# LPL’s Blockchain Portfolio: Forward Thinking or Foolish?

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### The independent broker-dealer’s move is being hotly debated by industry players and observers.

LPL Financial moved Friday to be the first independent broker-dealer to offer a blockchain portfolio. But is such a step the right way to go?

“Whether what they are bringing to the market has any meat to it or not, broker-dealers like to be seen as early adopters of new technology,” said independent-advisor recruiter Jon Henschen.

“It positions them as cutting edge and innovative in the eyes of the industry,” according to Henschen. “We saw the same thing when consolidated client statements were new with Nathan & Lewis [Securities] and social media with Cambridge [Investment Research] at the forefront.

Blockchain is a digital ledger system that can be used to record transactions in cryptocurrencies like Bitcoin or Ether. The technology has other potential uses, like records management or smart contracts. Holdings in the portfolio include SAP, IBM, Microsoft, UPS and Aetna.

LPL’s separately managed account offering is a “new strategy [that] can further help our advisors differentiate their practices in the marketplace,” said Chief Investment Officer Burt White, in a statement.

The IBD’s announcement came one day after a top Securities and Exchange Commission official said that the cryptocurrency

Ether was not a security and would not be regulated by the agency.

“We are proud to be able to lead the industry by leveraging our scale and expertise to provide low-cost solutions that support our advisors’ ability to meet market demands,” White added.

According to a recent report from Wintergreen Research, the global market for blockchain in 2017 was an estimated $708 million. But that figure could hit $60.7 billion in 2024, it says, as firms like IBM and Microsoft drive use of blockchain and their clients’ transition to cloud services.

Not everyone, though, is convinced that blockchain’s future success is secure.

“I’ve never known any encryption technology not to be broken,” said George Friedman, founder of the online publication Geopolitical Futures, on CNBC last week. “It’s useful. It’s visible … [but] at some point it’ll be obsolete.”

Friedman pointed to the possibility that intelligence services in Russia, China and the U.S. could decrypt it.

The forecaster also stated that blockchain is “one of those hypes. People [are] profiting from it, [and] making extraordinary claims about it.”

Executive recruiter Mark Elzweig echoes these sentiments.

“It sounds like LPL wants to have a portfolio to satisfy investors who want to invest in blockchain-related companies,” Elzweig explained. “Still, this is a high-risk SMA, so advisors will need to be sure that investors understand that an investment like this is a real roll of the dice that could easily go to zero.”

**Smart Move?**

As of mid-June, five blockchain-focused ETFs have about $385 million in assets, according to ETFTrends.

In light of these readily available products, advisor and blogger Michael Kitces asked Friday on Twitter: “An SMA for blockchain-related stocks with a $50k minimum when you can already buy blockchain ETFs with no minimum? Really curious to know [the management] fee for this SMA, & how much LPL makes on [the] back end for distributing it vs. [a] simple ETF? Oh, and what advisor recommends these anyway!?”

According to LPL, the blockchain strategy has a management fee of 0.05% vs. a typical equity SMA management fee of 0.40%-0.50%.

“It’s absolutely a smart move. Blockchain is an emerging technology that people want access to efficiently as an investment. These blockchain [holdings] are not cryptocurrencies,” said Tim Welsh, head of the consultancy Nexus Strategy and a former Charles Schwab executive, in an interview.

Blockchain is “a fundamental technology with massive applications and potential,” Welsh explained. “Maybe it’s not for grandma [to invest in], but for those looking for a technology-focused, growth portfolio it could be good exposure.”