

Digital currencies as investments

Jamie Dimon and Bitcoin

JPMorgan CEO's comments precede 30% one-month increase



How can somebody invest in digital assets?

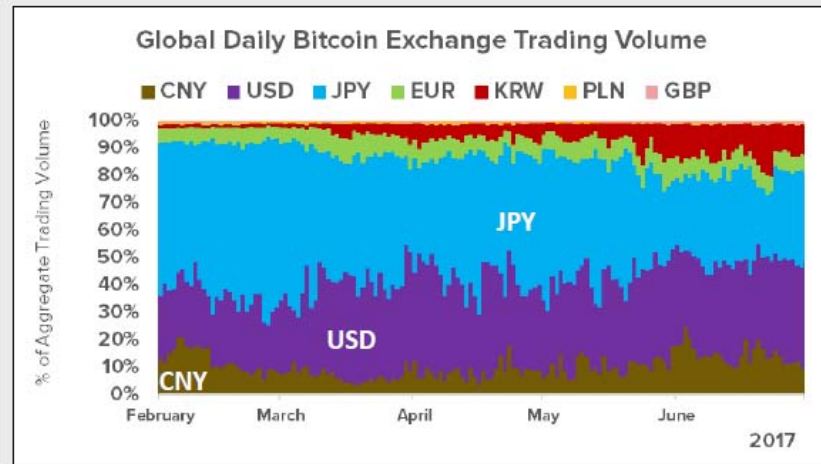
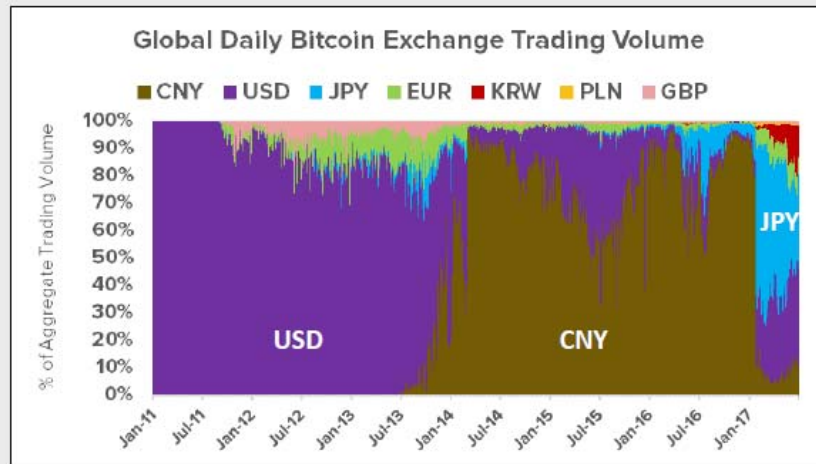
- Own them directly
- Subscribe to investment funds
 - Generally limited to “qualified investors”
- Stocks of companies linked to mining hardware, etc.
- Crypto derivatives, such as CME bitcoin futures contracts

International transaction volumes

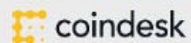
Evidence of market manipulation?



**Global Trading Volume Now Appears More Distributed
Than Ever Before**



Data Source: [Cryptransparency](#)



Who are the customers?



Q2 2017 Blockchain Sentiment Survey: Demographics – 1,300+ Respondants



17% Executives, 15% Developers, 11% Investors

7% Full-Time Blockchain, 22% Part-Time

5% work at Blockchain Technology Companies,
6% at Investment Services

15% Accredited, **85% Unaccredited investors**



40% first bought cryptocurrency in 2017,
16% in 2016, 12% in 2013

Median respondent owned 4 unique digital assets,
mean 5.8, top 10% over 12

22% own \$10k - \$50k worth of cryptocurrency,
20% own \$1k - \$5k, 16% own \$0 - \$1k

41% transact a couple times a month, 26% a couple
times a week, 14% a couple times a year



Male
93%



Female
7%



Data Source: CoinDesk's Q2 2017 Blockchain Sentiment Survey

Market thinness: Ethereum's flash crash

<http://www.zerohedge.com/news/2017-06-21/ethereum-flash-crashes-after-status-ico-clogs-network>

Ethereum suffered dramatic losses on Wednesday, sliding from \$360 to \$260 before rebounding, in the process experiencing what may have been its first flash crash, when it plunged by 96% from \$315 to \$13 on massive volume, before rebounding.



The crash appears to have been catalyzed by seller submitting a market order to dump roughly \$30 million worth of ETH (96.1k) in one go, which obliterated the order book.

STRATEGY

GDAX just sold a good chunk of my ether at 10 cents

each!

self.ethtrader

submitted 14 hours ago by [_poopmobile](#)

So I had a stop order at 316, when GDAX went down (for whatever reason) all my ether was sold at the highest (at the time) price available. When I logged in I saw a small USD amount, I thought it was a hiccup. Checked the fills and indeed it was sold at 10 cents. There is no way this will be reversed right? If that's the case I believe I will be leaving the crypto market at least until it stabilizes.

Just lost 3k in the blink of an eye.

[144 comments](#) [share](#)

https://www.reddit.com/r/ethtrader/comments/6iokzy/gdax_just_sold_a_good_chunk_of_my_ether_at_10/

[\[-\]](#) [^](#) **DumbIMGstudent** 12 points 10 hours ago
You aint the only one man. I just lost \$9k. Was going to use that money for my honeymoon not even a week from now.
[permalink](#) [embed](#) [parent](#)

[\[-\]](#) [^](#) **semiosly** 2 points 6 hours ago
Congrats on your wedding. Today's my 20th anniversary. Hope you can still honeymoon.
[permalink](#) [embed](#) [parent](#)

[\[-\]](#) [^](#) **enomusekki** 1 point 10 hours ago
What happened?
[permalink](#) [embed](#) [parent](#)

[\[-\]](#) [^](#) **DumbIMGstudent** 8 points 10 hours ago
Margin trading happened
[permalink](#) [embed](#) [parent](#)

[\[-\]](#) [^](#) **EmeNauLT** 25 points 10 hours ago
sorry, but margin trading with money planned for honeymoon in a week from now is really dumb.
[permalink](#) [embed](#) [parent](#)

[\[-\]](#) [^](#) **_jt** 20 points 10 hours ago
He probably figured that out
[permalink](#) [embed](#) [parent](#)

[\[-\]](#) [^](#) **DumbIMGstudent** 2 points 10 hours ago*
You right. Luckily that wasn't the only place I had money stored.
Also I made that from \$4k to \$9k trading.
[permalink](#) [embed](#) [parent](#)

Barry Silbert



COVER STORY

FACEBOOK'S BROKER

BARRY SILBERT'S SECONDMARKET is cashing in on the booming business of trading private-company shares. It's a market where financial data is scarce and a **PRIVILEGED GROUP OF INVESTORS** may have the advantage.

By RICHARD TEITELBAUM

Photographs by BRAD TRENT

BARRY SILBERT WAS born to trade. By age 10, he was swapping baseball cards at collectors' conventions. At 15, he plowed his savings into shares of Chromatic Color Sciences International Inc.—a penny stock that lost him \$2,000. And as a 25-year-old banker for the creditors of Enron Corp., Silbert traveled the globe after the firm's 2001 bankruptcy, dogging Enron assets, including fiber-optic cable and Bolivian pipelines. He's been a registered broker since he was 17.

Today Silbert, 35, is the best-known player in a sizzling market for shares of private, venture-backed social-media companies such as Facebook Inc., LinkedIn Corp. and Twitter Inc. As chief executive officer of New York-based SecondMarket Holdings Inc., he is building the go-to forum for trading these boldfaced shares, some of whose prices more than doubled in the 12 months ended in mid-April.

Those rising stock valuations are turbocharging SecondMarket—and making Silbert rich. SecondMarket says it's the world's biggest broker of venture-backed private-company

The sales pitch



COURTESY: SECOND MARKET

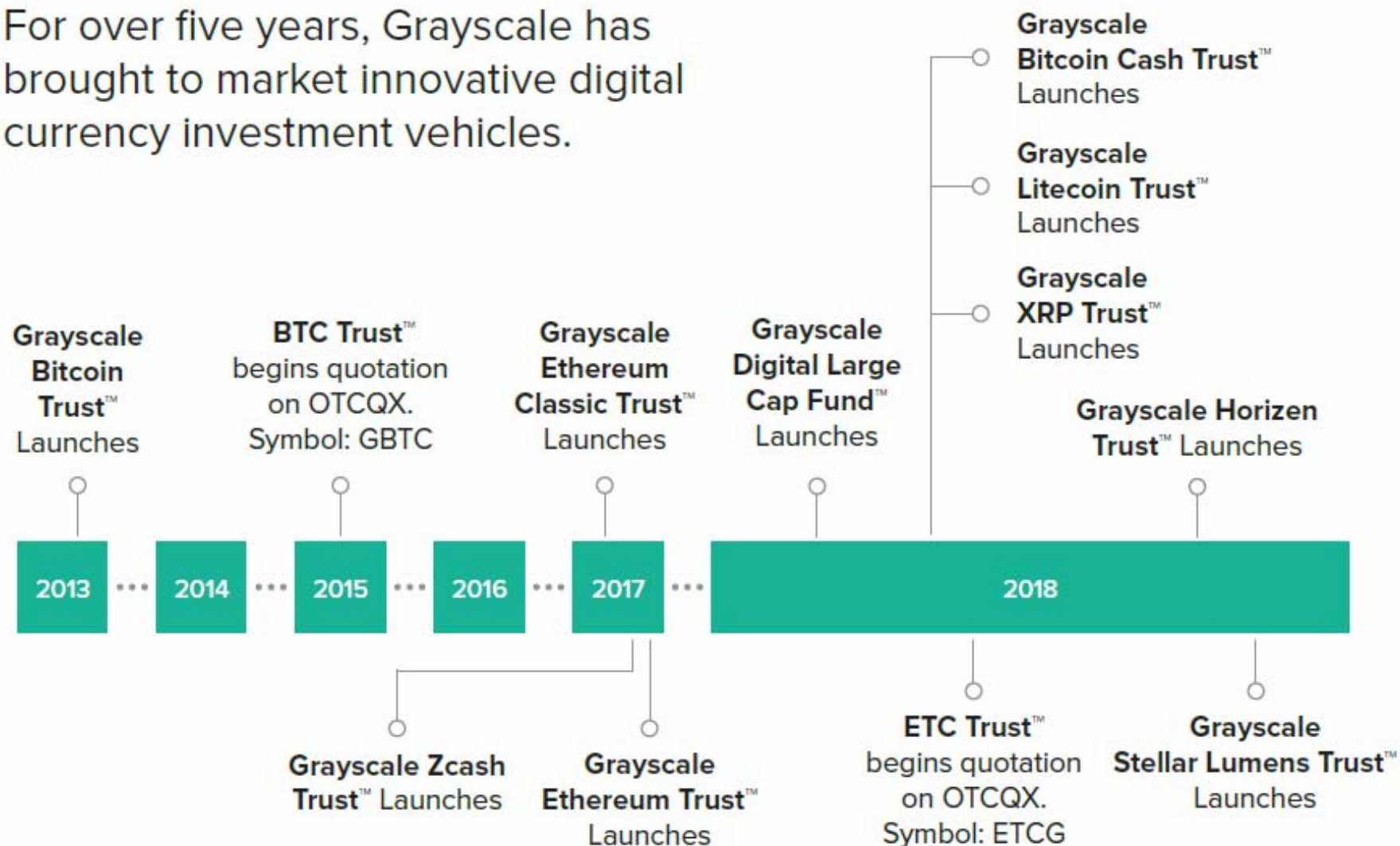
“I believe it has a similar risk profile to angel type investing, where you have potential for enormous returns and a high probability for a total loss of principal.”

- Barry Silbert

The Wall Street Journal

September 25, 2013

For over five years, Grayscale has brought to market innovative digital currency investment vehicles.

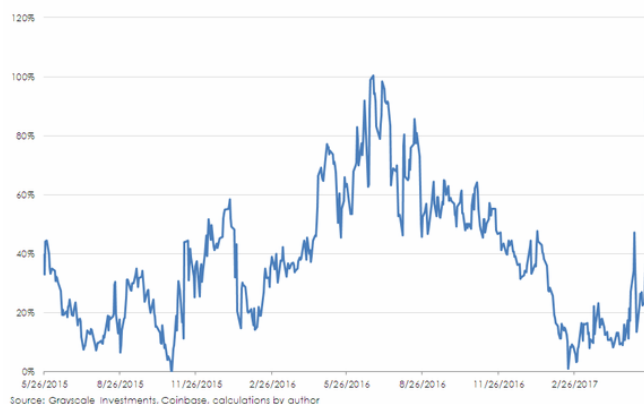


Greyscale Bitcoin Investment Trust

Currently a 24% premium to NAV

Market Price per share* At close as of 04/26/2019	Bitcoin Holdings per Share** At close as of 04/26/2019
\$6.28 DAY CHANGE -10.03%	\$5.07 DAY CHANGE -5.23%

Bitcoin Investment Trusts' Premium to Net Asset Value



<https://www.fool.com/investing/2017/05/25/the-worst-way-to-buy-bitcoin.aspx>

Bloomberg

Coinbase Leads Move to Bring Bitcoin to the Masses

By Anthony Effinger - Sep 30, 2014
Bloomberg Markets Magazine





[Brian Armstrong](#) and [Fred Ehrsam](#) certainly look like the kind of guys who could help bitcoin recover from its wild years.

They are tall and textbook fit, and as poised as Swiss bankers -- Vulcan Swiss bankers. Armstrong, 31 and a former software engineer at Airbnb Inc., shaves his head. Ehrsam, 26 and a former foreign-exchange trader at [Goldman Sachs Group Inc.](#), keeps his hair short and very much in place. When they discuss bitcoin, they rarely smile. Do not try to make them laugh.

Their seriousness is understandable, Bloomberg Markets magazine will report in its November 2014 issue. Armstrong and Ehrsam are the founders of a startup called [Coinbase Inc.](#), whose mission is to convince everyone that bitcoin isn't an Internet scam or a libertarian plot against the government or a digital version of goldbuggery, as various skeptics have it. Rather, it's the best thing to happen to



What does it cost to have an account?

	 coinbase	 bitpay		
Fees	1% + \$0.15/trx	1% or \$30/month	1% or \$20/month and 0.1%	1%
Promotions	First \$1 mm transactions free	Free for non- profits		Decreases with volume

Source: <http://theblogchain.com/accept-bitcoin-merchant-guide/>

How should we view cryptocurrency as an investment?

- A Ponzi scheme?
- A speculative bubble?
- A sound investment for a diversified portfolio?

Satoshi Nakamoto = Charles Ponzi ?

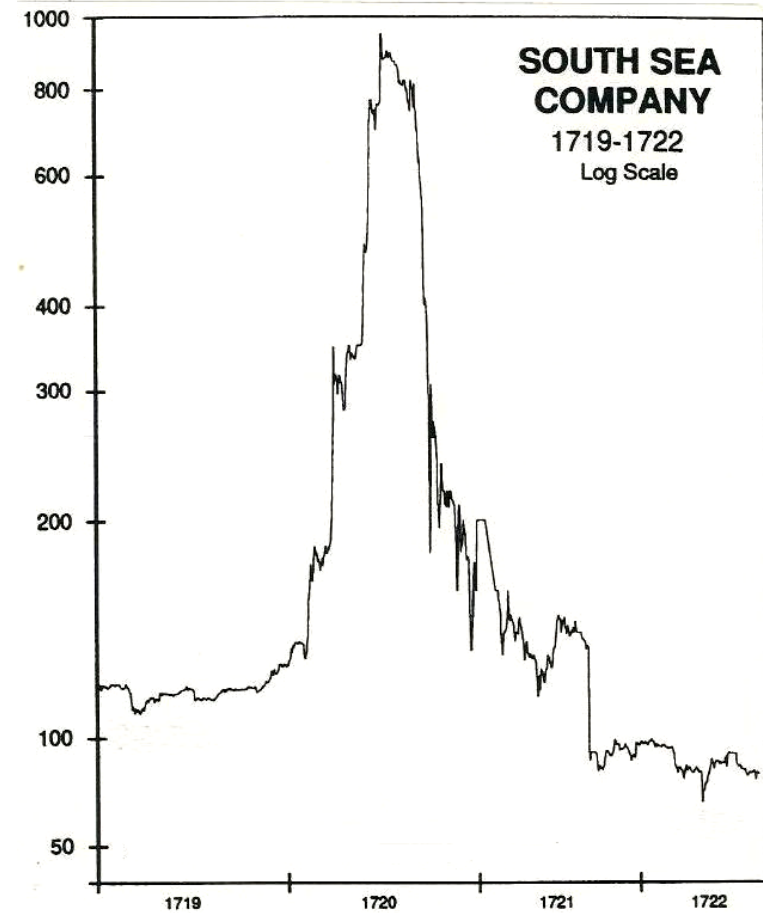
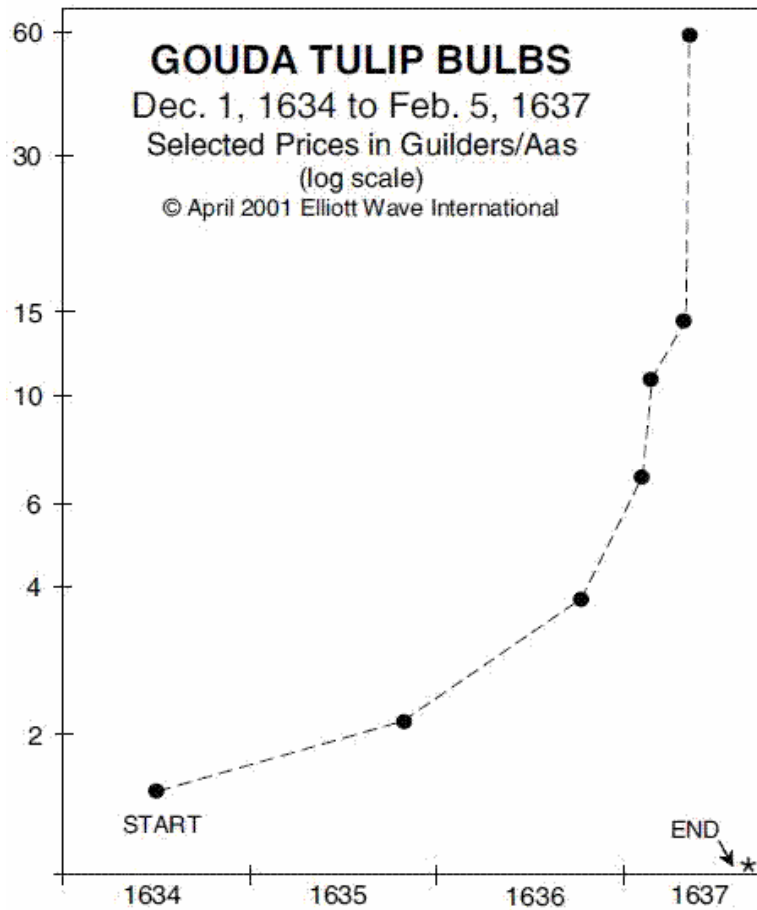


- A secretive promoter who has now vanished . . .
- Creates an asset called a “Bitcoin” with no intrinsic value . . .
- Sells millions of these Bitcoins to a growing pool of “investors”
. . .
- Who purchase the Bitcoins in anticipation of selling them at higher prices to new entrants . . .

Counter-arguments

- Bitcoin has intrinsic value
- No promoter serves as the node of the scheme
- The number of investment units does not increase with each class of new investors
- Nakamoto did not market Bitcoin as an investment opportunity

Legendary speculative bubbles

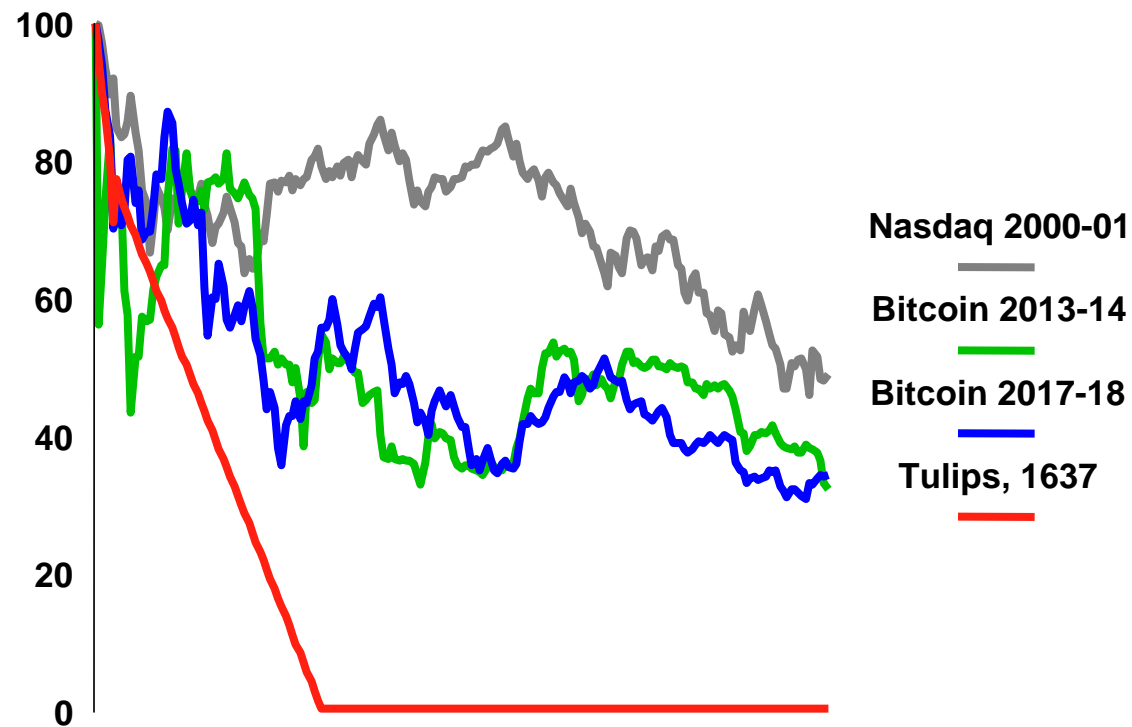


Lessons about speculative bubbles

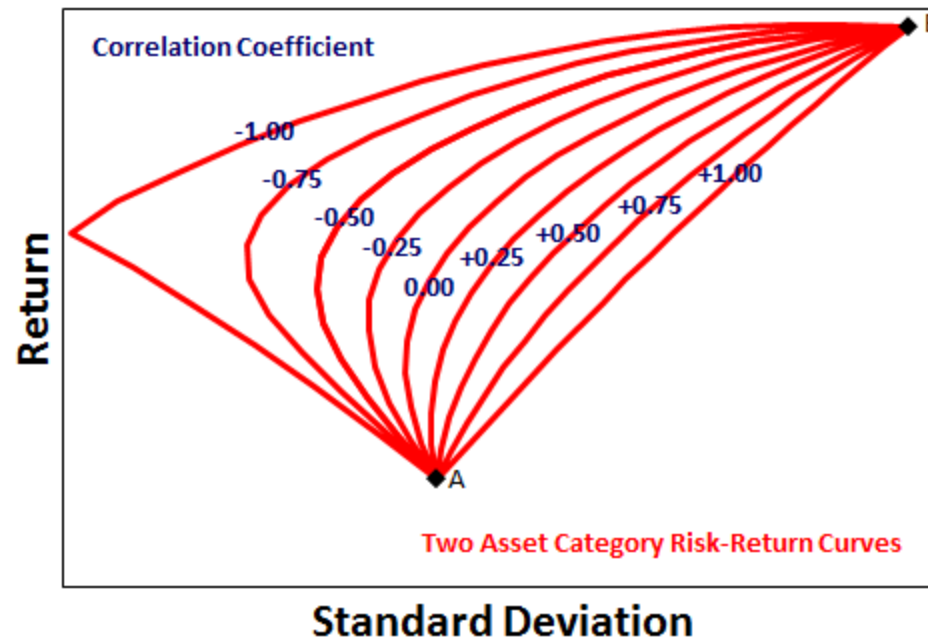
- A bubble is hard to define, and even harder to spot
- Bubbles can be “rational” if you expect the supply of buyers to remain nonzero with some probability
 - “Greater fool theory”
- They end very quickly

Bitcoin's crashes, 2014 & 2018

Daily price data beginning from market peaks



Does digital currency fit into a diversified investment portfolio?



Source: Forbes.com

Correlations among assets, 2010-13

Bitcoin is surprisingly uncorrelated with everything!

	<u>EUR</u>	<u>JPY</u>	<u>CHF</u>	<u>GBP</u>	<u>Gold</u>	<u>Bitcoin</u>
<u>EUR</u>	1.00	0.19	0.60	0.64	0.21	-0.05
<u>JPY</u>		1.00	0.33	0.21	0.07	0.02
<u>CHF</u>			1.00	0.42	0.20	-0.04
<u>GBP</u>				1.00	0.20	-0.02
<u>Gold</u>					1.00	-0.06
<u>Bitcoin</u>						1.00

An academic analysis

Virtual Currency, Tangible Return: Portfolio Diversification with Bitcoins

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Ariane Szafarz

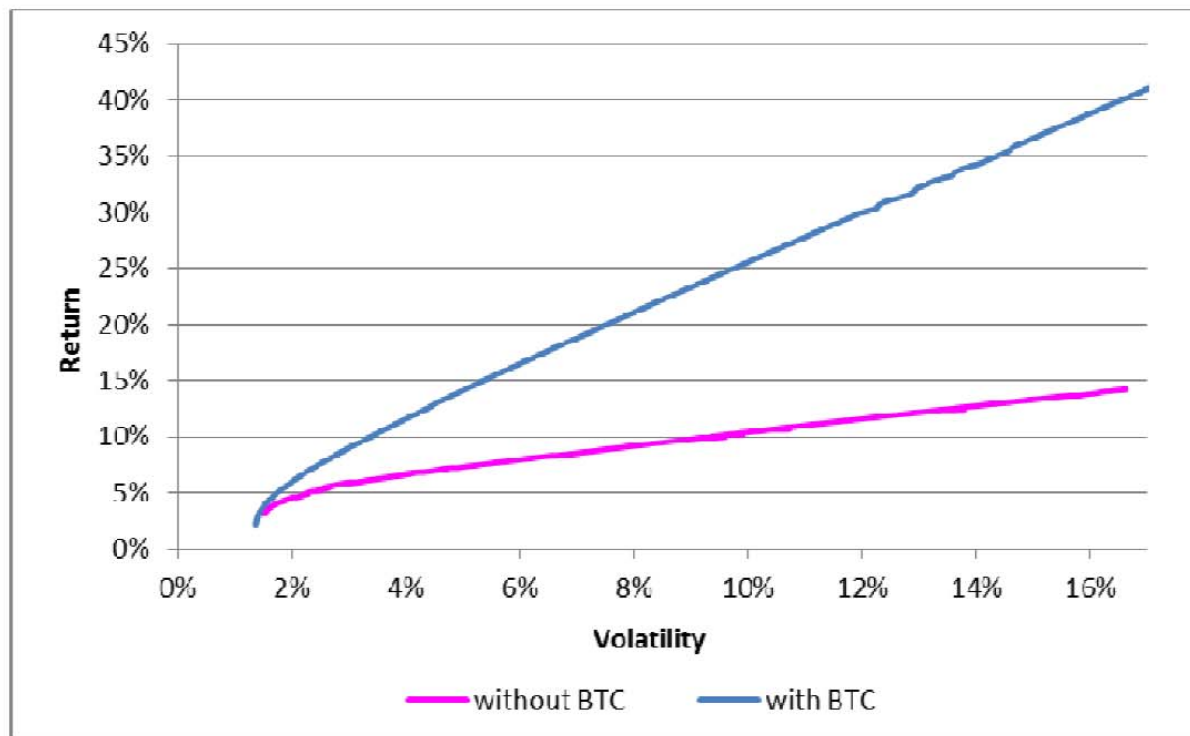
Université Libre de Bruxelles, SBS-EM, Centre Emile Bernheim and CERMi (Belgium)

Email: aszafarz@ulb.ac.be

September 2013

For the same amount of risk, Bitcoin greatly improves expected return

Figure 1: Mean-variance efficient frontiers without and with BTC, 23 July 2010 – 21 June 2013



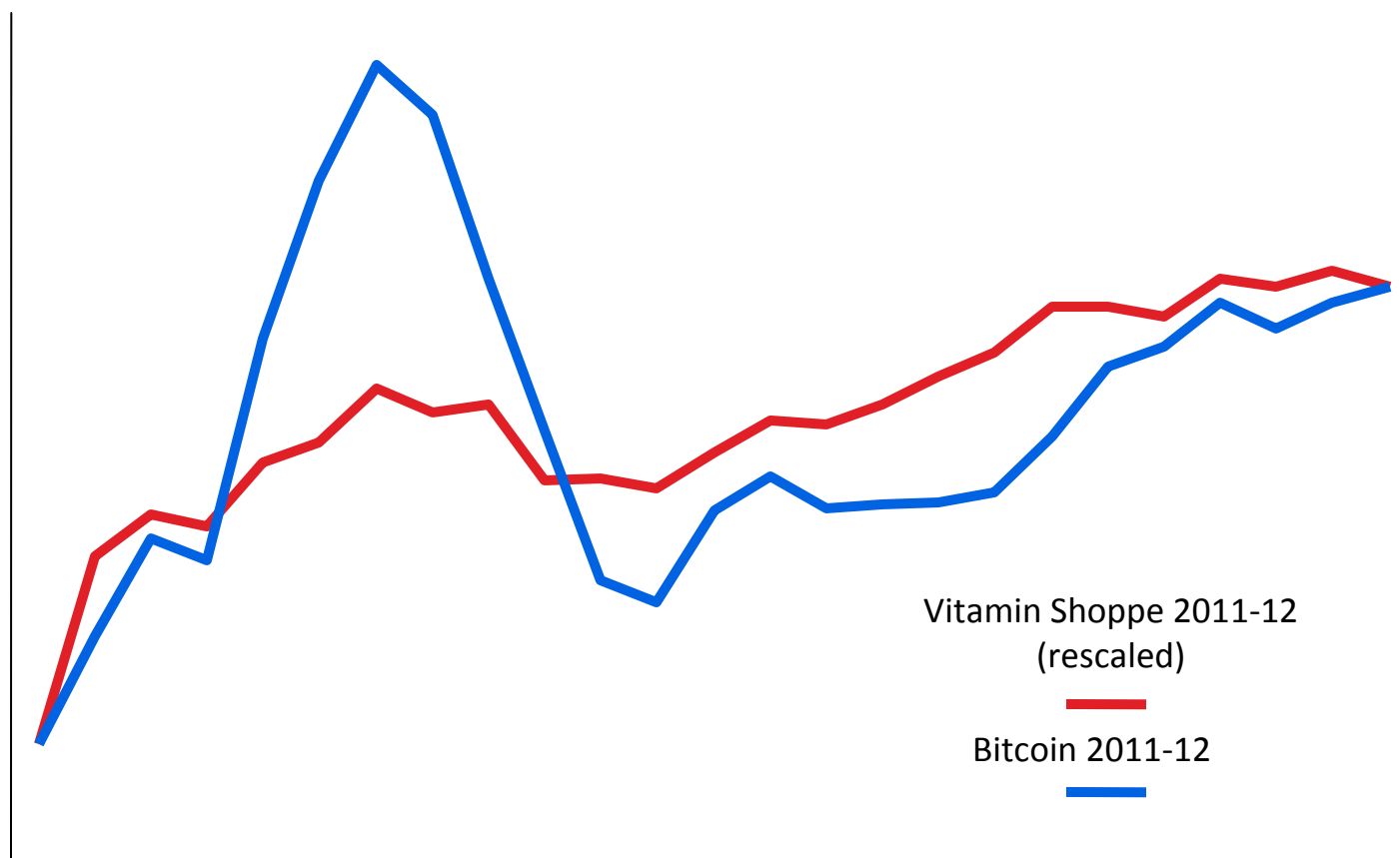
What's wrong with this analysis?

GIGO

- Assumes that the expected return on Bitcoin is **371% per year**
 - Any asset would be attractive *if it had these returns*
- Assumes that investors have **incredible risk tolerance**
 - Stock market standard deviation: 2.3% per week, which barely registers on their chart
 - Their entire chart encompasses *risk levels that no investor would be willing to accept*

What's the best hedge for Bitcoin?

Growth stocks like Vitamin Shoppe (NYSE VSI): $\rho = 0.607$



What's the best hedge for Bitcoin?

Correlations with other cryptocurrencies

	<u>ETH</u>	<u>ETC</u>	<u>LTC</u>	<u>XRP</u>
<u>BTC</u>	0.80	0.60	0.75	0.69
<u>ETH</u>		0.94		

Source: Axel Vilas Guozden

Digital currency as an investment: some clear conclusions

- Risk is pathologically high
- Hedging appears to be impossible
- Any investment thesis must rely on forecasts of *an extremely positive expected return*