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# ‘Not a Bunch of Weirdos’: Why Mainstream Investors Buy Crypto

Bitcoin might seem like the preferred tender of conspiracy theorists and criminals, but everyday investors are increasingly embracing crypto. A study of 59 million consumers by Marco Di Maggio and colleagues paints a shockingly ordinary picture of today's cryptocurrency buyer. What do they stand to gain?

In a little more than a decade, investors have transformed cryptocurrency from a techno-curiosity into a trillion-dollar-plus opportunity that has the potential to one day reshape the global economy. Yet in the past 10 years, little has been revealed about the investors who have signed on for this wild ride.

That is, until now. A new study by Harvard Business School professor Marco Di Maggio shows that on average, cryptocurrency investors have higher household incomes, live in wealthier and more educated ZIP codes, like to gamble, frequently use credit cards, and often overdraft their checking accounts.

Moreover, these investors are drawn by the lure of potentially higher returns in a “lottery-style payoff” than investors expect with traditional investments. Plus, the COVID-19 stimulus money led new investors to experiment with cryptocurrencies, according to the study.

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Yet while crypto investors might have a higher risk tolerance than more typical investors, in many ways they’re more mainstream than some might imagine, Di Maggio says. Crypto investors, he says, make decisions based on the same variables as other investors, which shows they “are not a bunch of weirdos. They look and act just like investors in traditional asset markets.”

Understanding this market is increasingly important. Cryptocurrencies’ global value has boomed to a market capitalization of $3 trillion in 2021—still small compared to the $125 trillion total global equity market, but a growing force to be reckoned with, according to the research. "Crypto is seeing large-scale adoption," Di Maggio says.

At the same time, the industry finds itself in the spotlight of regulators who are exploring ways to tighten control of the fledgling market. In addition, despite the growth of cryptocurrency, many consumers and businesses remain skeptical.

The findings, the authors say, provide the first large-scale portrait of cryptocurrency investors, offering valuable insights for regulators, financial professionals, businesses, and consumers in understanding this emerging market.

A study of 59 million US consumers

Di Maggio, the Ogunlesi Family Associate Professor of Business Administration at HBS, collaborated on the research with Darren Aiello, Jason Kotter, and Mark J. Johnson of Brigham Young University; Scott R. Baker of the Northwestern University Kellogg School of Management; and Tetyana Balyuk of the Emory University Goizeta Business School.

The economists analyzed the bank account and credit card transactions of more than 59 million US consumers between January 2010 and May 2021. They then supplemented this massive database with demographic data, such as income ranges and places of residence.

To complete their study, the researchers focused on transaction records and descriptions showing deposits to and withdrawals from major cryptocurrency exchanges, such as Coinbase.

One of the significant strengths of the data, the authors say, was the ability to examine financial information and the decisions of crypto and non-crypto investors to make comparisons. The breadth of the data also allowed the team to compare crypto investing behavior to traditional investment vehicles by the same set of investors to draw additional conclusions.

Two surges in crypto's popularity

The heart of the paper sought to answer a fundamental question: Who invests in crypto? Among the findings:

- Booming interest in Bitcoin in 2017 drove new investors into cryptocurrency at a rate of about 10,000 people per month.
- Three years later, a second surge brought in new investors but at a slower rate of about 5,000 investors per month.
- During both periods, investors devoted about 3 percent of deposits and 6 percent of spending to purchasing cryptocurrency.
- Sixty percent of crypto transactions are made by investors earning more than $75,000, while those earning $45,000 or less accounted for another 20 percent of the transactions.

This shows, Di Maggio says, that the crypto market consists of "average US investors that are using crypto as an alternative asset class in their portfolio."

Impact of COVID-19 stimulus

Fiscal policy to help support the US economy during the pandemic gave researchers an opportunity to look at the impact of an influx of liquidity into the market and its relationship to cryptocurrency investing.

Di Maggio and his team examined levels of cryptocurrency investing at intervals that aligned with the timing of US stimulus payments. Economists had predicted that because stimulus money went to many households that didn't necessarily need it, much of the money would be invested or saved, rather than spent to spur the economy.

"We found that they were using the stimulus money partly by consuming it, partly by paying their liabilities, and partly by investing it into both traditional assets and crypto."

Di Maggio found that was only partially true. His analysis of transactions from the database found that consumers invested $5.09 in crypto and $8.23 in traditional assets for every $1,000 in stimulus money.

"We found an effect, but it's not that big," he says. "That's why I say it doesn't feel like these investors are doing anything crazy. We found that they were using the stimulus money partly by consuming it, partly by paying their liabilities, and partly by investing it into both traditional assets and crypto."

What to know about cryptocurrency investors

Di Maggio's findings offer some key insights about the world of cryptocurrency investing:

- More people are embracing crypto. Managers who have been contemplating whether it makes sense for their companies to start accepting cryptocurrency as a form of payment may want to consider doing so. Since the study suggests that crypto investing has edged into the mainstream, it means businesses are likely to see more consumer demand for spending of crypto as a currency in lieu of dollars and cents.
- Crypto may offer inflation protection. Not withstanding the correlation between crypto tokens and other assets has increased over time, Di Maggio found indications that household investors still saw crypto as a hedge against price increases. Many in the investment community have argued that cryptocurrencies, Bitcoin in particular, provide a hedge against inflation because they are not subject to the decisions of a government or central bank, and feature a limited supply schedule that make Bitcoin resemble digital gold.
- Investors often don't stick with crypto for the long haul. Investors seem more willing to cash out of crypto investments than traditional investments, a sign that some are drawn by the promise of a lottery-style payout.

For managers and business leaders, "one reasonable view is that the market is more mature than people believe … We are not talking about a niche market anymore," says Di Maggio.