PORTAL
ASSET MANAGEMENT

Portal Market Commentary – April 2024

Market Update

Cryptocurrency and Digital Assets ("Crypto Assets") markets had a sharp reversal in April. There was no crypto specific reason for the sell-off but there was a sharp de-risking across all asset classes due to rising geopolitical risks and stronger than expected U.S. macro data which caused the Fed to turn more hawkish. ETF's also saw their first outflows since January.

Global securities markets sold off based on an increase in short term interest rates after a weak GDP print that showed the U.S. economy is slowing down despite a pickup in inflation. This is a toxic combination - higher prices and slowing growth, which equals Stagflation. i.e. Economic stagnation and inflation.

This does not bode well for global asset prices, but is very positive for Crypto Assets. We reiterate that we believe we are in the early stage of the secular bull market.

Revisiting Bitcoin's Volatility?[1]

In traditional finance, volatility is synonymous with "risk." Therefore, higher volatility corresponds to higher actual or perceived risk. To revisit, volatility is a statistical measure of dispersion of returns, such as standard deviation. As such, volatility can be either "bad" (measuring negative returns) or "good" (measuring positive returns).*

**Realized volatility is calculated based on daily log returns multiplied with a factor of square root 365 to yield annualized daily realized volatility over a rolling window of 365 days. (Glassnode)*

[1] Fidelity Report: "A Closer Look at Bitcoin's Volatility", Zack Wainwright, May 1st, 2024.

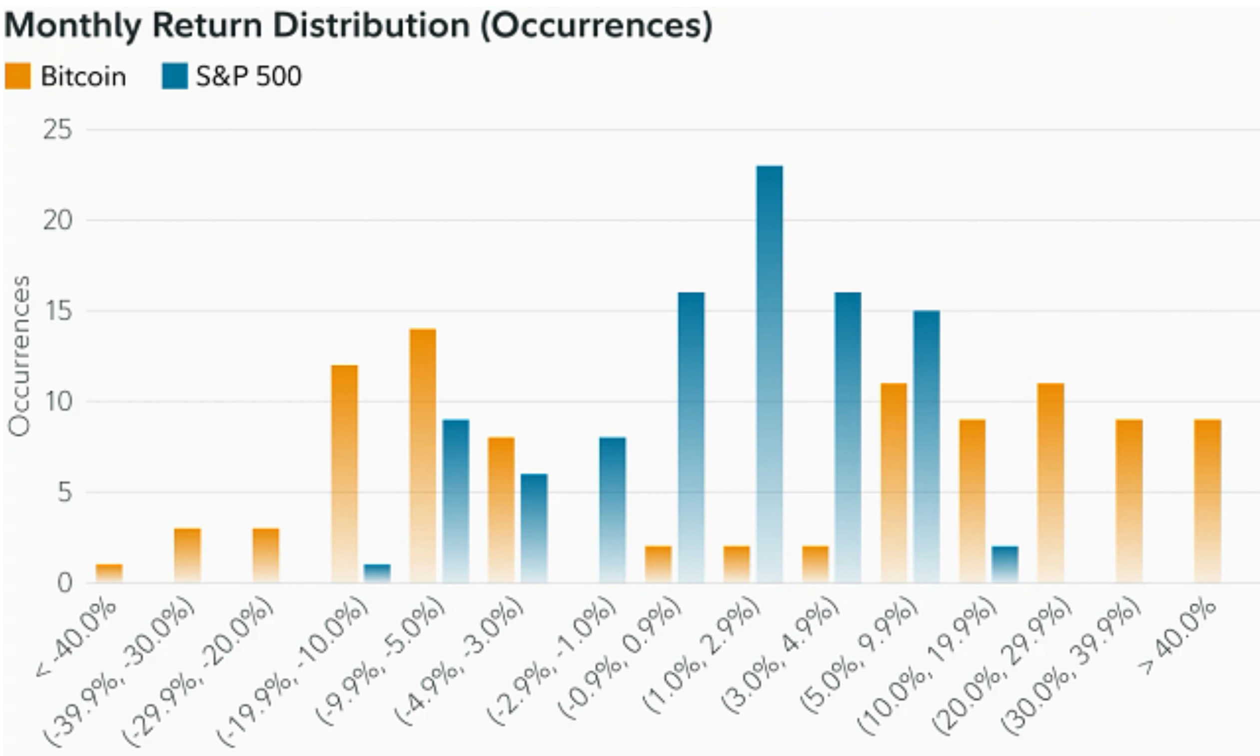
BTC has historically exhibited high volatility or high measures of standard deviation, but when examining its returns, many are disproportionately skewed to the positive side. This is evident in BTC's Sharpe ratio of 0.96 from 2020 to early 2024—meaning while the "risk" in terms of standard deviation is higher, investors have been more than compensated for taking that risk (compared to the S&P 500's Sharpe ratio of 0.65 over the same period).

Feb 2020 – Feb 2024	CAGR	Std. Deviation	Sharpe Ratio	Sortino Ratio
S&P 500	13.6%	19.56%	0.65	1.01
Bitcoin	58.0%	72.9%	0.96	1.86

Source: Bloomberg, period studied 1/31/20 through 2/29/24.

Even more telling is the Sortino ratio, which only considers downside risk (standard deviation) in its calculation, providing investors with a lens of how much downside risk they are accepting for the return. Here, BTC's Sortino ratio of 1.86 is nearly double its Sharpe ratio, revealing much of the volatility was to the upside. i.e. there have been more instances of the price moving up versus down over time.

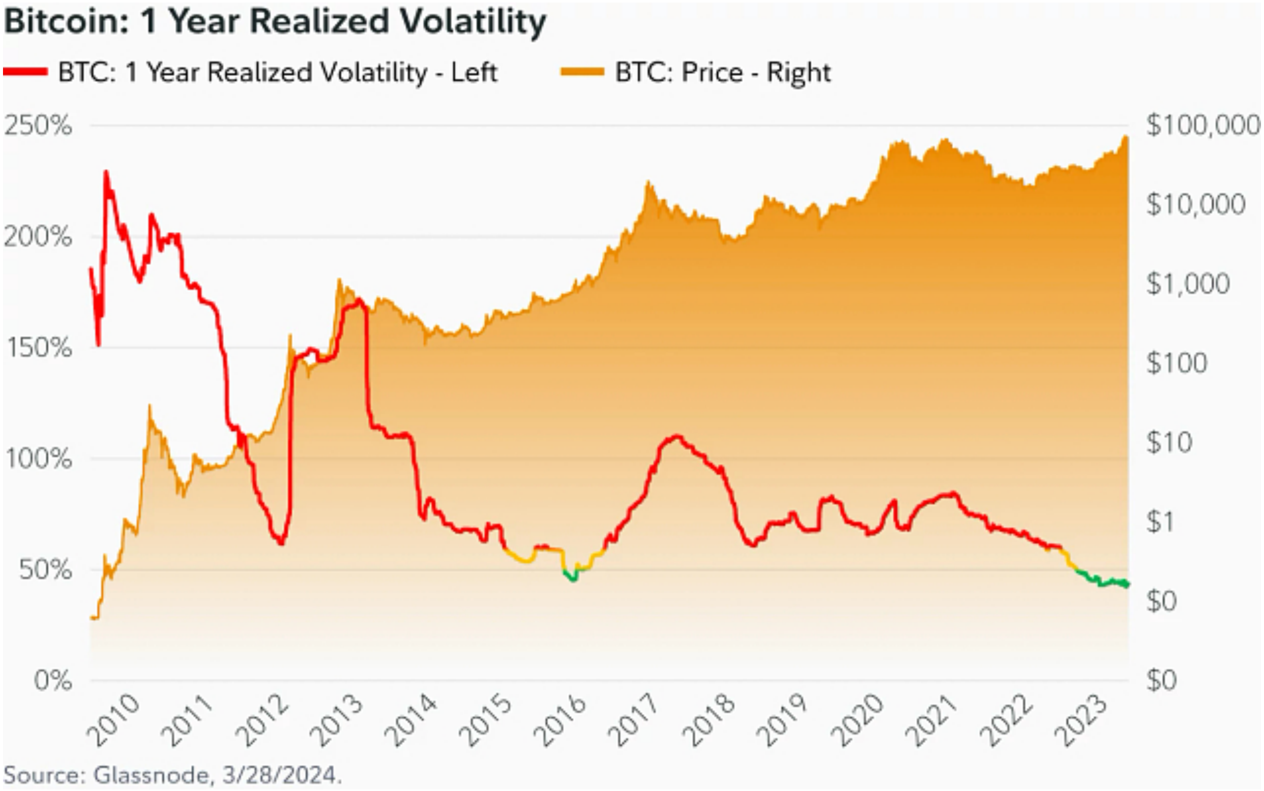
A histogram showing BTC's monthly price returns illustrates this with the positive monthly return mean of 7.8% from 2016 to 2024 (two Bitcoin cycles) compared to the mean of 1.1% for the S&P 500, which is also more normally distributed:



Source: Bloomberg, period studied is 2/29/2016 through 2/29/2024.

Volatility Is at a Historic Low

Throughout 2023, we saw a rise in BTC's market cap and falling levels of realized volatility. There has never been another instance where BTC's market cap was over $500 billion, and its one-year realized volatility was lower than 50% until now. This can be seen clearly when looking at the chart below, which shows price and realized volatility with instances of sub-50% realized volatility marked in green.



Furthermore, as BTC's volatility fell throughout 2023, its market cap rose. Therefore, the drop in volatility cannot be due to a lack of interest in BTC. Capital flowed into BTC throughout 2023 amidst a downward trend in realized volatility.

What this may be pointing to is a growing belief that BTC is maturing, further accelerated by the landmark approvals of several spot BTC exchange-traded products (ETF's) in the U.S.A., Hong Kong, Australia and the U.K.

The anticipation of this event may have led to a steady increase in price, up 150% in 2023, and a steady decrease in realized volatility, down 20% in 2023. Moreover, February 2024 saw BTC cross above $60,000 with a much lower realized volatility than has been seen previously.

Date	Price	Realized Volatility
03/13/2021	$60,000	72%
10/15/2021	$60,000	83%
02/28/2024	$60,000	44%

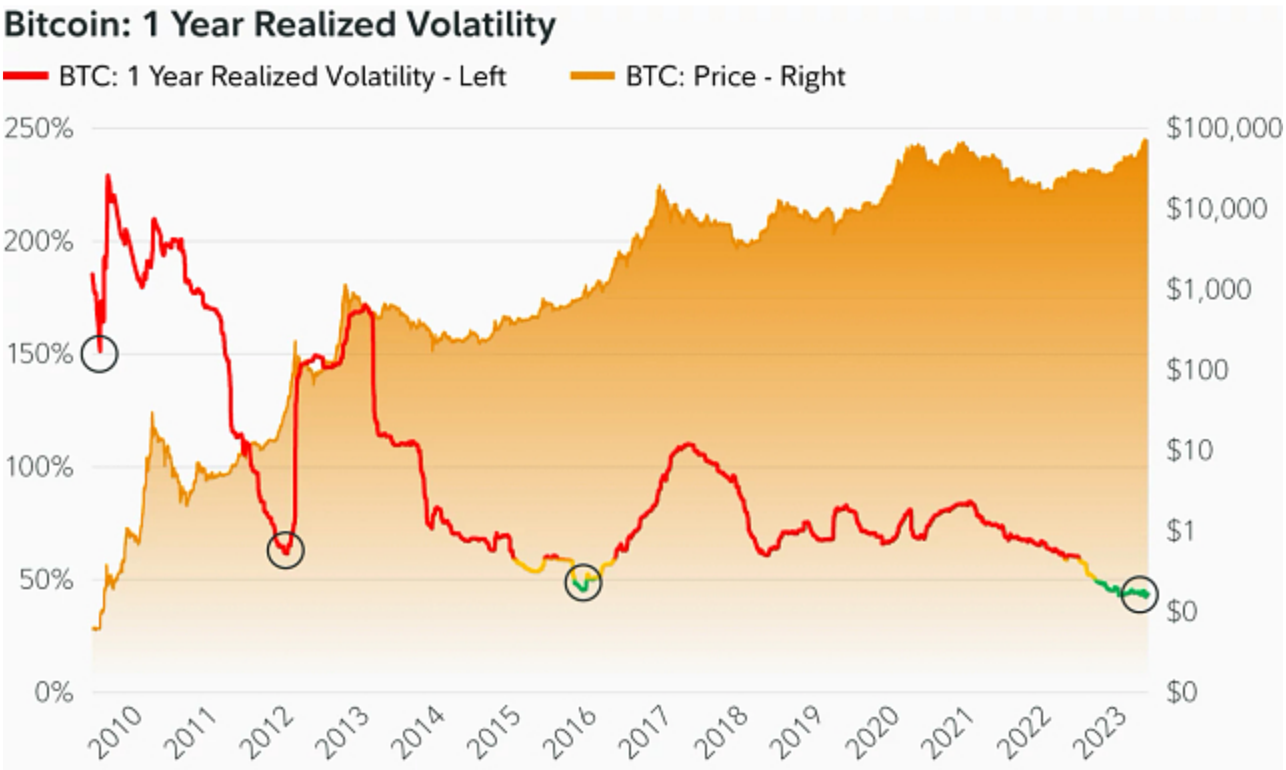
Source: Glassnode, 3/5/2024.

BTC was nearly half as volatile in 2024 at $60,000 when compared with 2021. When putting this all together, a thesis pointing toward a growing acceptance of crypto assets due to potential maturation begins to emerge.

Low Volatility Precedes Price Increases

BTC's one-year realized volatility becomes particularly noteworthy when it reaches new all-time lows. These low volatility environments can become the foundation for future upward moves in price.

Circled below are four instances of realized volatility hitting a new all-time low. One instance is currently playing out in early 2024, while the other three were followed by steep rises in price.



Source: Glassnode, 3/28/2024.

The following table also illustrates how all-time lows in realized volatility directly preceded large percentage price gains in BTC:

Date	Bitcoin Price	Realized Volatility All-Time Low	1-Year Subsequent Price Return
10/07/2010	$ 0.07	151.31	
10/07/2011	$ 4.27		6000%
03/03/2013	$ 34.33	61.61	
03/03/2014	$ 676.82		1872%
12/21/2016	$ 833.30	45.35	
12/21/2017	$ 15,651.95		1778%
11/14/2023	$ 35,534.12	43.00	
11/14/2024	$?	?	?

Source: Glassnode, 3/5/2024.

As noted above, early 2024 has shown to be a unique period of low volatility coinciding with all-time highs in price. Although past performance is no guarantee of future results, investors have historically experienced large price increases in short periods of time once all-time highs in price were revisited and subsequently broken under these circumstances:

Date	Price	Significance
06/08/2011	$ 29.64	All-Time High
02/20/2013	$ 30.03	All-Time High Broken
03/20/2013	$ 64.45	Double in Price: 29 days
12/04/2013	$ 1,134.39	All-Time High
02/23/2017	$ 1,176.85	All-Time High Broken
05/24/2017	$ 2,431.17	Double in Price: 91 days
12/16/2017	$ 19,587.61	All-Time High
11/30/2020	$ 19,689.81	All-Time High Broken
01/08/2021	$ 40,771.75	Double in Price: 40 days
11/08/2021	$ 67,589.00	All-Time High
03/04/2024	$ 68,365.43	All-Time High Broken

Source: Glassnode, 3/5/2024.

Portfolio Positioning
We remain bullish on the current market outlook and believe that we are facing the start of this industry's third multi-year bull run. The fundamental difference in this cycle is that the institutions will continue to increase exposure. Both funds remain strategically positioned to take advantage of this and the rotation from larger assets like Bitcoin and Ethereum to Alt coins.

While there may be periods where the rotation is more pronounced and Alt coins outperform very considerably, we believe the best approach is to continue to allocate across the crypto asset landscape as BTC is fostering a thriving ecosystem with Ordinals, BRC20's and Layer 2's.

Conclusion
BTC has long been seen as a highly volatile asset. New assets typically take time to undergo price discovery, maturation, and then settle into lower volatility. Even gold experienced high volatility when the U.S. came off the gold standard in the 1970s. In its short 15 years of existence, BTC has shown signs of maturation as its volatility has seen new all-time lows on a yearly scale. There is a clear downward trend in volatility over its lifetime and we believe this trend will continue as BTC continues to mature over time.

We reiterate our view from mid-2023 that this is the beginning of a multi-year secular bull market. This is **not** a cyclical bull market driven by changing interest rate expectations and sector rotation, but rather a secular bull market.

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 unlimited QE driving demand for the stability BTC represents. We further believe we are at the tipping point of a very rapid surge in the adoption of Crypto Assets which is now underpinned by institutions and investors using and investing in this new asset class.

Importantly we believe that from a regulatory perspective and investment diversification strategy, the safest way to invest is through a dedicated, regulated fund with independent administrators and a fully audited track record such as the Portal Digital Fund or the Radiance Multi-Strategy Fund.

Feel free to contact me should you have any enquiries.
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