allocation to DA lost everything in year one
3. Add digital assets to the portfolio and see if the volatility is something you can stomach
4. Use Dollar Cost Averaging and Rebalancing to reduce risks long-term

A Case Study: The 1% Allocation to Bitcoin Scenario

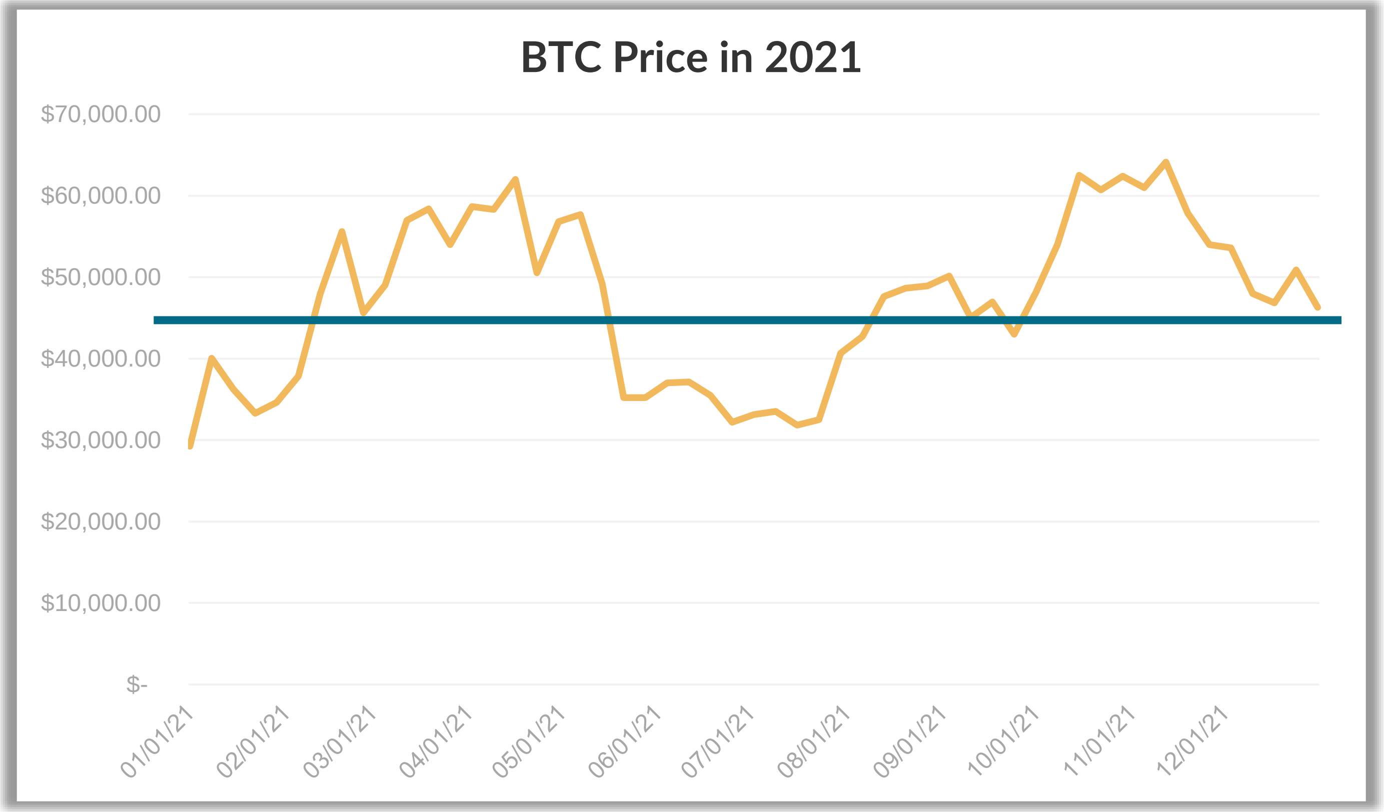
	2017	2018	2019	2020	2021	YTD	Inception to Date
60/40 Benchmark Return	14.52%	-2.63%	22.38%	14.04%	16.61%	-8.38%	10.30%
59/40/1: Bitcoin to 0 in Year 1	13.30%	-2.63%	22.38%	14.04%	16.61%	16.61%	10.08%
59/40/1: Historical, No Rebalance	28.53%	-11.21%	25.34%	29.80%	26.97%	-11.44%	15.26%
59/40/1: Historical, Annual Rebalancing	28.53%	-3.32%	22.99%	16.82%	16.98%	-8.45%	13.32%

Source: Ycharts. 60 or 59 represent 60% or 59% in the S&P 500 index. 40 represents 40% in the US Aggregate Bond Index. 1 represents 1% in the Bitcoin index. The returns numbers start on 1/1/2017 and end on 3/7/2022. 'Bitcoin to 0 in year 1' assumes that Bitcoin loses 100% of its value in 2017 and does not come back. The portfolio is then rebalanced to the 60/40 from that point forward. This is for illustrative purposes only. Performance data quoted presents past performance; past performance does not guarantee future results; the investment return and principal value of an investment will fluctuate; an investor's shares, when redeemed, may be worth more or less than their original cost; current performance may be lower or higher than quoted performance data and can be accessed at https://go.ycharts.com/fund_contact_info (See Important Disclosures for standardized returns information).

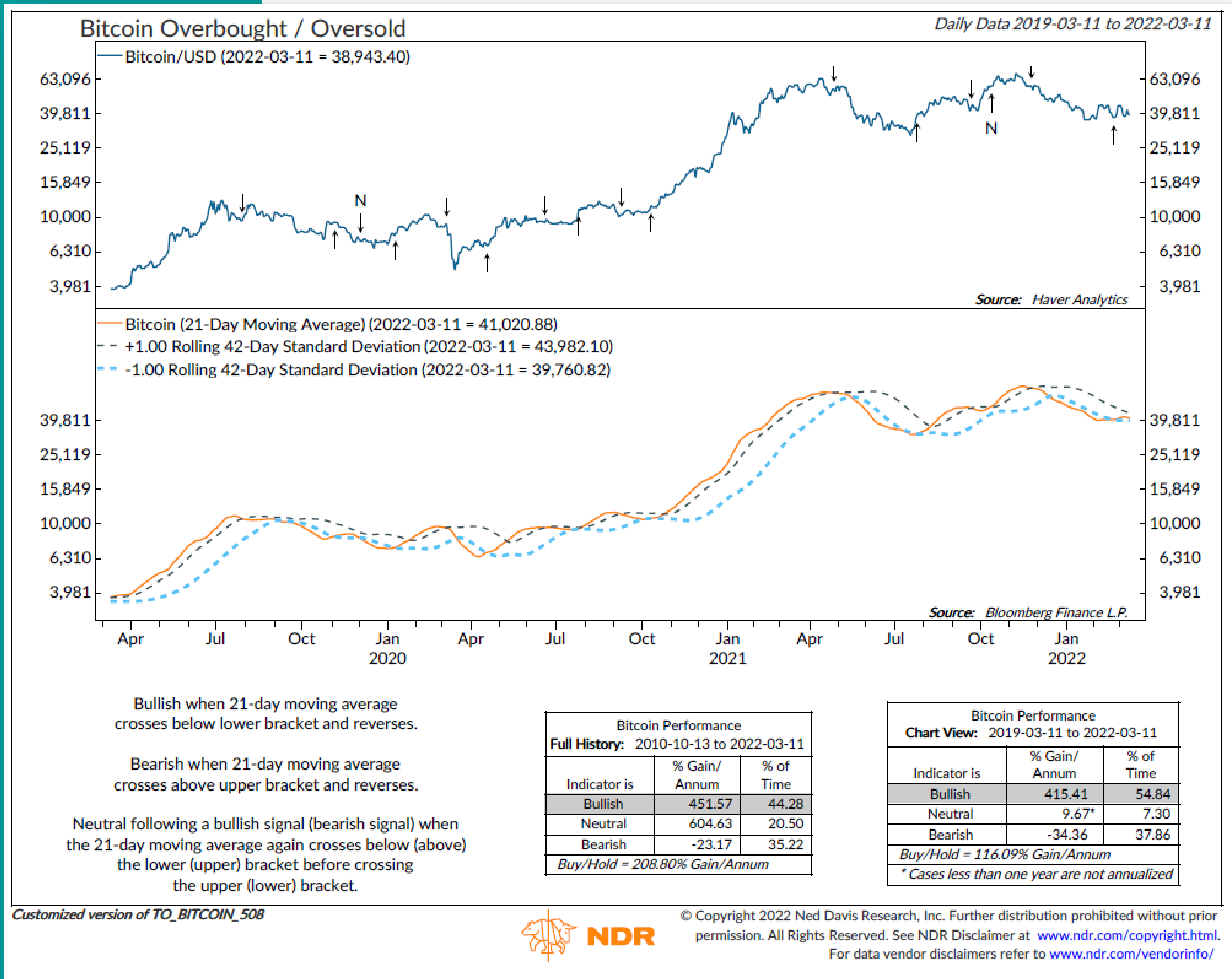
Using Dollar Cost Averaging to Neutralize Short Term Volatility

Weekly Investment	$5,000.00
Time Frame (weeks)	$52.00
Total Investment	$260,000.00
Example Period	Jan - Dec 2021
Total Shares Purchased	5.891
Average Share Price	$44,133.50
Value as of 12/31/2021	$272,820.35

Source: Ycharts, Thomson one. For the sample period the price of the Bitcoin Index at 4pm EST at the end of each weekday was used. Past performance is not indicative of future results. Please consult a financial advisor for more information. This is for illustrative purposes only and should not be relied upon as investment advice. See important disclosures at the end of this report



Objective Indicators Can Be Used for DCA Optimization



Ways to Invest in Bitcoin and Other Digital Assets

Buy the coin or asset **directly on an exchange***

Invest in a private placement that buys the assets for the investor

Invest in a **mutual fund or ETF that gives exposure to the asset**

*Note that BWM Financial currently cannot recommend buying coins or direct exchange purchases

Bottom Line

- Worldwide adoption of Blockchain technology has led to the introduction of the first **new asset class in decades**, Digital Assets
- Understanding digital assets including Bitcoin and Ethereum requires both investors and advisors educate themselves on **what they are investing in along with the risks, rewards and other unique attributes** of these investments.
- Due to the high-risk nature of these assets, **rightsizing the portfolio allocation of digital assets will be crucial** for those that want to begin investing in this asset class
- Applying tried and true investment principals such as **rebalancing and dollar cost averaging** can help maximize the long-term risk and reward metrics of the portfolio
- With so many ways to gain exposure into the asset class, investors should work with their advisors to understand the **trade offs of the different investment vehicles and adopt a solution that fits within the investor's overall investment objectives**.
- BWM plans to launch our first allocation sleeve in April 2022 which will consist of ETFs and will be **subject to concentration limits of 5% of client's assets like any other digital asset offering we have**.

Q&A

Cryptocurrency is decentralized digitized money that allows individuals or entities to transfer funds online without the need for a bank or credit card company. Cryptocurrency typically relies on blockchain technology, a network of computers running open-source code, to manage and track these transactions. Unlike the U.S. Dollar, there is no central authority that manages and maintains the value of this currency. Instead, the value is determined by supply and demand in addition to market factors. Therefore, since cryptocurrency-related products purchase and custody cryptocurrency, they are highly speculative and extremely volatile investments. And because these products list shares in the secondary market, investors could lose their entire investment.

Cryptocurrency-related products may involve a high degree of risk. risk considerations include, but are not limited to, the following:
Emerging Asset and Complexity. Cryptocurrencies and crypto-related products are part of a new and evolving industry, and the value of shares depend on their development and adoption of its network. True price discovery and best execution remain a challenge, as a result. Certain technical issues might be uncovered as the network continues to develop and the resolution of these issues requires the attention of cryptocurrencies global development community. Cryptocurrencies were not designed to be investments. They were designed to be mediums of exchange and seen as an alternative to traditional sovereign currencies.

Current Lack of Regulations. Due to the unregulated nature and lack of transparency surrounding the operations of crypto exchanges, they may experience fraud, market manipulation, security failures or operational problems, which may adversely affect the value of cryptocurrencies and, consequently, the value of the shares of cryptocurrency-related products.

SEC Actions. The Securities and Exchange Commission (SEC) has stated certain digital currencies could be considered "registered securities" atsome point. Because of this, the SEC might introduce additional regulation and make it harder to trade, clear and custody compared to other digital currencies not designated as securities.
If designated as a security, these securities could be subject to register under the Investment Company Act of 1940, at which point, products structured as grantor trusts, would need to terminate the trust per its terms. This would involve liquidating the trust at a time that could be disadvantageous to you as a shareholder.

Competing Cryptocurrencies. Certain cryptocurrencies could experience a "hard fork," meaning a change in blockchain coding that can create a permanent, new cryptocurrency which could then compete with the existing cryptocurrency. In the event of a hard fork, the sponsor will use its discretion to determine which digital asset network is the most appropriate for the product. Doing so may adversely affect the value of shares.

This report does not reflect the performance of any account actually managed by your Adviser. This is supplemental material, and when applicable, should be accompanied by a prospectus or equivalent document.

The data contained in or used in generating this report has not been audited or verified by your Adviser or any other party, and any use of this report should be made with this understanding. This report is not an official account statement or other official document of your Adviser or any other party.

This report does not constitute legal or tax advice. Please consult with your legal and tax advisors for such advice.
INVESTMENTS IN SECURITIES INVOLVE INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF PRINCIPAL AND FLUCTUATION IN VALUE. See “INVESTMENT RISKS” below for a brief summary of certain risks. The investment return and principal value of securities and other financial instruments will fluctuate so that an investor's investments, when sold or redeemed, may be worth more or less than the original cost. Investment results are not guaranteed. No Investment strategy (Including asset allocation and diversification strategies) can guarantee a profit or protect against a loss of principal.

THIS REPORT IS NOT AN INVESTMENT PERFORMANCE REPORT. DO NOT RELY ON THIS REPORT AS PORTRAYING, OR CONTAINING PERFORMANCE OF, AN ACTUAL ACCOUNT. THIS REPORT SHOWS HYPOTHETICAL OR SIMULATED RETURNS OF portfolio(S) AND IS FOR ILLUSTRATIVE PURPOSES ONLY. This report is not intended to and does not predict or show the actual investment performance of any account. A portfolio represents an investment in a hypothetical weighted blend of securities which, together with other inputs, were selected by you and/or your Adviser and, accordingly, a portfolio should be used for illustrative purposes only.

The performance of a portfolio is calculated by taking a weighted average of the stated target weights and the securities' total return, assuming reinvestment of all dividends and other distributions on the related ex-date, since the latest rebalance date. The portfolio(s) portrayed in this report are assumed to rebalance to the exact designated weights on a monthly, quarterly or annual basis, whichever you and/or your Adviser selected in generating this report. The performance illustrated in this report may assume that rebalancing occurred in a manner different from how your Adviser rebalances a client portfolio. Your Adviser may recommend rebalancing when an asset class varies from its targeted allocation. In general, your Adviser reinvests dividends generated by investments. The way your Adviser invests dividends may be different than how the portfolio(s) invest dividends.

All stated target weights are based on allocation choices input by your and/or your Adviser. These weights represent the values used at rebalance periods. All weightings ignore the concept of whole shares and instead use the exact percentage chosen when creating the portfolio(s).

Unless otherwise noted, no transaction costs (e.g., commissions, sales loads), taxes, or advisory fees are deducted from the performance results generated by the portfolios(s). Any expense ratio shown is inclusive of the underlying fees in the securities included in the portfolio(s) (as reported by Morningstar Inc), and as such should be considered for illustrative purposes only. As discussed above, such fees do not include transaction costs (e.g. commissions, sales loads), taxes, or advisory fees.

The stated yield for a hypothetical portfolio is based on the weighted average of trailing 12-month yields for the underlying securities. It is no indication or guarantee of future yield.

ACCORDINGLY, ALL portfolio RETURNS ARE HYPOTHETICAL OR SIMULATED AND SHOULD NOT BE CONSIDERED PERFORMANCE REPORTING. No representation is made that your investments will achieve results similar to those shown, and actual performance results may differ materially from those shown. Returns portrayed in this report do not reflect actual trading and investment activities, but are hypothetical or simulated results of a hypothetical portfolio over the time period indicated and do not reflect the performance of actual accounts managed by your Adviser or any other person. The mutual funds and other components of the hypothetical portfolio(s) were selected with the full benefit of hindsight, after their performance during the time period was known. In general, hypothetical returns generally exceed the results of client portfolios actually managed by advisers due to several factors, including the fact that actual portfolio allocations differed from the allocations represented by the market indices used to create the hypothetical portfolios over the time periods shown, new research was applied at different times to the relevant indices, and index performance does not reflect the deduction of any fees and expenses. Results also assume that asset allocations would not have changed over time and in response to market conditions, which is likely to have occurred if an actual account had been managed during the time period shown.

BWM FINANCIAL

Questions?

To Unmute Line: Click microphone button on screen or press *6 on phone. Please re-mute after by clicking microphone again/pressing *6

Please follow BWM Financial on LinkedIn and Facebook for real-time updates on future events, in-house written content, and other shares!