

RIVEMONT

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

Self-fulfilling prophecy: An expectation – positive or negative – about something or someone that can affect a person's behavior in a way that leads those expectations to become a reality.

After a lackluster September, it's off to an entirely successful start for Q4 2021 on the cryptocurrency markets. While October began at a price of around \$44,000 for bitcoin, it took less than five days for the important \$50,000 mark to be broken. What changed to alter the valuation of the asset? To be honest, very little. Are we instead witnessing a self-fulfilling prophecy, with many investors predicting 2017-like fireworks in these final months of this year?

Efforts surrounding the regulation of cryptocurrencies continue to be in the news this week. On our side of the Pacific, however, the news is quite encouraging. Gary Gensler, chairman of the Securities and Exchange Commission, said the U.S. will not follow China's lead in banning cryptos. Gensler said Tuesday that the government's goal is to make sure the industry complies with investor and consumer protection rules, anti-money laundering regulations and tax laws. He made the comments at a House hearing after a Republican lawmaker asked if a ban similar to China's was being considered in the United States. "Our approach is really quite different," Gensler said. He added that any ban would likely have to be imposed by Congress. The remarks mirror those of Federal Reserve Chairman Jerome Powell, who said at a Sept. 30th congressional hearing that he had "no intention" of banning cryptocurrencies.

Could Brazil be the next nation to officially incorporate bitcoin into its economy? As the world's 12th largest financial power, it goes without saying that this could have monster consequences. Brazilian lawmakers are working on a regulatory framework that would make it easier to invest in bitcoin and other cryptocurrencies while making it harder for scammers and hackers to do their work. Brazil's Legislative Assembly recently approved Bill 2.303 / 15, which aims to regulate digital currencies. The bill was originally introduced by Deputy Expedito Netto. However, Deputy Aureo Ribeiro of the Solidariedade party proposed an updated draft that aims to give bitcoin legal status as a payment currency in the country.

Is China bluffing in its recent efforts to completely ban cryptocurrency trades? It really doesn't seem like it this time. Indeed, during the many past bans handed down, there were easy backdoor ways for Chinese speculators to invest on platforms like Binance and Huobi. This time, Beijing has specifically targeted exchanges outside of China by banning them from hiring locally for functions ranging from marketing to payments to technology. The measures close a long-standing loophole that allowed companies like Huobi - China's latest crypto exchange giant - to stay put and thrive in its home country. "In the

past, we had contacted regulators to see if there were still ways to operate legally in China. This time, there's no room for discussion," explained Du Jun, Huobi's co-founder, in an interview conducted by Bloomberg. "Our strategy is to go global now."

It's definitely the price action on the markets that has garnered attention this week. Sure, the bitcoin price surge is encouraging, but it's when you put it in a global context that it becomes interesting. Throughout the year - and we've said this many times - we've seen a strong correlation with the stock market, especially NASDAQ technology stocks. During stock market declines, bitcoin was quickly liquidated, acting entirely as a high-risk asset. However, that is not at all what we are seeing this week. In early October, the stock market is floundering, gold is doing nothing and altcoins are struggling to hold up against bitcoin. Suddenly, bitcoin is back on its own, which is the role we expect it to play when it matures.

Analyst Greg Foss approaches the idea from an interesting angle in [this relevant paper](#) on the macroeconomic implications of the Evergrande crisis in China. Regarding the fact that bitcoin has so far acted mostly as a risk asset, he says: "The market for BTC still has its training wheels on. The market doesn't understand that BTC is a long volatility position. When you are short credit, you are long volatility. And BTC is a short credit position on a basket of sovereigns". He adds that bitcoin is the best asymmetric investment (and hedge) opportunity he has seen in his 32 years of risk management. According to him, it is fiat currencies that are a ponzi.

The move north of \$50,000 has led strategists at Bank of American Corp. to argue that the crypto market is now too large to ignore. "Our view is that there could be more opportunity than skeptics expect" a recent report reads.

What is the most profitable asset of 2021? If you read it here, you'll have guessed that it is, again this year, bitcoin. It far outperforms macro assets around the world, including commodities, small caps, the stock market and the real estate market.

On the bitcoin side, the picture is truly rosy. The surge at the beginning of the month has taken us over all the key moving averages. At the time of writing, the price is above the last local resistance at \$53,000 separating us from a very plausible test of the historical high around \$65,000. After such a rapid surge, it would not be surprising to see a profit-taking and then a test of this resistance to see if it can now serve as support. With the strength of the U.S. dollar in correction as well, the overall stage seems set for a bull market resumption of this cycle.

Bitcoin is definitely leading the market right now. This can be seen in BTC's dominance of the overall crypto market capitalization, which has climbed from 41% to nearly 45% at the beginning of this month. Altcoins are temporarily suffering, including Ethereum. If our strong positioning in ETH had been profitable throughout 2021, it will have had the opposite effect during the current price surge. Nonetheless, it would be surprising if Ether were to stay put for much longer. Indeed, its supply on the exchanges is hitting lows while demand is growing, with the implementation of projects using the chain occurring at a rapid pace. On the fund side, according to our trend-following approach, we will simply go where the price leads us.

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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