Rivemont - Weekly Update #192

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Rivemont is the portfolio manager responsible for the investment decisions of the Rivemont Crypto Fund.

After four consecutive weeks of bullishness on the cryptocurrency markets, the week that ended yesterday was rather quiet, both in terms of prices and news. The week was actually in two parts. First, the price surge continued in the first half, before a slight correction started in the second. As a result, the price level is approaching last week's level for the majority of large-cap cryptocurrencies.

The story of the moment on the crypto planet is possibly the Poly network hack, which resulted in a theft exceeding $600M in token value. However, we were luckily dealing with a white hat hacker. The hacker indeed returned the majority of the funds, but kept $200 million to hand over once "everyone is ready". In an even stranger twist, the network managers offered him the position of Senior Security Advisor. This offer comes with a half-million dollar reward in exchange for the return of the remaining funds.

Who doesn't love a little war of opinions between wealthy investors? That's what we got between Michael Burry, the notorious financier who predicted the subprime crisis and profited greatly from it, and Cathie Wood, the portfolio manager behind ARK Invest. Burry launched hostilities through the mouth of his guns, buying $31M worth of puts against the firm's flagship ETF, ARKK. In simple terms, the investor is betting that the fund with exposure to bitcoin and Tesla, among others, will lose value. Burry's firm actually had $731 million in short positions on Tesla at the end of June, which represents 35% of its assets under management. Burry has an avowed stance against cryptos: “All hype/speculation is doing is drawing in retail before the mother of all crashes. When crypto falls from trillions, or meme stocks fall from tens of billions, #MainStreet losses will approach the size of countries. History ain’t changed.” He recently commented.

Cathie Wood, however, wasn't going to absorb such an attack without responding. The latter responded that Burry didn't understand the innovation business. “I do not believe that he understands the fundamentals that are creating explosive growth and investment opportunities in the innovation space,” she wrote. “In our view, the seeds for the innovation explosion that @ARKInvest is dedicated to researching were planted during the 20 years ending with the tech and telecom bust. Having gestated for more than 20 years, these technologies should transform the world during the next 10 years." She indulges in some macro-economic analysis before concluding, "If we are correct, GDP and revenue growth will diminish until the opportunities in nascent technologies begin to move macro needles. In this environment, innovation based strategies should distinguish themselves”

That's the wonderful thing about markets. Everyone is entitled to their opinions, sure, but unlike many fields, it is with one's capital that one can then act on them, with the consequent reward or loss that follows depending on the quality of the analysis.

After attacking the mining industry, China is now turning its attention to domestic investment firms. Indeed, 11 of them have been targeted by the central bank for having "held illegal activities related to virtual currencies". The fate that awaits them is not entirely known, other than that the government reports "rectifying" and "cleansing" them.

This crackdown on the industry, then seen as a blow earlier this summer, is now turning into an incredible opportunity for miners outside of China. Indeed, According to a report today from Arcane Research, daily Bitcoin mining revenue is up 10%, or $4.3 million, from the previous week. The transaction fees generated are up 22%, or $118,000 per day. Data from YCharts shows this to be a longer trend dating back to China's crackdown; miner revenue bottomed out for the year at $13 million on June 27. Yesterday, it was at $48 million, a $35 million difference.

Decentralized finance, the majority of whose projects are currently based on the Ethereum network, continues its meteoric growth. Montreal investor Kevin O'Leary, who is not known for being shy of his opinions, has been outspoken in his support of this innovation. He said that financial intermediaries should start looking for a job as a shoe shiners, because decentralized finance technology will make their role obsolete. "This whole move into stablecoins and cryptocurrencies is to get rid of those middlemen. And we're going to do it in the next three, four years," O'Leary said. "They should find other jobs, maybe they should start shining shoes or something."

While it was a fairly neutral week on the price side for ETH, many analysts continue, as do we, to see strong near-term growth potential for the token. The fund's capital remains mostly exposed to the latter. Indeed, according to analysis firm CryptoQuant, a liquidity crisis on the sell side could quickly hit Ether. “Current $ETH price is closer to ATH compared to $BTC. Higher demand, lower supply. $ETH sell-side liquidity crisis still intensifies, while $BTC exchange reserve stopped its downward trend in May.”

Indeed, if we compare the exchanges reserves of the two cryptocurrencies relative to price, we see that the decline for bitcoin resumed only a month ago (1st chart), while it has been steadily declining for Ether for a year (2nd chart).

Bitcoin reserves on exchanges - Source: CryptoQuant

Ether reserves on exchanges - Source : CryptoQuant

On the technical side, we hope the $43,000 support holds for bitcoin, versus the $3,000 support for ETH. The bitcoin price is currently testing the 200-day moving average, with the latter pointing at a threshold of $45,580. Regaining the upper hand on the latter would certainly help investor confidence for a resumption of the rise of the past few weeks.

Rivemont Investments, manager of the Rivemont Crypto Fund.

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Martin Lalonde
President
160, boul. de l'Hôpital, suite 202
Gatineau, Quebec, J8T 8J1
Tel: 819-246-8800 or 1-844-318-8800
martin.lalonde@rivemont.ca

Jean Lamontagne
Vice President and Portfolio Manager
465, rue Saint-Jean, suite 509
Montréal, Québec, H2Y 2R6
Tel: 438-387-3300
jean.lamontagne@rivemont.ca

www.rivemont.ca

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