Risks

You must evaluate your particular financial circumstances to determine whether or not trading cryptocurrencies is appropriate for you. You should not invest funds in cryptocurrencies that you cannot afford to lose. The trading of cryptocurrencies can result in substantial losses, including most if not all of your investment. For that reason, you should not use funds that are earmarked for special purposes, such as retirement funds, debt repayment funds, amounts needed for emergency expenses, tuition or household expenses or funds otherwise required by your lifestyle, to trade cryptocurrencies.

Unique Features of Cryptocurrencies.

Cryptocurrencies are digital instruments that are intended to function as a store of value or a medium of exchange. Although cryptocurrencies are often exchangeable for various fiat currencies, unlike fiat currencies, cryptocurrencies are not backed by any government or central bank and do not constitute legal tender. Cryptocurrencies have no intrinsic value and there is no investment underlying cryptocurrencies. The price of cryptocurrencies is based on the agreement of the parties to a transaction, which may or may not be based on the market value of the cryptocurrency at the time of the transaction.

Insurance.

Accounts holding cryptocurrencies are not protected by SIPC coverage. Cryptocurrencies are also not covered by the FDIC, which covers fiat currency held in member banks. Existing insurance products are inadequate to cover potential losses if an exchange fails and/or digital wallets are hacked.

Price Volatility.

Cryptocurrencies derive their value from the markets in which they trade, and the markets for cryptocurrencies are global. The price of cryptocurrencies is based on the perceived value of the cryptocurrency and subject to changes in sentiment, which make these products highly volatile and unpredictable. The fluctuations of cryptocurrency prices are much greater than the price fluctuations of fiat currencies, which are also risky to trade. Certain cryptocurrencies have experienced daily price volatility of more than 20%, including sudden drops in price. If participants in a given cryptocurrency market change their view about the value of a given cryptocurrency versus fiat currency, the price of the cryptocurrency can decline precipitously. It may be difficult to liquidate a position in cryptocurrencies at all or, if possible, such liquidation may occur at a significant loss. It is possible that the market for a given cryptocurrency can collapse altogether.

Valuation and Liquidity.

Cryptocurrencies can be traded through privately negotiated transactions and through numerous cryptocurrency exchanges and intermediaries around the world, each with its own pricing mechanism and/or order book. Generally accepted auditing methods for cryptocurrencies do not exist and cryptocurrency platforms do not have consistent methods for auditing their holdings and some do not have audits at all. The lack of generally accepted auditing methods and a centralized pricing source poses
a variety of valuation challenges. In addition, the dispersed liquidity may pose challenges for market participants trying to exit a position, particularly during periods of stress.

Cybersecurity.

The cybersecurity risks of cryptocurrencies and related “wallets” or spot exchanges include hacking vulnerabilities, cybersecurity attacks and a risk that publicly distributed ledgers may not be immutable. A cybersecurity event could result in a substantial, immediate and irreversible loss for market participants that trade cryptocurrencies. Cryptocurrency transactions may be irreversible, and, accordingly, losses due to a cybersecurity event may not be recoverable. Even a minor cybersecurity event in a cryptocurrency is likely to result in downward price pressure on that product and potentially other cryptocurrencies. In addition, the trading of cryptocurrencies may be adversely affected by network connectivity issues and dissemination of inaccurate data. You may incur losses due to software or hardware failures and system failures.

Opaque Spot Market.

Not only are the cryptocurrency markets volatile, but they are subject to fraud and other trading aberrations. Cryptocurrency balances are generally maintained as an address on the blockchain and are accessed through private keys, which may be held by a market participant or a custodian. Although cryptocurrency transactions are typically publicly available on a blockchain or distributed ledger, the public address does not identify the controller, owner or holder of the private key. Unlike bank and brokerage accounts, cryptocurrency exchanges and custodians that hold cryptocurrencies do not always identify the owner. The opaque underlying spot market poses asset verification challenges for market participants, regulators and auditors and gives rise to an increased risk of manipulation and fraud, including the potential for Ponzi schemes, bucket shops and pump and dump schemes, which may undermine market confidence in a cryptocurrency and negatively impact its price. Most cryptocurrency platforms do not have surveillance systems and rules intended to prevent market manipulation or other forms of abusive trading nor do they have the ability to enforce such rules. Trading by employees of the platforms and the platform themselves are often not adequately restricted to prevent trading abuses.

Cryptocurrency Exchanges, Intermediaries and Custodians.

Cryptocurrency exchanges, as well as other intermediaries, custodians and vendors used to facilitate cryptocurrency transactions, are relatively new and largely unregulated in both the United States and many foreign jurisdictions. There are no standard capital requirements for cryptocurrency platforms nor are there guarantors in the event a cryptocurrency exchange fails. The opaque underlying spot market and lack of regulatory oversight creates a risk that a cryptocurrency exchange may not hold sufficient cryptocurrencies or other funds to satisfy its obligations and that such deficiency may not be easily identified or discovered.

In addition to a higher level of operational risk than regulated futures or securities exchanges, cryptocurrency exchanges can experience volatile market movements, flash crashes, fraud, various forms of market manipulation, theft, transaction processing delays and other cybersecurity risks. Trading in cryptocurrencies may be halted by the various trading venues due to unusual trading activity, outages or
other problems with a cryptocurrency platform. If Apex Crypto experiences such technical difficulties, those difficulties could prevent you from accessing the cryptocurrency in your Apex Crypto account. Apex Crypto may not have sufficient financial coverage through bonds, insurance or other products to repay your losses.

Some cryptocurrency transactions shall be deemed to be made when recorded on a public ledger, which is not necessarily the date or time that the customer initiates the transaction. Before you engage in trading cryptocurrencies, you must become familiar with the platform on which the relevant cryptocurrency trades. Generally, there is limited information about the various cryptocurrency platforms and because these platforms are complex and technically difficult for the average person to understand, you will need to put forth substantial effort to obtain the information necessary to understand the risks you are undertaking. You should understand the functions, operations and uses as well as the history for the platforms on which you invest. As described above, some platforms are subject to a variety of serious attacks, which may result in the loss of your cryptocurrency.

**Regulatory Landscape.**

Different geographic locations have different rules, or oftentimes no rules, that apply to the trading of cryptocurrencies. One or more jurisdictions may, in the future, adopt laws, regulations or directives that affect cryptocurrency networks and their users. Changes in government regulation, such as the suspending or restricting of trading activity in a particular cryptocurrency or currencies, may adversely affect your ability to trade and exchange your cryptocurrencies and may decrease the value of any cryptocurrency in your account.

In the United States, cryptocurrency markets are not subject to federal regulatory oversight, but cryptocurrency exchanges are subject to federal anti-money laundering regulation and may be regulated by one or more state regulatory bodies. As compared to regulated markets, such as the United States securities markets, there are no uniform regulations governing trading or other mechanisms to prevent market manipulation or to normalize the cryptocurrency markets when they experience volatility issues. Unlike the laws, rules and regulations governing the United States securities markets, there are generally no laws, rules or regulations that require anyone to continue to support a cryptocurrency market, and there is no assurance that a person who accepts a virtual currency as payment today will continue to do so in the future.

Notwithstanding the foregoing, many cryptocurrency derivatives are subject to regulation by the CFTC. In addition, the SEC has cautioned that many initial coin or “token” offerings are likely to fall within the definition of a security and subject to U.S. securities laws. As a result, cryptocurrencies currently face an uncertain regulatory landscape in the United States and many foreign jurisdictions.

**Technology.**

The relatively new and rapidly evolving technology underlying cryptocurrencies introduces unique risks. For example, a unique private key is required to access, use or transfer a cryptocurrency on a blockchain or distributed ledger. The loss, theft or destruction of a private key may result in an irreversible loss.
Changes in the technology of a given cryptocurrency platform or changes resulting from cybersecurity attacks include but are not limited to a “fork,” which can have a negative impact on the value of a particular cryptocurrency and can result in the loss or cancellation of a cryptocurrency position or a sudden loss of value. The ability to participate in forks could also have implications for investors. For example, a market participant holding a cryptocurrency position through a cryptocurrency exchange may be adversely impacted if the exchange does not allow its customers to participate in a fork that creates a new product.

**Transaction Fees.**

Many cryptocurrencies allow market participants to offer miners (i.e., parties that process transactions and record them on a blockchain or distributed ledger) the ability to earn a fee. While not mandatory, a fee is generally necessary to ensure that a transaction is promptly recorded on a blockchain or distributed ledger. The amounts of these fees are subject to market forces, and it is possible that the fees could increase substantially during a period of stress. In addition, cryptocurrency exchanges, wallet providers and other custodians may charge relatively high fees as compared to custodians in many other financial markets.

**Investor Alerts**