investment strategist says

Natasha Dailey Feb 2, 2022, 9:24 AM

Bitcoin has tumbled to far below November's high of close to $69,000. Dado Ruvic/Reuters

- **Companies like EV maker Tesla and software firm MicroStrategy have bought bitcoin with corporate cash.**
- **That move may have "severe" consequences, according to strategist Jerry Klein.**
- **If there's a large loss on the investment, investors could lose confidence in the company, he wrote.**
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A year ago on February 8, Tesla revealed it had added $1.5 billion worth of bitcoin to its balance sheet — opening itself to three big risks, according to one strategist.

When companies like Tesla and MicroStrategy use cash on hand to invest in crypto, they risk monetary losses, decreased investor confidence, and accounting troubles, said Jerry Klein, managing director of New York-based investment firm Treasury Partners, which has $19 billion in assets under management.

"Companies could lose a significant portion of their corporate cash by investing in bitcoin," he wrote in an email to Insider, adding that the penalty for losing that bitcoin," he wrote in an email to Insider, adding that the penalty for losing that capital can be "severe."

"Investors in public companies have historically not been tolerant of losses from corporate cash investing," he said. "Should a public company incur a large loss from its corporate cash investment, investors could lose confidence in the company."

Bitcoin purchases also come with "cumbersome" accounting, said Klein. Because the cryptocurrency is treated like an intangible asset, companies must account for unrealized losses and can only recognize gains by selling the bitcoin, creating a "no-win situation."

For example, Tesla revealed in October it took a $51 million impairment charge for its bitcoin holdings in the third quarter. And MicroStrategy, the software firm headed by bitcoin bull Michael Saylor, said late Tuesday it took a $146.6 million impairment charge in the fourth quarter on its bitcoin holdings, up from $65.2 million in the quarter before. As of January 31, the firm has 125,051 bitcoins in its coffers that it purchased for $3.78 billion.

According to Klein, the purpose of corporate cash is "capital preservation," not appreciation, which is why companies should focus on safe, liquid assets like fixed income securities, instead of volatile assets like cryptocurrencies.

Bitcoin, the largest cryptocurrency by market value, has long been a volatile asset. The cryptocurrency surged to an all-time high around $69,000 in November and has since slumped below $40,000 amid a broader market rout. But, since its inception in 2015, the cryptocurrency has surged more than 11,000% as of Wednesday, and some have predicted it could reach prices above $100,000 — maybe even higher.

Even so, Klein said chief financial officers aren't interested in "speculative investments" that could affect earnings.

"The return of capital is more important than the return on the capital," he wrote.

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