The SmartInvestor

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精明投资者

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RETURNS AND RISKS:

The Realities of Crypto Investing



In today's fast-evolving financial landscape, cryptocurrencies are no longer fringe speculative bets—they are being seriously debated as part of the broader wealth-planning conversation. But not all digital assets are the same: stablecoins, cryptos and Central Bank Digital currency (CBDC) play very different roles and each comes with its unique risks and opportunities.

Investors are often dazzled by headlines celebrating the successes of various asset classes, but are all of it true? At this point, returning to first principles brings greater clarity—understanding the real risks involved, beyond market volatility, including counterparty, design, liquidity, redemption and regulatory risks; assessing whether an investment truly aligns with personal financial objectives such as preservation, growth, or retirement; and considering preparedness for the unexpected should things not go as planned.

Additionally, understanding the characteristics of each asset class, whether it is stablecoins, cryptos or CBDCs (which are not yet adopted in Malaysia) is crucial in the portfolio decision making process:

	Stablecoins (Sample: USDT)	**Cryptocurrencies (Sample: BTC)**	**Central Bank Digital Currency (CBDC)**
Issuer	• Privately issued and backed by assets	• Privately issued, not backed by assets	• Issued and backed by a sovereign body (e.g., Government, Central Banks)
Price & Store of Value	• Value backed by assets (e.g. fiat currency, commodity) or is stabilised by controlling the market supply of the stablecoin	• Highly volatile • Decentralised – cannot be 'banned'	• 1:1 with national fiat currency
Medium of Exchange	• Potentially used as means of payment but subject to the effectiveness of the value stabilisation's mechanism	• Unlikely used widely as payment means due to various limitation (e.g. price volatility)	• Designed for broad adoption in payments as digital representation of fiat currency
Main risks	• De-peg, reserve transparency, regulatory uncertainty	• Sentiment swings, volatility, market cycles	• Transparency and regulations • Fiat Currency Risk
Portfolio role	-	• Speculative growth, long term diversification, low or even negative correlation with traditional assets such as equities, bonds, Gold, etc • Offers diversification benefits in a portfolio	-

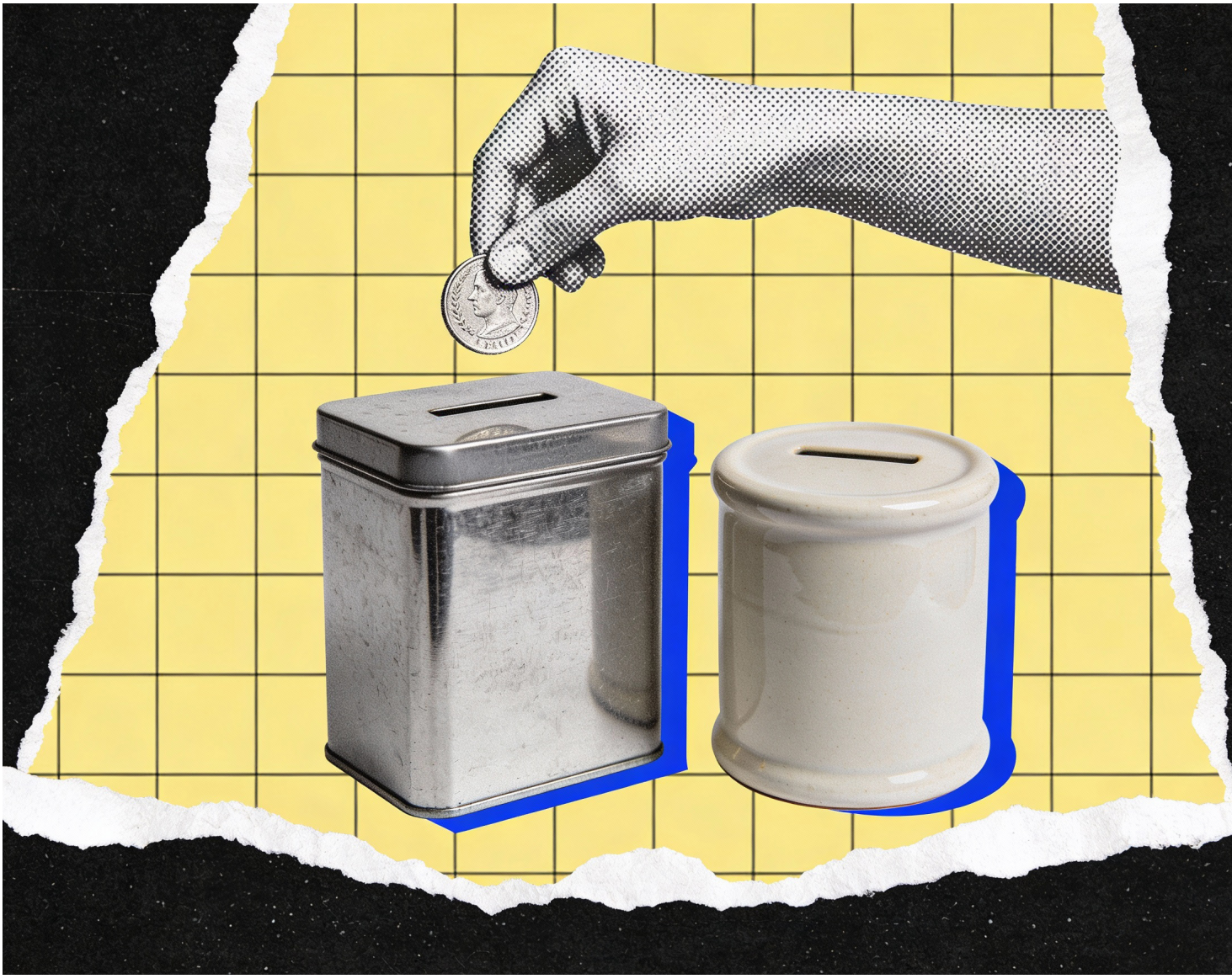


When weighing these digital assets, keep in mind on why crypto is not risk-free:

- **Decentralisation:** BTC and Ethereum operate without a central issuer, which removes counterparty risk but introduces other forms of risk including network and governance risks.
- **Scarcity:** Although BTC is capped at 21 million coins, it is positioned as digital gold as a core part of its narrative. However, it's scarcity is fundamentally different as it is human designed and replicable as compared to natural gold.
- **Speculation:** Much of crypto demand today is speculative and investors invest because they believe in future adoption.
- **Intrinsic Value:** Bitcoin has no intrinsic value in the traditional financial sense (no cash flows), but it holds perceived value driven by network adoption, scarcity and demand. Ethereum extends this further with utility-based value through smart contracts and real use cases.
- **Price Volatility:** Extreme volatility (2018 crash: –80%, 2022 crash: –64%) and easily affected by minor factors such as a simple social media post.
- **Stablecoin Risks:** Some stablecoins carry risks due to inadequate reserves or weak redemption mechanisms, a concern highlighted by the International Monetary Funds. In response, regulators are tightening requirements around reserve backing, redemption rights and transparency, while the Bank for International Settlements (BIS) cautions that poorly backed stablecoins could threaten monetary sovereignty and financial stability.
- **Regulatory Risks:** Crypto regulation is still evolving, with many jurisdictions now introducing licensing, reserve, redemption and governance requirements for stablecoins. The European Unions' Markets in Crypto-Assets Regulation (MICA) framework highlights risks such as cross-border compliance conflicts and reserve challenges without global alignment, while the rollout of CBDCs may further reshape demand for private stablecoins, particularly in payments.
- **Liquidity Risk:** In a "run" scenario, stablecoins could face mass redemptions, potentially triggering a fire sale of assets or reserve stress. This failure can ripple into broader financial markets.
- **Future Landscape for CBDCs & Regulatory Shifts:** CBDCs are being actively researched and piloted around the world as a safer, regulated digital alternative—reducing the demand for private stablecoins. Various government frameworks reflect a global move toward stricter reserve backing, licensing and operational standards for stablecoins. The design and adoption of CBDCs could reshape the entire crypto ecosystem: stablecoins may need to compete with sovereign digital money, affecting their role as a bridge between traditional finance and decentrilised finance.

If you are looking to invest in digital asset classes, there are some questions that should be asked in advance:

1. Why invest? – for growth or speculation?
2. Major drawdowns – can you stomach one without compromising your retirement?
3. Regulations – what happens if regulations tighten?
4. A balanced exposure risk – is your crypto exposure with other lower risk, stable investments balanced?



While digital assets can be exciting, innovative and full of potential, they are also unpredictable, evolving and speculative.

IF YOU'RE SAVING FOR SERIOUS GOALS LIKE RETIREMENT OR YOUR CHILDREN'S EDUCATION, YOUR FINANCIAL FUTURE DESERVES A CAREFUL STRATEGY, INSTEAD OF GUESSWORK OR GAMBLES.

Clarifying the Confusion

In public discourse, the terms cryptocurrency and stablecoin are often used interchangeably, which can be confusing or misleading.

The Association of Chartered Certified Accountants (ACCA) defines cryptos as "intangible digital tokens which are recorded using a distributed ledger infrastructure, often referred to as a blockchain". Similarly, Financial Industry Regulatory Authority, US (FINRA) recognises crypto assets as "digital assets that are issued or transferred using distributed ledger or blockchain technology".

From these professional definitions, cryptography and distributed ledger technology (DLT) are core architectural features of cryptocurrencies. DLT allows users to transfer digital assets to another person directly without the need of a central authority or intermediaries. DLT also has various applications beyond digital assets (e.g., trade finance, digital identity, land registry). Importantly, backing or price stability is not part of the definition.

Where Do Stablecoins Fit In?

Stablecoins are not a separate asset class, but rather a functional sub-set of crypto assets, provided they are issued on blockchain or DLT. In simple terms, all stablecoins aim for price stability by linking their value to real assets. Not all cryptos are stablecoins, instead only blockchain/DLT-based stablecoins qualify as cryptos. While the technology may be similar, but the legal status and risk are completely different.

Stablecoins are cryptos with a stabilisation mechanism. For example, the recent RMJDT Johor stablecoin launched under the patronage of His Royal Highness Tunku Ismail Ibni Sultan Ibrahim is issued on Zetrix AI Berhad's Layer-1 blockchain, that supports smart contracts. The currency is backed by Ringgit Malaysia cash deposits and short-term government securities.

Crypto investment can enhance wealth, but unmanaged risk can also destroy it. These are high-risk, high-reward assets; they may not be suitable as core wealth accumulation portfolio holdings. Overexposure can jeopardise your financial goals, especially when volatility or regulatory shocks hit.

It is recommended to work with guidance, such as a licensed financial planner that has thorough understanding of financial planning and digital assets. With the right guidance, your crypto decisions align with your goals, time horizon and risk appetite—not hype, noise, or fear.



ABOUT THE EXPERTS

As the founder of YES Financial Group, John Chan Ninyii is the CEO and Principal Director for YES Financial Berhad and the Chairman of YES Trustees Berhad. He was the immediate past president of the Association of Financial Advisers Malaysia (AFA) and an adjunct professor at Quest International University. John is also the author of Fire Your Boss and Critical Illness – Rainbow After the Storm.

Yawales Sae Teoh is a Licensed Financial Planner with 15 years of experience in foreign banking and wealth management. Licensed under FAR and CMSRL, she has advised clients on complex solutions including bonds, structure products and foreign currency investments.

