How I think about personal finances & investing in crypto

By Richard D. Bartlett, updated Nov 11, 2021

After a lifetime of living paycheck to paycheck, I have finally learned how to be pretty good with money. Hooray! The 2020 Covid lockdown created the right moment for me to “knuckle down” and figure out a plan to get on top of my finances and start making headway towards more financial freedom.

I’m writing this article because I like explaining things. I’ll start out with the big picture view, how I learned to manage my personal finances, and then drop into more specific investment strategies, focused on cryptocurrency where the big risk-and-returns are.

I’m playing an extremely risky game, so if you do what I do you are likely to take big losses sometimes. You might also make big wins like I have (I’m up about 5X over the last year). I’m not qualified to give financial advice, so this is not advice *per se*, it’s a personal story that you can mix in with your other research. Questions are welcome, just add comments to this doc.

Building better money habits

When I started out, I was living paycheck to paycheck. I had very inconsistent income and expenses because I was a freelancer who travelled a lot. My habits kept me oscillating around approximately $0. My attitude was basically to spend money when I had it and to switch to a rice-and-beans diet when I didn’t.

At the start of the pandemic, I read Carl Richards’ book The One Page Financial Plan. It’s pretty basic but it got me focussed in a useful way. Here’s what’s on my one-page plan:

- **What’s my dream? What’s the money for?**
  I want to create prosperity for generosity. What about you?

- **Summary of current debts & assets**
  Approximate figures are fine, just list all the places I have money stashed and any loans I have to repay.

- **Current income & spending habits**
  This is important: I did a "fearless inventory", going through all my spending over the past couple of years to calculate how much am I actually spending on various categories (like rent, food, travel etc).

- **Monthly budget for future spending & saving**
  Are there any easy places to reduce spending?

After I wrote that 1-pager, I set a regular recurring event in my calendar. Now there's a 2 hour block on the first Monday of every month, where I sit down and do any financial housekeeping: bookkeeping, taxes, paying bills etc. (This interrupts my previous habit of ignoring my finances as much as possible.)

For the first few months, I was really disciplined in this process, counting accurate numbers for how much I was spending in each category of expenses, and then setting goals. E.g. I spent €600 on food last month, can I reduce that to €500 this month without sacrificing too much quality of life?

Basically the goal here is to end each month with at least a small surplus. Sometimes it's only €20. But this is the rigour: to **always spend a bit less than I am earning**. Simple right?

After doing this for about 5 or 6 months, my spending habits changed. I became just a little more aware of my choices, a bit more able to forego short-term pleasure for long-term rewards. So now I don't need to be very strict about counting every expense. I have a good-enough approximate sense of how my money flows, so I can always spend less than I'm earning, which means I'm always accumulating savings. Now it feels like a fun game for me. *(Wow I wish I had learned this skill sometime in the previous 35 years!)*

Saving & Investing in Crypto

A few months after I finally started reliably accumulating savings, I got a very lucky break. A cryptocurrency project I randomly supported back in 2018 suddenly exploded in price, turning my $300 bet into a $30,000 windfall. This is more money than I've ever had access to personally. So I had a mini existential crisis for a minute, and then I learned how to take investing seriously. So in the rest of this piece I will share specific crypto investment strategies that I've used, and then I'll wrap up with some more "big picture" thinking.

Specific Crypto Investing Strategies

I'll share the strategies I've used, in order of increasing complicatedness. The first one is very straightforward, but after that the learning curve gets steeper.

There's so much to learn, but there's also literally thousands of nerds who want to help you find your way. You can join a learning program like Kernel (8 week cohort-based course), Rabbithole (get paid to learn), and SheFi (education for women). There's tonnes of educational content on Youtube, like Finematics and Taiki Maeda too.

For me, the best way to learn is with friends. I recommend starting a group chat with a few other learners and you can support each other as you navigate this huge overload of information.

Copy strategies

I often recommend Iconomi as one of the first places to start. It's a platform where you can copy other people's investment strategies.

There are many strategies to choose from. I have about 10% of my total portfolio allocated to "Metastrategy", which is run by my friend. It's like an index fund tracking the performance of many projects. It means I get to profit from whichever projects are doing well, and I don't have to do a bunch of research and keep up to date. Here's the performance over the past 12 months:

It's up 600% in the past year, about twice as profitable as holding Bitcoin.

⚠️ Note, if you had bought in at the worst possible timing on May 9th, two weeks later you would have been 50% down. That's a punch in the gut. However, if you had held your nerve, you would be back to square one by August 24th, and 50% up by mid November.

If you live in Europe, Iconomi is a very good option. It is very simple to use and very profitable for me so far. You can still use it if you live outside Europe, but depending on your location you might need to buy BTC or ETH elsewhere, and transfer it to Iconomi. It's regulated by the UK Financial Authority, unlike much of the crypto "Wild West".

(A decentralised alternative to Iconomi is Tokensets on Ethereum & Polygon.)

Buy and hold tokens for long-term gains

The other easy-ish place to start is to just buy a few tokens and forget about it. It will probably turn out well eventually. Just don't lose your password.

I started out with a few $100 bets, I bought some of the biggest cryptocurrencies (Bitcoin/BTC and Ethereum/ETH). The easiest place to buy depends on where you live. In New Zealand I used EasyCrypto; in Europe I use Binance. See also Coinbase, Transak, Crypto.com, and many others.

You can use a custodial service: you give them money and they hold your coins on your behalf. If you want to get more involved, then you may want to transfer your coins out to your own private wallet that only you can control (this is called DeFi - decentralised finance). I mostly use the Metamask wallet, which is compatible with the widest range of coins.

Here are some of the projects that I'm backing:

- lower risk: BTC and ETH
- mid risk: SOL, LUNA, ATOM
- higher risk: HOT, XCH, REGEN

I chose these because I think they are making genuinely interesting technology, and at least a few of them are likely to be extremely profitable over the next couple of years.

Crypto savings accounts: earning interest on stablecoins

A stablecoin is a cryptocurrency that is pegged to the value of the US dollar. This means, instead of earning money from price changes, you can get paid to lend your money out to other investors and traders.

If you are willing to climb a relatively steep learning curve, there are many opportunities to earn 20% interest rates on stablecoins.

Currently I have about 20% of my portfolio in stablecoins distributed across various platforms:

- Anchor on Terra, earning a steady 20% annual yield
- mStable on Polygon, earning 5-30%, fairly volatile returns
- Curve on Avalanche, earning >20%, also volatile

Terra, Polygon, and Avalanche are all different blockchain ecosystems, they each have their own wallets and onramps and incentives and... there's a lot to learn. Any one of them could collapse overnight, so I reduce the risk by spreading across multiple platforms. You could further reduce risk by buying insurance (e.g. from Nexus Mutual), but personally I don't bother because I prefer feeling the full intensity with no safety belt.

If you don't want to commit to the massive learning curve, custodial services like Coinbase, Crypto.com and Celsius offer smaller interest rates in return for a much simpler user experience. Still, the 5-10% you earn there is a lot better than the 0.2% your bank is offering (which doesn't even keep up with losses to inflation).

DeFi 2.0

If you want to get really deep into the rabbithole, the hot new thing of 2021 is called DeFi 2.0. New means it is very complicated and very risky, but so far it is also paying extremely high rewards, like Olympus on Ethereum and Klima on Polygon. Klima is particularly interesting because they're using crypto's "get rich quick" dynamics to drive up the price of carbon offsets, making it more expensive to be a polluter and more profitable to do carbon sequestration. My friend wrote this guide for beginners who want to get into these projects.

Mental models for thinking about investment

Know your risk profile.
I'm 36, I have high earning potential, low debts, no kids, and my rent is paid for the next 6 months. So I can afford to take on a lot of risk. I keep enough money "safe" so that my life won't be massively disturbed if I lost all my crypto.

Sometimes I do a kind of "death meditation", looking at my portfolio and imagining "how would I feel if tomorrow the value of all my crypto drops 80%?" (This is a realistic scenario.) I use that to calibrate my risk tolerance.

Only risk what you can afford to lose.
If you lost $100 on your way to the grocery store tomorrow, will that be a big problem for your finances this week? If your answer is no, then you can afford to risk $100 on crypto investing. Treat it like gambling. Risky, fun, addictive & ethically questionable!

When to take profit
I keep about 20% of my crypto assets in "stablecoins" (i.e. tokens that are fixed to always be worth US$1). When one of my tokens blows up in price, that will take up a bigger share of my portfolio, so my stablecoins will be worth less than 20% of the whole. So that tells me I need to sell a portion and restore the 20% stablecoin ratio.

I treat the total value of my portfolio as a vanity metric. It's not helpful data, because the price fluctuations are so intense; it would be sad to get attached to a number and then see it drop 80% overnight. Instead, I try to only pay attention to the stablecoin balance as my "real money".

Diversify asset classes
More diversity = less risk. This means you should diversify "asset classes", e.g. some cash, some stocks, some crypto. Each of these asset classes have different risk profiles. Don't put all your eggs in one basket: the whole stock market could crash significantly in one day, so you want to hedge your bets by having a balanced portfolio of different asset classes.

I mean "balanced portfolio" in a specific sense: e.g. let's say I start the year with $10k in a savings account, $10k in the stock market, and $10k in crypto. That's a 1:1:1 ratio. The crypto suddenly goes up to $70k, so now my ratio is 1:1:7.

The risky, tempting thing to do is take all my savings and stocks and put them into crypto. *Value is going up! Let's make a bigger bet and get more money!*

The safer, counter-intuitive thing to do, is to sell a bunch of the crypto and rebalance my portfolio back to the 1:1:1 ratio (i.e. sell $40k of the crypto and split it between savings and stocks so there's $30k in each).

I use 1:1:1 as a simple example: you have to choose the risk profile to suit you. If you are young, with low expenses and high earning potential, you may be able to tolerate a high degree of risk. If you're getting closer to retirement, you will want to have less risk, more security (and less profitable bets).

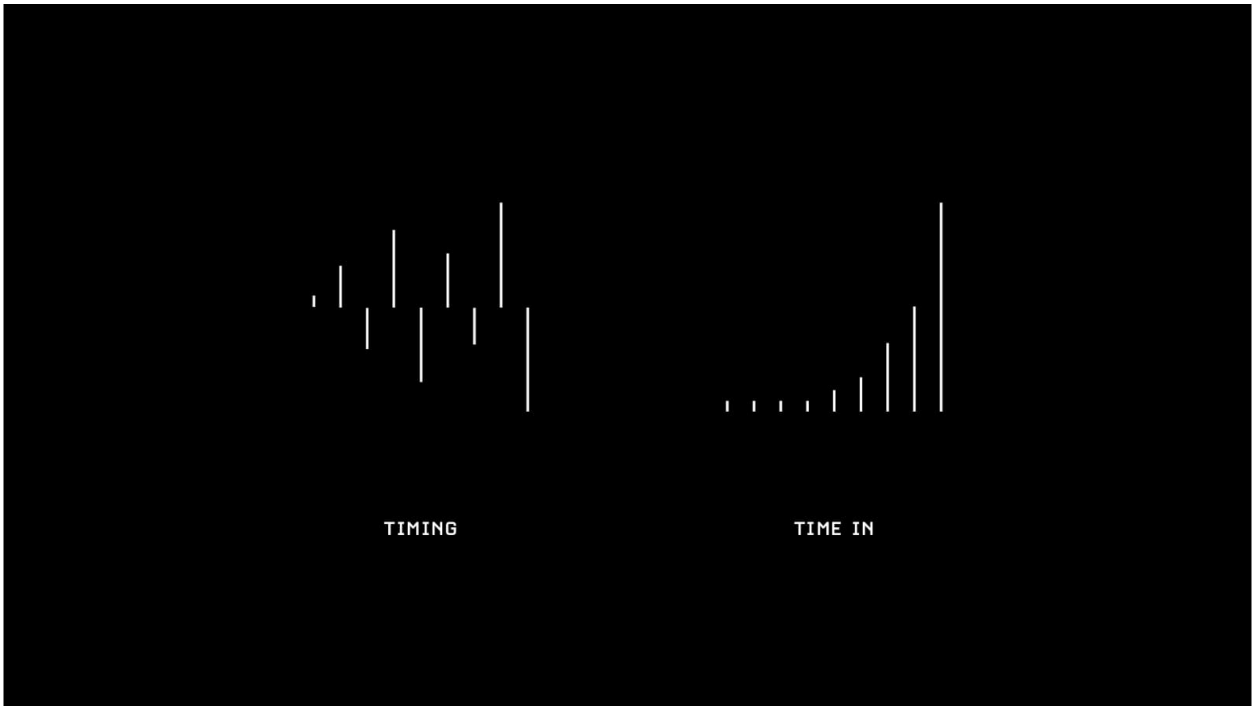
Within the crypto world, there are also further classes of risk. As a rough heuristic, you can assume that coins with a smaller market cap are more risky (and therefore could generate more returns, if you pick the right one). You can see a list of coins ordered by market cap here: https://coinmarketcap.com/

(FYI speaking of stockmarket investing: I use eToro for stocks, because it has the same "copy trading" approach as Iconomi -- my money is on a user called @misterg23.)

Timing the market

If you want to get very obsessive and pay attention to the markets all day every day, you may be able to make money by getting good at guessing the timing of the ups and downs. It's more likely though that you will get it wrong and lose money, unless you're smarter than the majority of market participants.

If you would rather put in less effort and get positive results, a better strategy is *patience*. Make some sensible bets, and then forget about them for a few years.



If you lose your nerve when the price drops, you may be tempted to sell, to reduce the amount you are losing. When the price is dropping you'll see crypto people talk about "HODL": hold on for dear life. That means, make a bet, stick to it, hold on for the long haul, and you'll probably come out positive in the long run.

Buy low, sell high
This sounds obvious, but it is the opposite of what your emotions tell you. Your emotions say:

- Oh my god, this coin just went up 10X today! I should buy it!
- Oh my god, the value has dropped in half! We should sell to reduce losses!

Your emotions are not helpful in these kinds of investment decisions, sorry. Buy things when they are cheap, and sell when they are valuable. Buy stuff that you think is going to increase in value.

Dollar cost averaging (DCA)
If you want to completely avoid the temptation to guess the timing of the market's short term ups and downs, you can use the DCA strategy. This means for example, you put in $100 per month, consistently every month, regardless of what the market is doing. This is sensible if you believe in the long term prospects of the asset you are buying, and don't want to get distracted by the short term ups and downs. More here.

Digital money needs digital security.
I use a password manager and complicated & unique passwords, and I use 2-factor authentication on everything.

When I use a centralised service like Coinbase, Binance or Iconomi, that means I have to trust their security. These centralised services are convenient, and some of them are regulated by institutions that are designed to protect me from scams. But they play a custodial role for my money: that means if they get hacked, or if aggressive regulation kicks in, they could take everything away.

When I use a decentralised service like Uniswap or Metamask, then I am in complete control of my coins. That means no one can take it away, but it also means there is no one to go to for help if I do something wrong (like losing my password).

I tell my friends that if they're going to play with small amounts, the risk of using centralised services is probably fine. They're much more user friendly, so a good place to start. But for larger amounts you may want to take direct control of your money and don't trust custodial services. Just make sure you know how to store funds securely (e.g. cold wallet with recovery details stored offline).

Closing thoughts

Long Term Outlook

Here's the long term price chart for Bitcoin. Note it is logarithmic: every step up the vertical axis is 10x bigger than the previous step. I'm expecting it to keep going up, then down, then up some more. I'm guessing a peak of somewhere between $100k-300k for this cycle, followed by a massive drop (50-80%) before the end of 2021.

Here's Ethereum:

You can see the curves are somewhat in sync: the two biggest cryptocurrencies had a big peak and crash around Christmas 2017, and they're both currently reaching all-time highs (ATH's). They are extremely different projects, so why should the price charts be so similar? Because you can think of the whole crypto market as a single entity that goes through fashions of more or less optimism. We're currently at peak optimism, hence me writing this article and fantasising about early retirement.

Looking at these charts, my expectation is that the whole crypto market is going to keep going up for 1-6 months, then it will drop suddenly and severely. You could buy right before the drop, and in the short term, it will look like you lost money. But if you buy one of the top 10 coins and hold it for the long run, I expect it to come out positive over the next couple of years. Note for example if you bought $200 of Ethereum in early 2020 you would now have $2800 worth. I don't have a good reason to imagine this trend is going to stop soon.

The big fluctuations are caused by speculation: people trying to make money out of money by making good bets. But underneath all that, I think there is a huge potential for genuine value to be created in this space (e.g. resilient distributed communications systems beyond corporate control; new organisational structures for cooperative ownership; incentivising carbon sequestration and other ecological good deeds; giving unbanked people access to efficient &

secure economic services). So if that prediction is true, the people who buy in early are likely to be rewarded with big profits.

Do your research

If you want to understand the "fundamentals", ie. the underlying actual value of the stuff you are investing in, there is a lot of material for you to learn about, it can be a very time consuming hobby.

My friend Stephen Reid shares good info, e.g. here is his intro to crypto investing, and an interview with him about the possibilities of crypto for cooperatives. Update: I've written more about the fundamentals of the technology, with an overview of the current crypto space in this article.

If you understand the ecosystem better, you are in a better position to make bets on projects when they are in a very early stage. Because of my confidence in the Holochain project, I bought their coin as soon as it was available (2018). It's currently worth about 100X more than I paid for it. I also have my eye on Seeds, Regen, and Circles for example -- I think of them as being similar to where Holochain was in 2018, and they're all doing stuff that aligns with my values.

Tax

You need to pay tax on capital gains. Rules depend on where you live, so you need local advice. It may be helpful to use specialised accounting software like TokenTax.

Ethics

How do you feel about currency speculation? Making money from money? Making huge carbon emissions to maintain a digital accounting system? (Note: many of the newer projects are much much less energy intensive than the extremely high consumption of the Bitcoin network.)

I've spent a long time working super hard trying to create an ethical livelihood for myself. But I've earned as much from a single good bet on Holochain ($300 -> $30,000) as I can expect to earn from months of working on stuff I believe in. How can I factor this into my ethical decisions?

My political analysis says the inequalities of capitalism are responsible for most of the world's problems, and here I am making money from a hyperactive kind of capitalism. So should I just opt out? Opting out doesn't make a measurable difference to the world. Maybe I can get some of this easy money and use it for something I believe in? Maybe I can support crypto projects that I expect are going to have a positive impact? But how to spot the difference between genuine value and a pyramid scheme? I don't think there's an easy answer so I just leave you with the questions.

Referral links

If you sign up with these links then I get a little reward, and you get fee discounts:

- iconomi.com/register?ref=U37oU (I use it for copying crypto strategies)
- accounts.binance.com/en/register?ref=29299076 (I use it when I want to exchange the coins that I hold, e.g. trading ETH for HOT)
- etoro.tw/2UuBYRa (I use it for stocks, it uses the same strategy-copying idea as Iconomi)