

# Investing in bitcoin: Navigating volatility and transparency

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## Key Takeaways

- Bitcoin perpetual futures are useful for investors who want to make a small payment to speculate on bitcoin price without worrying about specific expiration dates.
- Bitcoin's price volatility and frequent funding rate payments can quickly force bitcoin perpetual futures investors to liquidate their positions.
- Bitcoin ETPs are more appropriate investment vehicles for investors with a long-term positive outlook for bitcoin price as they have no surprise payments.
- Related Products WisdomTree Physical Bitcoin, WisdomTree Physical Crypto Mega Cap Equal Weight  
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Bitcoin exchange-traded products (ETPs) are investment vehicles that give investors clarity around the fees (i.e. management expense ratios) to pay each year. The vast majority of bitcoin ETPs are physically backed on 1:1 basis with bitcoin held in 'cold storage' segregated accounts at the custodian.

In 2024, various regulators recognised this and allowed the listing of bitcoin ETPs in countries such as the United States, the United Kingdom, Australia and Hong Kong. These listings grew institutional adoption meaning investors can invest into bitcoin without the compliance and technological overheads associated with direct bitcoin investments.

## Trading bitcoin with leverage

While most investors prefer investing in bitcoin on a long and unleveraged basis, others take a different view. The most popular way to trade bitcoin with leverage is to trade bitcoin derivatives, such as futures and/or options. For clarity:

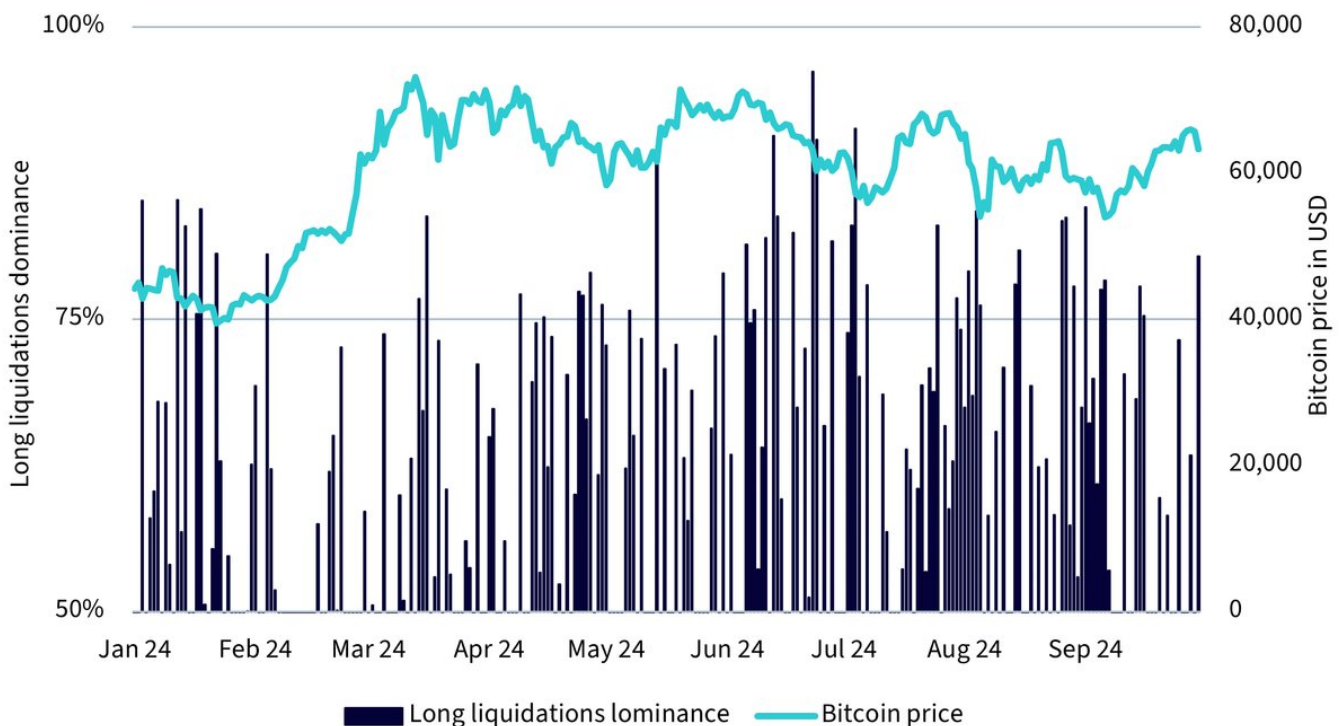
- Futures are contracts that determine the price at which bitcoin will be sold/bought on a specific day in the future
- Options are contracts that give investors the choice to buy or sell bitcoin at a predetermined price in the future

While leverage increases gains, it also magnifies potential losses. This is because leverage allows investors to trade larger value contracts with small upfront payments. For example, when trading futures, an investor needs to deposit:

- **Initial margin**, which is required to initiate a futures position
- **Maintenance margin**, which is required to maintain an open position

In some cases, when the price of bitcoin drops, bitcoin traders with leveraged long positions are forced to sell bitcoin and/or liquidate their positions to meet margin requirements. This can drive the price of bitcoin further down and lead to other investors needing to act. Figure 1 illustrates this concept and, as one would expect, the long liquidations dominate when bitcoin price goes down.

## Figure 1: Bitcoin futures long liquidations dominance



Source: GlassNode. 01 October 2024. Long liquidations dominance is calculated as (long liquidations)/(long liquidations + short liquidations). Values above 50% indicate more longs liquidated. **Historical performance is not an indication of future performance and any investment may go down in value.**

## Bitcoin perpetual futures

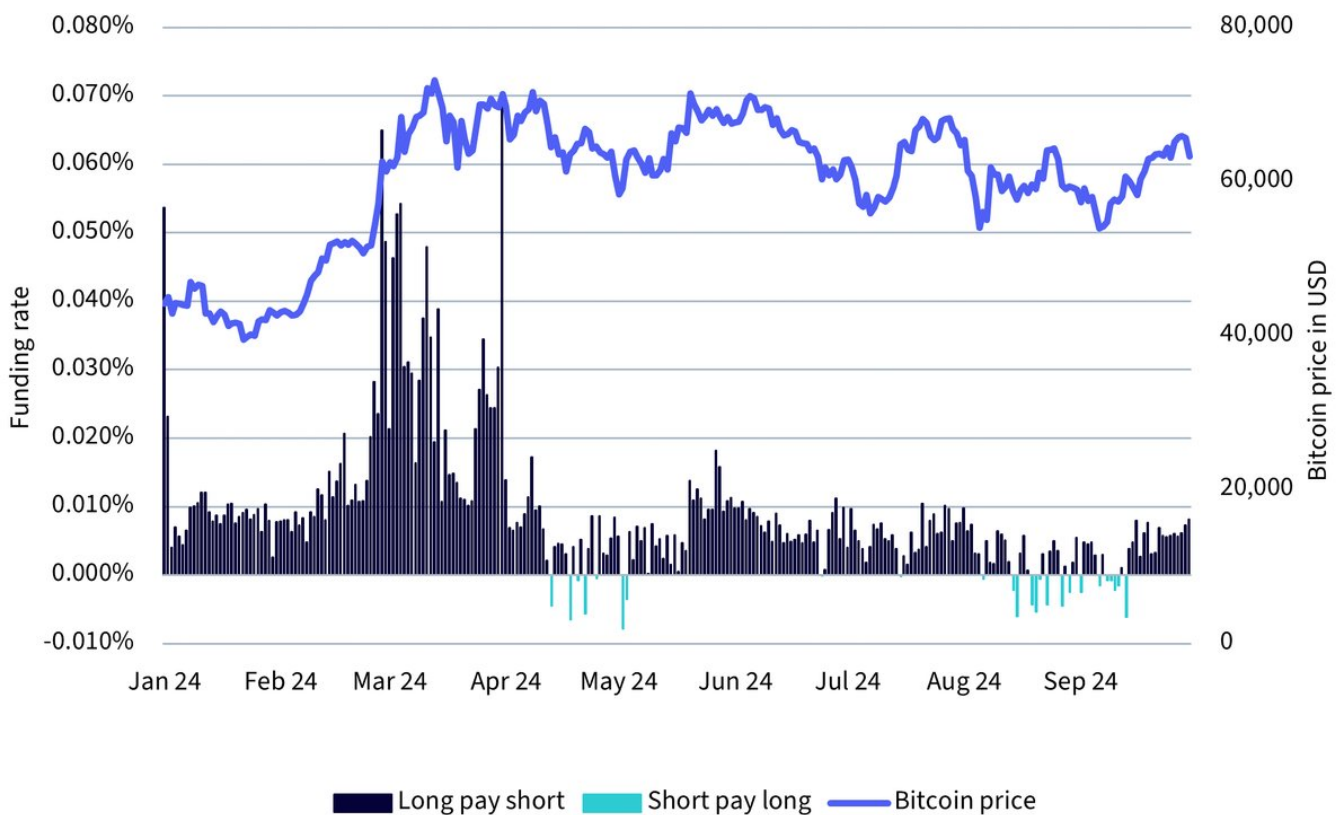
While traditional futures contracts have a set expiry date, perpetual futures do not, and investors can hold them indefinitely. In other words, bitcoin perpetual futures allow investors to speculate on the price of bitcoin in the future without having to worry about specific expiration dates.

At the maturity date, traditional futures contracts tend to converge to the spot price of the asset they cover. As perpetual futures do not have a maturity date, they need a mechanism to ensure a link between them and the spot price of the asset they cover.

The funding rate is the mechanism that bitcoin perpetual futures use and it operates in the following manner:

- The long pays the short when the perpetual futures contract is above the spot price
- The short pays the long when the perpetual futures contract is below the spot price

## Figure 2: Bitcoin perpetual futures funding rate



Source: GlassNode. 01 October 2024. The average funding rate (in %) is set by exchanges for perpetual futures contracts. When the rate is positive, long positions periodically pay short positions. When the rate is negative, short positions periodically pay long positions. **Historical performance is not an indication of future performance and any investment may go down in value.**

In Figure 2, year-to-date longs paid shorts most of the time. As these payments are every few hours (e.g. every eight hours), they can quickly add up! By way of example, if an investor has a position with a notional value of \$100,000 and if the funding rate is 0.01%, then that investor needs to pay \$10 (calculation:  $\$100,000 \times 0.01\%$ ) during the funding period which can be as often as every eight hours.

## Bitcoin long liquidations

It is well known that bitcoin has high volatility. When its price drops, bitcoin perpetual futures long investors come under pressure, and some need to liquidate their positions. For example, bitcoin experienced a price correction of -3.7%<sup>1</sup> on 30 September 2024, and -3.7%<sup>2</sup> on 1 October 2024. As shown in Figure 3 (below), during these two days, nearly US \$175m of bitcoin perpetual futures long positions were liquidated.

### Figure 3: Bitcoin long liquidations in USDm

*Source: CoinGlass. 01 October 2024. Historical performance is not an indication of future performance and any investment may go down in value.*

These two days marked the largest amount liquidated since 6 September 2024, when US \$84.6m<sup>3</sup> of bitcoin perpetual futures long positions were liquidated. On that day, bitcoin experienced a price correction of -4.0%<sup>4</sup>.

## Conclusion

As outlined above, some investors choose to invest in bitcoin via bitcoin perpetual futures. While this approach minimises the size of the day-one investment, investors make themselves vulnerable to bitcoin volatility and frequent funding rate payments that can add up very quickly.

For most investors with a positive bitcoin price outlook, bitcoin ETPs are more appropriate investment vehicles because they have full transparency around the fees that investors need to pay.

## WisdomTree: an established ETP provider to access cryptocurrencies

WisdomTree offers a curated range of eight physical crypto ETPs with an institutional grade structure that provide spot price exposure to single coins and diversified crypto baskets. Please see the [WisdomTree Crypto ETP centre](#) for further details.

1 Source: GlassNode. 02 October 2024

2 Source: GlassNode. 02 October 2024

3 Source: GlassNode. 01 October 2024

4 Source: GlassNode. 02 October 2024

## Important Risks Related to this Article

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