## Currency affairs

Bitcoin may be worth another look now that its price has settled down

>BY ARTHUR SALZER

**ONE OF MY FIRST BRUSHES WITH BITCOIN** was in May 2017 and I had just finished a TV interview at the SALT Conference (the world's largest hedge fund conference) held at the Bellagio in Las Vegas. Two of the serving staff walked up to me and asked, "What do you think about Bitcoin? We are thinking about buying some." At the time, the price of BTC was in the US\$2,000 range, but there were some eerie parallels with the dot-com bubble around the turn of the century. I told them, "While I have not invested any of my own or client capital into this sector, some of my friends who have been in since the \$100 range, have been selling on a regular basis to reduce the position size recently. I can't give you more advice than that."

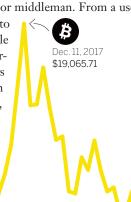
We all know now that the cryptocurrency bubble burst last year, with the price of BTC, which briefly peaked at more than US\$19,000 near the end of 2017, bottoming out at a little less than US\$3,200 12 months later. With prices (as of press time) back above US\$8,000, the question for many now is whether Bitcoin is more like the Amazon.com Inc. of this era or another Pets.com. The truth is that Bitcoin is open source software and is more akin to the internet, so it's a mistake to compare it to a company or a stock. Indeed, the chairman of the U.S. Securities and Exchange Commission has publicly said Bitcoin is not a security.

The more appropriate question is whether Bitcoin is an asset class to consider as part of a diversified portfolio?

Without going into a deep dive about the technology, Bitcoin is the first decentralized peer-to-peer payment network powered by its users without using a central bank, authority or middleman. From a user

perspective, Bitcoin has been compared to digital gold, in that it is global, immutable and a store of value. This latter characteristic of preserving the value of one's savings against inflation is why people invest in asset classes such as gold, real estate and, to a degree, public stocks. But Bitcoin is an asset class that is uncorrelated to these other asset classes, so it can provide diversification and the potential to improve portfolio returns for a given level of volatility.





**Bitcoin bubble**WEEKLY CLOSE OF
BTC, APRIL 9, 2017MAY 12, 2019 (USD)

As a result, sophisticated institutional investors such as the endowment plans of Yale and Harvard universities have begun allocations to the crypto asset class through fund offerings that tend to have Bitcoin as a core holding along with exposure to private-equity investments. Over the past year, dedicated funds that invest in underlying cryptocurrencies have launched, Bitcoin futures started trading on the Chicago Mercantile Exchange and custodial giants such as Fidelity Investments Inc. created custody and trading services for institutional clients and family offices.

In contrast, the regulatory environment has been slow to develop, as witnessed by the continued delays by the SEC in approving the listing of a Bitcoin exchange-traded fund, which would attract retail investors. Investors can still directly purchase Bitcoin, which is highly liquid since it trades through various exchanges 24 hours a day, 365 days a year, but large order sizes can shift the market, with 5% moves in a day not uncommon. Serious Bitcoin investors use the term HODL, which refers to a typo in a chat room in 2013 and means holding or being long Bitcoin despite the price fluctuations.

Investors can purchase and have custody directly through hot wallets, which are connected to the internet, making the funds highly accessible, but more vulnerable to phishing or hacking. Alternatively, cold, or paper wallets, are not connected to the internet and are, therefore, highly secure, albeit the funds are less accessible.

Investors should also be leery of holding Bitcoin as a long-term investment at an exchange. There have been hacks of exchanges such as Mt. Gox as well as a recent scandal involving QuadrigaCX, a Canadian crypto exchange currently in creditor protection due to what could be fraud, or the operation of a fractional reserve system.

Accredited investors, meanwhile, can invest in companies whose returns are connected to the growth of the asset class and maintain traditional capital structures. These investments are similar to venture capital and should be considered long-term, illiquid investments that are held at cost and marked up or down depending on funding rounds. Accredited investors can also invest with asset managers who may employ a variety of strategies to gain crypto asset exposure. There are typically two approaches: a public active approach, which is similar to a hedge fund structure and has an initial lock up, and a private approach, which utilizes an illiquid private partnership structure.

The Bitcoin network has worked for 10 years without interruption, has more than 32 million wallet addresses and is adding hundreds of thousands of new holders per month. With the bubble burst, and what appears to be the end of the so-called Crypto Winter pricing decline, now may be the time for investors to do some research into how to add this new asset class to their portfolios in a prudent manner. **FPM** 



Source: Yahoo Finance