RIVEMONT

Rivemont - Weekly Update #201

October 20th, 2021

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

Note: This letter was written early this morning, just before the prices passed over the all-time high. Things are moving very fast right now!

What was just a persistent rumor last week is now a reality! A first-ever U.S. exchange-traded fund (ETF) backed by the price of bitcoin made its debut yesterday on the New York Stock Exchange. It was a successful launch, both in terms of interest, trading volume and impact on the price of the asset. Indeed, the price of bitcoin is less than a thousand US dollars away from breaking its all-time high, with the BTC/EUR ratio having passed that threshold. Although that ETF it is not yet the product of the cryptocurrency purists' dreams, the

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moment is no less historic. Let's look at the significance of this news and the nature of the product.

What is an exchange traded fund (ETF), first of all? As stated on the Autorité des marchés financiers’ website, "An ETF is an investment fund whose securities are traded on an exchange like shares". In short, it's a bit like buying a mutual fund and therefore what it contains, but directly on the stock market, each unit being traded exactly as if it were a share. The next question is : what is the ETF made of?

In this case, the underlying asset of the ETF launched yesterday is not a wallet of bitcoins, but rather a batch of futures contracts backed by the price of bitcoin. This ETF on such futures contracts is certainly not a purist's dream product. A purist would instead hope for a fund that would directly hold the asset. The ProShares ETF launched yesterday on the NYSE is based on bitcoin futures, which in turn are traded on the Chicago Mercantile Exchange. As a result, this ETF itself will not introduce new demand for bitcoin. However, traders could buy more bitcoin by seeking to hedge against the futures price or take advantage of price disparities. A host of ETFs based on a physical supply of bitcoin remain pending SEC approval.

The ProShares Bitcoin Strategy Fund, which launched Tuesday on the New York Stock Exchange under the ticker BITO, had $20 million in seed money at the start of the day. It collected some $570 million in assets on its first day of trading, showing how keen investors remain on having cryptocurrency exposure as prices approach record levels. The fund also saw about $1 billion in trading volume on its first day. That makes it the second most traded ETF on record, the company said, citing Bloomberg. The fund's price rose to $41.94 at the close of market trading, up 4.9% from its initial net asset value of $40.

“It was not expected. We thought it was going to be a big hit, we thought it was going to be successful,” Bloomberg ETF research analyst James Seyfarrt said. “I thought if it traded $250 million in the first day, it would be a success. It did that in just 30 minutes.”

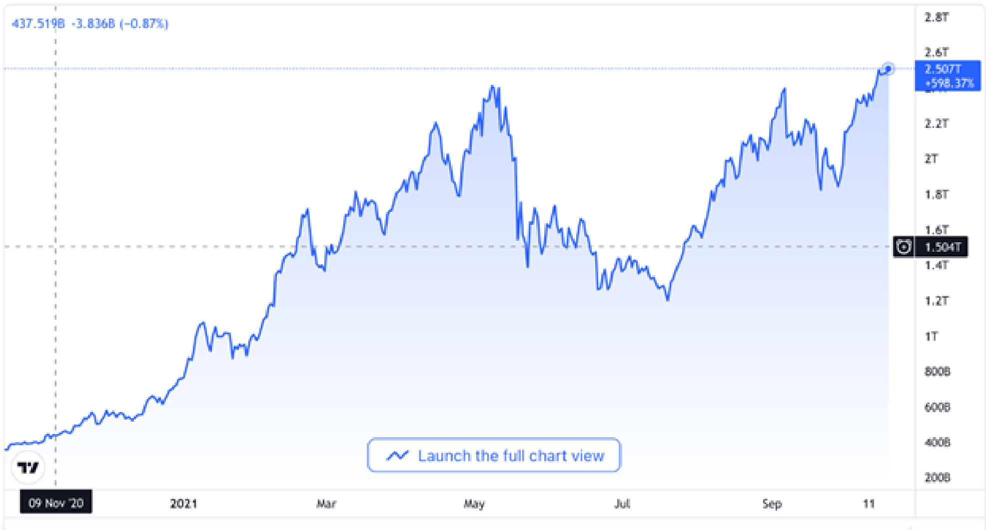
The ETF allows institutional and retail investors to gain exposure to the price of bitcoin without having to buy and store bitcoins themselves, which can be complicated for some investors. This product is particularly attractive to institutional investors, the majority of whom did not have the ability to buy BTC directly.

So, the race to be the first to launch a bitcoin-related ETF is over in the US. All eyes are on whoever comes in second, as is the question of whether ProShares will have a huge first-mover advantage or not. In the short term, that leaves Valkyrie and VanEck with like-minded ETFs that could launch as early as Oct. 25, giving ProShares nearly a week to ride the initial wave of enthusiasm. What is not clear is if/when an ETF backed by physical bitcoin will launch. Comments from the SEC's Gensler suggest that it won't happen anytime soon and certainly not in 2021. The majority of ETF experts say that a launch in the fourth quarter of 2022 could be a reasonable expectation.

To that end, the biggest project could undoubtedly be Grayscale's massive $38B fund. Grayscale Investments, the world's largest cryptocurrency asset manager, announced yesterday that it has filed to convert the company's flagship product, the Grayscale Bitcoin Trust (GBTC), into a physical bitcoin ETF. Craig Salm, vice president and general counsel of Grayscale Investments, said, "Today we saw for the first time an ETF backed by bitcoin futures contracts trade on the NYSE. We believe that if the SEC is okay with bitcoin futures, the commission should also be comfortable with an ETF that holds bitcoin. Listing on the NYSE marks the beginning of a 240-day review period. On the 240th day, the SEC will either approve or disapprove this application, but it may approve it sooner." Salm continued, "This listing today is absolutely a validation for bitcoin. It's further proof that this asset class is here to stay. Bitcoin is about time, not opportunity. The more accessible this asset is to other investors, the more successful it will be. That's why we filed this application to convert."

That is definitely the takeaway from this historic week. Regardless of our opinion on the type of product being launched and its potential impact on market movement, this is squarely a blessing from Wall Street and regulators to bitcoin. All this after years of fighting it! If you still had any doubts that cryptocurrencies were a new asset class in the midst of adoption, there is no doubt about it now. The biggest players in the world have officially joined the party.

The markets have, not surprisingly, welcomed the news particularly well. The overall capitalization of the cryptocurrency market has surpassed the $2.5 trillion mark, an all-time high. The value of all cryptocurrencies has more than doubled since reaching a market capitalization of $1 trillion in January. Bitcoin alone has a total capitalization of $1.2 trillion, or around 47% of the overall market capitalization.



Investor interest in the bitcoin options market has increased. Bybt data shows that the cumulative dollar value of bitcoin options contracts open on major exchanges reached $14 billion on Tuesday, the highest level since April. It came close to surpassing the March 24 high of $14.68 billion. “The favoured options contracts appear to be call options with strike prices above $100,000, with a typical open interest of $250 million to $350 million for call options expiring at the end of the year. The open interest in call options dwarfs that in put options, aligning with the overall bullish market sentiment," reads a report from analysis firm Glassnode.

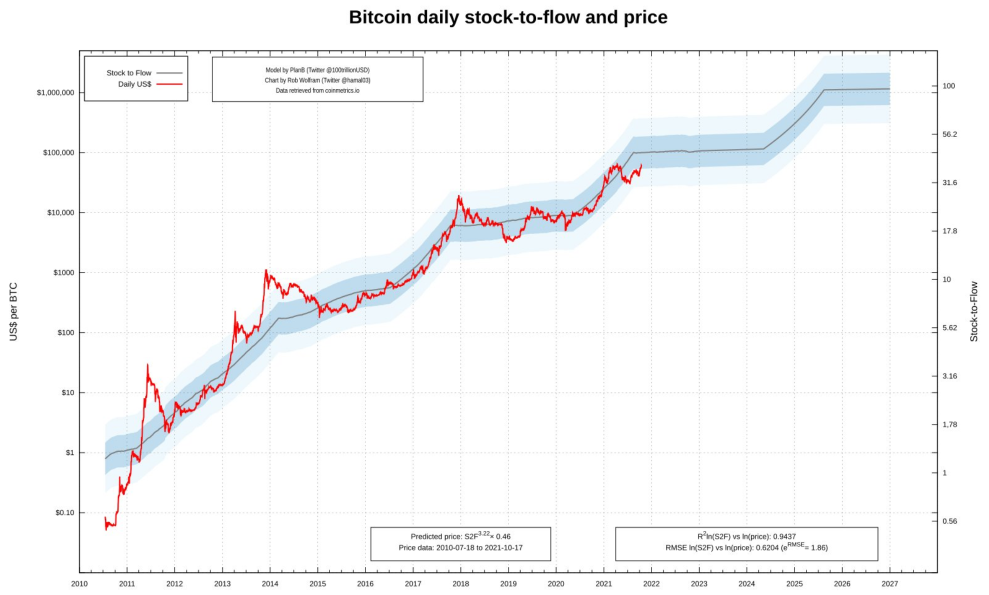
Other news this week includes Russia and its president Vladimir Putin sending a signal of tolerance for cryptocurrencies as they come under increasing scrutiny from regulators around the world. Cryptocurrencies "have the right to exist and can be used as a means of payment," Putin said in an interview with CNBC published Thursday on the Kremlin's website. He cautioned, however, that it was too early to talk about using digital currencies for trading oil and other commodities that make up the bulk of Russian exports.

Coinbase announced a series of partnerships with professional basketball on Tuesday, saying it will be the exclusive crypto partner for the NBA and WNBA. Coinbase's sponsorship deal comes after its rival FTX made an aggressive push into sports marketing, including a deal with Major League Baseball that saw FTX logos appear on every umpire's uniform.

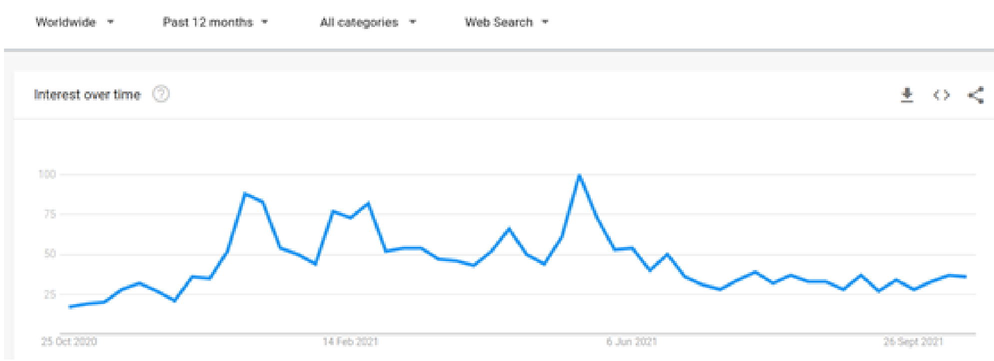
We shared last week that the Caisse de Dépôt du Québec was going to make a $400M investment in the crypto network Celsius. A week later, the network confirmed that it is one of three platforms invited to provide information to the New York Attorney General's office. Remember that U.S. financial regulators were quick to object to Coinbase's crypto lending project recently. With Celsius offering virtually the same thing, it was certain that the project would come under close scrutiny. While Celsius has not received a cease-and-desist order from the state of New York like other platforms, the network is already being targeted by regulators in Texas and New Jersey. On Sept. 17, the Texas State Securities Board requested a hearing with the goal of imposing a cease-and-desist order against Celsius for allegedly not offering state or federally-licensed securities. On the same day, the New Jersey Bureau of Securities ordered the lending platform to stop offering and selling interest-bearing cryptocurrency products.

"If any regulatory or technical changes are required in a specific jurisdiction, Celsius will provide clear and timely communication as needed," said the lending platform. “We know that the only way to thrive and ensure our long-term growth is through clear regulatory guidance. We anticipate and plan for these kinds of routine checks and balances.”

Technically speaking, the creator of the Stock-to-Flow model was quick to point out that the current rise is bringing the price back into its predicted channel, with his model estimating that it's around $100,000 that the price of bitcoin should soon be trading. That's much lower than we might see, however, if the waves of excitement in 2013 and 2017 are repeated.

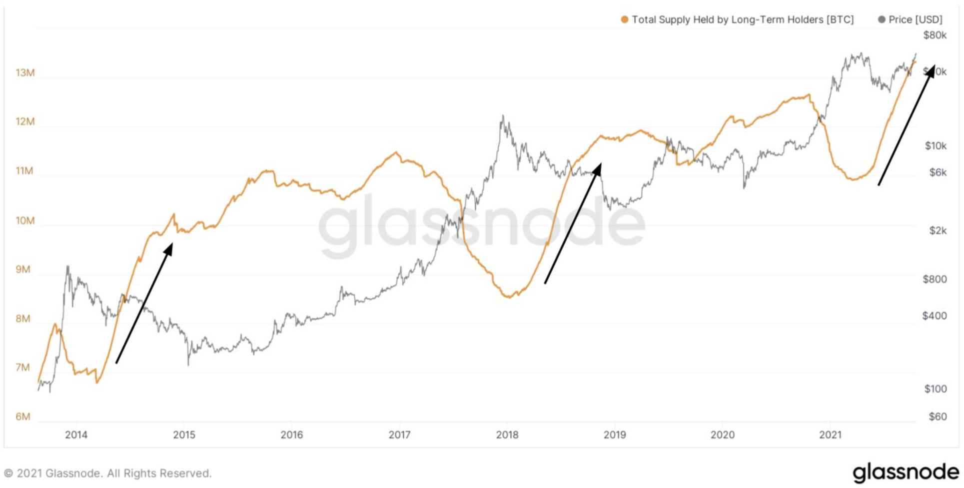


The price is flirting with its historical highs and will definitely test that level. Will it pass it on the first attempt? The current momentum suggests that it may well. At the same time, however, the rise since September 30 has been downright parabolic, with no significant profit taking. A redistribution phase around current levels is therefore also quite plausible. In any case, however, analysts, including us, are not shy about sharing their optimism in the short and medium term. Indeed, everything indicates that we have not yet entered the frenzy phase to which bitcoin has accustomed us in each of its four-year cycles. Beyond the institutional excitement, the data shows that almost no one is tracking or checking the price of bitcoin when compared to earlier this year. A normalized Google Trends score puts interest in "Bitcoin" at 36 this week, down from 100 in mid-May.

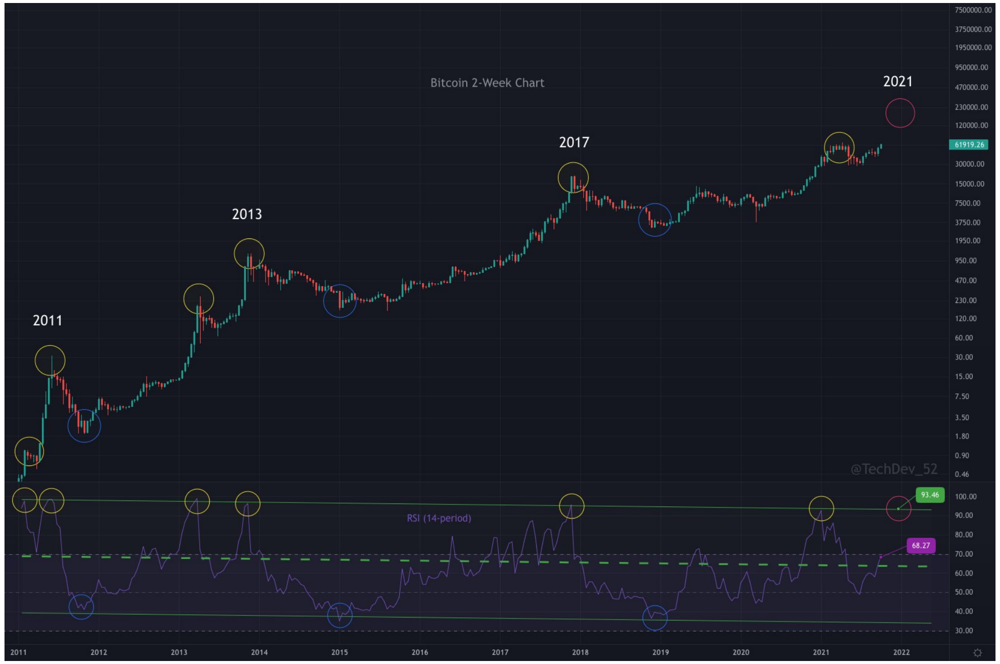


As analyst Dylan Leclair, founder of 21stParadigm.com and on-chain analyst for Bitcoin Magazine, suggests, "Long-term holders are still in accumulation mode. That's what you typically see during bear markets/consolidation periods... The distribution you'll see in the middle/end of a bull market hasn't started yet. Parabolic price action is coming." He shares this chart to support his point, adding "let's not forget that there are hundreds of trillions of dollars of capital invested around the world based on negative real rates. A decentralized, global, absolutely scarce, Internet-native monetary asset solves this problem. The world is not ready for what's coming next."

Bitcoin: Long-Term Holder Supply & Price Action



TechDev analyst agrees, citing the Relative Force Index (RSI) technical oscillator. "Updated two-week RSI channel that has shown all the ups and downs of bitcoin in history. Current RSI value: 68. Projected high value: 93-94. Every time it broke the EQ, it visited the top. The skies are clear." The latter estimates that the top of the current cycle will be between $200,000 and $300,000.



The next few months could be truly explosive!

Rivemont Investments, manager of the Rivemont Crypto Fund.

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