regarding investing in cryptocurrencies and digital assets.

Jun. 27, 2023

By Sonia Dumas.

As a tax and accounting professional, you will encounter clients who require guidance regarding investing in cryptocurrencies and digital assets. Here are some best practices to follow when advising clients involved in cryptocurrencies.

Understand the liabilities and limitations

Crypto investment is risky. Therefore, the foremost responsibility is to make your

Your clients should know their position in their respective countries. Otherwise, they might risk losing their investments.

Changing technology: One must contend with changing technologies when handling cryptocurrencies. Technology changes can necessitate protocol changes, causing significant interruptions in regular operations and the price of the coin.

Scalability: Scaling is one of the prime concerns of trading in cryptos. Infrastructure limitations exist, and technology needs more advancements to address such issues.

Security: While blockchain technology is considered safe, cryptocurrency trading and decentralized finance (DeFi) platforms are vulnerable to malicious actors that can exploit smart contract code and cause heavy losses for users.

Help your client assess their risk profile

Evaluating the client's risk profile is crucial for any crypto investment. As a tax and financial planning professional, you can help your clients think strategically to balance the potential return on crypto investments with its potential risks. The following three risk factors play a critical role:

1. **Risk capacity:** One should only invest as much in crypto as one can afford to lose.
2. **Risk requirement:** Make the client understand the risks involved in any crypto investment.
3. **Risk tolerance:** This measures how much risk or losses the client can tolerate psychologically. It's easy to be overly confident in a bull market, but are they prepared for the seasonal downturn?

Open discussions about a client's risk profile are a key part of advisory. The goal is to help clients think through a game plan for best- and worst-case scenarios.

Understanding client goals

- Ask if they have a cybersecurity plan to protect their digital assets.

Final words

Investing or trading in crypto is not as easy as traditional investments. Hence, tax and management professionals should be careful when advising clients about crypto investments, and trading benefits and drawbacks. Understanding the disadvantages and limitations of investing or trading in crypto is more crucial than knowing the benefits.

Furthermore, cryptocurrency values have a notorious reputation for fluctuating wildly; thorough knowledge of the crypto market and its functioning is vital. In addition, cybersecurity is a critical issue, as malicious actors are notorious for exploiting the target's limited understanding of cryptocurrency, blockchain technology, and its security aspects.

As the world shifts into the next evolution of the internet, the macro outlook for blockchain technology is filled with possibilities. Staying up to date will help you to have informed conversations with clients and proactively prepare as more taxpayers and businesses incorporate digital assets and payments into their everyday lives.

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Editor's note: This is an excerpt from Sonia Dumas' Cryptocurrency Guide. Download the guide here.

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