RIVEMONT

Rivemont - Weekly Update #247

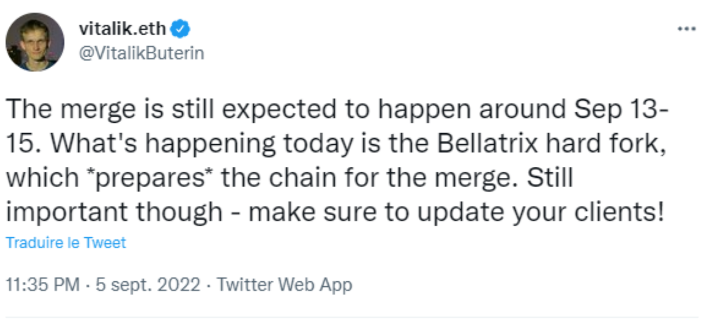
September 7th, 2022

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

If you're not holding your breath right now, you're probably not paying attention. The activation of the Bellatrix upgrade on the Ethereum blockchain officially took place yesterday, at 7:35 a.m. Eastern time to be exact. This update triggers the start of the merge, which is estimated to happen somewhere between September 13 and 16.

Developers have been testing for years to ensure a smooth transition. Nevertheless, it would be irresponsible to ignore the risk and effort required to move an asset with a $193 billion capitalization and hundreds of active decentralized infrastructures. Completely changing the consensus mode of the blockchain from proof-of-work to proof-of-stake, all while keeping the blockchain functional and active throughout the migration, is a grandiose technological challenge - and hopefully feat. Not only will this transition reduce the energy consumption of the network by more than 99%, but it also allows a real step forward in the development capacity of various decentralized solutions in the industry.

As Ethereum's founder himself mentions:



The Total Terminal Difficulty (TTD) value triggering the merger was set at 58,750,000,000,000,000,000,000,000. This figure, which represents the cumulative difficulty of all mined Ethereum blocks, is expected to be reached between September 13 and 16. When this level is reached, the network will merge its execution layer with the new proof-of-stake consensus layer, allowing the chain to continue with a new system for issuing and authenticating transaction blocks. At the time of the merge, the difficulty level of Ethereum's Proof-of-Work network will increase to the point that mining new blocks will no longer be possible.

In addition to the $34.2 billion in value locked up in smart contracts on the 2.0 blockchain, $5.3 billion in Ether is already being staked on the new Beacon blockchain. With that much on the line, there's no doubt that this is the largest upgrade in the network's history. There are already over 410,000 active validators ready to produce proof-of-stake blocks and ensure the stability of the network.

How is the transition going so far? While the real test will clearly come next week, we already have some clues. Firstly, the introduction of Bellatrix has been properly executed. The developers celebrated the success of this implementation and stated that the upgrade of the last execution layer of the merge, Paris, was “full steam” on track. However, following the execution, the Ethereum network experienced a sharp spike in its "missed block rate," which is the frequency at which the network fails to verify a block of transactions scheduled for validation. This number increased by about 1,700% after Bellatrix went into effect. In other words, while usually 0.5% of all blocks intended for validation on Ethereum fail to validate on the first try, on Tuesday morning, over 9% of all blocks experienced this problem. Major technical problem? Not exactly, at least, if we rely on the various developers who have spoken on the subject.

In the run-up to the final Paris upgrade, all Ethereum node operators - the people and organizations that run the network's back-end and infrastructure - must update their clients to the latest merge-ready software. Any operator who fails to do so will, if and when the merge is executed next week, "be stuck on an incompatible chain following the old rules and will be unable to send Ether or operate on the post-merge Ethereum network." In short, the spike in missed block rate could most likely be attributed to operators who had not yet performed this software update, not to a technical flaw in the network. In other words, the more node operators that have not yet updated their software, the more missed blocks will be triggered on the proof-of-stake chain. According to Ethernodes, 25.2% of Ethereum nodes have not yet updated their software. The worst-case scenario in this regard, however, seems to have already been avoided. If less than 66% of node operators updated their software, the merger could not be finalized next week. That number is already over 74%.

Anyway, to conclude on the subject, so far; so good.

Michael Saylor has been in the news a lot over the years in this communication, as he was a true forerunner of institutional investment in bitcoin via his firm

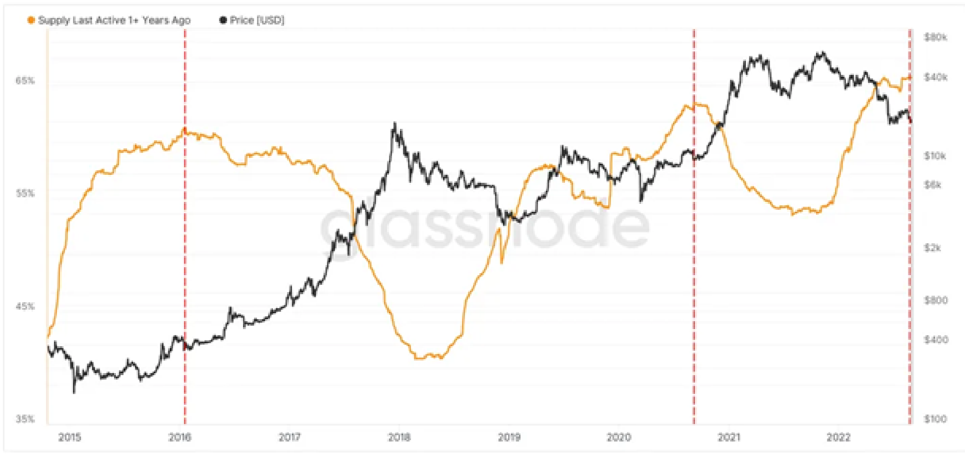
MicroStrategy. However, he certainly doesn't like the reasons that still place him in the spotlight today. The District of Columbia's attorney general is suing Saylor, alleging that he evaded more than $25 million in District taxes. The lawsuit alleges that Saylor resided in the District of Columbia for more than a decade without paying District of Columbia income taxes. The suit says he avoided income taxes by fraudulently claiming to be a resident of other low-tax jurisdictions. The man who recently stepped down as CEO of MicroStrategy countered in a statement that he moved from Virginia to Miami Beach, Florida, a decade ago. "Although MicroStrategy is based in Virginia, Florida is where I live, where I vote and where I ran for jury duty, and it is the center of my personal and family life," Saylor said. "I respectfully disagree with the District of Columbia's position and hope that the courts will find a fair resolution to this issue." The lawsuit also named MicroStrategy as a defendant, accusing the Northern Virginia-based company of collaborating with Mr. Saylor to evade taxes.

It should be noted that it was exactly one year ago today that El Salvador adopted bitcoin as a national currency. While the experiment could not have begun at a worse time in the market cycle, it is still a major development for a decentralized currency network that is still very young.

We often compare bitcoin (or any other proof-of-work currency) mining to a lottery among all its participants. Most of them join together to pool their computing power, thus increasing their chances of discovering blocks, and then share the substantial reward of 6.25BTC. However, a solo miner really won the lottery yesterday. He, who is not part of such a large pool of miners, only contributes 270TH of computing power. A real drop in the ocean of the total hashrate supporting the chain. However, it was this same miner who discovered block 752,868 yesterday, being rewarded with 6.25BTC alone, worth at this moment more than $118,000.

The action on the stock markets is lackluster to say the least, with the cryptocurrency markets keeping their bearish correlation as a result. In this regard, it is expected that the Fed's decisions will continue to weigh heavily on macro trends in the short to medium term. While small investors continue to shed their portfolios, other huge investors are taking advantage of the opportunity to increase their portfolios. Observers on Binance have noticed a trend of continued accumulation by a new and unknown entity trading Binance futures on a large scale. The entity's long position is reportedly "massive" and "easily" worth 30,000 BTC or more.

Also, among bitcoin's own indicators, it is interesting to note that the percentage of bitcoins that have not moved in over a year is at historic highs. Every time a peak occurs on this figure, a parabolic rise in price follows. In short, when the yellow line on the following chart crosses over the price line and peaks, a significant rise begins.



itcoin: Percentage of supply inactive for at least a year (Glassnode)

glassnode

In the current bearish environment, less than one out of every two dollars of Rivemont Crypto Fund's assets is currently exposed to the market.

Rivemont Investments, manager of the Rivemont Crypto Fund.

The presented information is as of September 7th, 2022, unless otherwise indicated and is provided for information purposes only. The information *comes from sources that we believe are reliable, but not guaranteed. This statement does not provide financial, legal or tax advice. Rivemont Investments are not responsible for any errors or omissions in the information or for any loss or damage suffered.*

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

Aimez-nous sur Facebook / Like us on Facebook