

Crypto startups offer SIP option to battle extreme price volatility



Mutual fund systematic investment plans (SIPs) have enabled wealth-creation for many Indians. Now cryptocurrency startups are offering similar products to Indians, which in the long run might help tame the high volatility in virtual asset prices. How do cryptocurrency SIPs work? What are the key differences between them and mutual fund SIPs? Aseem Gujar & Partha Sinha find out...

If you had invested, say, ₹50,000 lump sum in Bitcoin in 2017, when it was trading at ₹12 lakh, you would have had to wait for three years to just break even because the crypto token's price crashed.

But if you had sold the asset when its value sank nearly 80% in 2019, you would have seen a near-total capital wipeout.

Imagine you had managed to hold your nerves, the return on your 2017 investment now would have been worth about 150%.

However, if you had an opportunity in 2017 to put the amount (₹50,000) in Bitcoin in a staggered manner like in mutual fund SIPs, the return now would have been 350%.

This additional growth in return would have been due to recurring investments in crypto, irrespective of market conditions. Systematic investment plans (SIPs) in equity mutual funds also follow this principle — the stock market cannot be timed, so it is better to keep investing consistently.

TIMES DECRYPT MASTER THE WORLD OF CRYPTO

Bitcoin's rollercoaster ride can cause extreme loss or profit depending on when one enters the market. There are several investment routes in crypto, including direct buying, exchange-traded funds (ETFs), and interest-generating products, which this column has explained in previous weeks. SIP-like products are another way to invest in virtual assets — aiming to use the volatility to one's advantage.

While some startups call such products SIPs, others use terms like 'recurring buy plan'. However, investors should be cautious as these products are unregulated, unlike mutual fund SIPs, which are overseen by Sebi.

NO NEED TO TIME THE MARKET

Crypto is a 24/7 market and is virtually impossible to track constantly. Industry players said that there has been a growing demand for SIP-like products from cus-

AIMED AT LONG-TERM INVESTORS

➤ Crypto platforms offer various ways to invest in crypto — one can buy tokens directly, or indirectly via exchange-traded funds-like products. Some startups even offer interest on crypto deposits

➤ Crypto prices are extremely volatile, and the 24x7 market makes it tough to continuously track assets

➤ Startups are offering SIP-like products to cater to investors who are not interested in day trading

➤ Consistent investments in the long run improve returns as more quantity of an asset is acquired when prices fall, reducing the average per unit cost

➤ However, unlike mutual fund SIPs, these products are not regulated by any authority like Sebi. Though the gains are taxable, there is no legal clarity on any crypto investments



tomers who have an appetite for a long-term stay but are averse to day-trading.

"Investing through the SIP route automates the discipline part of wealth-building. It also removes the element of timing the market and helps in dollar-cost averaging," said Edul Patel, CEO and co-founder of crypto investment platform Mudrex, which launched an SIP-like product last week. Startups that have launched similar products include CoinSwitch Kuber and Bitbns.

Dollar-cost averaging refers to investing a fixed amount of money in a fund, stock or crypto, at regular intervals ignoring the fluctuations in the value of the asset. This results in buying more assets when the cost is low, thus reducing the average cost per unit in the long run. Staggering the investment also reduces risks.

HOW TO INVEST

One needs to open an account with a crypto exchange or investment platform that offers SIP-like products. After submitting KYC (know-your-customer) details online, one can load money on the platform and start an SIP in any virtual asset like Bitcoin or Ether. Some companies offer SIPs in a basket of tokens to help those who don't track crypto assets.

"On a transactional level, the process is similar to mutual funds. The difference being the concept of cut-off times in equity mutual funds. Cryptocurrency being

a 24x7 market, doesn't have a cut-off time," Patel said. He added that in the back-end, Mudrex sends the orders to partner crypto exchanges, who then fill the market orders.

While monthly investment is a common frequency in both crypto and traditional SIPs, it is also possible to have a daily crypto SIP due to the extreme fluctuations in their prices. Crypto exchanges typically use UPI for automated payments.

UNREGULATED, BUT TAXABLE

Finance minister Nirmala Sitharaman had announced a 30% tax on crypto gains in the Budget, which will come into effect from April 1. While the move was seen as an acceptance of crypto investments, there is still no legal clarity in the absence of a law.

In the absence of regulatory protection, crypto backers should seek expert opinions before making investment decisions.

Recently, the Advertising Standards Council of India (ASCI) introduced guidelines for advertising and marketing of crypto assets in which companies have been prohibited from using the words "currency", "securities", "custodian" and "depositories" as consumers associate these terms with regulated products.

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