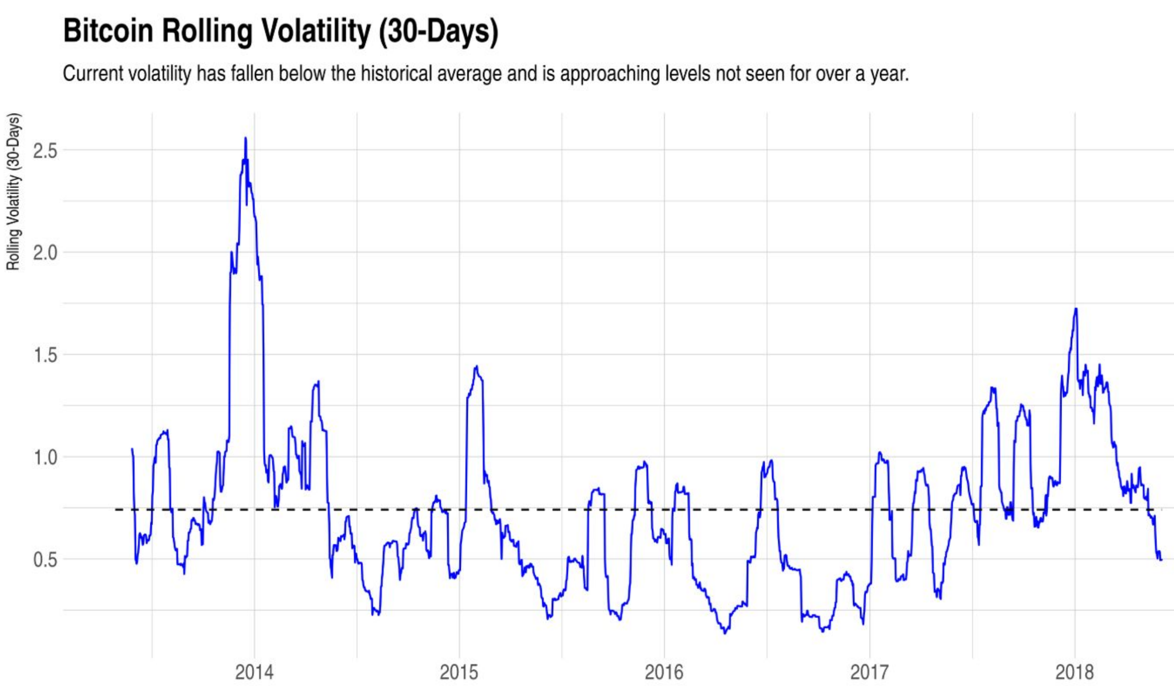
Our Weekly Thoughts

ELEMENT DIGITAL ASSET MANAGEMENT

JUNE 7, 2018

The past week has been somewhat of a fun time for the digital asset marketplace. As we watched the charts on a daily basis, it almost felt like prices were playing pinball given the velocity of market moving news headlines and events that have been taking place since last weekend. To start the month of June, all eyes were on the launch of the EOS mainnet. What would happen to the price of the token? Would ETH be dumped? How will block producers vote? Some of these questions were answered. Many were not. This is an event we are still watching closely given the sheer size of EOS and the ramifications it will have on the future of platform protocols. In any case, the confusion around EOS was followed by a bit of a brief rally in overall prices to start the week (the likely result of bullish technical levels being breached). What then followed was some well received price dispersion, with bitcoin behaving noticeably different than some of its smaller brethren. At press time, the price of bitcoin is hovering around the $7.7k level, roughly unchanged since yesterday and +2% in the past week. The entire digital asset space is also flattish in the past day however most of the top 50 names are seeing double digit gains since last Wednesday. Here are some of our other thoughts for the week:

1. Bitcoin is noticeably becoming more efficient as a tradeable instrument. To illustrate this observation, we highlight the graph below. It represents the rolling 30d annualized volatility of bitcoin since 2013. Currently, annualized vol is roughly 0.50%, a level not seen since this time last year. Given the amount of new entrants in the space along with a market cap that is several orders of magnitude larger, the fact that annualized volatility is at a 1 year low and trending lower indicates to us that bitcoin as a tradeable instrument is becoming significantly more efficient. For anyone that cares about fair value price equilibrium as much as we do, this is a wonderful outcome that we hope carries over to other assets in the next few years.



***Source**: Proprietary data*

2. Short term market dynamics are still very much at the mercy of the regulators. Yesterday SEC Chairman Jay Clayton in a CNBC interview provided some of the most transparent guidance on where the agency stands in the 'are cryptocurrencies securities?' debate. He made it clear that the agency won't be bending any rules for cryptocurrency when it comes to defining what is or what isn't a security. He also explicitly stated that "a token, a digital asset, where I give you my money and you go off and make a venture and in return for giving you my money I say 'you can get a return'...that is a security and we regulate that. We regulate the offering of that security and regulate the trading of that security." Why is this important? Because soon after that interview was aired, the price of bitcoin experienced a drastic move lower by 2%. The altcoin market (composed of what may arguably fall under this definition of a security) saw an even more drastic move lower by nearly 5%. By itself these types of moves are within the bounds of daily volatility however when observed over an hourly period, these types of moves represents 2 sigma events. TL'DR -- Regulatory guidance that evolves into a definitive framework for cryptocurrencies is a good thing in the long term. Anyone that has skin in the game will agree with that. We've all been begging for this kind of transparency and it looks like we are all getting what we so wishfully covet. This will bode well for the market capitalization of cryptocurrencies in the long term. However in the short term, participants will interpret words with their own subjective biases. Enter short term volatility.

3. Institutional legitimacy amongst major players is slowly being built up. A popular adjective to describe the digital asset space has been the word 'nascent'. The technology underpinning cryptocurrencies is transformative, but still in its infancy stage. It is 'nascent'. The market microstructure with exchanges and investors is inefficient because it is so 'nascent'. The reason why institutions have not come into the space in a meaningful way is because this market is so 'nascent'. However in the past week alone, we've come across a number of press releases announcing partnerships and corporate strategy updates that will help take cryptocurrencies out of this nascent stage and into a world that mimics more mature asset classes. Below we list out some of the headlines that caught our eye.

- Coinbase acquiring a regulated broker dealer
- Circle plans to seek a federal banking license
- Fidelity to build own digital asset exchange
- VanEck attempt to launch physical bitcoin ETF
- Huobi to launch cryptocurrency ETF on own platform
- OKEx to launch cryptocurrency ETF
- SEC appoints new leader for cryptocurrency division
- Susquehanna International Group to allow customer trading

Interpret them how you will. We believe headlines like these represent a very good thing for the continual progress of the marketplace. And if executed well, the implications behind these partnerships should bode well for new marginal buyers and more efficient markets. So in closing, we echo another popular narrative made by some prominent crypto bulls. The herd is coming.

Thanks for reading everyone. Questions or comments, just let us know.

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ELEMENT DIGITAL ASSET MANAGEMENT

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