

# ETFs: Wall Street's Gateway

How BlackRock, Fidelity, and traditional finance finally embraced Bitcoin — and what it means for serious investors.



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11 min

*For a decade, institutional investors faced an awkward problem: they believed Bitcoin belonged in portfolios, but couldn't actually buy it. Compliance departments balked. Custodians didn't exist. The infrastructure was built for retail speculators, not pension funds. Then, in January 2024, everything changed. The SEC approved spot Bitcoin ETFs, and within months, the world's largest asset managers were competing for your crypto allocation.*

## Why ETFs Matter

An ETF — Exchange Traded Fund — is simply a wrapper. It holds an asset and issues shares that trade on stock exchanges. You've likely owned ETFs tracking the S&P; 500 or bond indices. The structure is decades old, regulated, and understood by every financial advisor on earth.

This matters because Bitcoin's problem was never legitimacy in the abstract — it was accessibility in practice. A hedge fund manager might personally believe in Bitcoin's thesis, but actually buying it meant:

- Setting up accounts on crypto exchanges (compliance nightmare)

- Arranging qualified custody (expensive, unfamiliar)
- Explaining blockchain addresses to auditors (good luck)
- Managing private keys (existential risk)
- Navigating 24/7 markets (operationally complex)

ETFs eliminate all of this. Buy shares through your existing brokerage. Hold them in your existing accounts. Report them on your existing statements. The Bitcoin is someone else's problem.

*"The ETF doesn't change what Bitcoin is. It changes who can own it. And in finance, access is everything."*

## The Products That Exist

The spot Bitcoin ETF landscape is now dominated by familiar names:

**iShares Bitcoin Trust (IBIT)** — BlackRock's entry. The world's largest asset manager brought its distribution machine and credibility. IBIT became the fastest ETF ever to reach \$10 billion in assets.

**Fidelity Wise Origin Bitcoin Fund (FBTC)** — Fidelity had been building crypto infrastructure for years before the ETF approval. Their custody solution is in-house, not outsourced.

**Grayscale Bitcoin Trust (GBTC)** — The converted survivor. GBTC existed for years as a closed-end trust, often trading at significant premiums or discounts to its Bitcoin holdings. ETF conversion fixed the discount but triggered massive outflows as investors who'd been trapped finally escaped.

**Others** — ARK 21Shares, Bitwise, VanEck, Invesco, and Franklin Templeton all launched competing products. The fee war drove expense ratios down to 0.2-0.25% for most, with some offering temporary fee waivers.

#### KEY INSIGHT

The ETF fee war benefits investors directly. Grayscale charged 2% annually for years when it had no competition. New ETFs charge 0.2-0.25% — a 90% reduction. For a \$100,000 position, that's \$1,750 saved annually. Over a decade, fee savings compound dramatically.

## How They Actually Work

Understanding the mechanics helps you evaluate what you're actually buying:

**Creation and redemption:** Authorised participants (large financial institutions) can create new ETF shares by delivering Bitcoin to the fund, or redeem shares by receiving Bitcoin. This arbitrage mechanism keeps the ETF price close to the underlying Bitcoin value.

**Custody:** The actual Bitcoin is held by qualified custodians — primarily Coinbase Custody for most ETFs, with Fidelity using its own solution. These are regulated, insured, institutional-grade storage facilities, not exchange hot wallets.

**Pricing:** ETFs trade during market hours (9:30 AM - 4:00 PM ET), while Bitcoin trades 24/7. This creates overnight gaps — you might see the ETF open significantly higher or lower than it closed, reflecting Bitcoin moves that happened while markets were closed.

**Tax treatment:** In most jurisdictions, ETF shares receive standard securities tax treatment. In the US, this means no wash sale rules apply (unlike stocks), but also no like-kind exchange benefits. Consult your tax advisor for your specific situation.

## ETFs vs. Direct Ownership

The choice between ETFs and direct Bitcoin ownership involves trade-offs that depend on your circumstances:

### **Choose ETFs if:**

- You want exposure through tax-advantaged accounts (IRAs, 401ks)
- Your institution requires regulated, audited securities
- You prefer familiar brokerage infrastructure
- You don't want custody responsibility
- You're making a passive allocation, not actively trading

### **Choose direct ownership if:**

- You want to actually use Bitcoin (payments, DeFi)
- You value self-custody and censorship resistance
- You want 24/7 trading access
- You're concerned about counterparty risk in the ETF structure
- You want to avoid the annual expense ratio

For most traditional investors making a portfolio allocation, ETFs are the obvious choice. For crypto-native users who value Bitcoin's core properties, direct ownership remains essential.

#### **THE RORY SUTHERLAND TAKE**

ETFs are Bitcoin for people who don't want Bitcoin — they want Bitcoin exposure. This sounds like criticism but isn't. Most people don't want to own oil barrels, gold bars, or wheat bushels either. They want financial exposure to these assets. The ETF strips away everything that makes Bitcoin philosophically interesting and keeps only what makes it financially interesting. For institutions, that's a feature, not a bug. You're not buying freedom from banks. You're buying an uncorrelated asset with an asymmetric return profile. Different product, same underlying.

## **Ethereum ETFs: The Second Wave**

Following Bitcoin's success, spot Ethereum ETFs launched in mid-2024. The reception was notably different:

**Lower initial demand:** Ethereum ETFs gathered billions but not at Bitcoin's pace. The investment thesis is more complex — Ethereum as a technology platform rather than digital gold.

**No staking:** Current Ethereum ETFs don't stake their holdings, meaning investors miss the 3-4% annual yield that direct ETH holders can earn. Regulatory clarity on staking may change this.

**Different investor base:** Bitcoin attracts macro investors and gold allocators. Ethereum attracts those betting on smart contract platforms and DeFi growth. The narratives serve different portfolio functions.

## What Flows Tell Us

ETF flows have become a significant market indicator. Daily flow data shows whether institutions are accumulating or distributing:

**Inflows signal:** New money entering the space, often from advisors adding crypto to client portfolios for the first time. Sustained inflows suggest expanding adoption.

**Outflows signal:** Profit-taking or risk reduction. Not necessarily bearish — could simply be rebalancing or tax-loss harvesting.

**The Grayscale factor:** GBTC saw massive outflows after ETF conversion as investors who'd been locked in finally exited. This skewed early flow data. As GBTC stabilises, net flow data becomes more meaningful.

Sophisticated investors watch net flows excluding GBTC, cumulative flow trends over weeks rather than days, and flow patterns relative to price action.

## The Risks Specific to ETFs

ETFs add a layer of intermediation that introduces distinct risks:

**Custodial concentration:** Most Bitcoin ETFs use Coinbase Custody. If Coinbase faced operational or regulatory problems, multiple ETFs would be affected simultaneously.

**Tracking error:** ETFs should closely track Bitcoin's price, but small deviations occur due to fees, timing differences, and operational costs. Generally minimal but worth monitoring.

**Market hours mismatch:** Bitcoin's 24/7 market means ETF holders can't react to weekend crashes or rallies. You're a passenger until Monday morning.

**Regulatory risk:** While SEC approval legitimised these products, regulatory frameworks evolve. Future restrictions remain possible, though increasingly unlikely given institutional entrenchment.

**Not your keys:** The crypto community's mantra — "not your keys, not your coins" — applies literally. ETF holders own shares in a fund, not Bitcoin. In extreme scenarios (fund closure, regulatory seizure), the distinction matters.

## The Investment Perspective

For traditional portfolio construction, Bitcoin ETFs offer a clean solution to a practical problem: how do you add crypto exposure without rebuilding your entire infrastructure?

**Position sizing:** Most institutional frameworks suggest 1-5% allocation to Bitcoin. Small enough that complete loss wouldn't be catastrophic. Large enough that meaningful appreciation would impact returns.

**Rebalancing:** ETF structure enables systematic rebalancing — selling when Bitcoin outperforms to maintain target weights, buying when it underperforms. This imposes discipline that direct holders often lack.

**Tax-advantaged accounts:** Perhaps the ETF's greatest value — the ability to hold Bitcoin in IRAs, 401ks, and other tax-advantaged wrappers. Tax-free growth or tax-deferred compounding significantly improves long-term returns.

*"The best investment is often the one you'll actually make. If ETF structure is the difference between a 2% allocation and no allocation, the ETF has already earned its fees."*

## What Changed, What Didn't

ETF approval marked Bitcoin's transition from fringe asset to institutional allocation. The world's largest asset managers now custody billions in Bitcoin. Financial advisors can recommend it without career risk. Pension funds can own it without special dispensation.

But Bitcoin itself is unchanged. The same network that processed transactions in 2009 processes them today. The 21 million supply cap remains immutable. The decentralisation that makes Bitcoin valuable is unaffected by how Wall Street chooses to package exposure to it.

ETFs are a distribution innovation, not a technological one. They change who can access Bitcoin, not what Bitcoin is. For traditional investors, that access was the missing piece. The rest — the philosophy, the technology, the monetary revolution — remains available for those who want to look deeper.

Most won't. And that's fine. You don't need to understand internal combustion to benefit from owning a car. You don't need to understand monetary theory to benefit from owning Bitcoin. The ETF makes that choice available to everyone.

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