

## **The Role of Investor Perspectives on Cryptocurrency Integration in Sri Lankan Investment Portfolios Using the Black-Litterman Model**

Abayakoon, V.D.W.<sup>1</sup>, Piyananda, S.D.P.<sup>2</sup> and Herath, H.M.N.P.<sup>3</sup>

The study examines the integration of cryptocurrencies into investment portfolio diversification, emphasizing the influence of investor opinions on their portfolio strategy in Sri Lanka. The study has investigated how investor views impact portfolio optimization when cryptocurrencies are included into their investment portfolios. The Black-Litterman model was employed to assess this influence, incorporating historical prices of conventional equities, cryptocurrencies and other relevant financial data. The S&P20 index of the Colombo Stock Exchange represents the conventional equities while Bitcoin and Ethereum were used to benchmark cryptocurrencies for the study period of 2021 to 2023. The timeframe was strategically chosen to encapsulate both the pre-and post-COVID eras in Sri Lanka, thereby capturing the nuances of economic recovery from the crisis and the economic downfall. The findings from this timeframe indicate that incorporating investor views produced superior risk-return outcomes that significantly enhanced portfolio performance. The analysis emphasized that the post-implementation of investor viewpoints, the portfolio's volatility and anticipated returns align more closely with the investors' expectations. Accordingly, even with the high volatility of cryptocurrencies, the portfolio achieves optimal returns and Sharpe ratios with reduced overall volatility. This demonstrates the Black-Litterman model's efficacy in addressing the challenges posed by integrating cryptocurrencies into investment portfolios. The study highlights the potential of investor-informed strategies to improve portfolio diversification and the performance of their stock portfolio by incorporating cryptocurrencies. This provides novel insights to Sri Lankan investors, policymakers and portfolio managers on optimizing portfolio performances encompassing investor views and cryptocurrency investments.

**Keywords:** *Bitcoin, Black-Litterman, Cryptocurrency, Ethereum, Investor views, Portfolio diversification, Portfolio optimization*

---

<sup>1</sup> Department of Finance, Faculty of Commerce and Management Studies, University of Kelaniya  
199vinz@gmail.com

<sup>2</sup> Department of Finance, Faculty of Commerce and Management Studies, University of Kelaniya  
dhanushkap@kln.ac.lk

<sup>3</sup> Department of Finance, Faculty of Commerce and Management Studies, University of Kelaniya  
nethmih@kln.ac.lk