



[CryptAM's Monthly \(Annual\) Newsletter](#)

A little longer than usual, we take a peer back into the milestone successes of CryptAM's young, but fruitful, corporate history. On the other hand, it's safe to say that 2018 year-on-year price action displayed exactly the opposite of 2017. Despite positive market infrastructure and regulatory clarity developments, as of on Dec. 31, 2018, the top ten market capitalizations and the prices of each coin were vastly different than the previous years close.

From our perspective, we view the heightened volatility as a positive, clearing the weaker and more speculative hands, making way for professional / institutional investors, which having been eyeing attractive entry points into the digital asset markets as the case for an alternative and diversifying asset class strengthens.

CryptAM Active Selection Strategy

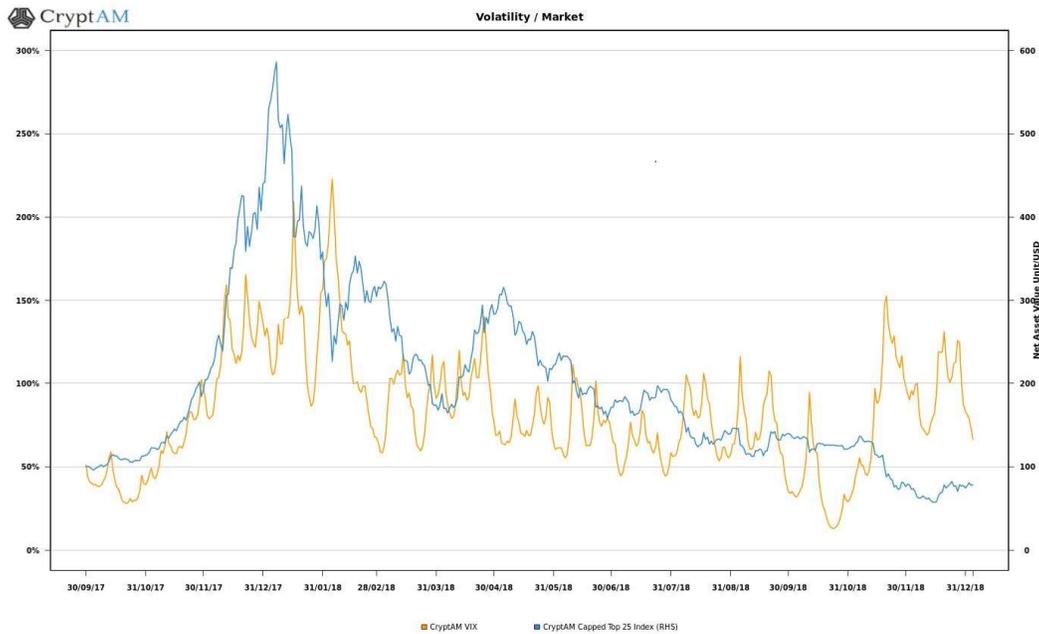
2018 will be characterized by record market risk levels and high pairwise correlation, meaning little diversification benefit between differing digital assets. Our own CryptAM VIX (Volatility Index) averaged 85% risk for the year with much of the increase in volatility coming in from Q4-2018 as risk rose from 20% to 150%. To place this in perspective, 2017 and 2016 had average risk level of 80% and 45%, respectively. Market liquidity decreased in H1-2018 adding difficulty to execute without slippage (eating inside of the order book). Overall, through the year, we made improvements to our execution, signed new partnerships and developed new systems in-house to ensure we bring our execution closer to a semi-automated state and improve overall risk management.

Inline with our multi-strategy focus, we deploy a sophisticated quantitative market timing approach so that we can attempt to mitigate downside. In our view, as this market matures, fundamental analysis will play an

increasingly important role, and that we see certain digital assets out or under perform due to idiosyncratic events. In such an environment, diversification will create increased value for holders of well diversified strategies.

Performance wise, we marginally outperformed our benchmark index, an uncapped top 25 market index. April was the most positive month, our CryptAM Active Selection Strategy had an overall performance of 72% while bitcoin returned 33%. July to September was a tough environment as markets moved sideways with lower volatility. This environment was short lived as risk levels spiked and our underlying quantitative signals aimed to hedge downside through being short through selected derivative contracts. Our quantitative market signals help to inform us and provide effective market timing. The CryptAM Active Selection Strategy delivered 18% and 21% for the month of November and December, respectively (vs. Bitcoin).

CryptAM Volatility and Top 25 Index Uncapped Market Pricing



Corporate Milestones

As a digital asset management start-up, we are proud of our humble heritage. We moved offices 3 times within the year in order to accommodate our growing business vision. Being experienced traditional asset management professionals, in 2018 we raised external funding through a series-A funding process, worked closely with government agencies to promote the blockchain and digital asset industry as an area of new job creation and

economic activity, recruited new team members and provided thought leadership on how this market could / should professionalize. Please see our education and thought leadership by visiting our “media” page website link below.

<https://www.cryptam.fund/media.php>

Our Corporate History



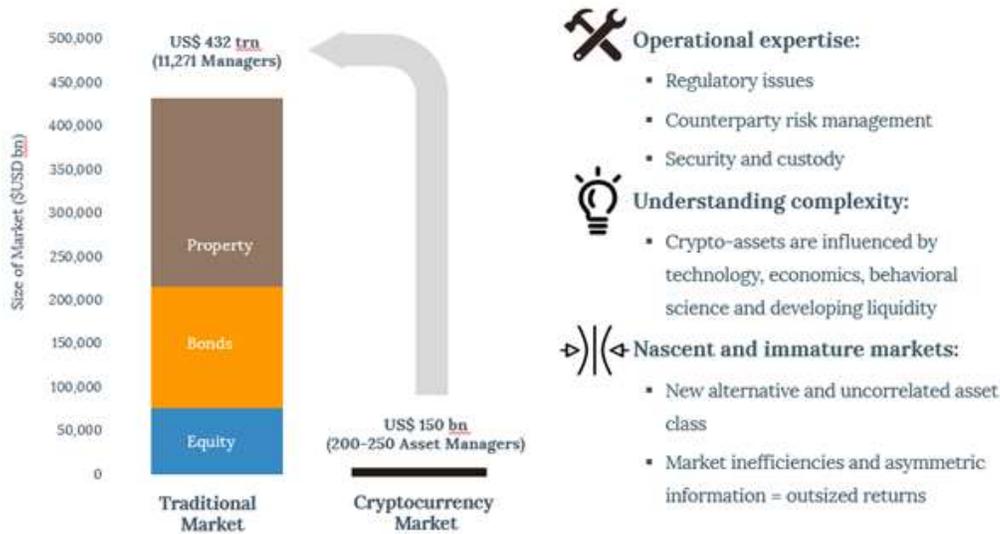
Source: CryptAM, December 2018.

Market Review: A Rear-View Mirror Look

The institutionalization of digital asset management remains in a golden era. 2018's price run-up and subsequent fall of secondary market prices pushed digital assets into mainstream media news flow. Multiple professional investors have become involved and CryptAM remains well positioned to benefit from the continued uptick in general interest in this volatile, but uncorrelated, asset class.

Investors' increasingly require a seasoned team of professionals which can provide operational expertise and a firm understanding of this complex market. CryptAM is focused full time on managing the market and operational risks to accredited investors.

Professional Digital Asset Services to Grow Exponentially:



Source: CryptAM, ICI (investment company handbook), Bloomberg, Boston Consulting Group, The Money Project. estimates extrapolated from 'Seeking Alpha', author Kevin Gao, December 2018.

After an intense 2017, filled with a digital asset price upswing, 2018 was loaded with a number of ups and downs. With the majority of digital assets falling well over 70 percent in value from their all-time highs, the year was also filled with lots of headlines about digital currency regulations, exchange hacks, and postponed institutional involvement; e.g. exchange-traded funds. However, our observations point towards crypto-finance taking large leaps as it's industrial use-case thesis rapidly morphs; i.e. holding and trading a digital asset means different things to different people, depending on one's geo-political situation, and is could become a valid tail risk hedging strategy against traditional assets. This is especially true given the heightened political uncertainty buffeting global markets.

The Shifting Use-Cases of Crypto-Finance:



Source: Morgan Stanley, December 2018

For the more technically minded, since the start of the 2018 bear market digital asset correlations have been positively correlated across the board. As of today, inter-asset correlation values within the digital asset space currently range from 0.7 to 0.8 on average. This wasn't always the case. Correlations between well-known digital assets quickly rose as the market reversed from bull to bear in Q1-2018. Digital assets increased their strong correlations throughout the first half of the year as the bear market firmly took hold as prices fell in sympathy across the sector.

Digital Asset Correlations to Bitcoin (BTC): 90-day daily rolling volatility

	BTC	ETH	XRP	BCH	XLM	LTC	XMR	DASH	ETC	XEM	ZEC	REP	^SPX	^VIX	^GLD	^TNX
BTC	1	0.81	0.61	0.8	0.7	0.86	0.79	0.69	0.68	0.75	0.75	0.68	0.01	-0.01	-0.17	0.09
ETH	0.81	1	0.67	0.81	0.63	0.89	0.8	0.72	0.71	0.78	0.83	0.74	0.06	-0.09	-0.22	0.06
XRP	0.61	0.67	1	0.7	0.71	0.66	0.58	0.52	0.53	0.62	0.56	0.54	0.11	-0.08	-0.23	0.01
BCH	0.8	0.81	0.7	1	0.7	0.87	0.78	0.74	0.69	0.82	0.79	0.69	0.04	-0.01	-0.29	0.03
XLM	0.7	0.63	0.71	0.7	1	0.7	0.67	0.58	0.51	0.72	0.66	0.58	0.08	0.01	-0.22	0.09
LTC	0.86	0.89	0.66	0.87	0.7	1	0.82	0.76	0.71	0.83	0.81	0.74	0.03	-0.04	-0.29	0.06
XMR	0.79	0.8	0.58	0.78	0.67	0.82	1	0.76	0.69	0.76	0.77	0.71	0.04	-0.02	-0.27	0.07
DASH	0.69	0.72	0.52	0.74	0.58	0.76	0.76	1	0.63	0.71	0.76	0.65	0.01	0.03	-0.13	0.09
ETC	0.68	0.71	0.53	0.69	0.51	0.71	0.69	0.63	1	0.63	0.7	0.7	0.05	-0.03	-0.25	0.08
XEM	0.75	0.78	0.62	0.82	0.72	0.83	0.76	0.71	0.63	1	0.74	0.69	0.07	-0.02	-0.23	0.09
ZEC	0.75	0.83	0.56	0.79	0.66	0.81	0.77	0.76	0.7	0.74	1	0.7	0.02	0.03	-0.19	0.1
REP	0.68	0.74	0.54	0.69	0.58	0.74	0.71	0.65	0.7	0.69	0.7	1	-0.14	0.15	-0.15	-0.01
^SPX	0.01	0.06	0.11	0.04	0.08	0.05	0.04	0.01	0.05	0.02	0.02	-0.14	1	-0.85	-0.14	0.23
^VIX	-0.01	-0.06	-0.08	-0.01	0.01	-0.04	-0.02	0.03	-0.03	-0.02	0.03	0.15	-0.85	1	0	-0.17
^GLD	-0.17	-0.22	-0.23	-0.29	-0.22	-0.29	-0.27	-0.13	-0.25	-0.23	-0.19	-0.15	-0.14	0	1	-0.25
^TNX	0.09	0.06	0.01	0.03	0.09	0.06	0.07	0.09	0.08	0.09	0.1	-0.01	0.23	-0.17	-0.25	1

Source: 90 day correlation matrix from [Sifr Data](#).

Note: Short term crypto correlations were highest to Asian equities when the “Trump Trade War” with China escalated. However, within the table above shows rolling correlations to traditional markets; e.g. S&P500 and Gold, remain muted given way to initial observations that digital assets are typically less influenced in the longer term to the existing financial world conditions.

In December-2018, buffeted by uncertainty and elevated geopolitics, global equity markets, fixed income and oil markets, were sharply down over the December period. On the other hand, digital asset markets (proxied by bitcoin) behaved in a counter-cyclical fashion and rallied, opposite to price action in the traditional market space. The negative correlation between traditional and crypto markets again displays the diversification benefits of adding crypto to one’s new asset allocation.

Bitcoin versus Global Equities and Oil: Total Returns (US\$)



Source: Bloomberg, CryptAM, 2018.

Boom and Bust of ICO Market, Increased Regulation and Hacks

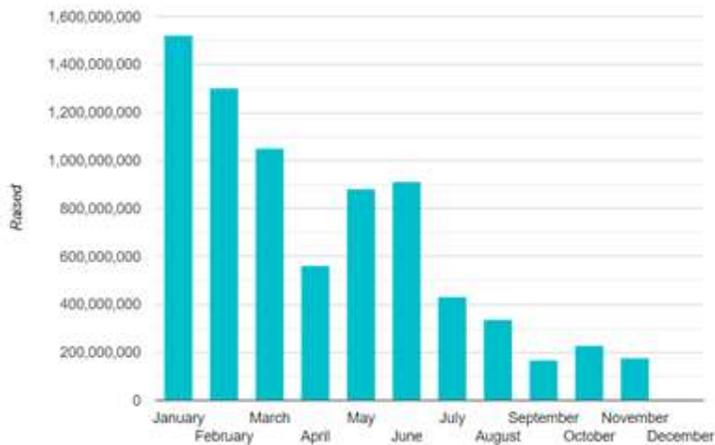
Throughout most of 2018, talks of digital currency regulation began to heighten across the globe. One may argue that the increase in regulations were in response to the hacking of exchanges; e.g. the hack of Coincheck, a Japanese exchange lost US\$400-530 million worth of the cryptocurrency NEM, on Jan. 26. In April, an Indian digital asset exchange Coinsecure’s wallet was breached for \$2.7 million BTC.

Regulatory discussions stemming from South Korea, Japan, US, Singapore and even Hong Kong entered the fray an announced new measures to monitor exchanges and the wider digital asset ecosystem. In Q1-2018, a South Korean court ruled that bitcoin has economic value and introduced a nationwide cryptocurrency account system which banned the anonymous trading of digital assets. The US and Hong Kong reiterated views that Bitcoin was a digital (virtual) asset and escaped having to comply with local securities laws.

Many ICO's, popular in 2018, were forced / sanctioned to comply with local laws. It was interesting to see Hong Kong, enduring to outpace Singapore's friendly business environment, added new regulations for crypto funds and exchanges, paving the way for adoption and further professionalization of the industry.

Of course, the talk of ICO's quickly morphed to STO's (Security Token Offerings) as the crypto community looks to move toward complying with both local and global regulations. While this area has great potential for 2019, follow-up regulation is likely to be gradual.

ICO Market Slowdown: Capital Raised (\$US)



Delayed Institutional Trading Products and Hardforks Triggering a Downmarket

Even though markets fell, digital asset markets did see a lot of institutional interest this year. Despite CBOE and CME futures being launched, advocates of digital assets will remember the delays around the launching of Bitcoin ETF's. On Dec. 6, the SEC delayed its decision on the VanEck's Solidx ETF again to February 2019. Moreover, the market saw a delay in the Bakkt bitcoin daily futures contracts offered by the Intercontinental Exchange, is now widely now expected to launch in Q1-2019.

The **Bitcoin Cash (BCH) network** had an interesting year, to say the least, as it underwent two forks in 2018. The first fork in the spring was quite successful, resulting in a bunch of new features like re-enabled opcodes and a 32MB block size increase. The second fork, however, scheduled for 15th November, became contentious and led to a blockchain and a drastic community split. After gaining the most proof-of-work and a majority of the infrastructure support, the Bitcoin ABC side of the fork was rewarded with the "BCH" ticker, and the other network's ticker is listed as "BSV" across global exchanges. This hard-fork was the catalyst for a deep drop in the total crypto currency market value and caused numerous knock-on effects on both exchanges and crypto-derivative markets, further impacting sentiment.

Outlook

Most crypto-markets have done much better during the end of December. Of course, we believe that cryptocurrency markets will pay off in the long haul and there will always be some hurdles along the way.

Institutional Infrastructure to Further Develop

This is firmly in the area the CryptAM looks to operate within and grow its presence. Although trade volumes for retail investors are down, institutional interest is still increasing in a significant way. Larger / more professional traders allow for sizable trading volumes versus retail markets alone. Even if there are fewer trading partners transacting in the digital currency space, the industry can still grow.

Several developments are projected to take place in 2019 which could impact institutional participation including the further roll-out of Fidelity's custody services and expansion of ETF services by VanEck, SEC approval decision expected February 2019. A mainstream bitcoin ETF could provide a much need on-ramp for the digital currency world and open up the industry to investors eager to participate without some of the operational risks associated with buying and selling tokens directly.

Digital Assets in a World of Uncertainty

There is no doubt that we live in a world of unprecedented geopolitical and financial risk. Going forward, buffeted by uncertainty, we anticipate that digital asset will emerge as a valid tail risk strategy within investors asset allocation as witnessed in December as digital asset markets behaved in a counter-cyclical fashion to falls in the traditional market space. The longer term negative correlation between traditional and digital asset market thesis will remain and will be recognized as part of the formal asset allocation discussion in 2019.

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