PORTAL
ASSET MANAGEMENT

Portal Market Commentary – October 2023

Market Update

Cryptocurrency and Digital Assets ("Crypto Assets") markets surged in October with a daily volume increasing from $34bn on October 1st to a peak of $88bn on October 25th showing a revitalised participation across the sector. This was supported by a continued decoupling from both equities and bonds which remained under pressure in October.

Bitcoin (BTC) gained +28.5% in October and the market as represented by the CCI30 Index was up +16.5%. The Portal Digital Fund finished October up +8% with the Radiance Multi-Strategy Fund up 14.7%, driven in part by our positions in BTC, ETH, SOL and XRP. Whilst we remain concerned around a resurgence in inflationary expectations in the short term, we still maintain that both inflation and interest rates are headed down faster than expected and this bodes well for long duration risk assets, especially oversold and undervalued Crypto Assets.

Bitcoin's Great Alignment

A series of extremely positive catalysts are all lining up in Bitcoin's favour, and they will coincide at the same time in H1 2024.

Two of the biggest will be the "Halving" which will reduce rewards paid to BTC miners from 6.25 BTC to 3.125. This has seen sharp BTC price rises in past halving's on November 28th 2012, July 9th 2016, and May 11th 2020. We are also expecting the approval and listings of 8-10 major ETFs facilitating demand for BTC to global institutional investment firms and investors.

History has shown that substantial rallies in BTC tend to herald market bull runs. BTC has risen 109% YTD well ahead of ETH at 56% It is however our view that the largest growth supernormal returns are likely to come from disciplined deployment to the best of Alternative tokens. More on this below.

1. Bitcoin ETFs to be Approved in 2024:

A wave of incoming BTC and ETH ETFs are now expected to be approved in 2024, including those by the largest institutional asset managers in the world such as Backrock, Vanguard and Fidelity.

ETF's have long been one of the most anticipated events in the space as regulated ETFs provide regulatory validation and allow large scale institutional investors to gain exposure to BTC through a traditional, exchange-listed product for the first time.

The SEC has run out of excuses to block this, and the courts recognize there is simply no good reason why a BTC ETF shouldn't exist. A charge in guard is imminent with more constructive policy expected.

This development should provide a significant on-ramp for institutional and retail investors to enter the market via Bitcoin ETF's, potentially leading to $14.4bn of inflows next year alone as per the table courtesy of Galaxy Digital Research below:

Illustrative Bitcoin Spot ETF Market Sizing & Inflows by Year

Source: Galaxy Digital Research

Market Size by Wealth Platform ($T)	Year 1	Year 2	Year 3
Broker-Dealer	$6.8	$13.6	$20.3
% access	25%	50%	75%
Bank	$3.0	$6.0	$8.9
% access	25%	50%	75%
RIA	$4.7	$7.0	$9.3
% access	50%	75%	100%
ETF Addressable Market via Wealth Channels	$14.4T	$26.5T	$38.6T
% access (avg)	30%	55%	80%

Bitcoin ETF Inflows	Year 1	Year 2	Year 3
Avg % funds w/ BTC exposure	10%	10%	10%
Avg % allocation to BTC	1%	1%	1%
Est. Inflows into Bitcoin ETF by Year ($Bn)	$14.4	$26.5	$38.6

Data: Dakota, Galaxy Research estimates

2. Bitcoin's 4th Halving Will Take Place in May 2024:

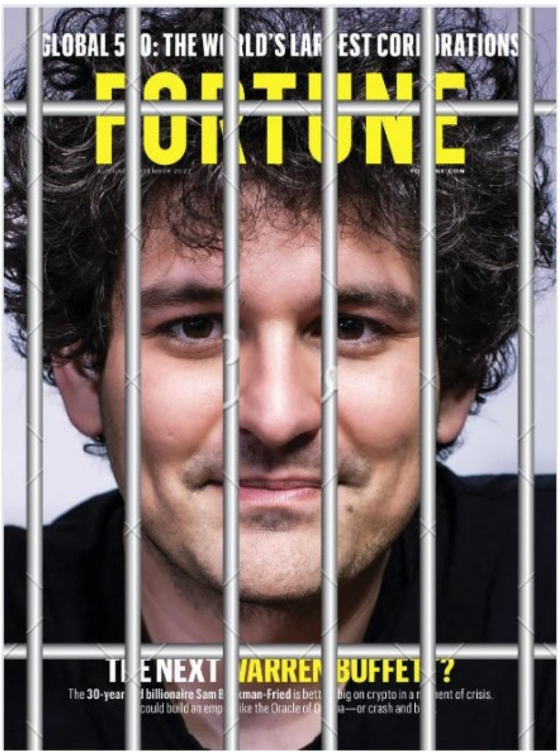
With its annual inflation rate dropping to 0.9%, Bitcoin will become more than twice as scarce as Gold (+/-2% inflation). This scarcity factor has generally led to supply-driven price rallies between around 1,000% and 10,000%.

3. Many of the Bad Actors Will be Behind Bars in 2024:

2022 was the crypto industry's watershed moment with bad actors are likely to be sentenced to lengthy prison sentences.

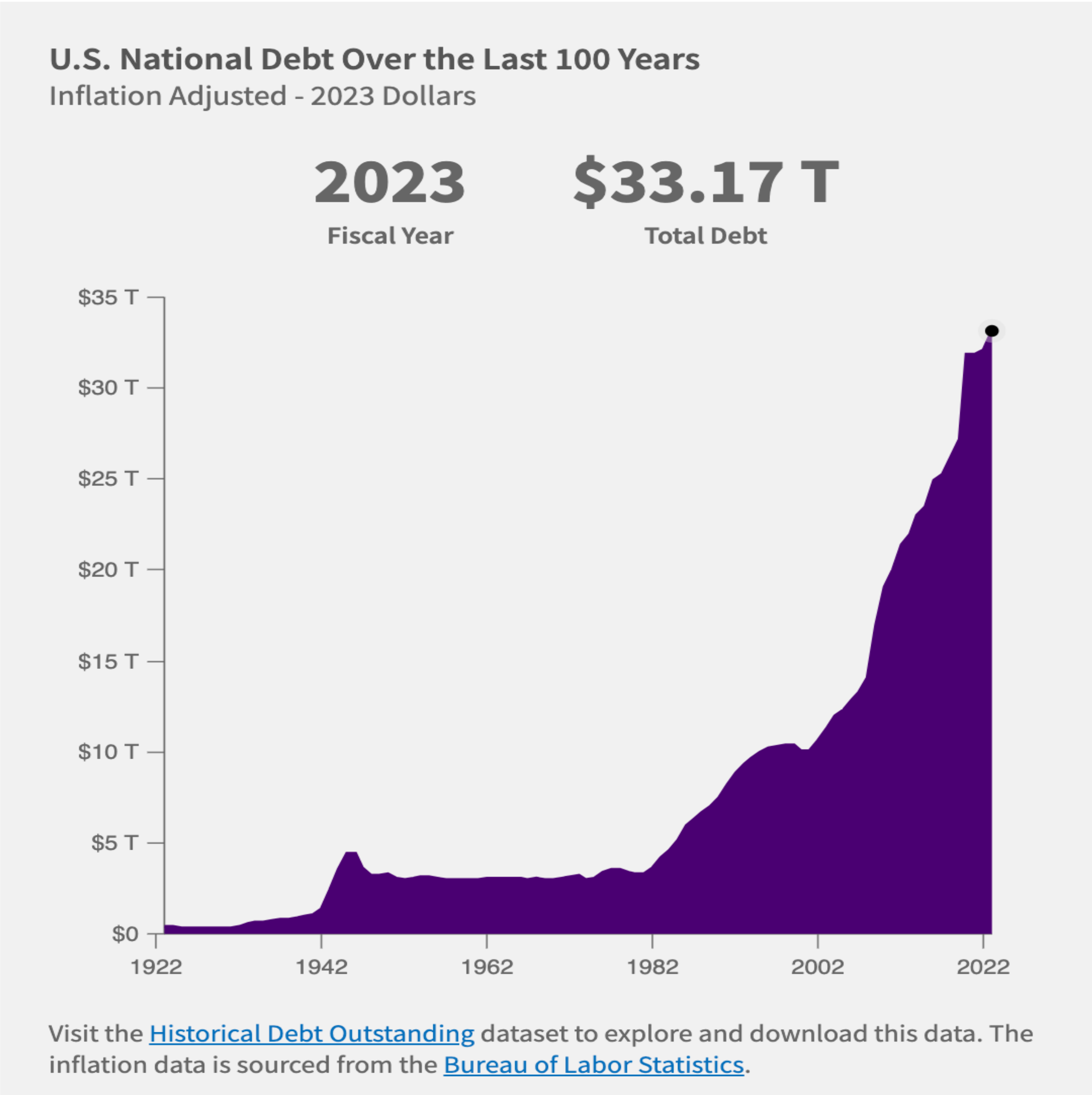
2023 focused on putting bad actors behind bars (3AC), on trial (SBF), or out of office (Gensler). 2024 is a clean slate for the industry to rebuild on a more solid foundation.

Coincidentally, asset sales from Mt. Gox and FTX are both scheduled to be completed by the end of the year, so 2024 will have no more forced sell pressure.



4. The Federal Reserve Will be Forced to Pivot in 2024:
The Federal Reserve's monetary policy has created a situation for a mathematically certain and unavoidable Fed pivot. The US national debt has increased by more than $600 billion in the last month alone. That’s $20 billion every day or roughly $1 billion every hour, with more to come.

As the US continues to contribute to the funding of war in Ukraine and now Israel, and soon potentially Taiwan, the $33.7 Trillion debt will become unmanageable and force the Fed to slash rates, print money, and / or both, causing long-duration assets like Crypto Assets to rally.



Visit the Historical Debt Outstanding dataset to explore and download this data. The inflation data is sourced from the Bureau of Labor Statistics.

The Case for Altcoins in 2024 and Beyond

We expect Altcoins to perform exceptionally well in a Crypto Asset bull market, despite the economic headwinds. In past bull cycles, the onboarding of new entrants into the Crypto Asset market has generally followed a very predictable path. Most retail investors would first invest in BTC, then Ethereum and, if they were adventurous, eventually Altcoins.

In 2024, our expectation is that we will see an even greater shift away from BTC and ETH into the Altcoin space as investors chase life-changing gains that are no longer easily found in BTC and ETH, and the second-order liquidity effect pushes the small and mid-cap tokens higher.

Why Now?

The reality is that the global economy is in a difficult space. Record debt levels, persistent inflation and a reduction in real wages adjusted for inflation - i.e., actual purchasing power. Individuals' standards of living have been on a downward trend since the 1970's, and the trend is accelerating with no solution in sight. (There is a great thread by Raoul Pal on this trend here)

Due to the debasement of fiat currencies, our wealth is quite literally being eroded from us via inflation so that meaningful wealth creation and financial freedom is all but impossible to achieve.

When investors come looking to Crypto Assets for solutions, less of them are searching for wealth protection, and increasing numbers are looking to generate that wealth. Most investors do not have any significant wealth to protect in the first place!

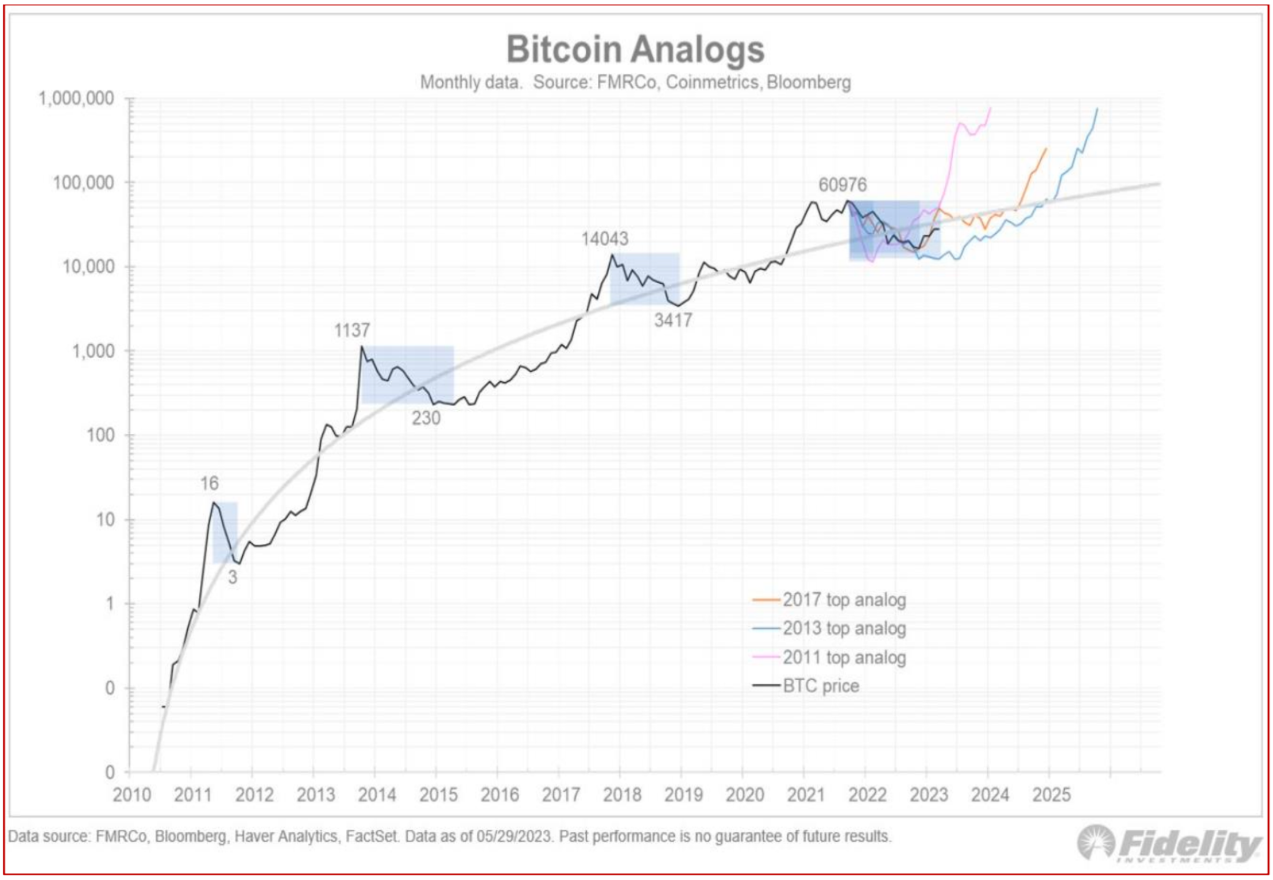
When they make their forays into the Crypto Asset markets, they will do so in search of super normal returns that have the potential to make them financially independent.

As great as BTC is as an asset, it is no longer at the stage where it will make investors the 100X returns they are searching for. Ethereum is on the verge of becoming much like BTC in that regard, still able to offer outsized returns as compared to the TradFi world, but unlikely to materially amplify a crypto investors wealth sufficiently to make the escape.

Unfortunately, most of those investments will end in disappointment, as Altcoins are a complicated high-risk maze to navigate, particularly for new entrants into the space. For those of us with patience, healthy scepticism, and the ability to research and weed out the worst of the hype from the investment prospects, Altcoins can in fact be a way to increase your wealth substantially.

The consequences of increasing numbers of investors are seeking to generate substantial wealth as opposed to just protecting their wealth is the main reason we expect the amount of capital pouring into Altcoins in the next bull run to far outpace previous bull runs. When this happens, the low liquidity altcoin markets will rally exponentially.

We firmly believe we are on the precipice of the next bull run, and as TradFi market sentiment continues to remain subdued and become fearful and apathetic, the best opportunities are presenting themselves. The next 6 months will be crucial to the performance of our portfolios and the odds of achieving the elusive financial freedom we are all chasing.



Source: Jurrien Timmer, Fidelity Investments

Conclusion: The Investment Case for Crypto

Declining supply, rising demand, political support, regulatory approval and the inevitable Fed pivot are all coinciding in 2024. Not to mention tail risks like multiple global wars and runaway national debt driving demand for the stability Bitcoin represents (billionaire Larry Fink last week called Bitcoin a "flight to safety").

We expect this will not happen in a straight line, but the trend is clear: The stars are aligned for BTC to have a bull run in 2024 which is likely to see a solid and potentially more substantial growth in the "Altcoins" as a reversion to mean corresponds.

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 size of the crypto market today ($1.3 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.

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.

We furthermore believe that from a regulatory perspective and investment diversification strategy, 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.

Feel free to contact me should you have any enquiries.

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