

RIVEMONT

Rivemont - Weekly Update #212

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

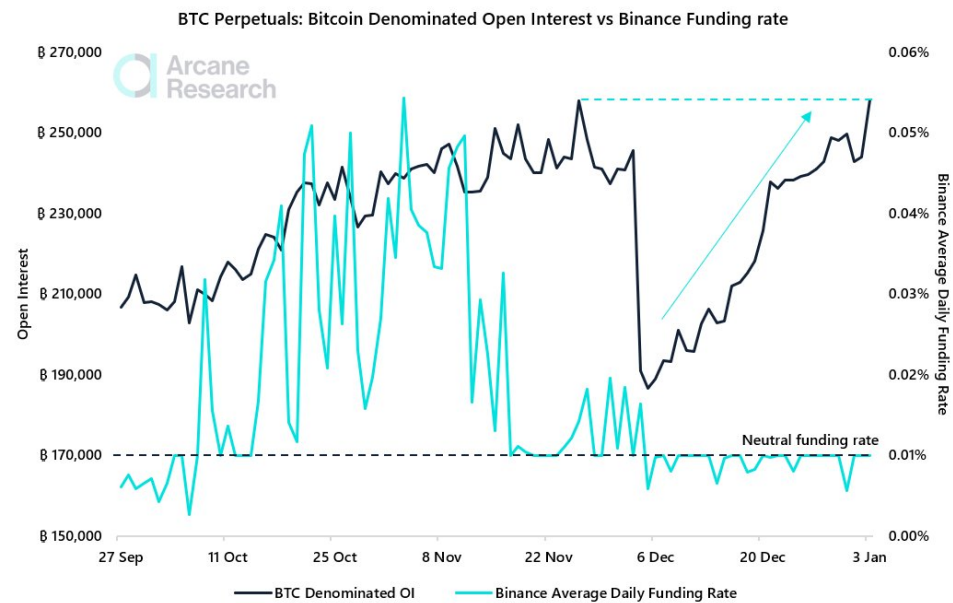
The New Year has begun much like the last one ended on the cryptocurrency markets, namely in a channel of consolidation and the repeated defense of a significant support for bitcoin. The gloomy-looking price action, however, does not tell the whole story. Indeed, while the price is looking for some direction, the network is healthy as ever.

Indeed, in these first days of 2022, the bitcoin blockchain has hit a new hash rate record at 203.5 EH/s, making it more secure than ever in its history. The hash rate is the total combined computing power used to mine and process transactions. The higher the hash rate, the more secure the network is, as the

computing power required to successfully complete an attack also increases. Over the past 12 months, bitcoin's hash rate has increased 49% from 136.5 EH/s on January 2, 2021. The growth is even more impressive, at nearly 200%, when compared to the values seen in July of last year, when the hash rate dropped to 68 EH/s following China's massive crackdown on the mining industry. Further proof of the incredible economic balance intrinsic to the very concept behind bitcoin.

It has now been 13 years since the genesis block of the bitcoin blockchain was created. To commemorate that occasion, the third largest whale appears to be back after the holidays, making its first major purchase of 2022. On Tuesday, the third-largest bitcoin wallet added 456 BTC at an average price of \$46,363, which is equivalent to about \$21 million. This wallet has so far accumulated 120,845.57 BTC, worth over \$5.6 billion.

The derivatives market also looks set to rebound from a late 2021 slowdown. Institutional investors are expected to become the main force in the bitcoin market according to many analysts. Derivatives are already showing signs of this renewed interest. Indeed, open positions are now back to the levels they last reached in the third week of November, when the price of bitcoin itself was hitting all-time highs of \$69,000. Unlike that time, however, funding rates are currently neutral - an essential basis for forming a volatile move. More on this in the second part of this letter.



Source: Glassnode, Skew

In our [most recent communication](#), we mentioned that we had noticed the listing of BINANCE CANADA on the Canadian Money Services Business Registry. The clarification of this issue was not long in coming. Binance sent an email to its Ontario users stating “that the registration would allow continued operations in Canada [and that] as a result of this continued positive cooperation with Canadian regulators, there was no need for Ontario customers to close their accounts by December 31st, 2021”. However the Ontario Securities Commission doesn’t seem to agree, quite the contrary. In [this December 30th statement](#), the regulator "advises investors that Binance is not registered under securities law in Ontario. This means they are not authorized to offer trading in derivatives or securities to persons or companies located in the province." The OSC adds that “Binance represented to OSC Staff that no new transactions involving Ontario residents would occur after December 31, 2021. Binance has issued a notice to users, without any notification to the OSC, rescinding this commitment. This is unacceptable."

China's war on cryptocurrencies is not an opposition to the technology, but

rather a political stance to ensure a strong state monetary control. Indeed, the country has stepped up its plans for a central bank digital currency - an electronic version of the yuan that will eventually make banknotes obsolete - and has begun piloting the project in regions across the country. The government yesterday made its digital Chinese yuan wallet available for public download via China's Apple and Android app stores. Citizens in cities covered by the pilot project, including Shanghai and Shenzhen, can register for the trial version. The app can also be used by foreigners during the Winter Olympics next month. Many countries are currently exploring central bank digital currencies. With a population of 1.4 billion, however, China represents the biggest test to date for state-issued digital currencies.

New year; just like last year. At least that's the SEC's motto for now with respect to proposed bitcoin ETFs backed by actual asset reserves rather than derivatives. The agency has this time postponed the approval or rejection of NYDIG's Bitcoin ETF until March 16th. The SEC was originally scheduled to approve or reject the project on Jan 15th of this year, but announced yesterday that it would extend the deadline by another 60 days. In a promising turn of events, however, an influential SEC figure has come out in favor of such an ETF. In a recent interview, Commissioner Hester Peirce also questioned why it is taking so long. "I can't believe we're still talking about this as if, you know, we're waiting for one to happen [...] We've issued a series of denials even recently, and those continue to use reasoning that I think was outdated at the time."

2022 is supposed to be the year Ethereum moves from proof-of-work consensus mode to proof-of-stake (commonly known as Ethereum 2.0). What about the network's long-term vision and achieving its ultimate goal? In a [podcast released Monday](#), Vitalik Buterin explained the roadmap for Ethereum to survive and thrive. When asked to assess Ethereum's progress over the past six years, Buterin said "we're 50 percent of the way there" with the launch of the Beacon chain, the London Hard Fork and even the rise of non-fungible tokens. However, there is still a long way to go. Once the migration and sharding implementation is complete, the blockchain will supposedly be 80 percent

complete. The roadmap, estimated to take six years to complete, will lead to 100 percent optimization, according to Buterin.

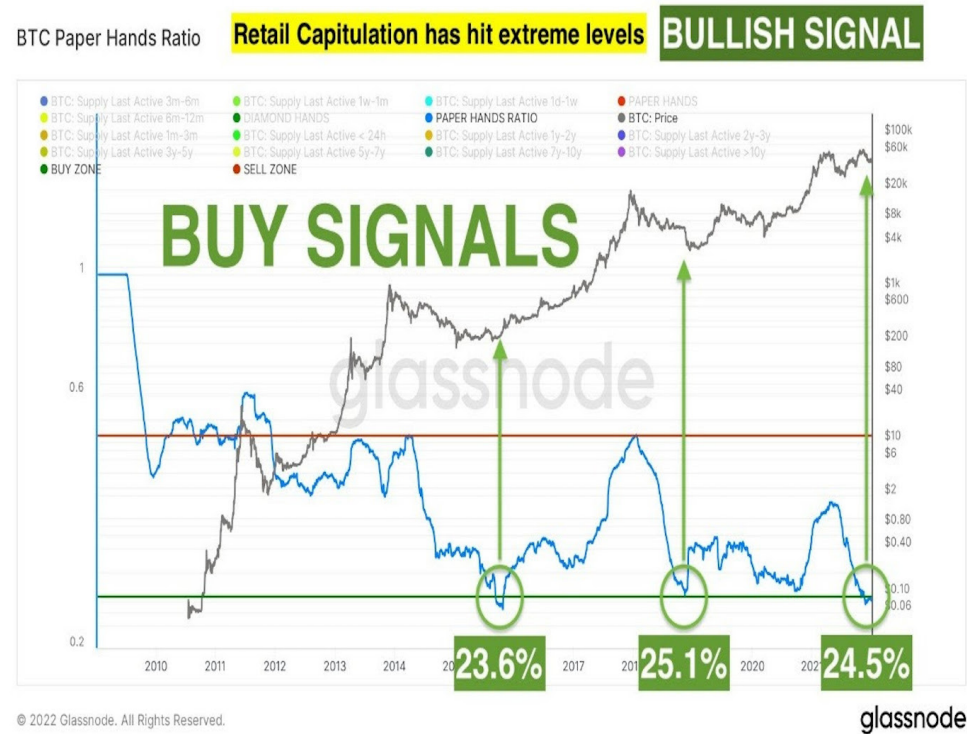
We told you recently and now it's official. Rivemont is making a major breakthrough as the Rivemont Crypto Fund can now be distributed by MICA, Financial Services Firm. The news was reported by [Finance and Investment magazine](#) yesterday. "Until recently, our distribution strategy was based primarily on selling the product to our own private clients. However, portfolio managers and full-service brokerage firms have the capacity to distribute it. But these are difficult markets to penetrate. MICA breaks this logic" explained Martin Lalonde, president of Rivemont.

On the market side, bitcoin continues to defend its support at \$45,500 and has done so since December 17th. Most analysts agree, however, that this increasingly thin channel will not last. Will we see a squeeze to generate a volatile move? Virtually everyone thinks so, but with differing opinions on direction. William Clemente sees similarities with July price action, expecting a breakout to the downside that would possibly be heavily bought in the low \$40,000s. QCP Capital, meanwhile, maintains a bullish outlook. "View-wise, we are still holding out for an upside move in the near-term, looking at the 10-year equilibrium inflation rate (which historically has a strong correlation with BTC), there has been a material divergence since late December.... If BTC plays catch-up here, we could see movement towards \$60,000."

Part of the answer could come as early as today with the release of the U.S. Fed minutes. According to the CME Group's FedWatch tool, investors rated the probability of a 25 basis point rate hike in March at 61%. This is a significant increase from the 25.9% probability a month ago. While the central bank last month announced three rate hikes for 2022 and the end of the asset purchase program in March, it assured markets of a gradual pace of policy tightening. "If the Fed goes to four hikes next year, that's a big statement. It means two things. First, it hikes in March, which means there is no gap between the end of quantitative easing and the first hike. It's not impossible, but it's a big statement of intent," says analyst John Turek. This could be another test for

bitcoin to assert itself as a protective asset in an inflationary environment, something it has failed to accomplish so far.

"While bitcoin remains flat in the short term, on-chain measures, such as Glassnode's 'paper hands' ratio, suggest that a bottom may be near," said Marcus Sotiriou, an analyst at GlobalBlock. The BTC paper hands ratio is the ratio of young coins active in the last six months to the cryptocurrency's circulating supply. A high reading represents greed among retail or short-term traders, while a low number signals retail disinterest. Retail investors are often referred to as having paper hands – weak capacity or desire to hold an asset for a long time – and are usually the last to enter the bull run and exit the bear run. Hence, declining retail activity is considered a contrary indicator – a hint of an impending reversal higher.



There were many predictions of a \$100,000 price tag for bitcoin in 2021. While

the year was undoubtedly positive, such a level has not been reached. What would make it happen? In a note released to investors on Tuesday, Zach Pandl, co-head of global currency and emerging markets strategy at Goldman Sachs, speculated that if the largest cryptocurrency managed to capture 50 percent of the store-of-value market shares over the next five years, the price of BTC would rise to just over \$100,000, marking a compound annualized return of 18 percent.

While BTC's current market capitalization is close to \$884 billion, Goldman Sachs estimates that Bitcoin's free float-adjusted market capitalization is less than \$700 billion, which represents one-fifth of the "store of value" market. This market, however, is not very crowded. The only other participant in Goldman's store of value market is gold, with an available investment of \$2.6 trillion. Despite its ups and downs, bitcoin has still managed to top Goldman Sachs' 2021 return ranking, with an annual return of over 60%. Gold ranked at the bottom of the same chart with a 4% annual loss.

Rivemont Investments, manager of the Rivemont Crypto Fund.

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