RIVEMONT

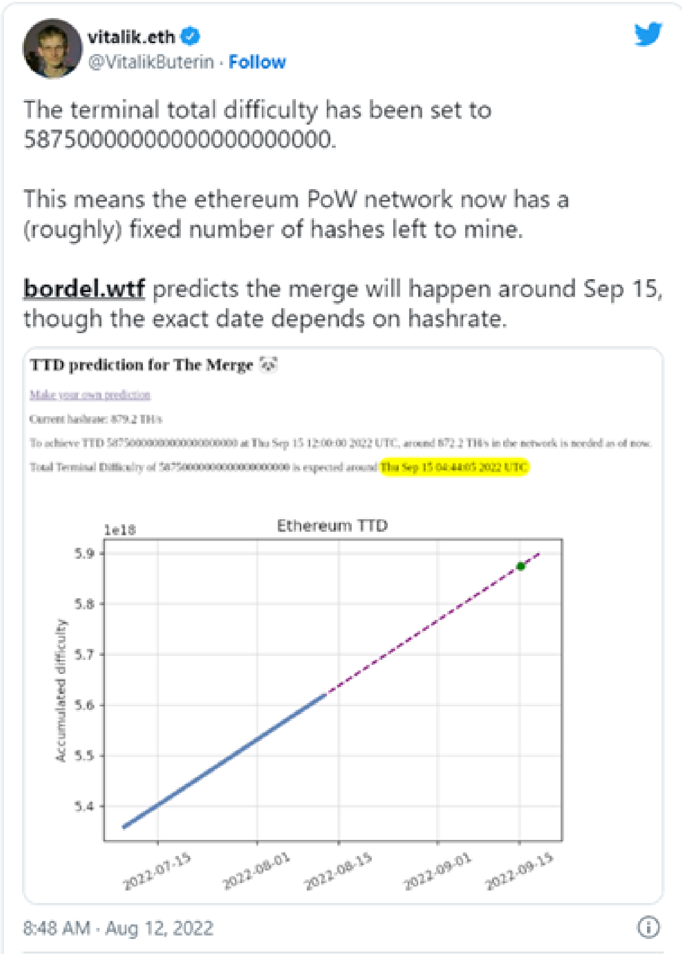
Rivemont - Weekly Update #244

August 17th, 2022

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

Ethereum developers executed the third and final merge on the Goerli test network. On Thursday, at around 9:50 p.m., the developers simulated the Goerli merge and switched from PoW (proof of work) consensus mode to PoS (proof of stake). To do this, they had to "merge" the Goerli code with its PoS-based fork called Prater. With the Goerli test merge completed, the team has now completed all the dress rehearsals for the upcoming merge. According to the official timeline decided by the Ethereum developer team, the next step will be to perform the full merge on the mainnet.

Following this latest successful test, Ethereum founder Vitalik Buterin announced that the transition will finally take place on or around September 15, 2022.



While the exact date is still subject to change, the successes of the various test network merges could be a promising sign that the Ethereum network will seamlessly transition to proof-of-stake (PoS) consensus next month. Before the merge can be completed, the Bellatrix fork must be performed, which will implement the software needed by clients to run the consensus layer. This operation is scheduled for September 6, about 10 days before the merger. One thing is certain, barring a last-minute change, with a terminal difficulty having been set at 58750000000000000000000, the Ethereum POW network now has a fixed number of hashes to process.

Will we see an uncontested fork? Some players are seemingly planning to go in the opposite direction. There are growing rumors that some Ether miners, many of whom rely on revenue generated from PoW block rewards, will continue to use the original PoW version of Ethereum to maintain their earning potential. Chandler Guo, a miner and crypto investor, is notably leading the charge for miners to fork the Ethereum network to create an Ethereum PoW (ETHW) chain. Guo seems to think there is enough room in the industry for two types of Ethereum to exist and has retweeted a series of messages supporting this notion. He promised to release the code necessary to perform an ETH PoW fork that bypasses the difficulty bomb, a mechanism that significantly reduces the per-block reward for miners in order to discourage them from attempting to produce more blocks (and thus force a migration to the proof of stake chain). The difficulty bomb will immediately precede the main network merge. Since it is obviously possible to speculate on just about anything, the future value of an ETHW token is already traded. It has climbed as high as $150 and stands at $62.20 at the time of writing.

Galaxy Digital has created a new earthquake in the crypto industry in a quarter already full of twists and turns. The firm led by billionaire Mike Novogratz announced on Monday that it was terminating its proposed $1.2 billion deal to buy cryptocurrency custodian BitGo. According to Galaxy, the firm exercised its right to terminate the previously announced acquisition agreement "following BitGo's failure to deliver, by July 31, 2022, audited financial statements for 2021 that comply with the requirements of our agreement." It's hard not to see parallels with Elon Musk's recent flip-flop regarding the purchase of the Twitter network. The BitGo deal had been announced in May 2021, in a completely different market environment. It is quite possible that what seemed attractive 15 months ago was now a burden on the firm, which is now looking for a way out. While Galaxy has announced that there are no exit fees, BitGo does not intend to stop there. The asset custodian has announced that it will seek $100 million or more in damages from the investment firm for pulling out of a deal to acquire it. According to BitGo, the merger agreement was not set to expire until the end of this year. It has hired the law firm Quinn Emanuel to sue Galaxy Digital. “It is public knowledge that Galaxy reported a $550 million loss this past quarter, that its stock is performing poorly, and that both Galaxy and Mr. Novogratz have been distracted by the Luna fiasco,” said R. Brian Timmons, a partner with Quinn Emanuel, in a Monday statement. “Either Galaxy owes BitGo a $100 million termination fee as promised or it has been acting in bad faith and faces damages of that much or more.”

Almost five years ago, in September 2017, JPMorgan CEO Jamie Dimon publicly stated that he would fire any trader at the firm who traded "the fraud that is bitcoin." Today, bitcoin and crypto in general has become a multi-billion revenue stream for JPMorgan, which now has a dedicated research team in the space. While JPMorgan's embrace of the industry is now clear and limpid, what is less remembered is that the world's largest asset manager claimed around the same time that bitcoin was "the index of money laundering."


BITCOIN

BlackRock CEO Larry Fink calls bitcoin an ‘index of money laundering’

PUBLISHED FRI, OCT 13 2017-2:32 PM EDT | UPDATED FRI, OCT 13 2017-3:06 PM EDT

Fred Imbert
@FOIMBERT

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"If you can't beat them, join them," goes the popular adage. Blackrock actually announced in a blog post Thursday that it is launching a new private trust in bitcoin. BlackRock said, "Bitcoin is the oldest, largest and most liquid cryptocurrency, and is currently the primary focus of our clients in the cryptocurrency space. [...] BlackRock is committed to providing clients with access to their choice of investment opportunities and has launched a private spot bitcoin trust. The trust is available to U.S. institutional clients and seeks to track the performance of bitcoin, minus the expenses and liabilities of the trust." If we've been talking about the rise of institutional investing for years, there couldn't be a clearer manifestation of it than the arrival of Blackrock. As former Grayscale CEO Barry Silbert commented, "Here comes Wall Street..."

According to what the Financial Times reports, in the last few months of "normal" Celsius operations, CEO Alex Mashinsky reportedly "took control" of the company's trading strategy as rumors surfaced in January that the U.S. Federal Reserve planned to raise interest rates. In particular, the man allegedly ordered the sale of "hundreds of millions of dollars" of BTC at once, only to buy them back at a loss less than 24 hours later. The news outlet quoted a person familiar with the matter as saying that the Celsius CEO "was convinced of the magnitude of the market's fall" and wanted staff to "start de-risking" in any way possible before the Fed meeting. The Celsius network has definitely been on a slippery slope since it filed for bankruptcy in July. Recently filed court documents reveal that Celsius will run out of money by October. Filed Sunday in the U.S. Bankruptcy Court for the Southern District of New York, Celsius noted that it is expected to reach negative cash flow by October 2022, to the tune of about $34 million. Nevertheless, speculators seem to remain eternally optimistic. The price of the CEL token reached $4.74 this week, after dropping as low as $0.09.

Despite the current bear market, bitcoin has recently set new records. According to data from Glassnode, bitcoin now has more than one billion unique addresses participating in transactions, which is the asset's new all-time high. This number is even more impressive when compared to the 158 million and 148 million unique addresses participating in transactions in Ethereum and Litecoin, respectively. Another striking fact about bitcoin is that its network has been calculated to have traded about $62 trillion worth of BTC over the past 12 months.

In the short term, we look at both the 30-day and 200-week moving average for bitcoin, with both indicators pointing to the $23,200 - $23,000 area. It is important to stay north of these levels to hope for a true test of $25,000, an obvious resistance that could not be broken during the week, despite the strength of the U.S. stock markets.

Rivemont Investments, manager of the Rivemont Crypto Fund.

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Martin Lalonde
President
160, boul. de l'Hôpital, suite 202
Gatineau, Quebec, J8T 8J1
Tel: 819-246-8800
martin.lalonde@rivemont.ca

Jean Lamontagne
Vice President and Portfolio Manager
465, rue Saint-Jean, suite 509
Montréal, Québec, H2Y 2R6
Tel: 819-246-8800
jean.lamontagne@rivemont.ca

www.rivemont.ca