

RIVEMONT

Rivemont - Weekly Update #197

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

Gary Gensler, Chairman of the SEC, said yesterday in an interview with the Washington Post that cryptocurrencies are a highly speculative asset class. With the action of the last few days in both the stock and crypto markets, this is exactly how cryptos have indeed behaved. Let's review what has been going on.

This week began with the saga of Evergrande, the Chinese real estate giant. This developer has \$300 billion in debt, making it the most indebted company of this specific industry in the world. This debt is financed by various bonds. Evergrande has two debt repayments scheduled in the near term. First, an \$83 million interest payment due Thursday, and then another repayment of \$47.5

million, for a different bond, due Sept. 29th. However, Evergrande announced last week that it might not be able to make those payments.

That was all it took to rattle global stock markets on Monday, with some fearing they would face a catalyst for a possible liquidity crisis if the company were to fail. North American stock markets fell by a few percentage points. How does a speculative asset react to uncertainty? It is the first to be liquidated, increasing the size of the decline. This is definitely how the cryptocurrency market reacted on Monday. The correlation between the stock market and the crypto market is becoming more and more obvious. Indeed, the rebounds also followed those of the major stock indices. This was notably the case last night when it was announced that Evergrande was finally going to make its debt payment scheduled for tomorrow. This instant correlation is an obvious consequence of the arrival of institutional players in the crypto market, whether for better or worse.

Once again, however, the reality in the markets runs counter to the rhetoric of cryptocurrencies as a hedge against the turbulence of fiat currencies, or as digital gold. The same goes for its protection against inflation. As a report from analytics firm Chainalysis mentions, "At this time, we cannot show a statistically significant correlation between inflation in the U.S. and bitcoin prices, but we do know anecdotally that many people are investing in bitcoin as a hedge against inflation."

What is true in the short term, however, might not necessarily remain true in the medium or long term. If cryptocurrencies are hit hard during stock market jolts like we've seen this week, what would happen in a true bear market or in the face of an ongoing hyperinflation crisis? The truth is that bitcoin was born out of the aftermath of the most recent financial crisis of 2008. Since then, in North America, we have seen the longest bull market in history. So, the truth is that bitcoin's value proposition as a safe haven has yet to be tested. Would we see a migration of capital into cryptocurrencies if a stock market crisis were to continue after those considering them a risky asset had first liquidated their positions? The question remains unanswered to this day.

One thing is certain, this week's action has gone into the red, jeopardizing the bullish picture that was looking so good just a week ago. On Monday alone, \$1.2 billion of futures contracts were liquidated. As for the Rivemont crypto fund, we quickly moved to a defensive position, selling more than half of our positions. The losses were therefore limited, especially compared to an investor who would be passively exposed to bitcoin or ether for example.

However, this bearish week is not only negative. In fact, the drop in prices has led institutional investors to increase their crypto holdings for a fifth consecutive week. Investment flows into crypto products totaled \$42 million in the week ending Sept. 19th, with Bitcoin funds seeing inflows of \$15 million, according to digital asset manager CoinShares. This is only the third time in 16 weeks that bitcoin investment products have recorded positive flows.

El Salvador's President Nayib Bukele, meanwhile, announced that the country had taken advantage of the downturn to add 150 BTC to the national reserve. It now stands at 700 BTC.

Fresh news that seems to be helping the market rebound right now. [U.S. exec broker platform Robinhood will launch crypto wallets](#). Next month, Robinhood will test crypto wallets with select customers to allow investors to send, receive and move crypto currencies in and out of the Robinhood app. Robinhood also said a new feature to set up recurring digital investments is available on the app today. Customers can schedule a crypto purchase, commission-free, starting at \$1.

We mentioned last week that the SEC was threatening Coinbase with lawsuits if the U.S. exchange went ahead with its interest payment service to users who decided to keep their stablecoins on the platform. Returns of 4% annually were promised. Clearly, the threat was taken seriously. Although hundreds of thousands of customers were enrolled in the program, it was eventually decided to nip it in the bud.

Let's finally share this bronze statue of Satoshi Nakamoto that was just unveiled in a commercial park in Budapest, Hungary. "We think of Satoshi as the founding father of the entire cryptocurrency industry," said Andras Gyorfi, bitcoin journalist and initiator of the project. "He created bitcoin, he created blockchain technology, he is the god of our market."



His creators, sculptors Reka Gergely and Tamas Gilly, sought to represent a human form while remaining true to Nakamoto's anonymity.

"It was a great challenge. It's very difficult to make a portrait sculpture of someone who you don't know exactly what they look like," Tamas Gilly told the Associated Press. "I hope that through the language of sculpture, I was able to convey the fundamental idea of bitcoin, which is that it belongs to everyone and no one at the same time."

Technically, the significance levels repeatedly mentioned in recent weeks have not held, so we now must turn to significance levels to hold in order to consolidate and resume an uptrend. One indicator widely observed by market technicians is the 21-week exponential moving average. If the week could end north of it, around the \$43,000 area, it would definitely give confidence for a continued rebound. Of course, staying above \$40,000 is crucial so that the brief moments below that level yesterday represent a failed support breakout.

On the Ether side, the current area around \$2,950 is even more important. It represents a neckline of a head and shoulders pattern. Breaking categorically below this level could therefore lead to a new wave of selling.

As we have often done in the past - and this is the whole point of an actively managed strategy - we have sold off many positions in order to move to the sidelines before we have a clearer picture. Investors are therefore protected in case of a new bearish wave, while we remain on the lookout for bullish signals to justify a re-entry into the markets.

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

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www.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

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