ALPHABIT

The ABCs of Digital Assets

A COMPREHENSIVE GUIDE FOR FINANCIAL ADVISORS

EXECUTIVE SUMMARY

The digital asset ecosystem has evolved from a niche technology experiment into a significant component of the global financial landscape. For financial advisors, understanding this space is no longer optional. It's become essential knowledge for serving clients who increasingly look for guidance on cryptocurrency exposure and digital asset investment opportunities.

This white paper provides a foundational education on digital assets – covering core concepts, terminology, and the mechanics of how these assets function. Whether you're completely new to digital assets investing or looking to strengthen your existing knowledge, this guide looks to help you understand the fundamentals and speak confidently with your clients.

INTRODUCTION

WHY DIGITAL ASSETS MATTER FOR ADVISORS

Today's financial advisors face a unique challenge. Most of the advisor community, and particularly those aged 65–74, built their investing expertise in traditional stock and bond markets. Now, though, a new generation of advisors and clients are demanding access to digital asset exposure.

The knowledge gap is real. At industry events, the most common questions aren't about which digital assets to buy, they're about more foundational concepts like blockchain, decentralization, and how cryptocurrencies actually work.

This educational divide creates both a challenge and an opportunity. Advisors who take the time to understand digital assets have the chance to position themselves as trusted resources for clients navigating this new terrain and their clients are poised to benefit from their ability to invest in the emerging asset class thoughtfully. Those who dismiss or ignore the space risk losing relevance with clients and missing portfolio opportunities.

UNDERSTANDING THE FOUNDATION

WHAT IS A CRYPTOCURRENCY?

A cryptocurrency is a digital or virtual currency that uses cryptography for security. Unlike traditional currencies issued by governments (fiat currencies), cryptocurrencies operate on decentralized networks based on blockchain technology. This means no single entity – no bank, government, or corporation – controls the currency.

KEY CHARACTERISTICS OF CRYPTOCURRENCIES INCLUDE:

- Digital-only existence: no physical coins or bills
- Decentralized control: managed by distributed networks rather than central authorities
- Cryptographic security: advanced encryption protects transactions and controls new unit creation
- Transparent transactions: most operate on public ledgers that can anyone can verify

WHAT IS BLOCKCHAIN?

Blockchain is the underlying technology that makes cryptocurrencies possible. Think of it as a digital ledger that records transactions across many computers simultaneously. Once information is recorded, it becomes extremely difficult to change or hack.

The key innovation is distributed consensus. Rather than trusting a single institution to maintain accurate records, blockchain technology allows a network of participants to agree on the state of the ledger. This eliminates the need for intermediaries while maintaining security and transparency.

Here's a real-world analogy: imagine a notebook that makes copies of itself every time someone writes in it, distributing those copies to hundreds of people. To change any entry, you'd need to alter the majority of notebooks simultaneously: a nearly impossible task. This is an oversimplified way to understand how blockchain prevents fraud.

WHAT IS DECENTRALIZATION?

Decentralization means distributing control away from a single central authority. In traditional finance, banks and governments control currencies, verify transactions, and maintain records. In decentralized systems, these functions are distributed across a network of participants.

BENEFITS OF DECENTRALIZATION INCLUDE:

- Reduced single points of failure: no one institution can bring down the entire system
- Censorship resistance: no entity can arbitrarily block transactions
- Transparency: pperations occur on public, auditable ledgers
- Accessibility: Anyone with internet access can participate

TRADITIONAL FINANCE MEETS DIGITAL FINANCE (DEFI)

TRADITIONAL FINANCE (TRADFI)

Traditional finance encompasses the established financial system: banks, stock exchanges, insurance companies, and regulatory bodies.

IT'S CHARACTERIZED BY

- Centralized intermediaries
- Regulatory oversight
- Established legal frameworks
- Physical and digital infrastructure
- Lengthy settlement times.

DECENTRALIZED FINANCE (DEFI)

DeFi recreates traditional financial services—lending, borrowing, trading, insurance—using blockchain technology and smart contracts instead of intermediaries.

IT OFFERS

- 24/7 market access
- Near-instant settlements
- Lower fees (no middlemen)
- Global accessibility
- Programmable financial agreements

THE CONVERGENCE

We're not witnessing the replacement of traditional finance with DeFi, we're seeing convergence. Forward-thinking institutions are exploring how to merge the strengths of both systems:

- Regulatory compliance from TradFi + Efficiency of DeFi
- Legal protections from TradFi + Accessibility of DeFi
- Institutional custody from TradFi + Transparency of blockchain

This convergence creates opportunities for advisors who understand both worlds and can help clients navigate the hybrid landscape.

ESSENTIAL DIGITAL ASSET TERMINOLOGY

TOKENS AND TOKENIZATION

- **Token:** A digital representation of value or utility on a blockchain. Tokens can represent currencies, assets, voting rights, or access to services.
- **Tokenization:** The process of converting rights to an asset into a digital token on a blockchain. Real estate, art, commodities—virtually any asset can be tokenized, potentially increasing liquidity and accessibility.

SMART CONTRACTS

Self-executing contracts with terms written directly into code. When predetermined conditions are met, the contract automatically executes. No lawyers, no intermediaries—just code enforcing agreement terms.

Example: A smart contract could automatically release payment to a supplier when goods are delivered and verified, eliminating payment delays and disputes.

BITCOIN

The first and most well-known cryptocurrency, created in 2009. Bitcoin functions primarily as a store of value—often called "digital gold." Its supply is capped at 21 million coins, creating scarcity similar to precious metals.

Bitcoin's blockchain is specifically designed for security and decentralization, making it less versatile than newer platforms but extremely secure.

ETHEREUM

The second-largest cryptocurrency by market capitalization, Ethereum is a programmable blockchain platform. While Bitcoin is digital gold, Ethereum is a digital computer that anyone can use to build applications.

Ethereum introduced smart contracts, enabling developers to create decentralized applications (dApps) ranging from lending platforms to digital art marketplaces.

STABLECOINS

Cryptocurrencies designed to maintain a stable value by pegging to an asset like the US dollar. Examples include USDC and USDT, each worth approximately $1.

Stablecoins solve cryptocurrency volatility issues, making them useful for

- Moving value between exchanges
- Earning yield in DeFi platforms
- Making payments without price risk
- Providing liquidity in trading pairs

ALTCOINS

Any cryptocurrency other than Bitcoin. "Altcoin" is short for "alternative coin." This category includes thousands of projects, from established platforms like Ethereum to experimental tokens with niche use cases.

Not all altcoins are created equal. Some offer genuine innovation; others are speculative vehicles with limited utility.

HOW DIGITAL ASSETS WORK IN PRACTICE

WALLETS: STORING DIGITAL ASSETS

A cryptocurrency wallet doesn't actually store cryptocurrency—it stores the private keys that prove ownership. The actual assets exist on the blockchain.

Hot Wallets: Connected to the internet, convenient for frequent transactions but more vulnerable to hacking. Examples include mobile apps and exchange accounts.

Cold Wallets: Offline storage devices, offering maximum security for long-term holdings. Hardware wallets and paper wallets fall into this category.

Private Keys: Secret codes that prove ownership and allow spending. Lose your private key, and you've permanently lost access to your assets.

Public Keys: Addresses you share with others to receive cryptocurrency, similar to bank account numbers

MINING

TThe process by which new cryptocurrency units are created and transactions are verified. Miners use computational power to solve complex mathematical problems. The first to solve the problem gets to add the next block to the blockchain and receives newly created cryptocurrency as a reward.

MINING SERVES TWO PURPOSES:

1. Validates transactions and secures the network
2. Introduces new coins into circulation in a controlled manner

Bitcoin's mining difficulty adjusts automatically to maintain consistent block creation times, regardless of total network computing power.

YIELD FARMING

A DeFi practice where users provide liquidity to protocols in exchange for rewards. By depositing cryptocurrency into liquidity pools, users enable others to trade, borrow, or lend. In return, they earn fees and sometimes additional token rewards.

Yield farming can generate returns significantly higher than traditional savings accounts, but it comes with risks including smart contract vulnerabilities, impermanent loss, and regulatory uncertainty.

CUSTODY

Who holds and protects digital assets? Custody solutions range from self-custody (you control your private keys) to institutional custody (qualified custodians secure assets on your behalf).

For advisors, understanding custody is critical. Most clients and regulatory frameworks require qualified custodians who provide:

- Insurance coverage
- Regulatory compliance
- Institutional-grade security
- Disaster recovery procedures
- Clear legal ownership structures

UNDERSTANDING DIGITAL ASSET CATEGORIES

Digital assets span multiple categories, each with different characteristics and use cases.

STORE OF VALUE ASSETS

Designed primarily to hold and potentially appreciate in value over time. Bitcoin is the dominant example, with its fixed supply and established network effects.

PLATFORM/UTILITY ASSETS

Power decentralized platforms and applications. Ethereum, Solana, and similar projects fall here. Users need these tokens to interact with their respective platforms.

STABLECOINS

Maintain stable value against fiat currencies, serving as the "cash" of the crypto ecosystem for trading, payments, and yield generation.

GOVERNANCE TOKENS

Grant holders voting rights in decentralized protocols. These tokens let users influence protocol development, fee structures, and treasury allocation.

NFTS (NON-FUNGIBLE TOKENS)

Unique digital assets representing ownership of specific items—art, collectibles, event tickets, or gaming items. Unlike cryptocurrencies where each unit is identical, each NFT is distinct.

EVALUATING DIGITAL ASSETS: A FRAMEWORK

Not all digital assets are created equal. When evaluating opportunities, we always recommend considering multiple factors.

TECHNOLOGY ASSESSMENT

- Does the blockchain solve a real problem?
- Is the technology proven and secure?
- How does it compare to competing solutions?

NETWORK ADOPTION

- How many users and developers are building on the platform?
- Is adoption growing or stagnating?
- Are major institutions getting involved?

TOKENOMICS

- What's the total supply? Is it capped or unlimited?
- How are new tokens created and distributed?
- What incentives exist for holding versus selling?

DEVELOPMENT ACTIVITY

- Is the development team actively improving the protocol?
- Is the codebase open-source and audited?
- How responsive are developers to bugs and vulnerabilities?

REGULATORY STANDING

- Does the asset face regulatory scrutiny?
- Is it classified as a security, commodity, or something else?
- What jurisdictions allow or prohibit it?

USE CASES

- What problems does this asset actually solve?
- Are people using it for its intended purpose?
- Is there a path to broader adoption?

BUILDING CLIENT CONVERSATIONS

START WITH EDUCATION, NOT SALES

Most clients don't need you to pitch cryptocurrency, they need you to explain it. Position yourself as an educator first, helping clients understand what digital assets are and aren't. Conversely, since many clients are interested in cryptocurrencies, an advisor is expected to be able to provide some feedback or ideas about how to invest in them and further, bring some thoughtful ideas about how that client should access them.

KEY CONVERSATION POINTS:

- "Digital assets represent a new asset class with different risk and return characteristics"
- "Not all cryptocurrencies serve the same purpose or carry the same risks"
- "Proper custody and security are essential considerations"

ADDRESS COMMON CONCERNS

Volatility: Yes, digital assets experience significant price swings. But volatility has generally decreased as markets matured, and proper position sizing can manage risk.

Regulation: The regulatory landscape is evolving. While uncertainty exists, major jurisdictions are developing frameworks rather than banning digital assets outright.

Security: Proper custody solutions have evolved significantly. Institutional-grade custodians now offer insurance, regulatory compliance, and robust security measures.

HELP CLIENTS UNDERSTAND THEIR MOTIVATIONS

WHY IS YOUR CLIENT INTERESTED IN DIGITAL ASSETS?

- **Portfolio diversification:** Digital assets have historically shown low correlation to traditional asset classes
- **Inflation hedge:** Some view Bitcoin as protection against currency debasement
- **Growth potential**: Exposure to transformative technology
- **Client demand:** Younger beneficiaries want crypto exposure

DISCUSSING PRACTICAL IMPLEMENTATION

ADDRESS THE LOGISTICS

- **What amount makes sense?** Most advisors suggest 1-5% allocations for interested clients
- **What products are available?** ETFs, separately managed accounts, direct holdings, futures
- **How do we custody this?** Qualified custodians, fund structures, or direct custody
- **What about taxes?** Cryptocurrency faces unique tax treatment requiring careful planning

THE ROAD AHEAD: WHERE DIGITAL ASSETS ARE GOING

INSTITUTIONAL ADOPTION ACCELERATES

Major financial institutions have moved from dismissing cryptocurrency to actively participating. Banks now offer crypto custody, asset managers launch digital asset funds, and payment networks integrate blockchain technology.

This institutional involvement brings legitimacy, liquidity, and infrastructure improvements—all reducing barriers for traditional investors.

REGULATORY CLARITY EMERGES

While uncertainty remains, regulatory frameworks are developing. The conversation has shifted from "whether" to regulate to "how" to regulate. Clear rules will reduce risk and encourage participation from cautious investors and institutions.

TECHNOLOGY IMPROVES

Early blockchain networks faced limitations in speed, cost, and energy consumption. Newer technologies address these issues, making digital assets more practical for everyday use.

INTEGRATION WITH TRADITIONAL FINANCE

The future isn't purely decentralized or purely centralized—it's hybrid. Banks exploring blockchain for settlements, securities being tokenized, central bank digital currencies launching—traditional and digital finance are merging.

CONCLUSION AND NEXT STEPS

The digital asset space continues evolving rapidly. Today's expertise will need regular updates as technologies mature, regulations clarify, and new opportunities emerge.

For financial advisors, the goal isn't to become cryptocurrency experts overnight. It's to build foundational knowledge that lets you:

- Have informed conversations with clients
- Identify which digital asset questions you can answer and which require specialists
- Evaluate digital asset investment products as they become available
- Understand the risks and opportunities this asset class presents

Action items:

1. Review this glossary regularly to strengthen your vocabulary
2. Follow reputable sources for digital asset news and analysis
3. Connect with colleagues who have digital asset expertise
4. Explore available investment products to understand client options
5. Consider how digital assets might fit into your practice and client portfolios

The advisors who invest time in understanding digital assets today will be positioned as trusted guides tomorrow. Those who ignore this space risk losing relevance with a growing segment of clients—particularly younger investors who view digital assets as a natural part of modern portfolios

ABOUT ALPHABIT INVESTMENTS

Alphabit is dedicated to bridging traditional and digital finance by providing education, insights, and investment solutions for financial professionals. We believe that informed advisors make better decisions for their clients, and we're committed to being a trusted resource as the digital asset ecosystem matures.

For more information and resources, visit **alphabitinvestments.com**

Disclosures

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