RIVEMONT

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

While we have often witnessed in the past years sharp price movements in the cryptocurrency market at the end of the fourth quarter, it's quite the opposite we're seeing right now. After a successful defense of the important 200-day moving average for bitcoin, prices are virtually the same as they were a week ago. The same is true for Ether, the 2nd largest crypto asset. It has also been particularly quiet in terms of news.

So, what year is this? That's the question we asked ourselves when reading the headline about RadioShack and its attempt to break into the decentralized finance market. We thought the company was dead and buried! Well, over the weekend, the two men who bought out what was left of the company in 2020 confirmed its entry into the decentralized finance (DeFi) sector. According to the website's documents, "RadioShack, and RadioShack alone [sic], can bridge the gap and cross the chasm of mainstream cryptocurrency usage." At the very least, that's not without a sense of humor. The project, however, seems very real. The idea is based on a partnership with Atlas USV (universal store of value), a DeFi protocol that allows applications to be built from it. RadioShack DeFi aims to start by creating a decentralized exchange (DEX) in the vein of Uniswap, which leverages liquidity pools. This model allows token holders to exchange them directly for any other token. The native token of the exchange will, of course, be RADIO.

In an announcement that surprised absolutely no one, the SEC deferred its decision on the fate of two new bitcoin-backed (not backed by futures contracts) exchange-traded funds. The organization will take another 45 days to review the ETF proposals from Bitwise and Grayscale. For all intents and purposes, it seems confirmed that such a product will therefore not see the light of day during 2021. However, many analysts agree that 2022 should be the year when the SEC will take this new step forward.

Speaking of Grayscale, let's note that the firm's flagship product, the Grayscale Bitcoin Trust (GBTC) closed the week at a record 21.4% discount to the actual price of BTC. This means that new investors can purchase GBTC shares at prices significantly below the actual market value of bitcoin, while existing holders suffer losses due to the six-month lock-in period for the initial investment. GBTC is a closed-end fund, which means it cannot easily add or withdraw shares to meet inflows and outflows. As a result, the price of its shares is determined primarily by supply and demand, rather than by the underlying value of its assets, as would be the case with a traditional ETF. While the price has long been at a premium relative to bitcoin when GBTC was the only conventional way to gain exposure to the cryptocurrency's price, the dynamic has been completely reversed since the launch of more attractive derivatives for investors.

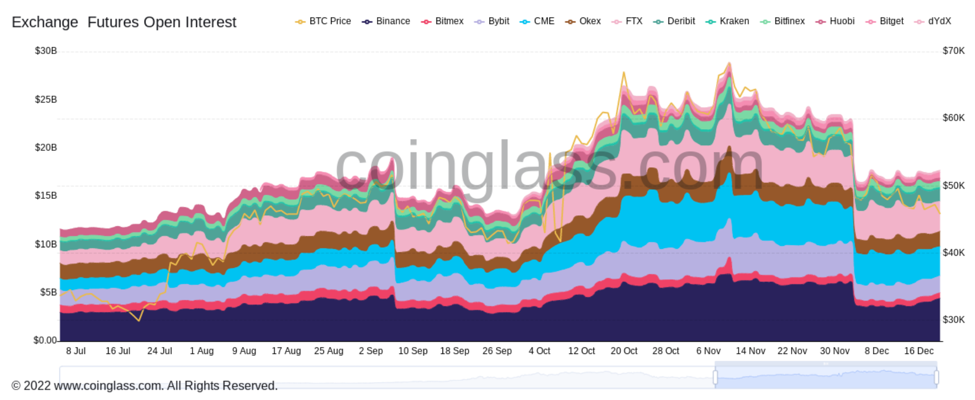
Grayscale believes that the best way to reverse the current discount is to convert GBTC into a full-fledged bitcoin ETF, arguing that a spot Bitcoin ETF would be "in the best interest of investors." This could be a profit opportunity for current buyers with the discount in place. Remember that GBTC has over $30 billion in assets under management.

2021 was definitely a year of institutional adoption for the cryptocurrency market. One of the mythical heads of finance, billionaire founder of Bridgewater Associates, Ray Dalio, is part of the mix. "I'm not an expert on bitcoin, but I think it has some merit as a small part of a portfolio," the man said in an interview this week. Dalio previously said in May of this year that he owned some bitcoins. "It's been an incredible accomplishment for bitcoin to have achieved what it has, from writing this program, to not being hacked, to having it work and being adopted the way it has," he added. He also echoed a common topic of discussion among Bitcoiners, "It's almost the alternative to gold for the younger generation and it has no intrinsic value, but it has an imputed value so it has some merit," he said.

In fact, according to a CNBC Millionaire survey, millionaires Millennials plan to add more bitcoin to their wallets in 2022. According to the survey, 83 percent of millionaire millennials already hold cryptocurrencies, and more than half of those surveyed already have at least 50 percent of their wealth in crypto. "That's a big difference between different generations of wealth," said George Walper, president of Spectrem Group, which conducted the survey with CNBC. He added that this generational shift presents a challenge for wealth managers around the world. "I'm not sure the wealth management industry has recognized that they really need to think about these completely different generations. Most firms hoped to ignore it. But millennial millionaires aren't just going to come out of crypto," he added.

Many were hoping for a repeat of the 2017 scenario for bitcoin, as the asset's price drew a "blow-up top" taking it to new highs. If that action didn't happen, the subsequent - and equally violent - pullback shouldn't be on the horizon either. It must be said that the retail investor has far less influence on the market today than he did four years ago. Industry veteran Peter Brandt argued that the volume spikes that accompany price collapses were absent in December compared to previous episodes. In the same conversation, analyst Willy Woo responded that speculative derivatives traders participated in the cascade up to $41,800 earlier this month, while retail investors continued to hold their BTC. "Overall, there are no signs of a sell-off on the chain yet (HODLers not moving, speculative investors taking profits). In reality, it's a consolidation under the low liquidity of December." He adds.

Of note, derivatives seem to be regaining confidence, with open interest in bitcoin futures steadily increasing since the plunge earlier this month.



The price action is actually very similar to that of September, with a consolidation phase preceding a squeeze of the many short margin positions. Now that the FED has clarified its positions for the beginning of next year, the air is possibly cleared for a resumption of speculative positions in the markets.

As Michaël van de Poppe mentions: "The whales are buying and entering the markets in these price ranges. Retail is scared. Good." Indeed, this is often when the best windows of opportunity have presented themselves. As this well-known analyst mentions, "Panic and bearish sentiment towards #BTC is extreme right now. But there's nothing extreme about this -38% retracement. Over the years, BTC has often retraced 30-40% in bull markets. In fact, $BTC retraced -53% last May. -38% is not extreme."

Bitcoin is at an important zone right now. After breaking through an initial resistance yesterday, we will have to see today if the asset can confirm the breakout of its descending triangle to the upside or if it will return to this consolidation zone. The next resistance, which could confirm a bullish scenario, is around $50,500.

This chart shared by analyst John Wick is a good representation of the current observed picture:

Happy Holiday Season to all our readers!

Rivemont Investments, manager of the Rivemont Crypto Fund.

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