Cold storage against trading float

> **THE CUSTODY SPLIT**
>
> The operational answer to counterparty risk: the bulk of holdings in cold storage - self-custody, offline, no counterparty - and only an active trading float on exchanges, sized as the counterparty exposure it is. The split is the crypto risk plan's spine, it has its own operational risks (keys, backups, inheritance), and getting it right is the difference between an exchange failure being a setback and a ruin.

Counterparty exposure is sized, not eliminated - and the split is how it is sized in practice: most coins where there is no counterparty, a working float where the trading happens.

The two pools

Cold storage: the bulk of holdings, self-custodied offline - hardware wallets, secure keys, no exchange between the holder and the ledger. No counterparty risk, per module 1, and the safe home for anything not being actively traded.The trading float: the coins needed for the strategy's actual activity, on reputable venues, sized as counterparty exposure per lesson 5 and capped per venue - the working capital, deliberately small relative to the whole.The flow between them: rebalancing costs transfer fees and time (module 3), so the split is set deliberately and adjusted rarely, not shuffled - the transfer cost argues for a stable split.

Cold storage's own risks

Self-custody removes the counterparty and installs the operator - the holder becomes their own bank, with the bank's responsibilities: keys lost are coins lost forever, with no recovery and no appeal; backups must exist and be secure; and inheritance and incapacity are real problems a sole key-holder must solve. These are manageable risks - hardware, procedure, redundancy - but they are risks, and the honest split weighs cold storage's operational risk against the venue's counterparty risk rather than pretending self-custody is free of danger. It is safer for the right holdings; it is not safe by default.

The split as the plan's spine

The crypto risk plan is built around this split: how much on venues (bounded by counterparty caps), how much cold (bounded by operational capability), and how the float is replenished (bounded by transfer costs and the discipline of not over-trading). It is the asset class's distinctive risk decision - no other market makes the holder choose between counterparty risk and being their own custodian - and it is the operational form of module 1's opening truth: not your keys, not your coins. Module 4's remaining lessons cap the correlations and write the plan; the split is the structural choice underneath all of them.

Check your understanding

1. What does the custody split trade against what?

a. Return against liquidity

b. Cold storage's operational risk (lost keys, backups, inheritance) against the venue's counterparty risk - most coins where there is no counterparty, a small float where trading happens

c. Fees against speed

Answer: b. Self-custody removes the counterparty and installs the operator. The honest split weighs both real risks rather than pretending cold storage is free of danger.

2. Why is self-custody 'safer for the right holdings, not safe by default'?

a. It is always the safest option

b. It removes counterparty risk but installs operational risk - lost keys are unrecoverable, backups and inheritance are real problems - manageable, but genuinely risks

c. It is only safe on hardware wallets

Answer: b. The holder becomes their own bank, with the bank's responsibilities. Safer for long-term holdings than a venue; not free of danger - the split weighs both.