

## Analyzing the Effects of Adding Bitcoin to Portfolio

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**Abstract :** This paper analyses the effect of adding Bitcoin, to the portfolio (stocks, bonds, Baltic index, MXEF, gold, real estate and crude oil) of an international investor by using daily data available from 2<sup>nd</sup> of July, 2010 to 2<sup>nd</sup> of August, 2016. We conclude that adding Bitcoin to portfolio, over the course of the considered period, always yielded a higher Sharpe ratio. This means that Bitcoin's returns offset its high volatility. This paper, recognizing the fact that Bitcoin is a relatively new asset class, gives the readers a basic idea about the working of the virtual currency, the increasing number developments in the financial industry revolving around it, its unique features and the detailed look into its continuously growing acceptance across different fronts (Banks, Merchants and Countries) globally. We also construct optimal portfolios to reflect the highly lucrative and largely unexplored opportunities associated with investment in Bitcoin.

**Keywords :** bitcoin, financial instruments, portfolio management, risk adjusted return

**Conference Title :** ICSRD 2020 : International Conference on Scientific Research and Development

**Conference Location :** Chicago, United States

**Conference Dates :** December 12-13, 2020