Statement for the Panel Discussion on Ensuring Digital Engagement Practices Responsibly Expand Investment Opportunities*

By Algernon Austin, PhD, Director, Race and Economic Justice, Center for Economic and Policy Research, June 22, 2023

Chairman Mirabile, Vice Chair Van Buskirk, and distinguished Members of the Investor Advisory Committee: Thank you for inviting me to participate on this panel today.

Low-income people and people of color need stronger regulation and stronger warnings about the risks of cryptocurrency investing. It should be clear that most people owning cryptocurrencies have them as an investment and not as currency to be used for day-to-day purchases. The CoinMarketCap website reports that there are over 25,000 cryptocurrencies. Almost none of these cryptocurrencies can be used at your grocery store to buy some milk.

Survey data suggests that many investors mistakenly believe cryptocurrencies to be *safe* and *already well-regulated investments*. Notably, Black investors, who are more likely to be novice investors, are also more likely to be misinformed. Additionally, probably as a result of heavy marketing by Black celebrities and marketing via social media popular with Black audiences, a greater share of Black people are invested in cryptocurrencies than White people.

Some individuals marketing cryptocurrencies to Black people claim that cryptocurrencies are an effective way to build "generational wealth," by which they mean sufficient wealth that an individual will be able to pass on wealth to their children.

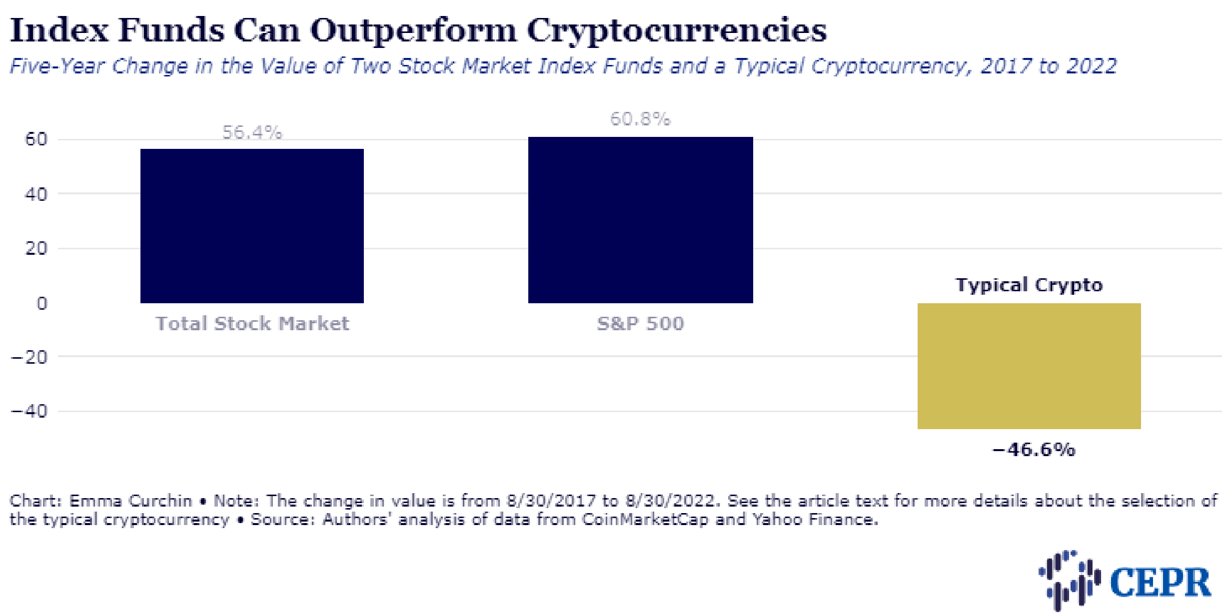
There are many challenges to testing this generational-wealth claim. My colleagues and I decided to conduct a simple exploratory study based on selecting a random sample of 100 cryptocurrencies from the top 1,000 cryptocurrencies by market capitalization. The full study and its details can be found on the website of my organization, the Center for Economic and Policy Research.

Since many individuals encouraging Black people to invest in cryptocurrencies speak about building "generational wealth," the ideal analysis would be over a time period of least twenty-five years. However, no cryptocurrencies are old enough to have 25-year data. Today, I will discuss the five-year growth of randomly selected cryptocurrencies in comparison with two stock-market index funds. Both popular and academic financial advisors encourage the general public to invest in broad stock-market index funds as a wealth-building strategy. My colleagues and I examined the change in value of the cryptocurrencies and index funds from 2017 to 2022.

Within the random sample of 100 cryptocurrencies, there were only twelve currencies old enough to assess over a five-year period. There was a large range in the change in values for the twelve cryptocurrencies. The cryptocurrency with the largest increase in value grew to about eleven times its original value. The worst-performing cryptocurrency declined 99.6 percent in value. *Importantly, both index funds outperformed nine of the twelve cryptocurrencies.* So, in most cases, an investor would have been better off investing in a broad stock-market index fund.

The currency that was sixth from the highest declined 33.2 percent, and the seventh declined 60 percent. The midpoint between these two values is a decline of 46.6 percent over the five-year period (**Figure 1**). In other words, if someone had purchased $1,000 worth of a cryptocurrency from the top 1,000 currencies five years ago, our estimate based on the median value is that the value of the investment would have dropped to be worth a little over $500. In contrast, if someone had purchased $1,000 worth of a total stock market or S&P 500 index fund, the investment would have increased to about $1,600.

Figure 1



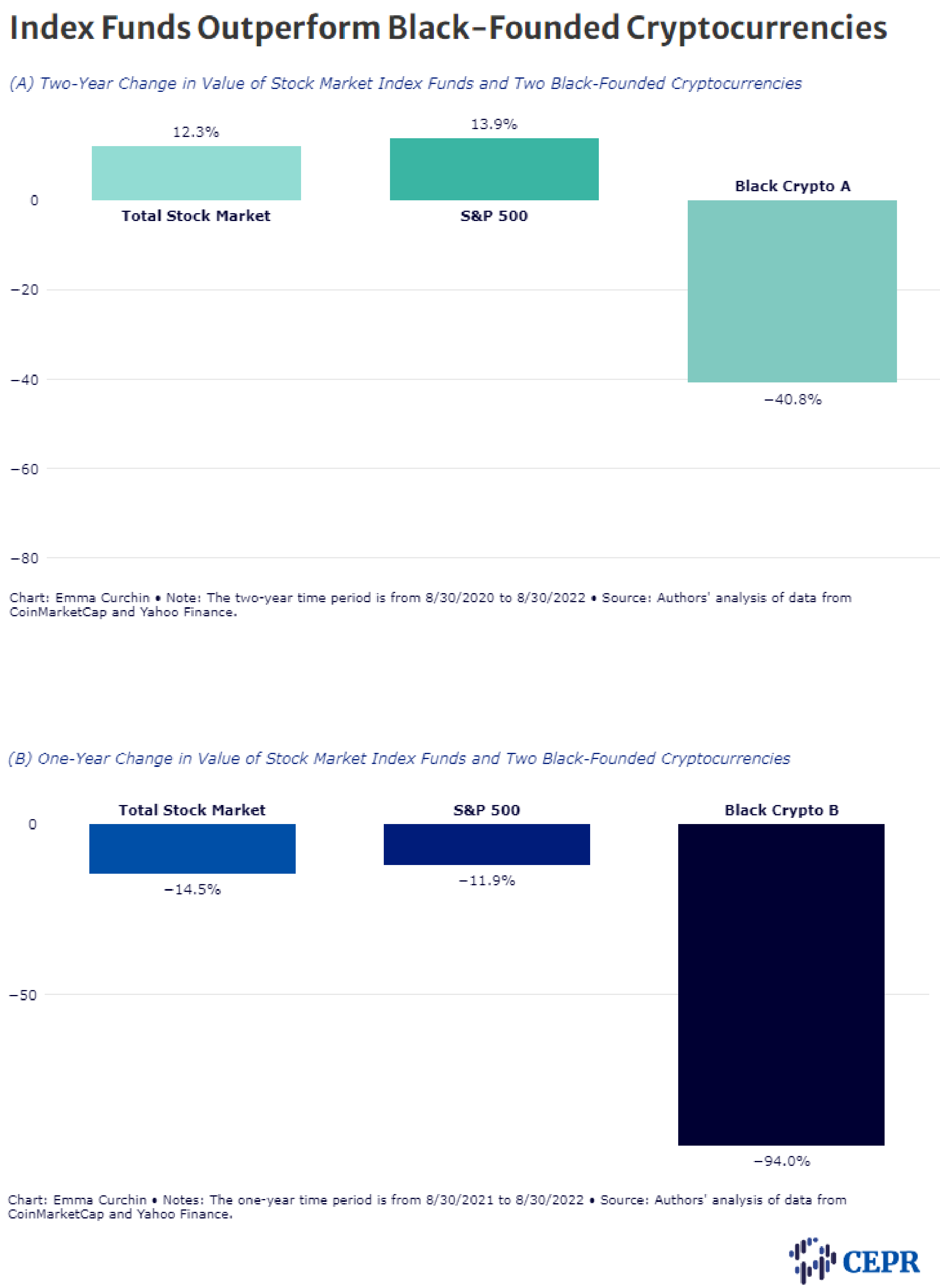
This exploratory analysis—and please be aware that I am not providing the full analysis here—suggests that while it is possible to create significant wealth with cryptocurrencies very quickly, it appears to be more likely that someone will lose money investing in cryptocurrencies than will profit from it. Most of the cryptocurrencies did not beat popular index funds.

My colleagues and I also compared two cryptocurrencies that were started by Black entrepreneurs. These currencies are even more likely to be marketed specifically to Black investors. There are at least two Black-founded cryptocurrencies in the CoinMarketCap database. These cryptocurrencies, like cryptocurrencies generally, are very new. The cryptocurrency that I will refer to as Black Crypto A is only old enough for a two-year analysis. Black Crypto B is old enough for a one-year analysis.

Black Crypto A *declined* in value 40.8 percent over a period when the two index funds *increased* in value 12.3 and 13.9 percent (**Figure 2a**). Black Crypto B declined in value 94 percent over a period when the index funds only declined in value 14.5 and 11.9 percent (**Figure 2b**). Again, the index funds strongly outperformed the Black cryptocurrencies.

This exploratory study by my colleagues and myself suggests that one is more likely to lose money investing in cryptocurrencies than make a profit. Our conclusion receives some support from other studies. A survey from the Pew Research Center finds that almost half of cryptocurrency investors report that their investments have performed worse than they expected. This rate may be an underestimate because of inaccurate calculations by respondents and because of a reluctance of some respondents to report losses.

Figure 2



Index Funds Outperform Black-Founded Cryptocurrencies
(A) Two-Year Change in Value of Stock Market Index Funds and Two Black-Founded Cryptocurrencies
12.3%
13.9%
Black Crypto A
0
Total Stock Market
S&P 500
−20
−40
−40.8%
−60
−80
Chart: Emma Curchin • Note: The two-year time period is from 8/30/2020 to 8/30/2022 • Source: Authors' analysis of data from CoinMarketCap and Yahoo Finance.
(B) One-Year Change in Value of Stock Market Index Funds and Two Black-Founded Cryptocurrencies
Total Stock Market
S&P 500
Black Crypto B
0
−14.5%
−11.9%
−50
−94.0%
Chart: Emma Curchin • Notes: The one-year time period is from 8/30/2021 to 8/30/2022 • Source: Authors' analysis of data from CoinMarketCap and Yahoo Finance.
CEPR

Research by economists at the Bank of International Settlements suggests that about three quarters of investors in Bitcoin have lost money. JPMorgan Chase & Co.'s analysis of their client data suggests that lower-income investors were more likely to purchase cryptocurrencies at higher prices than higher earners, and thus lower-income investors have likely suffered greater losses with the crash of crypto prices in 2022. Of course, Black people are over-represented in the low-income population in the United States. This dynamic leads *The Atlantic* magazine to conclude that "Black investors piled into the crypto market at or near its most recent top" and that likely thousands of Black investors "have seen the value of their crypto investments plummet."

All of these analyses suggest that the cryptocurrency space is very risky especially for novice investors many of whom are low-income and people of color. These investors need to be protected by strong regulation and strong warnings about the risks of cryptocurrency investing.

Thank you.

---

* This statement excerpts and is directly adapted from Algernon Austin, Julia Tache, and Timi Iwayemi's "Stock Market Index Funds Can Beat Crypto: On Cryptocurrency Investing and Building Black Wealth," Center for Economic and Policy Research, January 10, 20123. https://cepr.net/crypto-and-building-black-wealth/.