
PORTAL

ASSET MANAGEMENT

Portal Market Commentary - August 2023

Market Update

Cryptocurrency and Digital Assets (“Crypto Assets”) markets started August off with muted volatility as the hype of an ETF approval in July quietened with no immediate catalyst to take the market higher. The market then sold off sharply in mid-August due to media reports that Tesla / SpaceX had sold off their substantial BTC holdings which was accumulated in 2021-2022. The bulk of the month's losses occurred in a single day when the largest Futures liquidation took place since FTX collapsed in 2022 – a case of the tail wagging the dog.

Towards the end of the month, the market bounced on the ruling by a US court in favour of Grayscale in its lawsuit challenging the SEC's decision to deny the conversion of GBTC to a spot bitcoin ETF. We view the Grayscale decision positively and believe that it will put increased pressure on the SEC to approve a Bitcoin Spot ETF. However, there is no visibility as to when an ETF would be approved by the SEC. That being said, there is definitely renewed optimism and growing anticipation for the approval of the inaugural U.S. spot Bitcoin ETF, followed by an Ethereum ETF amongst others.

Major institutional investment companies are queued behind Blackrock and Greyscale and NASDAQ has cited their readiness to list such ETFs. These US based ETF's will follow existing BTC and ETH ETF's in Canada and Europe. We consider such alignment with traditional investing processes to effect substantial on-ramping of wealth to these lead crypto assets. Over time this is likely to have a trickle on effect to the other crypto assets and further the process of traditional finance engaging this new asset class.

Bitcoin (BTC) lost -11.5% in August and the market as represented by the CCI30 Index was down -13.6%. The Portal Digital Fund finished August down -3.1% net of fees in line with our stated targeted volatility, and the Radiance Multi-Strategy Fund was down -14.9%.

Macro Economic Analysis

The recent speech by Fed Chair Jerome Powell at Jackson Hole was as expected, with Powell stating that the Federal Reserve still has a substantial journey ahead in its battle against inflation. He pointed out that inflation remains notably higher than the central bank's long-term target of 2%. Given the continued emphasis on data-driven decisions with regard to rates, it is likely that market uncertainty will persist until the Fed signals the peak of the cycle.

An analysis of [CryptoQuant data](#) shows that the total volume of bitcoin held of both spot and derivatives crypto exchanges is at the lowest since 2019. As for the volume, we reached the lowest level since 2018 as per the chart below.

Bitcoin trading volumes

November 2018 through August 2023

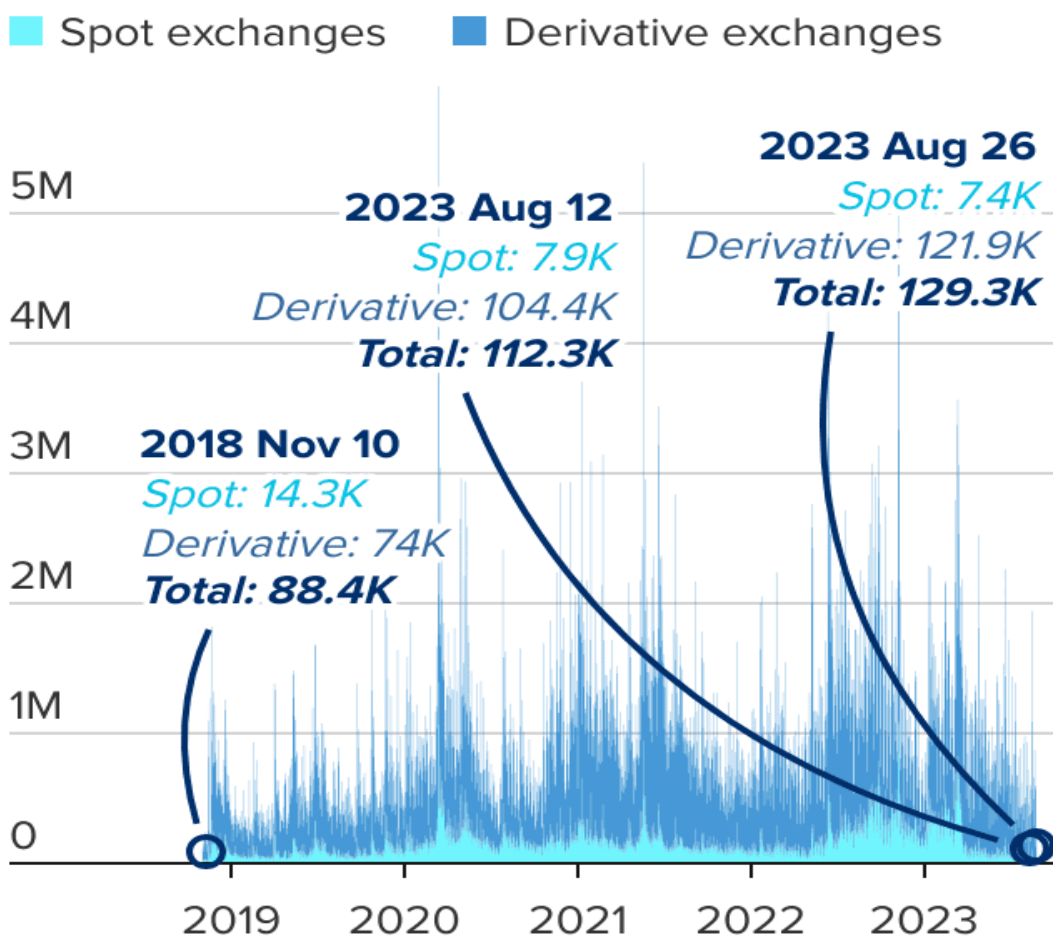


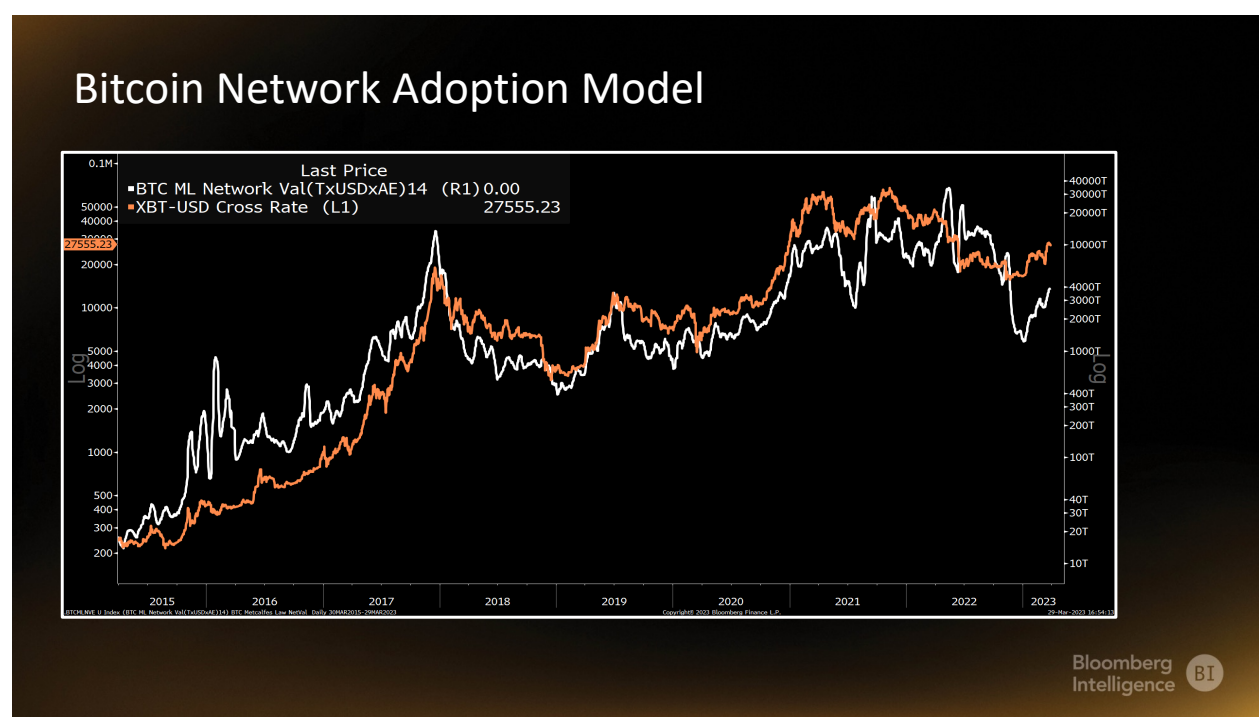
Chart: Gabriel Cortes / CNBC
Source: CryptoQuant
Data as of Aug. 27, 2023



The Shift of Fiat Power

The global centre of financial power is shifting from the Developed West (The Commonwealth) to the Emerging Markets dominated by Brazil, Russia, India, China and South Africa or “BRICS”. This alliance has been joined now by Iran, Saudi Arabia, Egypt, the UAE, Ethiopia and Argentina. This consortium could potentially control the [majority of the world's oil resources](#) and could thus trade outside the entrenched Petrodollar in a Newly designated BRICS currency.

According to a recent research note released by Bloomberg Intelligence: “Underserved populations in emerging economies will continue to drive the adoption of crypto rails for payments and as a store of value. This process is occurring even though US authorities are dragging their feet on providing a legal foundation for crypto -- a step which could actually strengthen the US dollar's global dominance.”¹



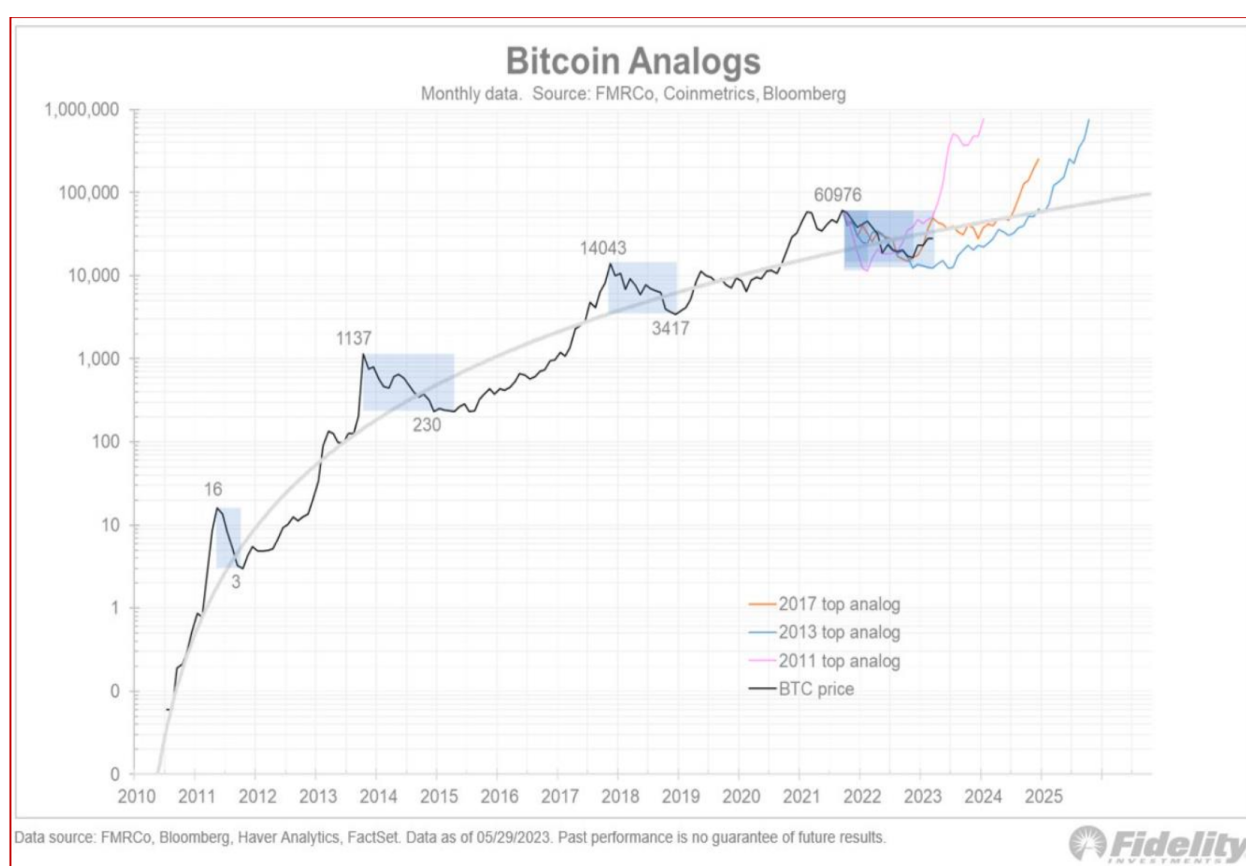
With a third of Latin American consumers reportedly having made payments with stablecoins, the region is set to take a leading role in crypto globally. Citizens of Latin American countries received \$562 billion in digital currency value in the 12 months from mid-2021 to mid-2022. El Salvador has defied critics with a successful Bitcoin-oriented economic policy. The front-runner in Argentina's presidential race, central-bank skeptic Javier Milei, has advocated use of Bitcoin.)

¹ Crypto-Dollar Demand in EM Cares Not About Waffling US Congress (Bloomberg Intelligence) - 09/04/23.

The Investment Case for Crypto

We reiterate that we believe we are at the tipping point of a very rapid surge in adoption of Crypto Assets, and this is underpinned by the actual growth in both institutions and government as detailed in past newsletters, combined with the private sector seeking independent alternatives for everything from money transfers to loans being enabled by DeFi alternatives and the further potential provided in Web3.0.

In addition, cryptocurrencies are unencumbered. Judging by the relative smallness of the crypto market today (1.1 trillion), traditional savers and investors do not seem to care that all prevailing debt is denominated in fiat currencies, and that unencumbered cryptocurrencies will soon be available to replace them.



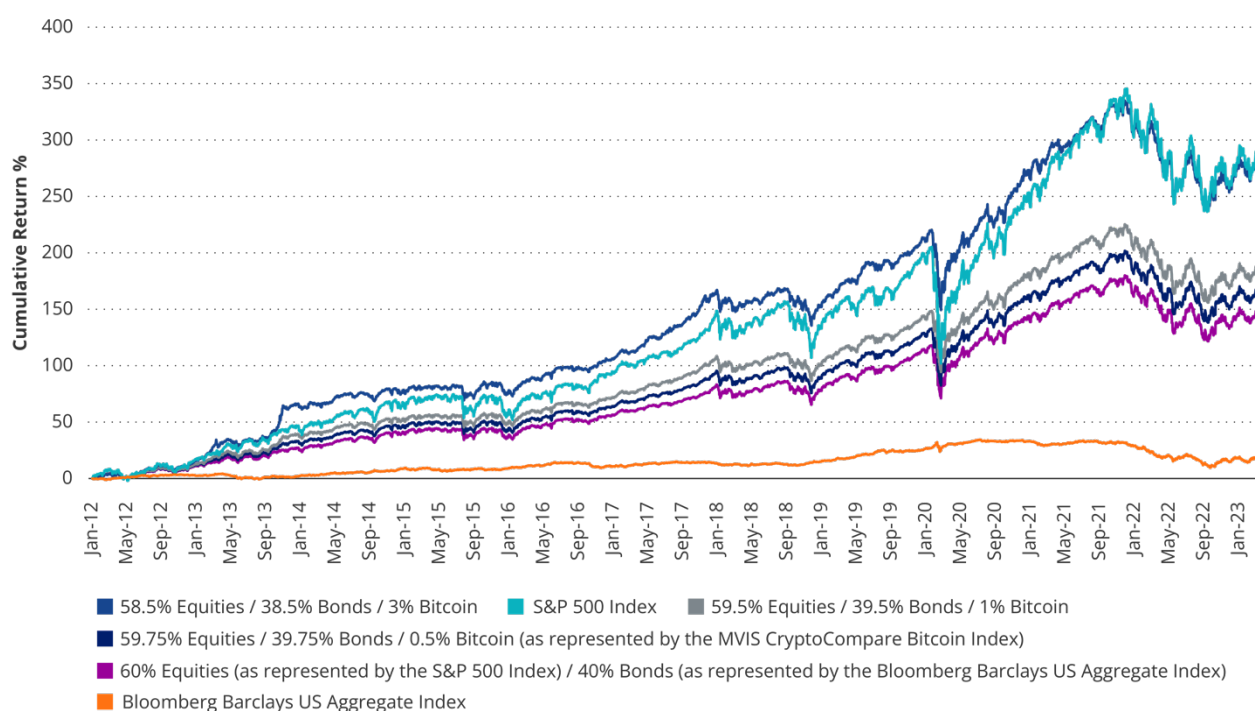
Source: Jurrien Timmer, Fidelity Investments

Impact of a Crypto Allocation on Diversified Investment Portfolios

The crypto market is effectively long-term “VC-like” investing with real-time, public market pricing and liquidity. The biggest positive in allocating to the market is the ability to own liquid assets that can generate returns far superior to those in other markets. The obvious negative is the potential to lose all of one’s investment via direct token investment.

The risk of significant capital loss can be mitigated by allocating across various digital asset sectors by use case and time horizons and by limiting one's allocation to the digital asset class to a smaller position, around 2%-5% of a portfolio. This small allocation to the crypto market that could rise by 10x or 20x in the next bull market would likely be a meaningful wealth creator.

As per the chart below, crypto assets are well worth a 3% allocation, especially given their significant upside potential in the form of a perpetual call option on the technology and asset class which we discussed in our previous market commentary's.



Conclusion

We continue to believe that crypto assets are the greatest opportunity for wealth creation and democratisation of access to capital and participation in the global economy and that this will give rise to the next unicorns, regardless of governments attempts to stifle it.

From a regulatory perspective, the safest way for allocating in a compliant and efficient manner to the public crypto market is through a dedicated, regulated, financial service license-compliant cryptocurrency and digital asset focused fund with independent administrators and a fully audited track record that accepts suitable investors only.

Feel free to contact me should you have any enquiries.

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