

Decoding cryptocurrency: What long-term investors need to know

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EXECUTIVE SUMMARY

- Bitcoin and other cryptocurrencies operate outside the traditional financial system. Unlike the U.S. dollar, whose supply and circulation are governed by the Federal Reserve, cryptocurrencies function without oversight from any bank, government, or central authority, relying instead on decentralized blockchain technology.
- As cryptocurrencies and blockchain applications continue to generate interest, investors are increasingly asking whether digital assets merit a place in a long-term investment portfolio—a question that warrants careful, objective analysis.
- Bitcoin's persistent volatility stems largely from the absence of a consensus valuation framework, and its price remains driven primarily by market sentiment rather than fundamental value drivers such as cash flows or earnings. That said, the investment landscape is evolving: regulatory frameworks are taking shape domestically and globally, institutional adoption is broadening, and the asset class continues to mature.
- While these developments are encouraging, meaningful risks and structural challenges remain. Investors considering cryptocurrency exposure should conduct thorough due diligence, recognizing that despite increasing regulatory clarity, the asset class presents both evolving opportunities and persistent challenges that warrant careful individual consideration.

Few asset classes have generated as much debate, enthusiasm, and interest among investors over the past two years as Bitcoin and the broader cryptocurrency market. From January 2024—when the first 11 spot Bitcoin exchange traded funds (ETFs) launched in the United States to historic trading volumes exceeding \$4.6 billion on opening day—the period has been defined by landmark milestones and significant price movements in both directions. The post-2024 election environment drove Bitcoin up approximately 34% from Election Day through year-end 2024, reflecting strong investor optimism, while subsequent market activity demonstrated the asset's characteristic sensitivity to evolving policy developments. As with many emerging asset classes, sentiment in the crypto market tends to be highly responsive to macroeconomic and political developments.

By early 2026, a broader risk-off environment driven by rising geopolitical tensions contributed to price retracement across risk assets, including Bitcoin. Against this backdrop of rapid institutional adoption, evolving regulation, and dynamic price behavior, the fundamental question for investors remains as relevant as ever: Does cryptocurrency merit a place in a well-constructed, long-term investment portfolio, and if so, on what terms?

What is blockchain, and how does it relate to cryptocurrency?

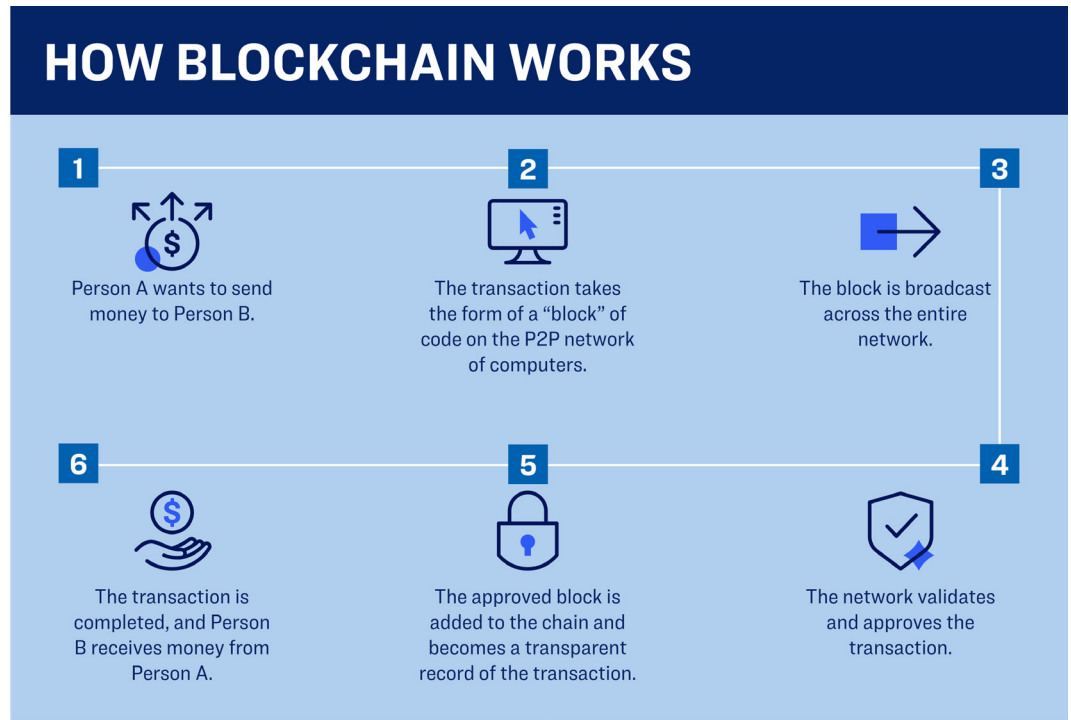
Introduced in 2009, Bitcoin was the first of thousands of digital currencies built on a technology called blockchain—a decentralized, peer-to-peer network of millions of computers that records and verifies transactions on a public ledger. Once a transaction is entered and verified, it becomes

permanent. Because each block in the chain is linked to those before and after it, altering any single record is computationally prohibitive (Figure 1).

Unlike traditional currencies, cryptocurrencies are not issued or controlled by any government, central bank, or financial institution. Instead, trust is established through the underlying digital code, which governs the rules of each currency and enables peer-to-peer transactions without a central intermediary.

FIGURE 1

Overview of how blockchain technology works.



Source: TIAA Wealth Management.

That said, cryptocurrencies are not without limitations. They are not yet widely accepted as a medium of exchange in the way traditional fiat currencies are, and they face scalability constraints relative to established payment systems. Their decentralized structure also introduces security vulnerabilities, including exposure to hacking, fraud, and scams.

Why are cryptocurrencies volatile?

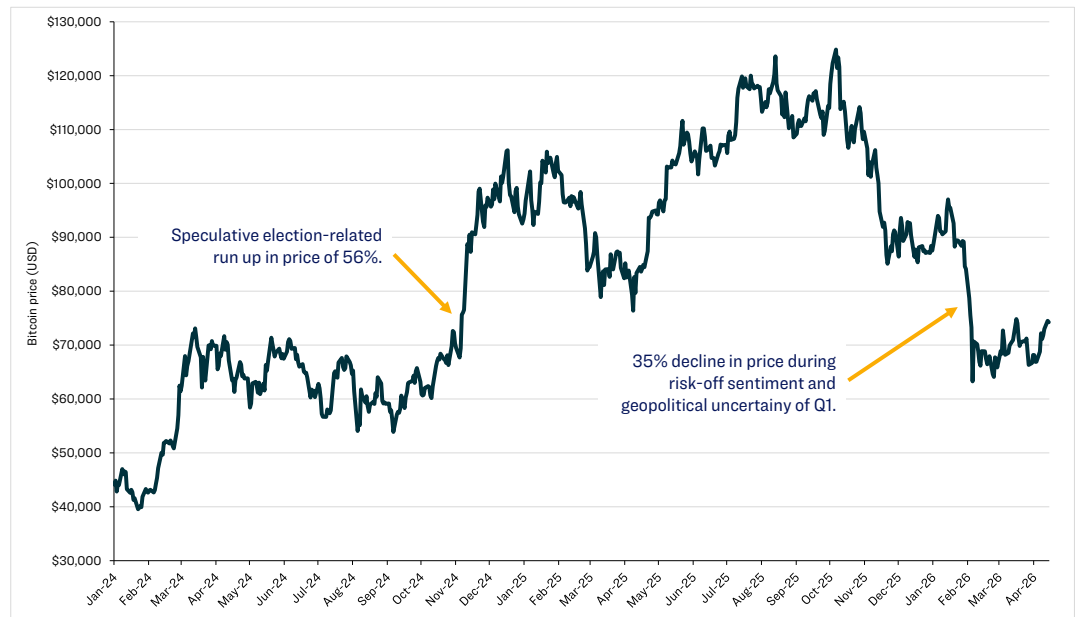
Many cryptocurrency prices lack transparent, fundamental value anchors—there are no earnings, cash flows, dividends, or physical commodity backing. As a result, prices are driven primarily by sentiment, speculation, and shifting market narratives, making sharp price swings an enduring feature of the asset class. Historical context illustrates the magnitude of this volatility: Bitcoin experienced five separate drawdowns of 30% or more in 2017 alone, and more than a dozen corrections of 10% or greater occurred between 2023 and 2025.

Following the November 2024 U.S. election, Bitcoin surged approximately 34% through year-end, driven by expectations that the incoming Trump administration would adopt a more permissive regulatory stance toward crypto. That optimism swelled through 2025 and peaked in early October 2025, when Bitcoin hit a new high of nearly \$125,000, before reversing course and finishing the year down 30% from the all-time high.

By early 2026, Bitcoin faced renewed headwinds as rising geopolitical tensions contributed to a broad risk-off environment across financial markets. Bitcoin was not immune, suffering meaningful drawdowns in the first quarter and trading ~45% below its previous 2025 peak (Figure 2).

FIGURE 2

Bitcoin price movements, January 2024 – April 2026.

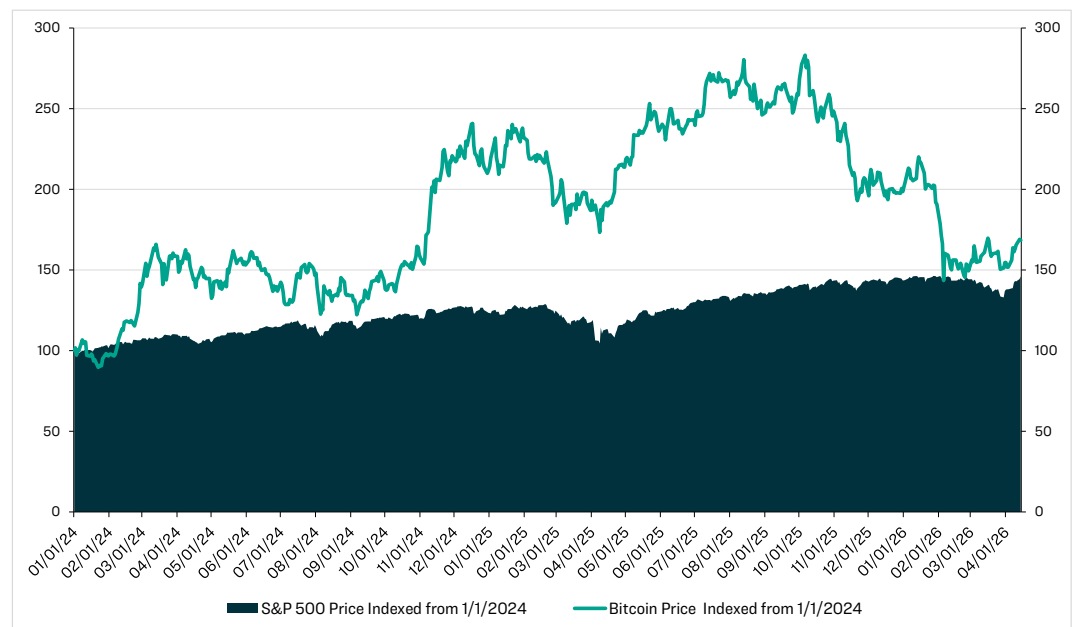


Source: FactSet Financial Data & Analytics, TIAA Wealth Management.

An important nuance on correlation: while Bitcoin and U.S. equities have shown broadly positive correlation since 2020, that relationship was weak and at times slightly negative between 2010 and 2019. This instability makes it difficult for long-term investors to reliably model how cryptocurrency will behave within a diversified portfolio across different market cycles. Bitcoin’s day-to-day price swings have consistently and substantially exceeded those of the S&P 500, and its behavior during stress periods remains inconsistent and difficult to predict (Figure 3). That said, Bitcoin has also demonstrated significant price appreciation over certain long-term holding periods, though its history of pronounced volatility also highlights its inherent and material downside risk.

FIGURE 3

Daily performance of the S&P 500 and Bitcoin (indexed).



Source: FactSet Financial Data & Analytics, TIAA Wealth Management.

Is the regulatory environment changing?

Yes—and meaningfully so, though the work is far from complete.

One of the most structurally significant developments in the crypto ecosystem has been the rapid growth of stablecoins—digital currencies designed to maintain a stable value by pegging to a reference asset, most commonly the U.S. dollar (USD). A USD-pegged stablecoin maintains a 1:1 parity with fiat reserves held off-chain, with the issuer responsible for ensuring coins in circulation do not exceed the value of those reserves.

The practical benefits are real: stablecoins enable real-time, cross-border payments; reduce costs associated with currency volatility; and offer a degree of protection against local currency devaluation. These features have driven rapid adoption globally, with adjusted stablecoin [transaction volume](#) estimated at over \$13 trillion over the prior 12 months—the vast majority denominated in USD-pegged instruments.

In the U.S., the bipartisan Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act, signed into law in July 2025, established the first formal federal framework for crypto oversight, addressing reserve requirements, issuer accountability, and consumer protections. The Trump administration's establishment of a Strategic Bitcoin Reserve in 2025 also added a new dimension to the institutional landscape, signaling that the U.S. government views Bitcoin as a strategic asset worthy of sovereign-level accumulation. This is historically significant. However, government accumulation does not, by itself, address the open questions around Bitcoin's valuation frameworks: the absence of cash flows, earnings, or intrinsic value benchmarks that have long complicated institutional and individual investment decisions alike.

These are significant steps forward. However, a balanced assessment requires acknowledging their limits. Regulatory clarity around stablecoins does not resolve the valuation challenges facing Bitcoin and other volatile cryptocurrencies. Cross-border enforcement coordination remains nascent given the decentralized nature of crypto markets. And the GENIUS Act itself continues to evolve, with consumer protection, anti-money laundering compliance, and reserve auditing standards still being refined.

A series of downside-protected Bitcoin ETFs launched in 2025, designed to attract investors previously deterred by Bitcoin's sharp drawdowns. These products represent genuine financial innovation, offering structured exposure with partial principal protection. However, downside protection typically comes at the cost of capped upside participation, and these instruments carry added complexity—including counterparty risk, layered fee structures, and optionality mechanics—that warrant careful evaluation.

Key considerations for long-term investors

Bitcoin's persistent volatility reflects a fundamental absence of consensus on how to value it. Its price is determined solely by what market participants believe it is worth on any given day. There is no earnings stream, no dividend, no coupon, no cash flow, and no physical commodity underpinning it. For investors who depend on their portfolios to generate income and preserve capital—particularly in retirement—these are not abstract concerns.

A balanced assessment requires acknowledging both the opportunities and the risks with equal rigor.

- On the opportunity side, the Bitcoin ETF ecosystem has meaningfully lowered barriers to entry, reduced custody risk, and created a more transparent and accessible vehicle than direct ownership. Institutional adoption continues to grow, with major asset managers, pension funds, and sovereign wealth vehicles increasing their Bitcoin exposure—a development that may, over time, provide a more stable demand base. Bitcoin’s fixed supply of 21 million coins offers a mathematically verifiable scarcity that is genuinely differentiated from fiat currencies subject to monetary expansion. And the underlying blockchain technology continues to demonstrate real-world utility across financial services, supply chain management, healthcare, and other industries.
- On the risk side, investors must weigh several serious considerations. Bitcoin has experienced multiple drawdowns of nearly 50% from peak levels. Crypto markets remain vulnerable to hacking, fraud, exchange insolvency, and manipulation; the collapse of the FTX coin in 2022 remains a vivid reminder that custody and counterparty risks are real. Bitcoin’s positive correlation with equities during broad market stress events means it may not provide the diversification benefit investors seek precisely when they need it most. And of the thousands of cryptocurrencies currently in existence, a majority are likely to fail.

A historical parallel: The dot-com era

The current cryptocurrency environment bears some resemblance to the internet boom of the 1990s. Early internet companies were difficult to value, speculation was rampant, and capital poured into ventures with no earnings and limited business models. The resulting collapse was severe—the Nasdaq fell 78% from its peak between 2000 and 2002 (Figure 4). Yet the internet itself did not fail; it transformed the global economy. The companies that survived the shake-out became among the most valuable enterprises in history, while many others disappeared entirely.

FIGURE 4

The dot-com bubble of 2000; Nasdaq compared to the S&P 500 and DJIA.



Source: Morningstar Direct, TIAA Wealth Management.

The parallel is instructive, but it has limits. Early internet companies were, fundamentally, businesses in search of a revenue model. Bitcoin is better understood as a new form of money or store of value in search of consensus—a different challenge with different timelines and risks. Unlike internet companies, Bitcoin and most cryptocurrencies do not generate revenue, earnings, or economic output in the traditional sense.

As TIAA Wealth Management Chief Investment Officer Niladri “Neel” Mukherjee has observed: “When we look at the historical performance of stock or bond investments, we are able to analyze trends and performance over the course of many decades and across multiple market cycles using established metrics like cash flows to help assess their value. While growing enthusiasm around crypto adoption and Bitcoin ETFs reflects meaningful momentum for the industry, from an investment perspective, value drivers are still maturing and continue to be more fully understood by market participants. As with many emerging asset classes, it is reasonable to expect that among the thousands of coins available—meme, alt, utility, stable, etc.—not all will gain lasting traction, and similar to the evolution of the internet, the industry will likely continue to experience its own periods of consolidation and transformation.”

Conclusion

The cryptocurrency landscape has changed considerably since Bitcoin’s inception, and the pace of change is accelerating. Regulatory frameworks are being established, institutional adoption is broadening, and product innovation is making the asset class more accessible. These are genuine and meaningful developments.

At the same time, the fundamental challenges facing long-term investors remain largely intact: the absence of intrinsic valuation frameworks, extreme and unpredictable volatility, evolving regulatory risk, and a technology ecosystem still sorting out which applications and currencies will achieve durable adoption.

As of May 2026, Bitcoin and cryptocurrencies occupy a genuinely uncertain position in the investment landscape—one that combines legitimate transformative potential with real and material risks. For investors considering exposure, the key questions extend beyond near-term price direction. What role does crypto serve in the overall portfolio? What is my genuine risk tolerance for drawdowns of 50% or more? What is my time horizon? And do I have sufficient liquidity and income from other sources to withstand extended periods of volatility? These are the questions that matter most—and they deserve honest, individualized answers.

We remain attuned to the technological and regulatory developments in the crypto space and are watching this landscape closely. Individual investors interested in Bitcoin and other cryptocurrencies should conduct thorough due diligence before investing, consult qualified financial professionals, and ensure any exposure is appropriately sized relative to their broader financial picture.

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