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THE EFFECT OF CRYPTOCURRENCIES IN PORTFOLIO MANAGEMENT

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ABSTRACT

Purpose- The investment instinct that has come from the past years and the developing technology provides new opportunities. The transaction volumes of cryptocurrencies, especially Bitcoin, which have entered our lives since 2008, have increased significantly in the last few years. The high volatility, high return, and high risk in cryptocurrencies attract some investors, although it is attractive to some. The primary purpose of this study is to investigate the usability of cryptocurrencies in portfolio management and how they will affect portfolio returns.
Methodology- Daily data from January 1, 2019, to December 31, 2020, were used in the study. The return, risk, and Sharpe ratios of portfolios created with stocks and new portfolios created by adding crypto currencies compared.
Findings- The analysis reveals that portfolios including cryptocurrencies have both higher risk rates and higher returns. It was concluded that the Sharpe ratios of the portfolios created in 2019 were high, and the portfolio performance was good.
Conclusion- According to the study, the returns of portfolios that include cryptocurrencies are higher than portfolios that are not included. Moreover, due to the volatility of the cryptocurrency market, the investor should consider the possible risks.

Keywords: Cryptocurrencies, portfolio, portfolio management, Sharpe ratio, Bitcoin.
JEL Codes: G10, G11

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