RIVEMONT

Rivemont - Weekly Update #200

October 13th, 2021

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

The recovery of the markets at the start of Q4 2021 has continued over the past week, with a clearer and clearer trend for bitcoin relative to the rest of the industry. Indeed, it is once again the mother of cryptocurrencies that is leading the rest of the assets, with bitcoin's dominance now at 45%, up from 41% at the beginning of the month. The fund has positioned itself as a result of this current trend.

This surge in bitcoin is certainly no stranger to the increasingly persistent rumors of an exchange-traded fund backed by the asset's price in the United States. While all applications have been denied since the very first one in 2013, it's about time it materializes! There are currently 13 major ETF projects awaiting SEC approval, out of more than 20 in total. SEC Chairman Gary Gensler recently intervened by indicating that he was "looking forward" to the organization's review of "ETFs limited to Bitcoin futures traded on the CME." His hint that the SEC is more supportive of Bitcoin futures ETFs than physical Bitcoin exposure ETFs triggered a rush of Bitcoin futures ETF applications, with proposals filed by companies like Galaxy Digital and VanEck. The latter will be decided on Oct. 25th, which could undoubtedly push investors to take a position in hopes of an upcoming approval.

The senior director of exchange-traded funds (ETFs) and mutual funds research at research firm CFRA believes we'll have to wait until 2022 before such a proposal is approved. The researcher suggested that regulators could wait for all of these products to meet their goals so that they can be approved at the same time to avoid a "first mover advantage," before adding, "It is possible - in fact, we think it's likely - that we will see a delay of a bitcoin futures ETF until 2022, until the regulatory environment is clearer." Jan van Eck, CEO of Van Eck Associates, commented that the SEC's main concern is the discrepancy between actual bitcoin prices and the price of the futures contract, in addition to the possibility of funds getting too big. When there is a bitcoin rally, futures strategies can underperform by as much as 20 percent a year, he said before adding, "The SEC wants to have some visibility into the underlying bitcoin markets."

Big news yesterday from the "Caisse de dépôt du Québec" announcing a major $400M investment at a $3G valuation in the Celsius crypto network. The type of news that would have seemed completely unrealistic even five years ago! Celsius offers a platform for anyone who feels abandoned by the big banks, offering inviting interest rates and affordable loans to investors who decide to keep their cryptocurrency savings on the network.

If you can't beat them, join them. Bank of America has officially launched its cryptocurrency research division with a new 140-page report titled "Digital Assets Primer: Only the first inning," covering bitcoin, NFTs, DeFi, central bank digital currencies (CBDCs) and more. "It's hard to overstate just how transformative blockchain technology, digital assets and the thousands of decentralized applications yet to be created could potentially be" the paper notably says.

Jamie Dimon, CEO of JPMorgan, is an avowed and vocal detractor of cryptocurrencies. Just a few years ago, he called bitcoin a fraud. Now that the firm he leads is launching products that allow clients to join this emerging market, has his position changed? According to a Monday talk at the International Institute of Finance, not at all. His speech, however, provided a better understanding of his position. Indeed, clearly, he never bothered to understand the technology and value proposition of bitcoin. “I’ll just challenge the group to one other thing: How do you know it ends at 21 million? You all read the algorithms? You guys all believe that? I don’t know, I’ve always been a skeptic of stuff like that.”

Read the algorithms? It's just two simple lines of code:

```
if (halvings >= 64)
return 0;
```

Some things are simply black and white. Here is a blatant example. For those of you wondering, this code does not mean that there will be 64 halvings. In fact, there will be a total of 33. If you want to understand why, we suggest this technical explanation. Sure, a consensus of miners could make this code evolve, but that's once again the beauty behind the balance of power in play for bitcoin. No one has an interest in more than 21M Bitcoins being created. Who would want to suddenly voluntarily dilute the value of their investment?

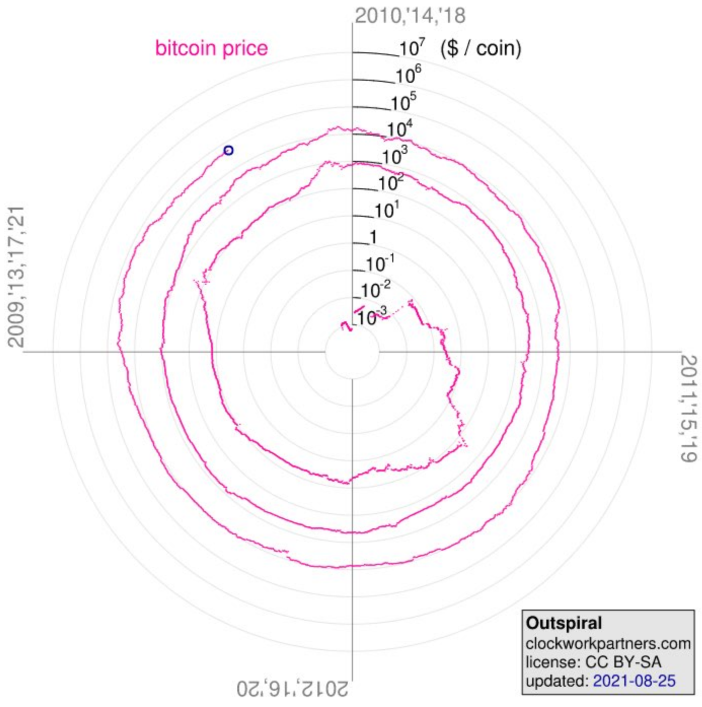
Speaking of JPMorgan, a note from the firm distributed to clients said Thursday that the recent rise in the price of BTC has been primarily attributed to institutional investors seeking a hedge against inflation. "The resurgence of inflation concerns among investors has reignited interest in using bitcoin as an inflation hedge," the analysts said, claiming there has been a shift in perception about the merits of BTC versus gold. "Institutional investors seem to be returning to bitcoin, perhaps seeing it as a better inflation hedge than gold." All this, in the same week that its CEO once again referred to bitcoin as "fool's gold."

We've talked extensively about the migration of miners out of China and the opportunity this creates for all players outside the country's borders. According to the most recent data obtained by Cambridge University, guess who now dominates the industry in BTC network-oriented hash rates? The United States. Our neighbors to the south now hold a 35.4% share of the market. Kazakhstan and Russia follow the U.S., with 18.1% and 11.0% respectively.

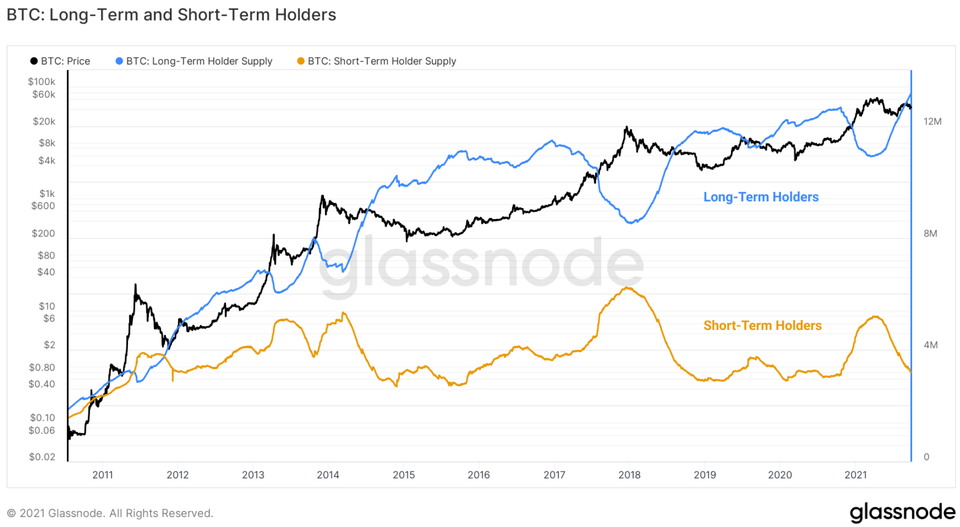
"The immediate effect of China's government-imposed ban on cryptocurrency mining was a 38 percent drop in the global network hash rate in June 2021 - roughly the same as China's share of the hash rate before the crackdown, suggesting that Chinese miners ceased operations simultaneously," said Michel Rauchs, head of digital assets at the Cambridge Centre for Alternative Finance.

Technically, despite a quite natural pullback in price increases over the past couple of days, everything is looking up for bitcoin. That's just as true fundamentally for that matter, as $31 billion in transactions were concluded in a single day this week. This was a record for the network. It's also a good 40x the amounts recorded in early 2020, showing the incredible wave of adoption going on now.

Is bitcoin too volatile an investment? Not if you have a time horizon of a few years or more. In fact, despite the sharp price swings over short periods, we see that over a four-year cycle, which is bitcoin's natural cycle between each halving, no investor would ever come out with a loss. The progression to the power of ten is impressive:



A recent analysis paper by the firm glassnode called "Following the Smart Money" studies the behavior of bitcoin holders with a long-term horizon. It shows that the latter are on the rise, while those trading on the short term are falling:



In particular, it is noted that these investors specifically initiate net sales historically, creating a downward trend, while the price reaches its peaks.

But the long-term holding trend has just reached a new high and looks like it will make another push.

If you like fractals and Elliott wave distribution proposals, you'll certainly like this projection from the crypto analyst nicknamed "TechDev" on Twitter. The latter believes, as does the Stock-to-Flow model by the way, that we're on the cusp of a real surge, as we saw 4 and 8 years ago, at about the same time in the bitcoin cycle. A price of a quarter of a million dollars per bitcoin. That would be a complete game changer for the asset's place in the global financial market and its perception among its players.

Rivemont Investments, manager of the Rivemont Crypto Fund.

The presented information is as of October 13th, 2021, unless otherwise indicated and is provided for information purposes only. The information comes from sources that we believe are reliable, but not guaranteed. This statement does not provide financial, legal or tax advice. Rivemont Investments are not responsible for any errors or omissions in the information or for any loss or damage suffered.

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

Aimez-nous sur Facebook / Like us on Facebook