CORE DATA

Whitepaper

Australia's Crypto Investors

A growing market for advice

April 2024

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Crypto in 2024

Traditional Finance deepens engagement in cryptoassets, increasing need for crypto-literate advice

Since the launch of Bitcoin in 2009 by the mysterious Satoshi Nakamoto, the cryptocurrency market has undergone fifteen eventful years of evolution, amassing a market capitalisation of 2.5 trillion USD. The blockchain technology powering this global development in value continues to spur wide ranging innovation, from non-fungible tokens (NFTs), tokenised real-world assets and industry specific use-cases.

Fast forward to 2024, and the cryptocurrency market has experienced remarkable growth and evolution. What began as a niche interest among cryptographers and cypherpunks has become a global phenomenon, with billions of dollars in daily trading volume and widespread adoption across industries. Major financial institutions, technology companies, and governments are recognising the potential of blockchain technology, prompting a surge of institutional engagement and regulatory development.

In the first quarter of the year, crypto markets have been on rise again, recovering from the 'crypto winter' of the past two years. This period was characterised by uncertainty and distrust, sparked by events including the Terra-Luna depegging and subsequent crash and the infamous implosion of FTX.

Now investors are seeing renewed life in crypto markets, with Bitcoin starting the year with a strong performance, reaching a 70% rise in the first quarter of 2024, vastly outperforming the S&P500. With this recent uptick in the market, and the associated shifting sentiment among investors, 2024 may see interest from mainstream audiences heighten yet again.

April has also marked the fourth Bitcoin halving event, reducing the minting reward for Bitcoin miners from 6.25 BTC to 3.125 BTC. The resulting 50% reduction in new Bitcoins entering the market furthers the narrative of Bitcoin's 'digital scarcity', as it reaches its hard cap of 21 million coins. Such a restriction on the supply has led proponents, including BlackRock CEO Larry Fink, to refer to the currency as 'digital gold', with the potential to protect investors against the diminishing value of fiat currencies over time.

2024 has also highlighted cryptocurrency's increasing convergence with Traditional Finance, as finance giants including BlackRock, Invesco and Fidelity deepen their engagement in the space. The approval of 11 Spot Bitcoin ETFs in the US in January has opened the world of cryptocurrency up to new cohorts of investors seeking to invest without the involvement of direct ownership. With Hong Kong moving swiftly into the crypto ETF space, it is evident asset managers are recognising the demand for these products and see engagement with cryptoassets as a worthwhile strategy.

For advisers, these developments present opportunities for clients to engage with cryptoassets through a familiar investment vehicle. Moreover, they signify a growing acceptance of cryptocurrency as a legitimate asset class. This solidification of cryptocurrency into mainstream financial markets will prompt stronger regulations and consumer protections, including clearer guidance for the financial advice industry in years to come.

In Australia, regulation has been steadily increasing, with cryptocurrency exchanges first achieving full legal status in 2017. Known abroad for being a fairly 'crypto friendly' country, the Australian Government has attempted to find a balance between protecting consumers and fostering innovation. This is not without its challenges, as cryptocurrencies blur the lines between securities, currencies, commodities and technologies, requiring careful consideration from policymakers.

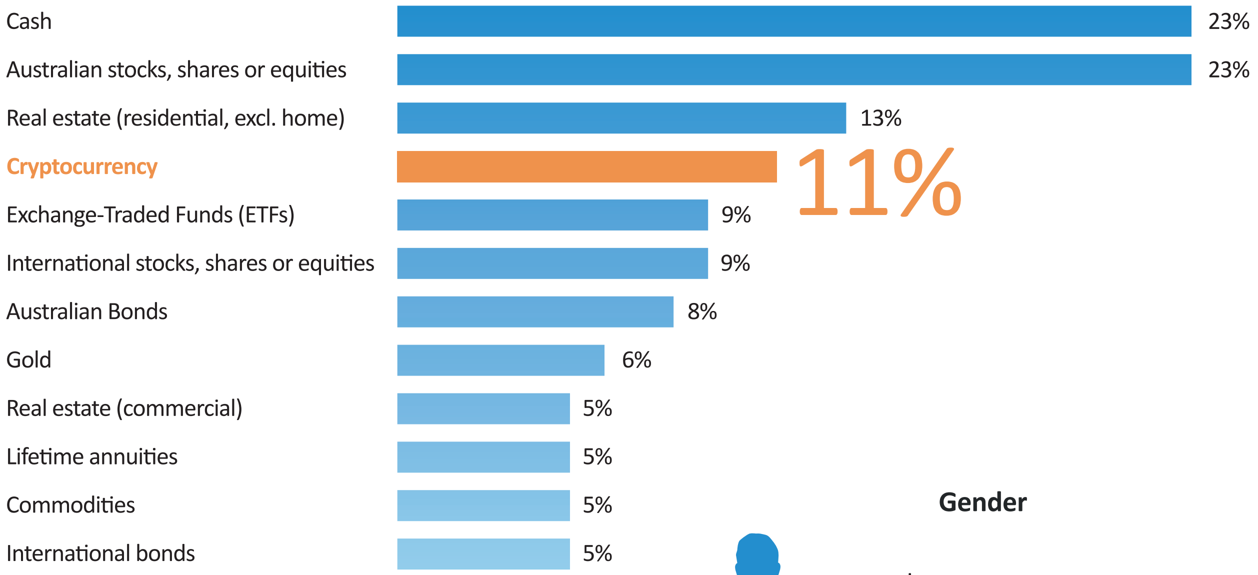
Considering the growing interest in cryptocurrencies and the increasing relevance they pose to the financial system in Australia, CoreData has conducted research to better understand the landscape of these emerging digital assets and their adoption by everyday Australians.

Adoption

Every tenth adult living in Australia holds crypto

This number reflects market participants who were willing to either enter or remain in the market during the recent crypto winter when fieldwork took place in November-December 2023. The research shows that cryptocurrency ownership among Australians is now largely on par with that of ETFs and international stocks.

Top investments among everyday Australians

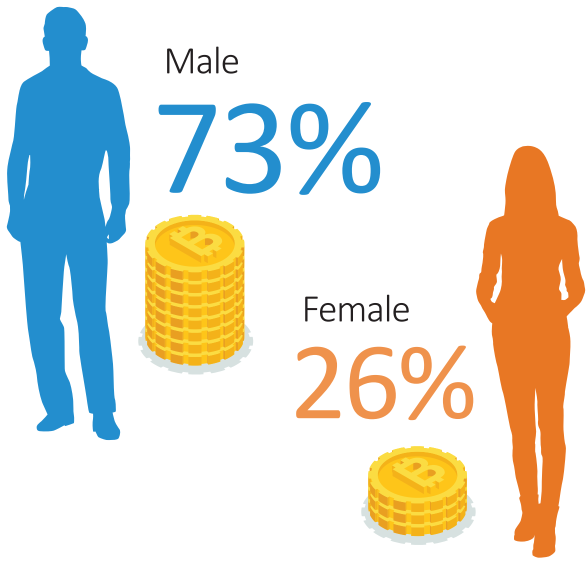


Crypto markets remain largely male dominated, as just a quarter of holders in Australia are women. Ownership also skews younger, with cryptocurrency most common among people under 30 years old.

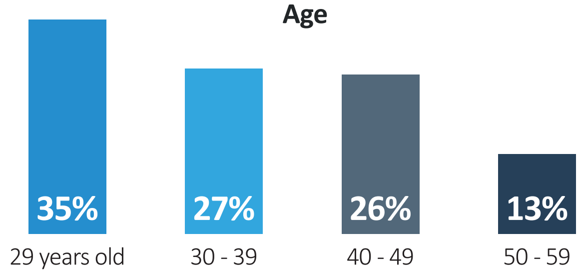
While renowned by enthusiasts for being an easily accessible asset class, navigating cryptocurrency requires users to develop their technical literacy in ways not required by traditional asset classes. Over the years, cryptocurrency investing has become far more user-friendly, though in 2024 it still remains complex and overwhelming for many consumers.

As a result, cryptocurrencies still predominantly appeal to those who are tech-savvy, yet also financially confident enough to navigate risk. Not only do holders have to be comfortable with market volatility, they need to exercise continuous awareness around scams, while honing their skills in cybersecurity and risk management to keep their cryptoassets safe.

Gender



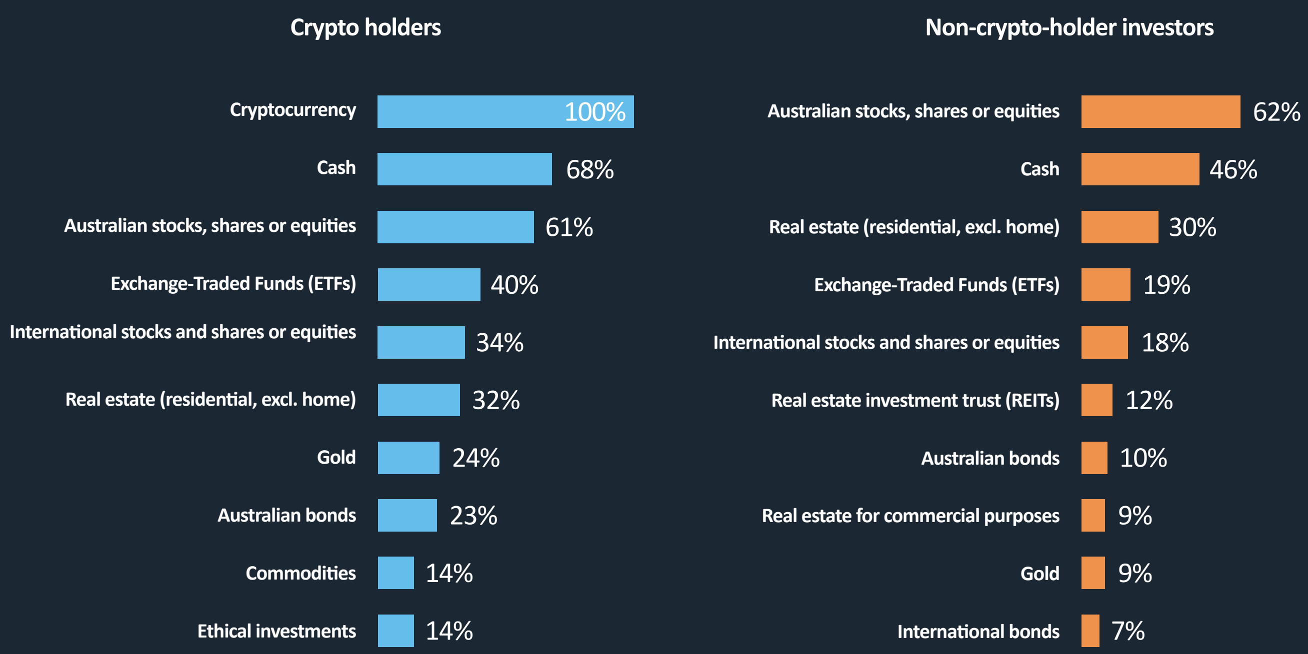
Age



The Crypto Investor

Crypto holders tend to be interested in investing generally, with the majority holding other investments. When compared with the general investor who does not hold cryptocurrency, crypto holders were more adventurous, investing in a broader range of asset classes, including international stocks, ETFs, and gold.

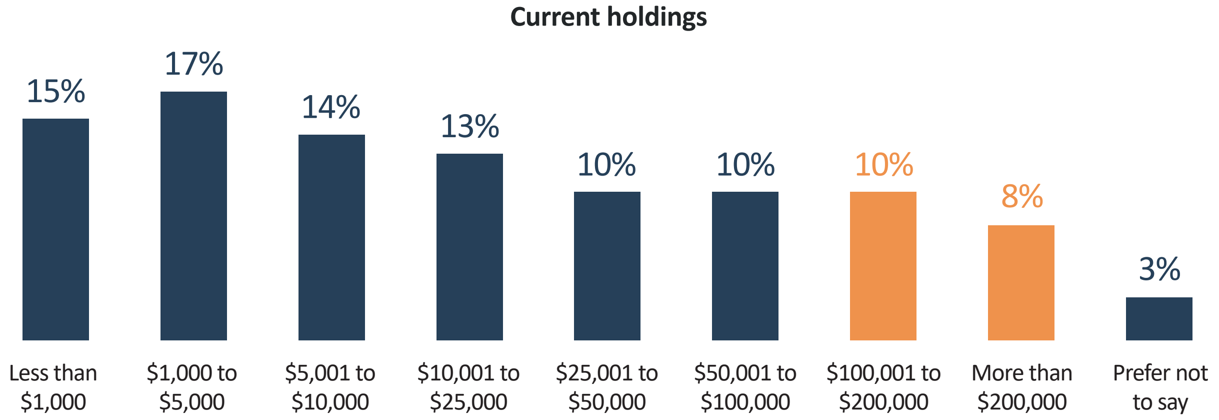
Top 10 investments



Cryptocurrency attracts investment from people in a range of wealth brackets. Thanks to fractional investment, no minimum investment requirements, and no need for a broker, cryptocurrency can be accessed by virtually anyone with an internet connection and basic technical know-how. According to CoreData's syndicated research among investors in Q4 of 2023, a quarter of those who have an investment portfolio were holding cryptocurrency, including 24% of high-net-worth investors.

1 in 5 crypto holders report holdings worth over $100,000

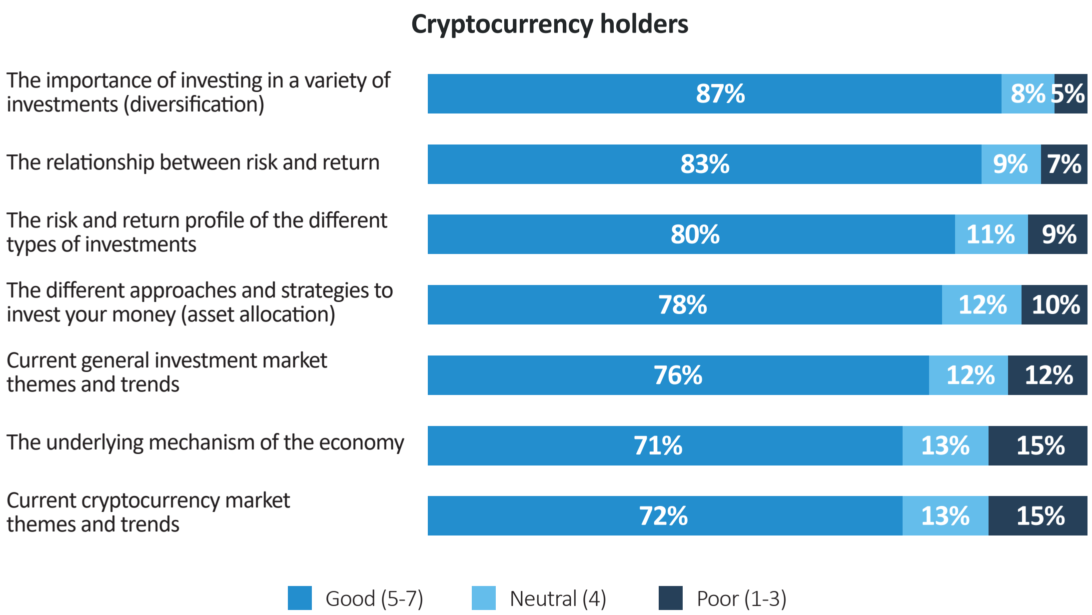
For some of these people, cryptocurrency makes up a significant portion of their total portfolio. Investors who began purchasing cryptocurrency prior to 2018 are overrepresented in those with holdings worth $100,000 or more. This suggests the rising value of these holdings themselves played a key role in creating wealth for many of these individuals.



The research also found that holders tended to report higher incomes than Australians not holding cryptocurrency, with close to half of holders (45%) surveyed having annual incomes of $100,000 or more. This makes sense when considering these individuals tend to have higher investment capacity and corresponding risk tolerance, with increased access to financial education, advice, and technology-related training.

Crypto holders are confident in their investing knowledge

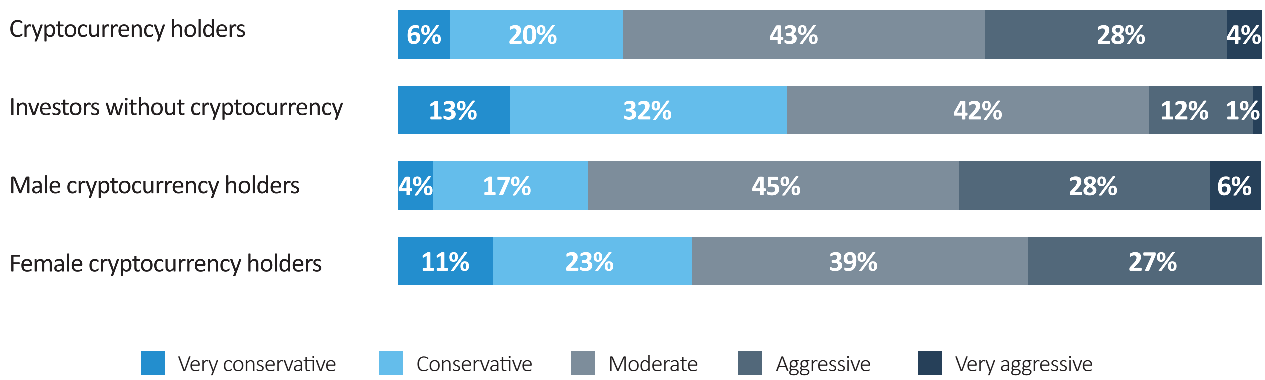
When asked to provide a self-rating of their investment knowledge, crypto holders reveal strong confidence in their understanding across a range of key areas. Understanding of diversification was the strongest, with current cryptocurrency market themes and trends slightly weaker. Such results are to be expected, given the complexity of maintaining an understanding of these especially diverse and fast-moving markets which experience rapid transformation, and at times seemingly irrational swings in market sentiment.



Most crypto holders consider themselves to have a moderate appetite for risk

Despite perceptions of cryptocurrency being a risky asset class, most crypto holders consider themselves to have a moderate appetite for risk (43%). About a third described themselves to have a high risk tolerance (32%), which is significantly higher than investors not holding cryptocurrency (5%), according to CoreData's research among investors in Q4 2023.

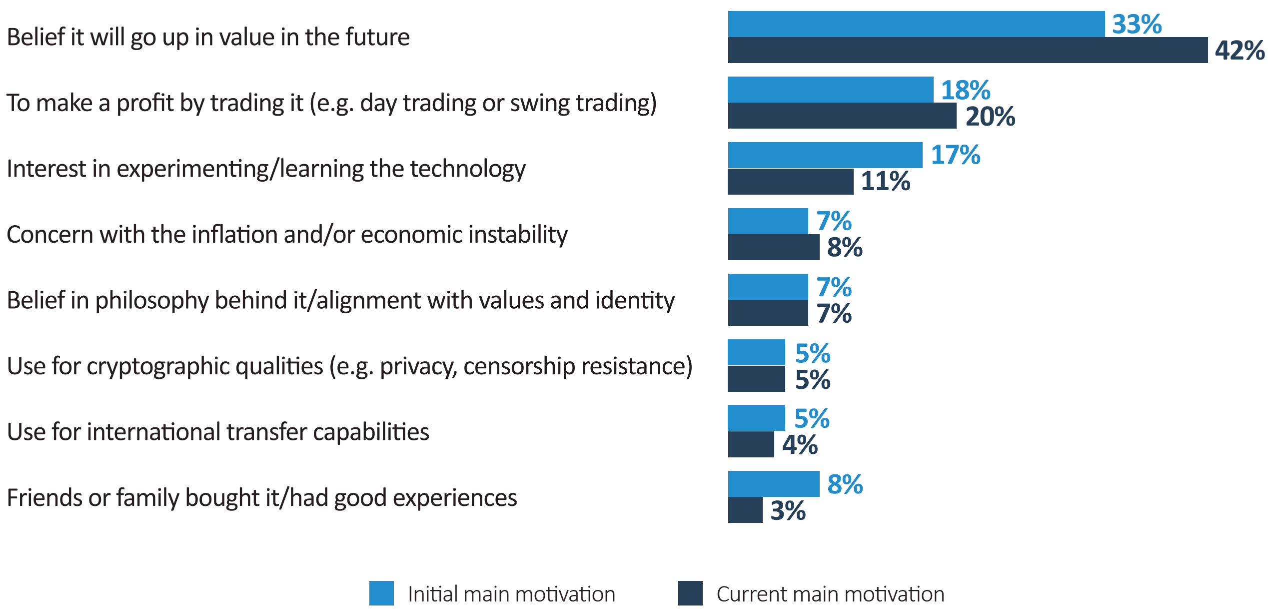
Approach to investing



Belief in crypto's potential to increase in value has strengthened among holders, outpacing other drivers

Given crypto's ideological beginnings and technological affordances, the drivers for adoption across the years have been multifaceted. Most investors buy cryptocurrency because they believe it will increase in value. Among holders, this belief has strengthened as the main motivation behind continued investment.

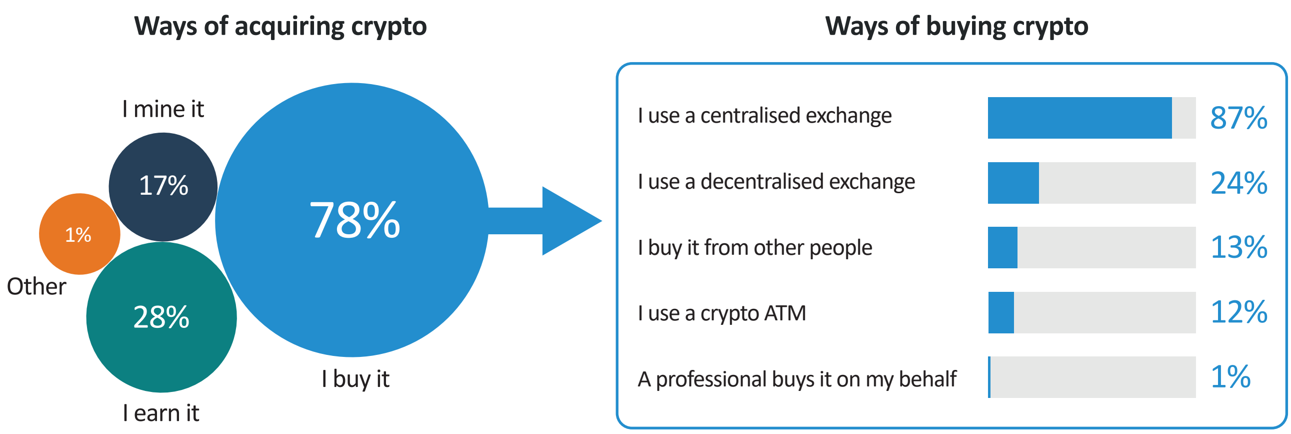
Motivations



While early investors may have maintained their interest in the philosophical or cryptographic characteristics behind cryptocurrencies, newer investors are increasingly motivated by profit. This makes sense, given the simultaneous significant growth seen in cryptoassets like Bitcoin, and the growing adoption by mainstream retail and institutional investors, including many from a traditional finance background.

While cryptocurrency can act as a 'gate-way' investment, particularly among younger generations, it is also increasingly appealing to seasoned investors as a way to diversify their portfolios, with historically weaker correlation with traditional assets, and potential for high returns. Some investors also consider cryptoassets like Bitcoin to have the ability to act as 'safe-haven' asset, amid inflation and geopolitical uncertainty.

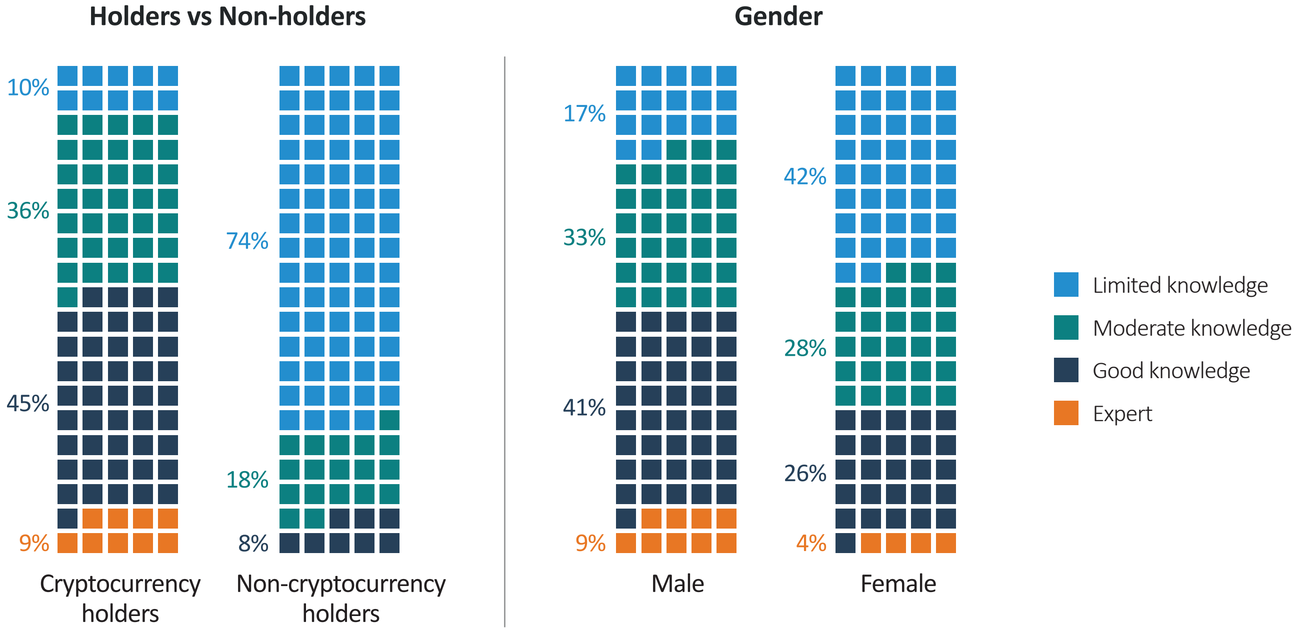
Most crypto holders first came to acquire crypto by buying it, with users typically using a centralised exchange such as Binance or Coinspot. A notable portion of holders are now also earning it, with 1 in 5 holders reporting earning rewards on current holdings through methods like staking and yield farming, similarly to how investors receive dividends on stocks.



While Bitcoin remains popular across age and gender, men are slightly more interested in altcoins and stablecoins than women, while women express more interest in non-fungible tokens or 'NFTs'. Gen X were the fondest of altcoins, while meme coins appealed most to Gen Y, despite popular assumptions meme coin investing is driven by youth.

The Knowledge Gap

Research shows there is a significant knowledge gap between those that hold cryptocurrency and those who do not. While similar knowledge gaps would be expected in other areas of investment too, it becomes especially relevant to cryptocurrency which requires not only financial literacy, but also comfort with niche technology practices. This gap also exists broadly between men and women, in part explaining why there is a large disparity in ownership rates.

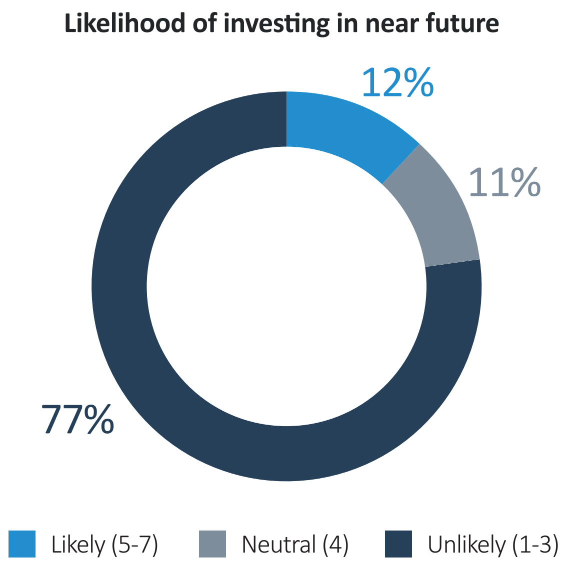


1 in 10 non-holders likely to invest in the near future

When asked about their likelihood of investing in cryptocurrency in the near future, 12% of non-cryptocurrency holders indicated they were likely to invest.

In alignment with current rates of crypto ownership, younger generations described themselves as more likely to invest, with 27% of Gen Z and 19% of Gen Y respondents indicating likelihood.

Contrary to current ownership, likelihood to invest across gender was relatively balanced. This indicates the gender gap in crypto ownership is set to decline as women's confidence in exploring the asset class increases.



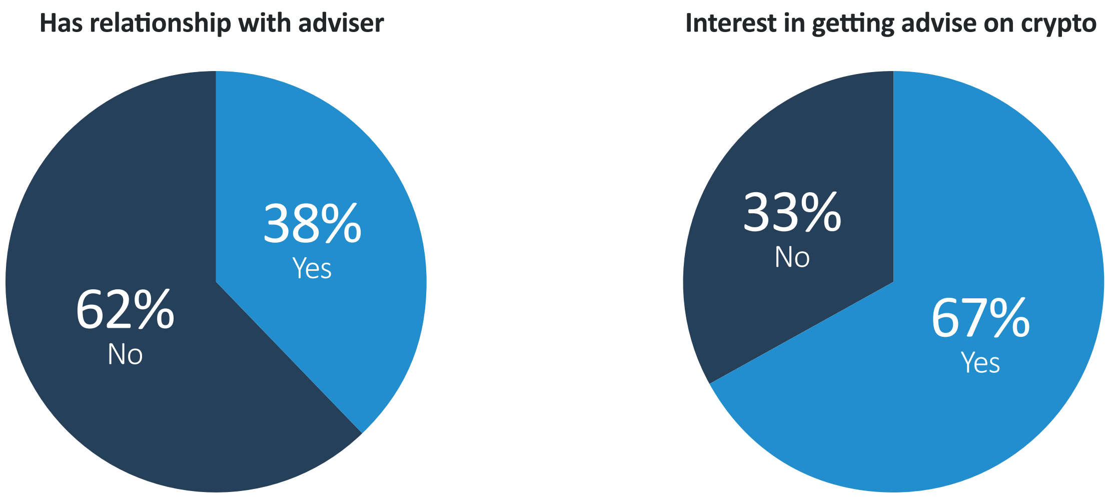
Crypto and Advice

One in three crypto holders has a financial adviser, two in three are interested in crypto-related financial advice

With one in three crypto holders already having an adviser, it is clear this cohort recognises the value of financial advice. This is significant, given the financial advice industry thus far has largely shied away from the topic of cryptocurrency, whether that be due to complexities with Professional Indemnity Insurance, presumed irrelevance, negative association, or general lack of understanding.

As cryptocurrency comes to be owned by more than 11% of the Australian population, the need for crypto-related financial advice is set to intensify. Research shows that 67% of crypto holders are interested in receiving advice on cryptocurrency. For some of these individuals, the need for crypto-related advice is especially pertinent, with significant cryptocurrency holdings at stake and tax implications to match.

The research found that individuals who primarily use cryptocurrency to trade, expect an increase in its value, or are concerned with inflation/economic instability, were most inclined to place a high value on their advisers opinion when it came to cryptocurrency.



While the research shows the majority of crypto users consider themselves to have a good (45%) or expert (9%) understanding of cryptocurrency, it is inevitable that a portion of crypto holders who enter with little knowledge are learning the lessons of these markets the hard way, with some losing significant amounts of money in the process.

With cryptocurrency having existed now for 15 years, and with an increasing number of people exploring it, there is a pressing need for more education and support in navigating what remains to be a volatile and high-maintenance asset class.

As younger, digitally native generations come to represent larger portions of the market, we are likely to see more demand for digital assets, including cryptocurrencies, as well as tokenised real-world assets. As such, building adviser competency in blockchain-based assets becomes an important consideration for future-proofing advice practices in Australia.

Financial advice lagging amid interest from crypto holders: Advisers weigh in

With increasing interest in cryptocurrency, the demand for crypto-related advice is on the rise. People with cryptoassets will increasingly require advice on topics including investment strategies, taxation, custody solutions, regulatory compliance, risk management and estate planning. To assist clients in these areas, advisers will need to develop their own understanding of cryptoassets.

At present, crypto-related financial advice is difficult to access. As per CoreData's research among advisers, 89% say they have never advised on cryptocurrency. Just 1% say they often provide crypto-related advice, demonstrating the scarcity of crypto-literacy in the advice space.

As per discussions with financial advisers, one of the most prominent reasons why advisers are not talking about cryptocurrency, is due to concerns around not being covered by Professional Indemnity (PI) insurance. Without PI cover, advisers risk heavy legal expenses if clients claim their advice led to financial loss or harm.

> *"We have a limited product list we can recommend and that's determined by investment committee. For many years we've asked for crypto to be included but we have something called PI insurance [...] Apparently crypto is not covered on this, so licensees don't want us to recommend crypto."*

With interest growing among cohorts unaccustomed to investing generally, it is essential market participants are informed and have a strategy to manage risk. Simultaneously, it is important that advisers wanting to assist clients on the topic can access PI cover. By professionalising crypto advice, investors seeking guidance will be able to access it in a regulated environment.

Another significant barrier advisers face is the same as the public: a lack of understanding, along with concerns around the prevalence of scams and dubious cryptocurrency projects. Crypto markets operate 24/7, and are affected by a wide range of global events. They often lack information advisers working with traditional assets are accustomed to, and involve unique consideration of technical factors that affect the flow of capital on blockchains.

> *"I don't understand it, so I can't provide advice on something that I don't understand"*

Unlike traditional assets, cryptocurrency currently lacks research house ratings and clear advice from governing bodies. While historical data exists on the blockchain, cryptocurrency's history is relatively short, and its future uncertain. Alongside developing a strong understanding and risk strategy, advisers looking to expand into this area can leverage the expertise of an emerging set of asset managers specialising in cryptocurrency.

> *"We can't really track how a crypto portfolio would do in five to 10 years because there's no data [to forecast it]"*

> *"There's no kind of governing body over it, so it's not as easy to track as your traditional stocks [...] crypto can be so volatile. It can be going great and then suddenly it's not."*

> *"Our industry is so heavily regulated now there's so many protections in place. Crypto is a little outside of that, so crypto needs to come into that regulatory environment [...] for us to give advice on it."*

Clearly, there is still a long way to go before advisers by and large are prepared to assist clients with cryptocurrency holdings. In the meantime, those advisers that have specialisations in digital assets are likely to be a sought after by the niche of clients needing this advice.

For advisers seeking to develop their skills in the area, cryptoassets represent an opportunity to build a unique offering for their business. Practices which put in the effort to develop competency in the area, will have the chance to increase their assets under management (AUM) among cohorts of crypto-curious investors, as well as seasoned crypto holders who have built wealth via blockchain.

Whether it be managing cryptoassets during an intergenerational wealth transfer, assisting with tax reporting, or providing advice on crypto ETFs, advisers can expect to hear more questions from clients on digital asset management in the years to come. By increasing industry competence in these areas, the advice industry will be better prepared to respond to the growing engagement with these assets, to provide guidance and support to those who choose to include blockchain-related assets in their portfolios.

Methodology

This report contains the findings from an initial piece of in-house research on cryptocurrency CoreData has carried out at the end of 2023. CoreData chose to conduct this research to provide a broad overview of the cryptocurrency landscape in Australia, to gauge investment behaviour, attitudes, and shifts relevant to the financial advice sector.

In November, CoreData conducted a survey among both cryptocurrency users and people who were aware of cryptocurrencies but did not hold them. The survey was run among people living in Australia between 2/11/23 and 4/12/23. Nationally representative sampling methods were used to gauge cryptocurrency ownership among 766 respondents, resulting in 86 responses from cryptocurrency users and 680 from people not holding cryptocurrency.

In addition, a sample of 306 cryptocurrency holders and 114 non cryptocurrency holders completed the survey. CoreData's existing base of syndicated research on investors was used to offer comparisons. Questions explored the adoption of cryptocurrencies in Australia, with a particular focus on motivations, usage, trust, investment decision-making, financial confidence, and engagement with financial advice.

Alongside this questionnaire, six interviews were conducted with a range of relevant stakeholders, including financial advisers, government stakeholders and cryptocurrency industry people. These interviews were conducted between 2 November 2023 and 4 December 2023, with interview design tailored to participants' professional background as it relates to cryptocurrency.

In addition, CoreData conducted background research, which included review of relevant literature and existing research on investors. Together, this research forms the basis of the findings shared in this report.

About Us

CoreData is a global specialist research and strategy consultancy, founded in 2002 and headquartered in Australia, with operations in Sydney, Perth, London, Boston and Manila. We help organisations transform their service propositions by better understanding their customers and their markets. Using our tried and tested research methods, we help you make evidence-based decisions that serve as a platform for future growth and continuous improvement. CoreData's team is a complementary blend of experienced research, marketing and media professionals. Together, our combined industry and primary research experience brings unique perspective to consumer needs, attitudes and behaviours. CoreData strictly adheres to the Research Society Code of Professional Behaviour in relation to research confidentiality and security. We maintain the highest standards of data security requiring careful management and storage.

AUSTRALIA

SYDNEY

CoreData Pty Limited
Suite 412, 15 Lime St
Sydney NSW 2000

T: +61 2 9376 9600

E: sydney@coredataresearch.com

PERTH

CoreData WA
Fern, 79 St Georges Tce
Perth, WA 6000

T: +61 8 6500 3216

E: perth@coredataresearch.com

USA

CoreData Research LLC
265 Franklin Street, Suite 1702,
Boston, MA 02110

T: (617) 702-3392

E: boston@coredataresearch.com

UK

CoreData Research Ltd
Office One, 1 Coldbath Square,
Farringdon, London, EC1R 5HL

T: +44 779 336 7190

E: london@coredataresearch.com

PHILIPPINES

CoreData Research Services Inc.
Unit E-1608 Tektite Towers, Exchange
Road, Ortigas, Pasig City, 1605

T: +63 998 581 9950/ +63 917 562 5667

E: manila@coredataresearch.com