CryptAM's Monthly Newsletter

The bulls were out in force in May-2019 as the digital asset market delivered its strongest monthly performance, ~60%, over the last 12 months.

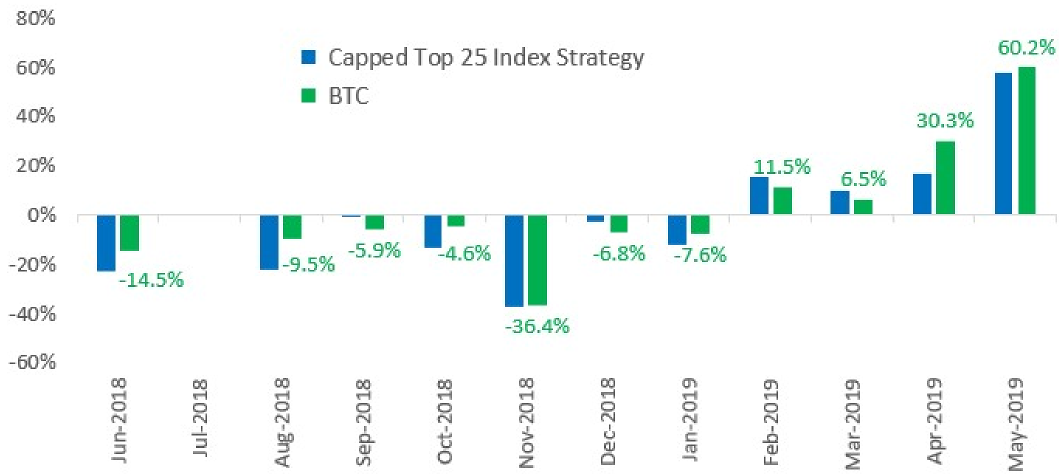
Fundamentally, looking across the broader market, if felt as there has been a shift in the global trading regime. Risk asset return expectations have been dampened as China / US trade relations look set to worsen. Forward looking it is difficult to see an immediate resolution and global markets are set to be buffeted by uncertainty and political jockeying, hopefully placing an elevated floor digital assets pricing levels as investors seek diversification outside of traditional markets.

Alternative asset management is expensive for good reasons. The increased cybersecurity, fund management and insurance costs mean that investors who are willing to delve into the new asset class have to accept that additional maintenance costs are required in order to participate in a higher return / risk market.

Upcoming events: CryptAM is pleased to be invited to speak at the Hong Kong Society of Chartered Financial Analysts (HKSFA) **on the 17th June 2019, we look forward to bringing this new asset class to the attention of the professional investment industry.**

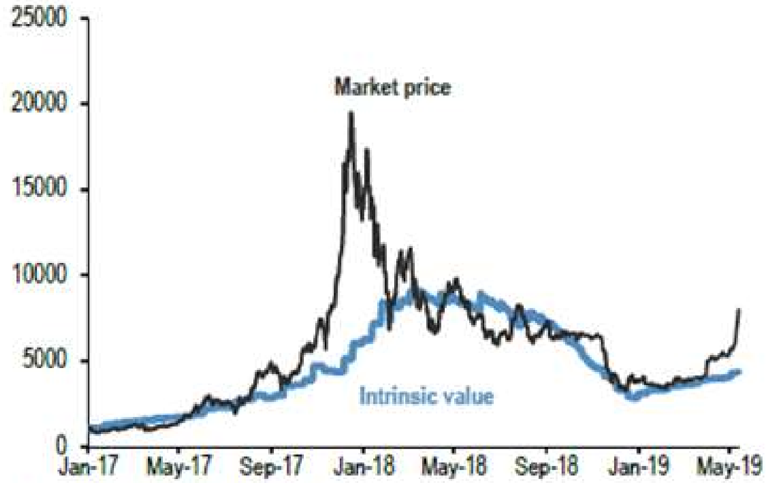
Strongest Monthly Return in 12 Months

As the chart below shows, the bulls were out in force in May-2019 as the digital asset market delivered its strongest monthly performance, ~60%, when observing the last 12 months.



We note that "market price" deviates away from the estimated "intrinsic value". In our view, this is likely driven by the fact that inflows into this relatively small asset class can have disproportionate impact on market pricing, quickly driving the market price away from intrinsic value. Of course, with the lack of any stringent fundamental analysis, we would highlight that there is no immediate answer for a 'correct' value. Said another way, value is defined differently by those in need to diversify and hedge their portfolios with an asset that is not controlled by any particular government or monetary system.

That said, using broad market barometers, looking at lower for longer UST rates, negative yields across German, Japanese and Swiss bonds, the weakness of the CNY / USD pair... with traditional markets pricing for uncertainty, we have seen this game before, diversification is often the best strategy to pursue when hedging modest parts of your portfolio.



Source: Bitinfocharts.com, J.P. Morgan.

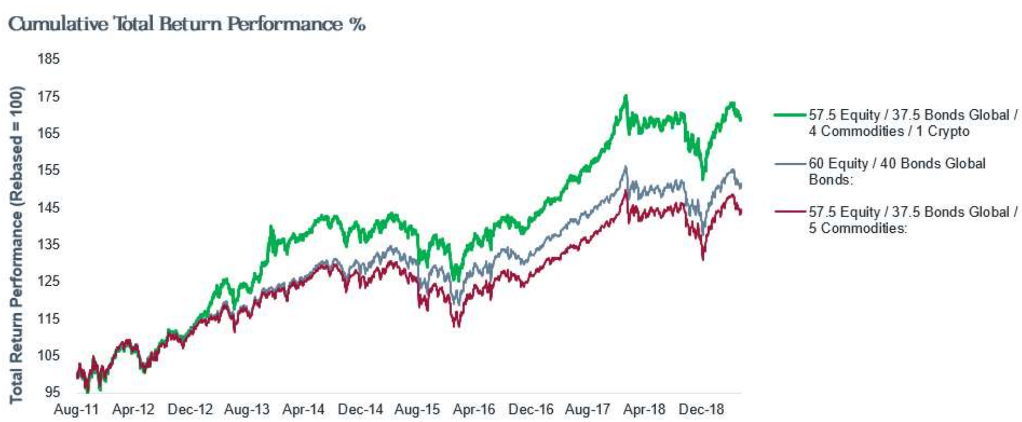
Looking at the chart above, JP Morgan writing on the subject of "intrinsic value" provides their insights. The approach they took to estimate a quantifiable intrinsic value for Bitcoin was to effectively treat it as a commodity and base it on the marginal cost of production. Mining, running the network, cryptocurrencies consumes electric power, which results in a real-world cost incurred in nominal currency terms. In principle, a market price above that cost should induce miners to increase resources to mine coins, bringing the cost of mining higher until the marginal cost approaches the market price, while a price below that cost should induce higher cost producers to exit the market lowering the overall cost until it again approaches the marginal cost.

JP Morgan broadly followed a methodology adopted by Hayes (2018), which first estimates the daily cost of production as a function of the computational power employed, cost of electricity, and energy efficiency of hardware. It then divides the daily cost of production by the number of bitcoins that can be produced daily to get a marginal cost of production per Bitcoin.

A Decade of Allocating 1% of Your Portfolio to Digital Assets

CryptAM provides consultation services on helping interested parties learn more about the digital asset market. Below is a chart that shows the impact of adding a fixed weight of 1% of your portfolio to Bitcoin (BTC), typically away from a hard commodity (gold, oil, soybeans..etc) sleeve, **would have delivered an additional 20% of return to your portfolio and empericaly improves the Return / Risk Ratio for only a small allocation.**

While this is a valuable boost to performance, investors need to be reminded that this is a risky market and that there is "no free lunch". The risk needs to be actively managed and crypto-asset managers, such as CryptAM, are rising to provide solutions.



Name	All metrics based on USD timeseries Comparable history since 19/08/2011	Actual Return	Annual Return	Volatility	Maximum Drawdown	Return / Risk Ratio ▾
Bitcoin/US DOLLAR		70,808.90%	131.99%	79.06%	-84.19%	1.67
A. 57.5 Equity / 37.5 Bonds Global / 4 Commodities / 1 Crypto (Fixed%): 3 month Obs_NEW		69.61%	7.01%	7.61%	-13.01%	0.92
A. 60 Equity / 40 Bonds Global (Fixed%): 3 month Ob		51.58%	5.48%	6.99%	-12.27%	0.78
A. 57.5 Equity / 37.5 Bonds Global / 5 Commodities (Fixed%): 3 month Ob		44.48%	4.83%	7.26%	-13.70%	0.67

Alternative asset management is expensive for good reasons: "Whether it's whisky or wine, classic cars or cryptocurrency, the plethora of alternative asset investments available to institutional and accredited investors is almost limitless. But these investments don't come on the cheap. For cryptocurrency fund managers, the increased cybersecurity, fund management and insurance costs also mean that investors who are willing to delve into the new asset class have had to pay for the additional maintenance costs in order to participate in a higher return market."

Find Out More

Disclaimer

Our mailing address is:
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