

RIVEMONT

Rivemont - Weekly Update #233

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

Let's begin this weekly communication with the continuation and the end of the saga of the LUNA token crash and its stablecoin UST. While there will certainly be legal echoes of this crisis for years to come, the situation in the markets seems to have come to a conclusion.

The governance vote on the proposal to burn (completely remove from circulation) 1.3 billion USTs was approved by 99.4%, an 11% drop in the total supply. The objective is to reduce the selling pressure on LUNA, as the algorithm is not keeping up to insure the needed peg. In parallel, the vote to create a new version of Terra was also accepted and this new chain was

launched. The old token LUNA continues to exist and is renamed LUNC for Luna Classic. The new token takes on the name LUNA. The new token does not have a stablecoin peg.

Dubbed Phoenix-1, the Terra 2.0 fork went live on Saturday, according to the original schedule set by Terra developers, and has begun producing blocks. Kwon, founder of the project, also informed that public node services, wallets and explorers would follow the main network soon after. According to the recovery plan, users previously holding Terra Classic (LUNC), TerraUSD Classic (USTC) and Anchor Protocol UST (aUST) will receive equivalent amounts of tokens based on a specific screenshot of the chain dating back to before the death spiral.

The state of damage? UST continues its never-ending plunge and is now worth only 3 cents. The original LUNA token, now called LUNC, trades for about a hundredth of a cent. Remember that it was worth \$86 exactly one month ago! The new LUNA token has become the new toy of gamblers. About 12 hours after its launch LUNA (called LUNA2 in some markets) had lost nearly 73% of its initial value, trading at \$5.18. It had earlier peaked at \$19.54. Its current price at the time of writing is \$7.13. Volatility is very high.

On the legal side, South Korean authorities have launched an investigation into the Terra accident. According to a recent report, Do Kwon ignored Terra's design flaws to push the launch of UST. The investigation would seek to elucidate whether there were signs of intentional price manipulation and other issues. The Seoul Southern District Prosecutors' Office's Joint Financial and Securities Crime Investigation Team also summoned former Terraform Labs employees who were involved in the initial development of the Terra ecosystem in 2019. One of these employees reportedly revealed that the team had doubts about the design of the UST stablecoin from its inception. They also claim to have warned Do Kwon that the algorithmic mechanism designed to protect the asset's peg to the U.S. dollar could eventually fail, but Kwon reportedly dismissed these concerns out of hand.

The Portuguese Congress on Wednesday rejected two bills that sought to tax cryptocurrencies. The bills were introduced by Livre and Bloco, two leftist parties with little representation in parliament. Portugal applies an effective tax rate of zero on capital gains related to cryptocurrencies, while the capital gains tax rate on financial investments is currently 28 percent.

Important adjustment to the bitcoin network difficulty rate this week. Indeed, the network's difficulty recorded a 4.33% drop - from 31,251 billion to 29,897 billion on May 26, just two weeks after reaching its all-time high. Consequently, discovering the block for miners is slightly easier today than it was last week. The difficulty of mining has more than doubled in the past year, however, as the network is more secure than ever.

JPMorgan has placed the fair price of bitcoin at \$38,000, 20 percent higher than its current level, according to a note the bank released Wednesday to its clients. "Last month's crypto market correction looks more like a capitulation compared to last January/February and going forward, we see upside for bitcoin and crypto markets more generally," the note said. The bank's strategist Nikolaos Panigirtzoglou was the lead author of the paper. Crypto has surpassed real estate as a preferred "alternative asset" for the bank, along with hedge funds, the note continues. It said: "Thus far, there is little evidence of VC [venture capital] funding drying up post-Terra's collapse. Of the \$25 billion VC funding year-to-date, almost \$4 billion came after Terra. Our best guess is the VC funding will continue and a long winter similar to 2018/2019 would be averted. VC funding would be key to avoiding this crypto winter."

On the Ethereum side, The Beacon chain, which will introduce proof-of-stake (PoS) on the network, saw a seven-block reorganization (reorg) on Wednesday. A reorg can occur either as a result of a malicious attack by a miner with high resources or simply as a result of a network failure, which temporarily results in a duplicate version of a blockchain. On May 25, seven blocks from numbers 3,887,075 to 3,887,081 were removed from the Beacon chain. Martin Köppelmann, CEO and co-founder of Gnosis, notes that this "shows that the current strategy of attaching nodes should be reconsidered to hopefully lead to

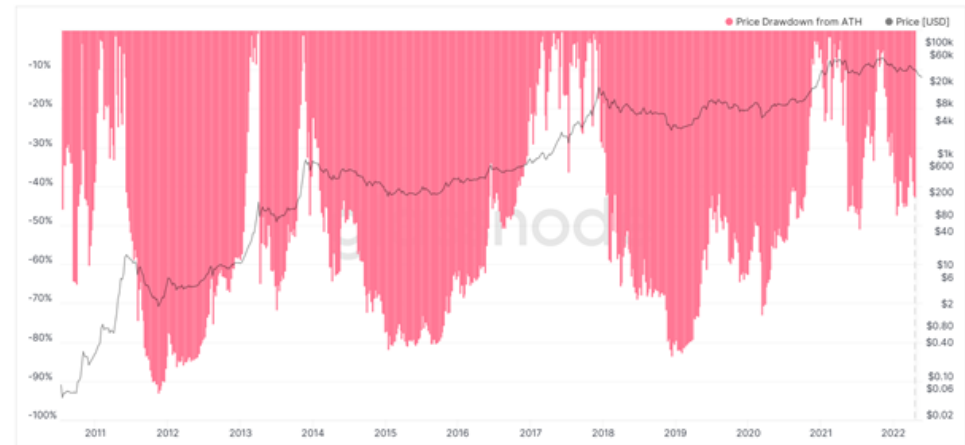
a more stable chain." Many proposals to do this already exist. This is just a reminder of the work that remains to be done before the official migration.

While the stock markets rebounded last week, the cryptocurrency market has been trying to do the same since last weekend. Bitcoin is experiencing a relief rally after several weeks of oversold conditions according to many indicators. Now let's see if this can serve as the basis for a June reversal after nine straight weeks of decline - a record in the network's history. Meanwhile, most altcoins have underperformed bitcoin, suggesting that speculators are still not comfortable with taking on additional risk. Bitcoin's market capitalization relative to total cryptocurrency market capitalization has risen over the past three days after breaking a one-year downtrend on May 13. In general, alts underperform BTC during bear markets due to their higher risk profile. Bitcoin's dominance index, at 46.8%, is touching a level not visited since last October.

If the past is any guide to the future, based on historical patterns involving bitcoin's halving cycles, this year should show the bottom of the current four-year cycle, just as it did in 2018. In short, this is possibly the best time to enter the market in years. As one CryptoQuant analyst mentions, "We may not be at THE cycle bottom, but we are within the range of BTC cycle bottoms. This is the best you can do when timing the market cycles."

Indeed, while the rise has not been as dramatic as others in the past for this cycle, the pullback from the high may also be softer, putting us today in a natural and attractive historical range for bitcoin price movement.

Bitcoin: Price Drawdown from ATH



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The fund has the majority of its capital exposed to bitcoin just under the 30 000 \$ zone.

Rivemont Investments, manager of the Rivemont Crypto Fund.

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