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## What is Chainlink ETF and how does it work?

Original:

<https://www.btcc.com/en-US/academy/crypto-basics/what-is-chainlink-etf-and-how-does-it-work>



With Bitcoin and Ethereum ETFs now approved in the US, speculation is rife on which crypto could be next in line for an ETF. Investors are closely watching popular altcoins like Chainlink, Solana, and XRP, anticipating their ETF potential. Our [Chainlink](#) ETF guide delves into the possibilities of these regulated financial products and provides an update on their status in 2024. Read on to discover the latest insights and make informed decisions for your investment portfolio.

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## Potential of Chainlink ETF

Chainlink ETFs offer investors exposure to LINK, the native cryptocurrency of the Chainlink ecosystem. Chainlink, a renowned decentralized oracle network, bridges the gap between the blockchain and off-chain worlds, enabling global real-time information exchange for blockchains.

Within this ecosystem, LINK serves as the primary payment method, highlighting its integral role in the Chainlink network's operations. Investors seeking to tap into the potential of this innovative blockchain technology can explore Chainlink ETFs as a gateway to LINK investment.



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## Key Features to Expect in Chainlink ETF

Here are some compelling features you can anticipate from Chainlink ETFs:

Investors can expect direct exposure to Chainlink's decentralized oracle network, facilitating smart contracts' interaction with real-world data such as APIs and payment systems. With LINK as the primary asset, these ETFs empower investors to share in the growth of the Chainlink ecosystem. Aligning with Chainlink's decentralized governance principles, these ETFs could potentially grant holders a voice in strategic decisions vital to the fund's well-being.

Moreover, they offer enhanced exposure to DeFi platforms utilizing Chainlink's oracles, unlocking access to lucrative liquidity pools and yield farming prospects.

Additionally, Chainlink ETFs might harness smart contracts to dynamically adjust and rebalance holdings, responding to market shifts or predefined criteria. This innovative approach promises investors a seamless, market-responsive investment vehicle, deeply rooted in the Chainlink ecosystem.

# Chainlink ETF Guide: Understanding How It All Works

LINK ETFs function like regular ETFs, emphasizing digital assets and blockchain. Dive into the workings of Chainlink ETFs: How will they operate?



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## Chainlink ETF Working Process

The process of creating and redeeming shares in a Chainlink ETF mirrors that of traditional ETFs. Large financial institutions, known as authorized participants (APs), hold the key. They deposit an equivalent value of the underlying asset, LINK, to generate new ETF shares, receiving ETF shares in return. Alternatively, APs have the option to exchange ETF shares for the underlying Chainlink tokens, providing flexibility and liquidity.

This mechanism ensures a smooth flow between the ETF and its underlying asset, LINK, facilitating efficient trading and investment in the cryptocurrency market. The process of creating and redeeming shares in a Chainlink ETF mirrors that of traditional ETFs. Large financial institutions, known as authorized participants (APs), hold the key. They deposit an equal value of the underlying asset, LINK, to generate new ETF shares, receiving ETF shares in return. Conversely, these APs have the option to redeem ETF shares for the actual Chainlink tokens. This flexibility, coupled with the expertise of the APs, ensures a smooth and efficient ETF operation, providing investors with a secure and reliable way to gain exposure to Chainlink without directly holding the cryptocurrency.

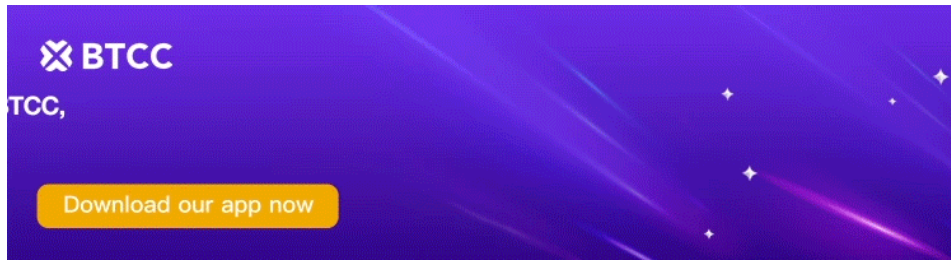
## What is the concept of underlying assets?

An underlying asset physically backs all ETFs, ensuring their value is directly tied to the performance of the asset they represent.

In the case of a Chainlink ETF, this means holding actual LINK tokens in a secure, institutional-grade custody solution. This provides investors with the security and assurance that the ETF's value mirrors Chainlink's performance.

For instance, the 21Shares Chainlink ETP offers 100% physical backing, securely storing LINK tokens in cold storage to maintain their safety and integrity. An underlying asset physically backs all ETFs, ensuring their value is directly tied to the asset's performance. In the case of a Chainlink ETF, this means holding actual LINK tokens securely in an institutional-grade custody solution. Such

backing gives investors security and assurance.



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## How Does Exchange Trading Work for Chainlink ETFs?

Just like traditional ETFs, Chainlink ETFs are listed and tradable on major stock exchanges. Investors seeking exposure to Chainlink can conveniently buy and sell ETF shares through their brokerage accounts, eliminating the need to engage with crypto wallets and exchanges.

One notable example is the Global X Chainlink ETP (LIOX), which trades on platforms like Deutsche Brse Xetra, providing investors with a cost-effective gateway to Chainlink. As of August 2024, it remains one of the few available options in the market, highlighting its uniqueness and potential within the investment landscape.

## What is the concept of a regulatory framework?

All ETFs undergo rigorous regulatory scrutiny for approval. Despite the widespread availability of similar products like Chainlink ETNs and other ETPs globally, Chainlink ETFs remain inaccessible in the U.S. due to regulatory constraints. The approval process, along with the underlying assets (LINK in this instance) and Authorized Participants (APs), forms the basis of LINK ETFs, highlighting the significance of the regulatory framework in determining their availability and operation.

All ETFs must undergo rigorous regulatory scrutiny before approval. Comparable products like Chainlink ETNs and other ETPs may be available globally, yet Chainlink ETFs remain inaccessible in the U.S. due to strict regulations. The approval process, the role of Authorized Participants (APs), and the status of the underlying asset (LINK, in this instance) are fundamental to the concept of LINK ETFs, shaping their availability and market position. The lack of regulatory approval for Chainlink ETFs in the U.S. underscores the significance of the regulatory framework in determining market access and product availability.



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## Are Chainlink ETFs Dominating the Market?

As mentioned, Chainlink ETFs are not yet approved in the U.S. Globally, while exchange-traded fund presence remains minimal, there are ETNs and other ETPs that offer insight into their structure and operation. Consider exploring these options to gain a better understanding of the exchange-traded landscape, despite the limited availability of Chainlink ETFs in the U.S. market. These products provide valuable insights for investors seeking to navigate the evolving exchange-traded ecosystem.

## Global Presence of Chainlink ETFs: Switzerland & Germany

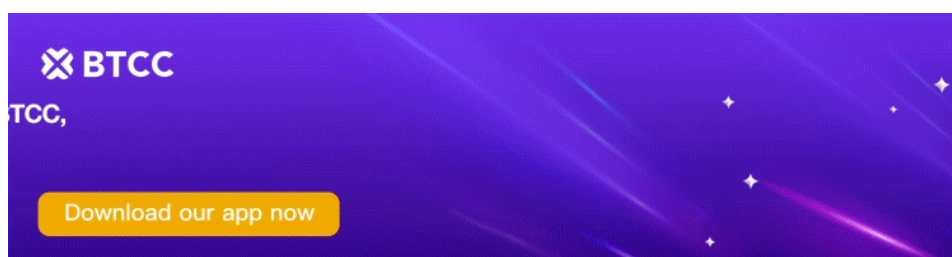
21Shares Chainlink ETP, ticker LINK and 21XL, ISIN CH1100083471, is an innovative Exchange-Traded Product listed as an ETN on SIX Swiss Exchange and Deutsche Brse Xetra. With \$12 million in Assets Under Management as of August 2, 2024, this ETP boasts a one-year return of +99.83%, despite a YTD return of -3.04%. Investors benefit from its 100% physical backing by LINK tokens, securely stored in cold storage by institutional-grade custodian Coinbase Custody Trust Company, LLC. Since 2018, the ETP has been carbon neutral, aligning with sustainability goals. Performance metrics include a one-year volatility of 79.71% and a maximum drawdown of -41.39%, while the expense ratio remains competitive at 2.50%. This ETP offers a unique way to invest in Chainlink, a leading decentralized oracle network, with transparency and security.

### Chainlink ETN in Germany

VanEck Chainlink ETN (VLNK) is an exchange-traded note listed on Deutsche Brse Xetra.

VanEck Chainlink ETN (VLNK) offers investors direct exposure to LINK tokens, replicating the MarketVector Chainlink VWAP Close Index. With an ISIN of DE000A3GXNV0, this exchange-traded note (ETN) is listed on Deutsche Brse Xetra, providing a seamless way to invest in Chainlink's global presence. As of August 2, 2024, the ETN managed assets worth \$4.2 million, demonstrating a significant market interest.

Despite a YTD return of -10.15%, it has delivered a remarkable one-year return of +165.60%, albeit with a volatility of 80.37%. Since inception, the maximum drawdown has been -41.92%. A key feature of the ETN is that it is fully collateralized and provides investors with the right to redeem against delivery of the respective cryptocurrency. LINK tokens are securely stored in cold storage, ensuring safety. With an expense ratio of 1.50% and a regulated crypto custodian, VanEck Chainlink ETN offers a robust and secure way to invest in Chainlink's global market presence.



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## What Are the Benefits of Investing in Chainlink ETFs?

Investing in cryptocurrency-backed exchange-traded products offers numerous advantages.

Among the most notable are enhanced portfolio diversification, straightforward crypto-focused investing, and greater transparency. Security is bolstered as the LINK tokens fully collateralize the ETPs and ETNs, securely stored in cold wallets.

Furthermore, investing in Chainlink ETFs aligns with environmental commitments, contributing to carbon neutrality. Tax benefits are another perk, and investors can expect attractive returns, as evidenced by the VanEck Chainlink ETN's impressive one-year return of +165.60%.

With these compelling benefits, investing in Chainlink ETFs is a smart choice for diversifying your portfolio and tapping into the potential of the cryptocurrency market. Investing in cryptocurrency-backed exchange-traded products offers numerous advantages. One of the primary benefits is portfolio diversification, as these products allow investors to easily incorporate crypto-focused investments into their portfolios.

## Chainlink ETF Potential Risks?

ETFs, being more akin to conventional market tools than typical crypto investments, offer a unique avenue for investors. However, when exploring crypto ETFs, several key factors deserve attention. Notably, regulatory risks surrounding cryptocurrencies are significant. Additionally, technological hazards, such as smart contract failures, pose potential threats. Liquidity risks, particularly on smaller exchanges, can also impact investors. Furthermore, security concerns and the absence of historical data create uncertainties. Market volatility, driven by shifting sentiments and perceptions, adds another layer of complexity. Lastly, counterparty risks must be carefully evaluated.



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## Chainlink ETF or Bitcoin ETF: Which Is the Better

# Investment?

Here's how Chainlink ETF compares to the crypto-based original. Discover the differences and similarities between these two ETF types.

Here's how the Chainlink ETF compares to the original crypto-based ETF. Discover the differences and similarities between Chainlink and Bitcoin ETFs. Which one suits your investment needs better?

## Chainlink ETF

- **Technology Uses:** Chainlink's proof of reserves
- **Volatility:** High due to DeFi integration
- **Use Case:** Focus on decentralized oracles and smart contracts
- **Market Adoption:** Growing in DeFi applications
- **Regulatory Status:** Evolving clarity

## Bitcoin ETF

- **Technology Uses:** Bitcoin's blockchain
- **Volatility:** High due to Bitcoin market swings
- **Use Case:** Digital gold and store of value
- **Market Adoption:** Widely adopted as a primary cryptocurrency
- **Regulatory Status:** Increasing regulatory acceptance

The following quote underscores the significance of Bitcoin ETFs in fueling the growth of Chainlink ETFs: "Net new buyers foster increased adoption and shape market cycles," said Sergey Nazarov, Co-Founder of Chainlink. This momentum shift towards Chainlink ETFs is largely attributed to the rise of Bitcoin ETFs.

## Chainlink ETF or Ethereum ETF: Which Is Better?

Chainlink ETFs should take cues from the recently approved Ethereum ETFs. Here's a breakdown of their key differences: Chainlink ETFs are based on a decentralized oracle network, specializing in securing off-chain data for smart contracts. This technology powers various specialized DeFi areas, leading to high volatility due to its integration in multiple projects. On the other hand, Ethereum ETFs center around the smart contract and DApp platform, widely adopted for building decentralized applications. Its extensive use in DeFi and DApps also contributes to significant volatility. Market-wise, Chainlink is growing in niche DeFi spaces, while Ethereum enjoys broader adoption across various blockchain applications. From a regulatory perspective, both are evolving, with Chainlink ETFs gaining clarity and Ethereum ETFs seeing increasing regulatory acceptance, mirroring the trends observed in Bitcoin ETFs already established in the U.S. market.

Chainlink ETFs should take cues from the recently approved Ethereum ETFs. When comparing Chainlink ETFs and Ethereum ETFs, several key differences emerge. Firstly, Chainlink ETFs are backed by a decentralized oracle network, which securely bridges off-chain data for smart contracts. Conversely, Ethereum ETFs are tied to the Ethereum platform, which serves as a foundation for building decentralized applications. In terms of volatility, Chainlink ETFs exhibit higher fluctuations due to their integration into multiple DeFi projects, while Ethereum ETFs also show significant volatility because of their extensive use in DeFi and DApps. The use cases for these ETFs diverge as well: Chainlink focuses on securing off-chain data for smart contracts, whereas Ethereum provides a platform for a wide range of blockchain applications. In terms of market adoption, Chainlink is growing in specialized DeFi niches, while Ethereum has been widely embraced across the blockchain ecosystem. Regulatory clarity is evolving for both, but Ethereum ETFs are seeing increasing regulatory acceptance. Interestingly, some aspects of the Ethereum ETF mirror those of the Bitcoin ETF, reflecting their presence and influence in the U.S. market.



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## **Are Chainlink ETFs Worth Getting Excited About?**

This Chainlink ETF guide reveals that although these TradFi-compatible investment tools haven't been sanctioned in the U.S. yet, their impact will be remarkable once authorized. ETF investments may provide extra security compared to direct LINK investments, but profits aren't assured. It's crucial to remember that all ETFs involve risk, and the crypto market remains volatile, regardless of your chosen investment approach. Investors should tread carefully, balancing potential rewards with the inherent risks of the market.