RIVEMONT

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

"A superior form of money". These are the clear terms used to describe bitcoin in the most recent paper from the multinational Fidelity. The paper asserts that bitcoin is fundamentally different from the hundreds of other digital assets that trade in the market and that no other digital asset is likely to surpass the first cryptocurrency "as a monetary asset." If you're a bitcoin maximalist, there's no doubt that your confirmation bias will be titillated upon reading the analysis.

According to the Fidelity paper, bitcoin is a higher form of money rather than just a technology. It is the most secure and decentralized form of asset. "Bitcoin clearly has many of the good qualities of money, combining the scarcity and durability of gold with the ease of use, storage and transportation of fiat currency." The financial services provider believes that bitcoin has all the qualities of a sound form of money, as it is not managed by an organization, does not pay dividends and has no cash flow. The scarcity and decentralized nature of bitcoin only adds to its properties as a perfect monetary tool. "We won't be so bold as to predict that there will only ever be one currency, but we do believe that a single monetary asset will eventually dominate the digital asset ecosystem due to very powerful network effects."

Speaking of Fidelity, let's note that the firm has filed two additional exchange-traded fund (ETF) applications, according to Securities and Exchange Commission (SEC) documents. Those two ETFs are the Fidelity Metaverse ETF and the Fidelity Crypto Industry and Digital Payments ETF. The first seeks to provide investment returns corresponding to companies that develop and sell metaverse-related products. The second will seek to track the performance of companies active in the cryptocurrency sector.

For its part, the firm Grayscale announced the launch of an ETF of companies with exposure to bitcoin. The fund will hold a basket of stocks consisting of 22 public companies heavily involved in cryptocurrencies. These include payment and technology companies like PayPal and Block (formerly Square), as well as pure cryptocurrency companies like Coinbase and investment firms like Silvergate Capital.

Rumors surrounding the legal framework for cryptocurrencies in India have been many for the last few months. We finally got a clearer picture this week. Indeed, the Indian government revealed on Tuesday that it will launch a digital rupee and start taxing revenue from crypto. In her 2022 budget presentation, Indian Finance Minister Nirmala Sitharaman said that the Reserve Bank of India (RBI) will introduce a central bank digital currency (CBDC) in the next fiscal year. According to her, the introduction of a CBDC "will give a boost to the digital economy," leading to "a more efficient and less expensive currency management system."

If a future centralized cryptocurrency is suddenly pushed, it’s done simultaneously to the introduction of heavy taxation of income from currently traded digital assets. Any income from the transfer of a virtual digital asset will be taxed at 30 percent. In addition, "no deduction for any expense or allowance is allowed in computing such income, except for the cost of acquisition". In other words, investors will not be able to show that losses have occurred due to price drops or piracy incidents to offset the taxation of profits. In even more direct terms: "Good luck with your risk taking. Too bad if you lose, but here's what our share of your profit will be if you win."

Thailand's position is 180 degrees. The country has dropped a plan to impose a 15 percent withholding tax on cryptocurrency transactions. The news comes amid opposition from the country's merchants. The new approach allows Thai crypto investors to offset their realized gains against their annual losses in the same year.

Things are moving fast in the industry. We'll recall that in the spring of 2019, Facebook announced its grand crypto plan, a "borderless global currency" called Libra, backed by a "collection of low-volatility assets such as bank deposits and government securities, in stable, reputable central bank currencies." In short, a stablecoin. Two years and seven months later, Facebook is called Meta, Libra is called Diem, and Diem is in the process of selling all of its assets. A project, after all, that was ultimately nipped in the bud.

But don't think that Facebook is abandoning its intentions in the virtual industry. Its simple name change is a proof of that. On the contrary, the company is betting everything on the metaverse. To this end, Zuckerberg is learning from Libra's mistakes and says, believe it or not, that the related projects will be less centralized. “The metaverse should be more interoperable and open than any computing platform before. Meta is proud to join the Crypto Open Patent Alliance to make our crypto patents available for anyone to use so we can all build this future together.” he wrote via his own Facebook account on Monday.

Jack Dorsey, the main actor behind this alliance, did not miss the opportunity to throw an arrow at Zuckerberg. "The internet having a native currency for itself opens so many doors: especially for internet companies, technology companies, but more importantly for everyday people, activists, people who have questions in the world, curiosity, and recognizing that the currency systems just aren't working for them," he said. He added that Facebook has "wasted effort and time" working on the project formerly known as Libra and that it would have been better spent "making Bitcoin more accessible for more people around the world."

These comments were made in an interview with MicroStrategy CEO Michael Saylor. The latter clearly agrees, having in the same vein called bitcoin an "egalitarian and utilitarian technology" and adding that it would bring "real value to financial services companies in the future."

Speaking of Saylor's company, it should be noted that it released its quarterly financial results yesterday. First, we learned of the purchase - another one - of 660 new BTCs for corporate treasury. More importantly, MicroStrategy recorded a $147 million impairment charge on its bitcoin holdings in the fourth quarter. The impairment reflects the decline in the price of bitcoin versus the price at which the bitcoin was acquired. Under standard accounting rules, the value of digital assets such as cryptocurrencies must be recorded at their cost and then only adjusted if their value is impaired, or goes down. But if the price rises, that does not get reflected until an asset is sold. The 124,391 bitcoins held by the company at the end of Dec. 31, 2021, were acquired for $3.752 billion, which represents an average cost per bitcoin of about $30,159, the company said.

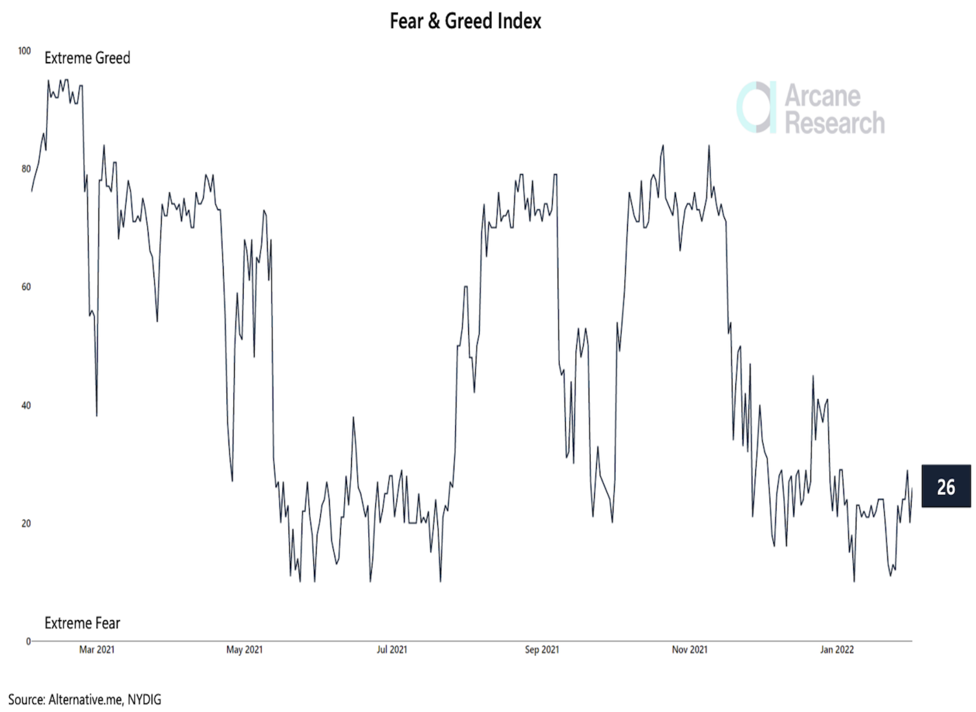
Not surprisingly, the Altair upgrade to the ETH 2.0 network went smoothly. As of this week, 98.7% of nodes have upgraded. Altair is the first upgrade to the Beacon chain since it went live in December 2020 and likely the last before it merges with the main Ethereum network and moves to proof of stake. Meanwhile, it is certainly interesting to note that $33.5 billion is "held" in the largest contract on the Beacon chain. The latter, containing 8,641,954 Ether, remains inactive, as it cannot be spent or sent. It will take the hard fork to ETH 2.0 for this to change. What makes it even more amazing is the fact that the conditions of the hard fork have not been decided yet, and that the people sending their ETH in the contract were well aware of this fact. It's hard to imagine a better proof of confidence in the future of the network.

Some of the idle bitcoins stolen in the 2016 Bitfinex exchange hack moved from the hackers' wallets to an unknown wallet Tuesday. Twenty transactions involving the stolen bitcoins were reported. A sum of 64,641.29 BTC, worth nearly $2.5 billion, was moved. This is more than half of the total amount seized by the hackers, which is estimated to be around 120,000 BTC. While it is impossible to determine the exact reason why the hackers are moving bitcoins, some speculators believe it is to scare investors into selling their BTC. In 2021, when the hackers moved 10,000 of their stolen BTC, the assumption was born that since the hackers are unable to cash out, they could move the bitcoins to cause a panic in the market while having short positions.

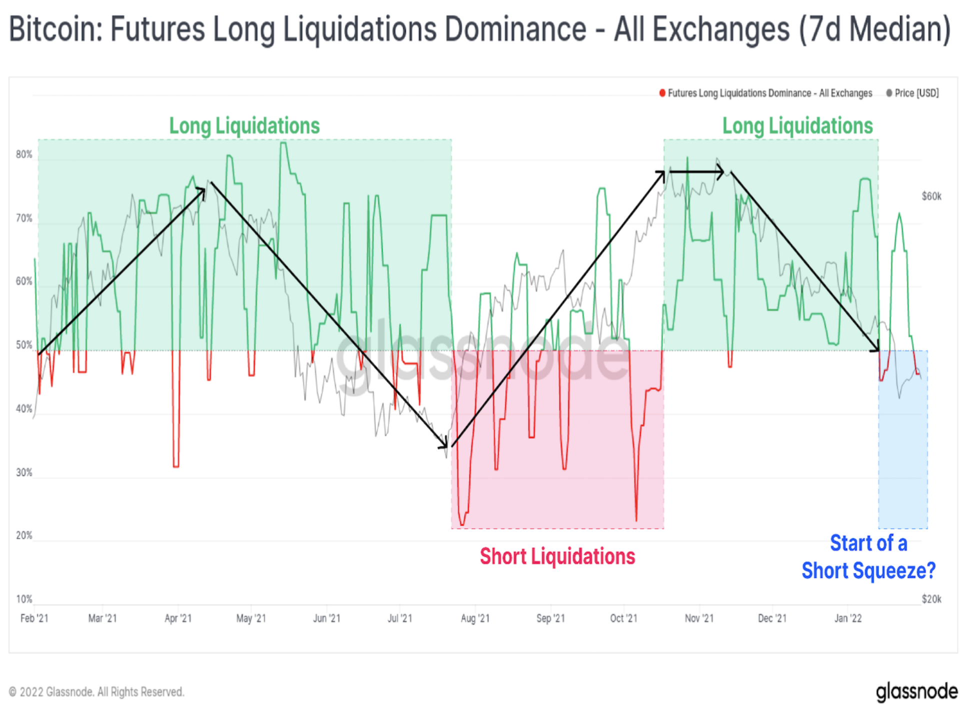
According to the latest official statistics, the U.S. national debt is at levels never seen before, crossing the psychological $30 trillion mark for the first time this week. That's a number so large that the total capitalization of cryptocurrencies is a drop in the bucket in comparison. Looking specifically at bitcoin, with a market capitalization of $731 billion, it represents 2.44% of the total national debt. So even if the U.S. were to buy all the BTC in circulation, it would only pay down a tiny fraction of its debt. Do we need to remind ourselves that to be long bitcoin is also in some ways to be short the US dollar?

While bitcoin has certainly rebounded this week, alongside the stock market by the way, it has so far failed to meet its important test of breaking its downward diagonal upwards. At the same level is the important 21-day exponential moving average. If both are pointing to around $39,500, then it is the recovery from $40,000 with a clear close above that level that would confirm a true rebound from the January lows.

The Fear & Greed crypto index has broken out of last week's "extreme fear" territory, meaning that bearish sentiment has begun to fade. The index is now near its July 2020 lows, which preceded a rally in crypto prices.



A convincing break of the $40,000 mark, however, could create fireworks, at least in the short term. Indeed, many short positions are very likely to be liquidated around this area, momentarily boosting the strength of the bullish push. "With strong negativity, high leverage and a general selling trend, it is reasonable to think that there is potential for forced selling against the tide in the short term," explains analysis firm Glassnode alongside this interesting chart :



As today's action so far shows, while bitcoin has risen from $36,700 to $39,280 in February, it lacks the momentum to challenge $40,000 resistance. That could soon change, however, according to some indicators, including most notably the RSI, which is finally now out of its plunge into "oversold" territory. The RSI looks at how "oversold" or "overbought" an asset is at a given price point. Since late November, it has been sinking, peaking at lows seen only a handful of times in recent years. In short, while price still needs to break its downward trend, the RSI has already done so.

On the Fund side, caution continues to guide decisions. This will continue to be the case until this same price trend is broken.

In these tumultuous times, when many see a true bear market taking shape, alternative investment funds can be a solution for the investor. For example, the Rivemont Alpha Fund, which is not shy about selling short when the trend suggests it, was up 7% in January while the Nasdaq index was down 9% for the same period.

Rivemont Investments, manager of the Rivemont Crypto Fund.

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