What's new in the digital assets industry?

Market performance

2019 was a year of both recovery and consolidation in the digital assets space where we saw growing adoption from traditional asset managers. Both professional investors and financial institutions realized that digital assets are worthy of an allocation within a diversified portfolio, increasingly there are more credible players offering options adapted to different investment styles such as passive indices, actively managed funds and futures.

The emergence of institutional digital assets services providers; e.g. regulated exchanges and custodian specialized in their respective fields, backed up by traditional institutions and governments, added to raise investors interests. Both returning and new investors participated in the price recovery of virtual assets and the market, proxied by Bitcoin, saw and overall reduction of volatility. Indeed in 2019, its average volatility was at 71.20% compared to 76.09% a year later and 86.97% in 2017. We expect that as Bitcoin matures, in similar fashion to the long-term experience of government gold de-pegging, it's volatility will continue to come down. Bitcoin continued to retain its market dominance market share, rising from 51% to 68% over the 2019 period. Between the top 25 coins, there was little in terms of market differentiation, intra-coin price correlation remains high; i.e. when bitcoin gained / posted losses, the generally market gained / fell. Altcoins, possibly under pressure from perceived threats from Libra and China's digital currency announcements, remained subdued during the year. The announcements of both Facebook (Libra) followed by China (Central Banks Digital Coin (CBDC)), expressing their projects to respectively launch a version of virtual currency has forced regulators, central banks and governments to take forward thinking actions to think about how they position themselves to shape and develop a regulatory framework around this new asset class.

What is important to understand is that virtual assets should be seen as an addition, rather than substitutes, to the traditional asset class of cash / currency / hard commodities. Forward looking data, including blockchain data (which is what bitcoin ultimately is) is the virtual commodity to hold. While virtual assets are still fighting to gain institutional footholds, there certainly is more broadly sovereign acceptance of technology as a disruptor meaning there will no doubt be additional on-ramps to the virtual asset universe. Said another way, as we inevitably move to a cashless society, this provides a positive backdrop for digital assets. From a digital asset hedge fund perspective, 2019 was a challenging year with 70 fund closing doors as at end of December 2019. Discrepancies in the market and opportunities are still here but with the competition increasing, most of the players delivering positive returns need to develop strong strategies backed up with quantitative models or frequent trading to keep delivering attractive returns.

CryptAM strategies' review

As for CryptAM, over 12 months, ending 31-Dec-2019, the CryptAM Active Selection (CAS) strategy delivered attractive mid-thirty percent returns and outperformed the passive Bloomberg Galaxy Crypto Index, delivering lower volatility versus both this index and Bitcoin.

Compared to the traditional market, CryptAM Active Selection (CAS)'s performance outstripped all traditional asset market performances, including gold, real estate and hard commodities.

In 2020 CryptAM's main objective is to deliver 50% absolute performance, lower volatility versus bitcoin and increase its shape ratio return. The Investment team believes that they will be able to improve this with more intraday trading strategies capability.

Bitcoin halving and its implication

Over the past 6 months, online search around the keyword ''bitcoin halving'' has increased consistently. Google Trends for example - *that shows the general public interest of a specific keyword over time* – recently records growing enquiries around this thematic, which was quite flat those last 5 years, expected in July 2016.
But… what is ''bitcoin halving'', why do we care about it and how is this going to impact the whole digital assets space in May 2020? Let's have a quick look on one of the most important and fundamental process that rules Bitcoin before examining how digital asset funds and players can take advantage of it.

When the Bitcoin Whitepaper was released in 2008, its author, Satoshi Nakamoto set up the rules which govern this virtual commodity (also known as cryptocurrency). We understand that bitcoin operates with a similar scarcity value, such as a precious metal, often compared to gold, because it has a capped inflationary limit, 21 million coins thus making it a scarce commodity.

For new coins to be extracted, Bitcoin miners need to resolve complex computing equations that confirm transactions and add new block to the network, receiving a given number of bitcoins as a reward for their efforts. While the notion of bitcoin halving is mentioned but not clearly stated in the whitepaper, it appears in the network coding system. Originally set at 50 bitcoins in 2009, the number of reward coins attributed to miners for each block completed ''*is cut in half every 210,000 blocks which will occur approximately every 4 years*''[1], depending on the pace of network confirmations, while at the same time enhancing the difficulty to complete new blocks. This phenomenon is called ''halving''.

The bitcoin blockchain recorded two past halving events in 2012 and 2016, respectively. Currently miners receive 12.5 bitcoin per block added, after May 2020 they would only be rewarded with 6.25 bitcoins per block added, a number that will be divided again by two in 2024 and so on… until all blocks are mined around 2,140.

While many factors can affect the value of bitcoin such as the market demand, regulations, governments and new players' adoption, halving appears as an exciting time for most investors because the supply being reduced, in theory it would increase its value, given an increased scarcity, even if its demand remains unchanged.

Many influencers within the digital asset space have released their forecast for 2H2020. Some predict the price of BTC would stagnate to US $ 10,000 according to Arthur Hayes, CEO at BitMEX while others believe it would rise to US $ 67,500 according to Dan Morehead, CEO at Pantera Capital, US $ 100,000 according to John McAfee (CEO of McAfee Anti-Virus software) and could even go up to US $ 333,000 according to Brendan Blumer, CEO at BlockOne[2].

While few methods exist to specifically measure the flow of stock through or fundamental analysis, we prefer in the second part of this article, focusing on how the halving will affect the digital assets market as

[1] https://github.com/bitcoin/bitcoin/blob/332c6134bb15384e5b91c631e821fe52a591d3bc/src/validation.cpp#L1007
[2] https://www.cryptocointrade.com/crypto-influencers/bitcoin-price-predictions-2019/

a whole, what are the risks associated to it, the burgeoning opportunities and how CryptAM with its investment strategies will attempt to take advantage of this particular market's inefficiencies.

On one hand due to the decentralized nature of virtual assets, cryptocurrencies are uncorrelated to traditional assets and the market risks that drive them; e.g. geopolitical risk, recessions, interest rates or extreme events. On the other hand, virtual assets stay highly correlated within themselves, with the major play being Bitcoin, not in their operations but in their price. This means that Bitcoin's halving may directly affect other crypto currencies thus increasing their value if price goes up or negatively impacting them if price goes down.

The main risk associated to the upcoming Bitcoin halving is that many miners might stop operating because difficulties to add blocks to the chain and mining costs could increase, while profitability decrease, especially if prices are not peaking. In other word, if investors hold their bitcoin after the halving, waiting for its price to increase, entering a bearish market with a period of slowly increasing prices due to less demand and less supply available, is not to be excluded.

The hidden opportunities remain around the halving period (pre and post) where prices are expected to fluctuate in a market dominated by behavioral factors, driven by uncertainty. As more and more institutional players are entering the market, retails investors might find it harder to hedge their positions. Ability to trade fast and automate this process to take advantage of the price change will benefit experienced players including hedge funds using quantitative strategies, derivative contracts and high frequencies trading systems to generate alpha. Passive strategies with indices tracking Bitcoin or a basket of Digital Assets is another opportunity that could be explored for investors looking to enter the market at lower costs.

Through our existing multi-strategy and quant driven CryptAM CAS Strategy which trades within the most liquid digital assets, we look to trade and rebalance the portfolio actively, providing an excellent alternative for professional investors looking to diversify their portfolio.

Our passive index is also available for new investors looking for a cheaper option with more flexibility and less hurdles to gain access to the virtual asset market. **The Time to Get Exposure Is Now.**

What investors should bear in mind is that virtual assets are disruptive and unpredictable, reflecting our post-modern society. Governed by strict computing rules and a soft, but increasing, regulation, they offer unprecedent opportunities which will fade, losing their diversification utility as they become more mainstream. With majority of investors being retail, the companies who have the latest technology and experienced active fund managers would be the winners of the next halving event.

CryptAM Latest Activities

2019 was a volatile year in the digital assets space but CryptAM manages to outperform the main crypto indices on a risk-adjusted returns. Compared to the traditional market, CryptAM Active Selection (CAS)'s performance outstripped all traditional asset market performances, including gold, real estate and hard commodities. Request for our factsheet by contacting our representative.

It is not too late to register to our upcoming monthly **Breakfast Session** taking place on **Friday January 17th from 9 to 10 am** at CryptAM Services 'office. The objective is to engage discussions with a small group of investors around digital assets investments solutions and answer any question they may have. Contact us for further information.

Last month, our Quantitative Analyst, John Shiu, introduced us the new intraday automatic trading capability that he has built. Tested over December, the system is proven to capture alpha more efficiently on a 24/7 basis creating space for the Investment team to develop new intra-day strategies.

We are proud to launch 3 new courses for 2020 designed for investment professionals to understand the digital assets universe, help teams and divisions navigate this disruptive market to formulate investment decisions and assist C-Level executives in structuring trading strategies, blockchain related projects or setting up digital asset funds.

By taking into account your portfolio constituents, level of risks and investment objectives into our analytical tool, CryptAM Vue™, our consulting team can lead a customized analysis, determining what allocation into digital assets fits you best. Interested to learn more about Vue™? Request your customized analysis by clicking here**.**

CryptAM Services has set up a survey to determine the investment approach of its investors and their perception on Digital Assets. We would be very grateful if you could answer our questionnaire as this will help us to understand our audience better, improve our offerings and the value we deliver in the future.

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