

The next big theme?

Experts believe cryptocurrencies could become the new frontier for thematic funds, mirroring gold as an uncorrelated investment

THE RISE of thematic ETFs has garnered a lot of attention recently. From gender diversity to robotics to cannabis, there seems to be an ETF for everything. But what will the next wave of thematics be? This question was posed during May's ETF Summit in Toronto, where a pair of experts made the case for cryptocurrency as the next trend.

"We look at the other side, what hasn't been done yet. It's all about trying to be ahead of the next curve," says Fred Pye, president and CEO of 3iQ, which offers the 3iQ Global Cryptoasset Fund. For Pye, cryptocurrencies represent that next curve.

A recent global survey by financial advisory firm deVere Group backs this up, revealing

hundred-dollar bill and separate the serial number from the bill, what have you got? You have the number. If you put that number in your phone and give it to me, it's the same thing as the bill."

Following that logic, he adds, you can send that hundred dollars anywhere, and it wouldn't be dependent on a particular currency, creating a global digital currency that is completely secured by blockchain and not controlled by government. Pye believes that is the future of money.

His ideas were echoed by Martin Lalonde, president and portfolio manager at Rivemont Investments, which manages the Rivemont Crypto Fund. "When Bitcoin was invented,



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that two thirds of high-net-worth investors expect to hold crypto assets within the next three years.

In light of this, Pye has been trying to break down the complexity of cryptocurrency for the average investor. "I bring it down to something simple," he says. "If you take a

the goal was to transfer money rapidly without the intervention of a bank or state," he says. "It was really libertarian. I think we need Bitcoin and need to keep it that way. I see Bitcoin becoming digital gold that you can use anywhere in the world."

Lalonde says holding currency on mobile



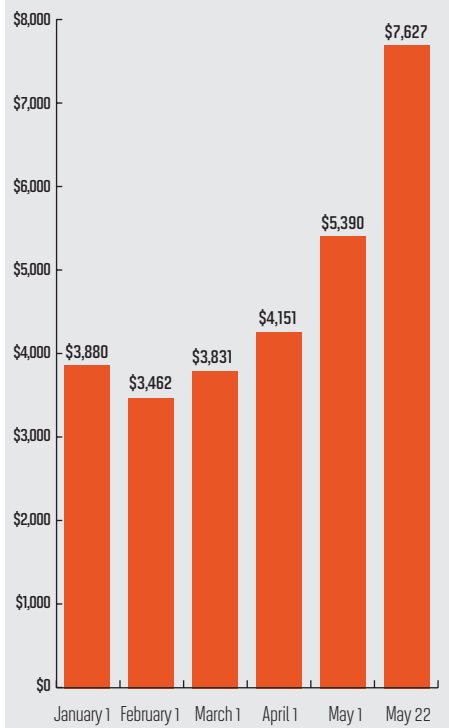
devices is a concept that's already taking off in countries that have lost confidence in their fiat currency. He believes this acceptance of cryptocurrency will eventually spread to other areas of the world.

However, for that to happen, Pye feels there needs to be an additional step between fiat currency and full cryptocurrency, such as stablecoins, a digital form of currency tied to an existing currency. They're already in use in the US, and 3iQ is in the process of implementing a CAD-backed crypto asset.

"You'll be able to move dollars from phone to phone, free and secure, supplanting the banking system," he says. "Going from fiat to Bitcoin was too big a jump. Once we establish a good network of digital stablecoins, which will have digital Canadian and US values, it will allow for currency trading in



BITCOIN'S VALUE SO FAR THIS YEAR



Source: Yahoo Finance

T-plus three seconds. I think that's where you're going to see the shift happening first."

Lalonde believes that one of the key

come up with solutions."

Indeed, in early May, Fidelity Investments announced it would buy and sell Bitcoin for



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Martin Lalonde, Rivemont Investments

drivers in this shift will be security. He notes that while there have been negative stories, Bitcoin itself has never been hacked – just the managers of it. "If it is managed correctly, large Canadian banks will enter the sector soon," he says. "They already have people working on the blockchain, and they will

institutional customers. In light of news like that, both Lalonde and Pye say now is the time for investors to enter the space.

"What that means is that now is the right time to invest," Lalonde says. "The good thing would be to be there early. We think that in the future, every portfolio will have a portion

of cryptocurrency. We advise between 5% to 10% in cryptocurrencies, if clients like it. We don't promote it – we wait for them to talk to us."

However, Pye adds, "there is still no way to get Bitcoin into a TFSA or RRSP. Bitcoin is a digital form of gold – it has a fixed supply and is the next wave of where real money is going that is not correlated to the market. Now we need more firms focusing on this. We only have two in Canada, which is screaming for an exchange-listed Bitcoin fund."

Pye stresses that the next generation of investors will want to talk about cryptocurrencies, and advisors who shy away from the concept will struggle to attract them. "They want to do everything online, and their asset allocation to crypto is way out of control," he says. "They need financial advisors to reel them back and show them that crypto assets are less correlated to every other asset class." **WP**