Rivemont - Week 321

February 6th, 2024

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

The price of bitcoin has remained relatively stable over the past week. However, this is not to say there hasn't been action behind the scenes! BTC indeed recorded its largest transaction volume in two years for the month of January that just ended. The asset is trading in an increasingly narrow consolidation triangle, staying north of the important 30-day exponential moving average. Breaking this pattern on one side or the other could bring a sudden lot of volatility.

Last week, digital asset investment products saw a return to inflows, totaling more than $700 million globally, marking the second largest weekly inflows since the launch of spot bitcoin exchange-traded funds (ETFs) in the United

States. This momentum was supported by a slowdown in outflows from Grayscale's GBTC. According to the latest CoinShares report, crypto funds from asset managers such as BlackRock, Bitwise, Fidelity, Grayscale, ProShares, and 21Shares recorded inflows of $708 million. These inflows come after two consecutive weeks of outflows, bringing the net inflows since the start of the year to $1.6 billion and assets under management to $53 billion. Although transaction volume decreased compared to the previous week, these figures remain significantly higher than the weekly average of 2023. Bitcoin investment products dominated, accounting for 99% of all inflows. Spot bitcoin ETFs, excluding GBTC, have seen an average of $1.9 billion in inflows over the last four weeks, while total GBTC outflows amount to $6 billion, resulting in net inflows of approximately $1.6 billion.

What then explains the apparent weakness of the bitcoin price following the launch of these ETFs? This is partly due to sales of reserves by miners, according to a report published by Bitfinex on Tuesday. This strategy aims to increase profits before the reduction of mining rewards scheduled for the halving event in April, during which the rewards awarded to miners for adding new blocks to the blockchain will be halved. Bitfinex points out that miners have chosen to sell their reserves to fund improvements to their infrastructure, anticipating a decrease in the profitability of their activities with the halving. The Bitcoin halving, which occurs every four years or after every 210,000 blocks mined, will reduce the current mining reward from 6.25 BTC to 3.125 BTC per block. This mechanism, built into the Bitcoin protocol, aims to control the supply of new bitcoins and increase their scarcity over time. The last halving took place in 2020, and the next is scheduled for April this year.

As part of its bankruptcy proceedings, Genesis Global Capital, a cryptocurrency lender, has requested approval from a U.S. court to sell trust assets worth approximately $1.6 billion, including nearly $1.4 billion in shares of the Grayscale Bitcoin Trust (GBTC), as well as $200 million in shares of Grayscale's Ethereum and Ethereum Classic trusts. This request was filed with the U.S. Bankruptcy Court for the Southern District of New York, seeking authorization to sell these assets held by Genesis, a subsidiary of the Digital Currency Group. The sale would also include resolving an outstanding issue regarding the ownership of an additional 31,180,804 shares (worth approximately $1.2 billion) initially promised to Gemini as part of its Gemini Earn program but never transferred, with ownership to be determined by the court. Genesis is also seeking to expedite the timeline for its sale request to be reviewed at the next court hearing on February 8.

Earlier in the week, Genesis also agreed to pay a $21 million fine to the SEC, with the remaining funds after bankruptcy, to settle a lawsuit by the agency accusing the company of operating the Gemini Earn program without adequate regulatory authorization. The lawsuit alleged that the company had sold unregistered securities through its Gemini Earn product. The SEC's complaint claimed that Genesis had collected billions of dollars in cryptocurrencies from hundreds of thousands of investors via an unregistered securities offering between February 2021 and November 2022. The settlement provides that the SEC will receive an unsecured general claim against Genesis for $21 million, subject to prior repayment of creditors who used the service. Genesis, a subsidiary of the Digital Currency Group (DCG), was severely affected by the collapse of FTX and declared bankruptcy shortly after the SEC's complaint, also revealing its exposure to the collapsed cryptocurrency investment fund Three Arrows Capital. Genesis was a key partner of the Gemini Earn program, offering up to 8% interest on users' cryptocurrencies, but encountered difficulties following the FTX crash, subsequently freezing customer withdrawals. DCG has assured that creditors will be fully repaid.

The Digital Currency Group (DCG) has expressed opposition to the repayment plan proposed by its bankrupt subsidiary, Genesis, arguing that the plan would unfairly benefit certain former clients due to the appreciation in value of the concerned crypto-assets. According to court documents filed on Monday, D

CG criticizes the current plan for disproportionately favoring a small group of creditors at the expense of others, a situation DCG refuses to support and that the court should not approve. The core issue lies in the fact that some creditors might receive much more than they should, given the rise in prices of digital assets like Bitcoin (BTC) and Ethereum (ETH) since Genesis' bankruptcy last January. This situation is exacerbated by Genesis' financial difficulties, having extended billions of dollars in loans to struggling companies like Three Arrows Capital and Alameda Research, before being unable to allow withdrawals due to unprecedented market turbulence, leading to its bankruptcy as well as a lawsuit by the SEC for an unregistered securities offering.

The SEC has postponed its decision regarding the approval or rejection of the proposed Invesco Galaxy Ethereum exchange-traded fund, extending a period of uncertainty that had already seen a delay in December. The SEC stated that it is initiating proceedings due to the legal and policy issues raised by the rule change proposal. Among the concerns expressed by the agency are the implications of Ethereum's proof-of-stake mechanism and the potential concentration of control or influence by a small number of individuals or entities, which could make the fund vulnerable to fraud and manipulation. The SEC has set a 21-day deadline for comments on the Invesco Galaxy Ethereum ETF, followed by a 35-day rebuttal period.

The question of the approval of spot Ethereum ETFs remains uncertain, with varied opinions on when the SEC might give the green light. While investment bank TD Cowen anticipates possible approval towards the end of 2025 or the beginning of 2026, others expect a decision as early as May 23 next.

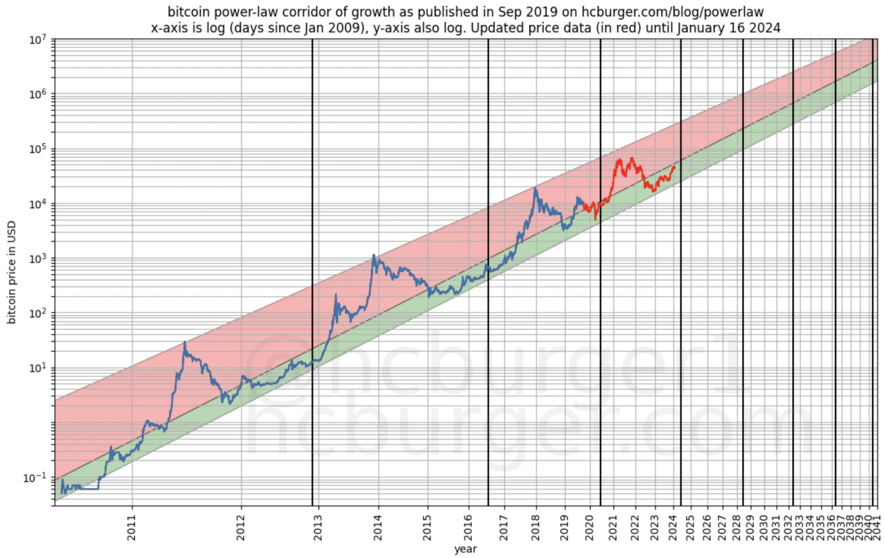
During his first cross-examination in a London court on February 6, 2024, Australian computer scientist Craig Wright, who claims to be Satoshi Nakamoto, the mythical creator of Bitcoin, denied falsifying evidence supporting his claim. Faced with accusations of large-scale forgery by the opposition, including the Crypto Open Patent Alliance (COPA) contesting his claims, Wright offered explanations for each inconsistency noted, attributing them to errors of self-plagiarism, printing, or to illnesses or deaths of witnesses. Wright maintained that if the documents had been forged by him, they would have been error-free, notably regarding typographical inconsistencies in a PDF. He also justified the reuse of his own writings in different documents and dismissed the idea that obscuring a web browser's address bar in videos proved an attempt at deception. Wright's interrogation, which examines key evidence such as credit card payments, emails, documents, and tweets, will continue until at least February 13, highlighting the challenges of proving the authenticity of his claim as Satoshi.

MicroStrategy continues its intensive investment in Bitcoin (BTC), confirming the purchase of 850 BTC worth $37.5 million in January, as announced in its fourth-quarter 2023 earnings presentation. The company now holds 190,000 BTC, representing a value of $8.2 billion at current prices. This BTC investment strategy, initiated in August 2020 with the goal of generating better returns for shareholders, has led to a 240% appreciation of the company's stock since the start of its cryptocurrency purchases. Michael Saylor, MicroStrategy's executive, considers BTC the safest long-term investment and a hedge against inflation, describing it as digital gold and a "bank in cyberspace." With the upcoming Bitcoin halving in April, an event that will halve miners' rewards and make the cryptocurrency scarcer, Saylor anticipates an increase in the BTC price, a trend observed after previous halvings. MicroStrategy thus positions itself as the largest public holder of BTC.

A new ultra-optimistic model concerning the price of Bitcoin is making waves on the internet, proposed by former physics professor Giovanni Santostasi. Named "Bitcoin Power Law," this model seeks to predict the long-term appreciation of Bitcoin's price using a log-log scale, where price and time evolve exponentially. The result is an upward curve that follows a straight line, capturing with incredible accuracy the highs and lows of Bitcoin. According to

Santostasi, this model is based on power laws observed in nature and other areas, such as planetary movements or the returns of venture capital investments, suggesting growth that does not depend on the initial size of the quantities measured.

Santostasi claims that his model, which expresses the estimated price of Bitcoin in terms of the number of days elapsed since the Genesis block, predicts that the price of Bitcoin could reach $210,000 in January 2026 before falling back to $60,000, and should not drop below $35,000 in the short term. In the long term, he envisions a Bitcoin price of $1 million by 2033. However, he emphasizes that, unlike the stock-to-flow model criticized for its projection of indefinite exponential growth, the "Bitcoin Power Law" envisions growth similar to that of a city, offering a more stable and reliable perspective on Bitcoin's evolution rather than a simple get-rich-quick scheme



The Rivemont crypto fund continues to believe that Bitcoin will lead any short-term market surge. As a result, we remain fully exposed to this crypto asset.

The presented information is as of February 6th, 2024, 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.

Valérie Marquis
19 rue Le Royer Ouest, suite 300
Montreal, Québec, H2Y 1W4
Tel: 819-246-8800
valerie.marquis@rivemont.ca

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

www.rivemont.ca

Aimez-nous sur Facebook / Like us on Facebook
