ROCKDEN ADVISORS | 107 S. WEST STREET, SUITE 411, ALEXANDRIA, VA 22314 | (703)-626-3925

Dispatch #9 -2021

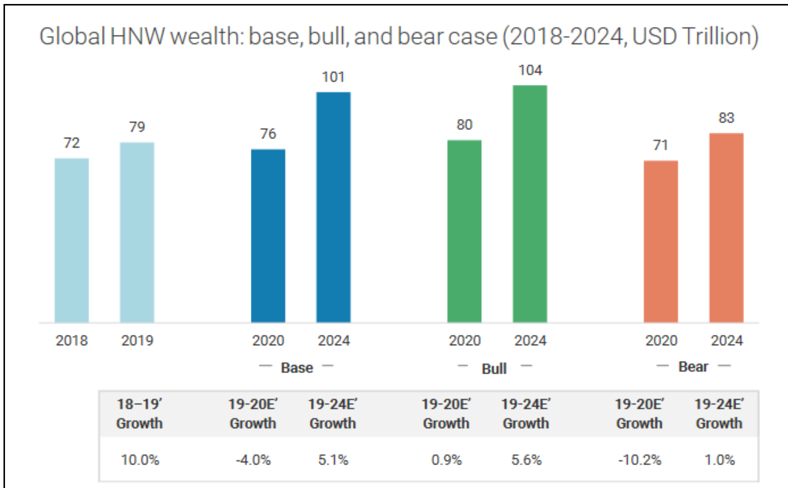
March 19th, 2021

The Dispatch is out earlier than usual as it'll be on holiday next week and won't publish until my return. Top news this week is the Morgan Stanley announcement that wealth management (WM) clients can invest in bitcoin via three funds. This will most likely lead to the rest of the global wealth management industry, with ~ $80tn of assets, offering access to bitcoin. Just watch the herd stampede into the asset! Don't forget many of these firms have been outspoken bears of bitcoin until recently. Other news covered in this letter is:

- Bitcoin and crypto gaining political clout.
- US home prices are up sharply in US$, but far less in gold terms.
- US debt service cost is still low, despite my worries about deficit funding.
- India banning bitcoin? Domicile your investment within a robust legal regime.
- Bitcoin School: The number of bitcoin in each wallet is visible to the public. This helps answer the question of…Are you late to bitcoin?

Morgan Stanley will offer wealth management clients access to bitcoin funds

This announcement is important as it signals the entry of large global wealth management (WM) firms, into the asset class. These formerly (many still are) vocal opponents of bitcoin and crypto currencies control a majority of the $80tn industry assets. More details about the Morgan Stanley announcement are available in this CNBC article.



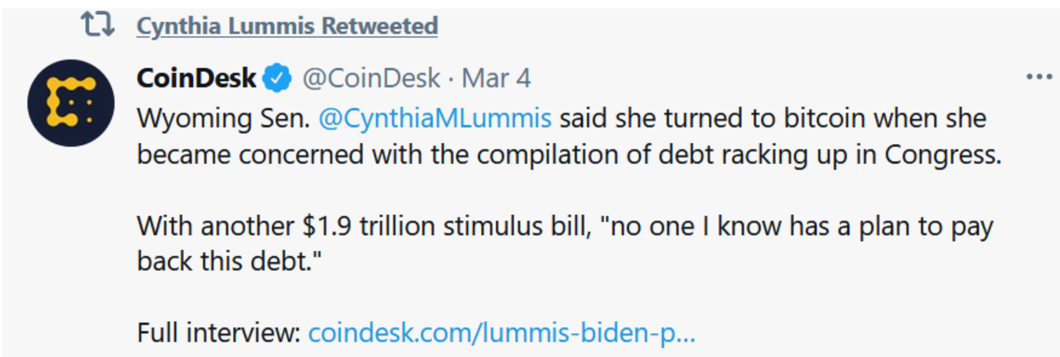
Source: Oliver Wyman 2020 report

If the WM sector allocated just 1% to bitcoin that would translate to inflows of ~ $800bn, nearly 80% of today's market cap. Furthermore, many individuals are best suited to allocate to volatile assets like bitcoin as they have longer investment time horizons. That allows investors to take advantage of potential adoption-led long term upside, while holding through the inevitable downside over shorter one-to-three-year time periods.

Bitcoin & crypto gaining political clout

There are two fronts to this subject. The first route is elected official that are familiar and comfortable with digital assets rising in number. This will come with the passage of time and the growth of crypto networks. On this front, Cynthia Lummis, the former congresswoman and current junior Senator from Wyoming, stands out. She's a vocal bitcoin proponent that speaks on behalf of the evolving digital assets space.

This re-tweet of a Coindesk tweet captures her view. You can follow her here on Twitter.



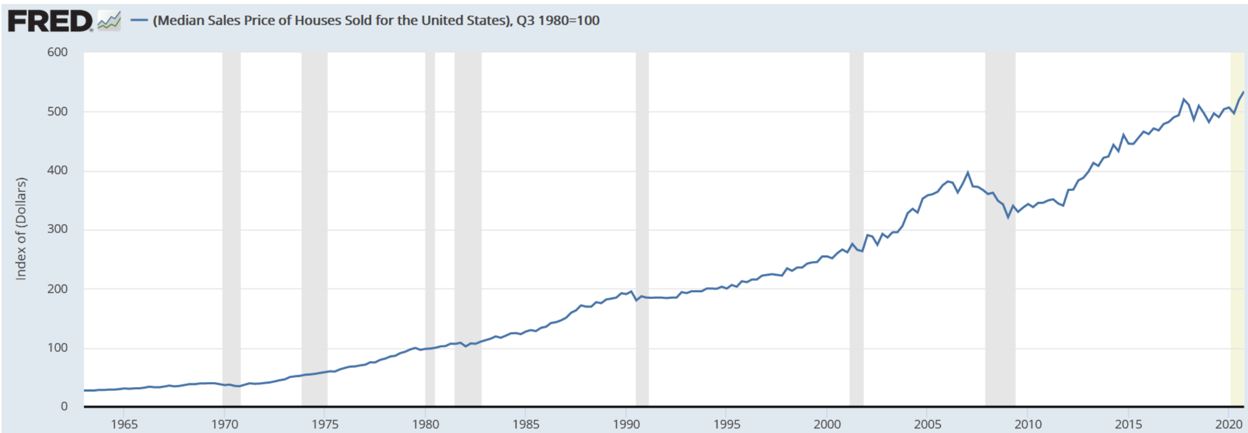
Additional visible support comes from a group of Republican Congressmen who have proposed the Token Taxonomy Act to provide better regulatory clarity on the crypto currency space. It is sponsored by Warren Davidson of Ohio. You can read more about this Act.

The second source of rising power is **good old-fashioned lobbying** by companies using profits from the crypto ecosystem to protect their patch! These two announcements provide a flavor of rising lobbying activity.

- **Blockchain.com** added former Obama aide Jim Messina to its board.
- **Binance** (one of largest exchanges globally, HQed in China) also hired former US Senator Max Baucus as a regulatory advisor.

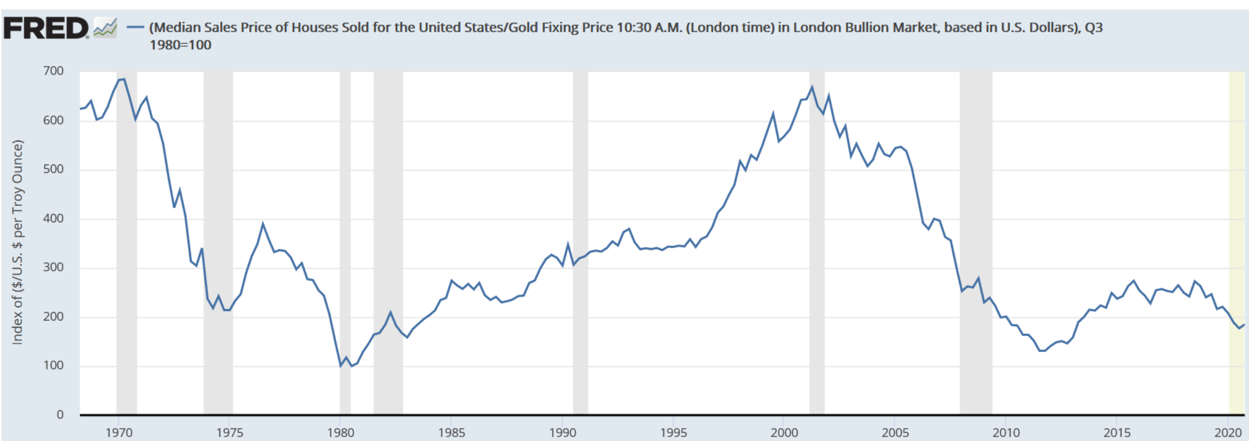
Has your home gained in value?

In US$ terms, most homes in the US have done very well. The median home price has risen 554% in the 40 years from 1980. That's a solid 4.3% compounded annual growth rate (CAGR). US interest rates peaked in 1980, and from there, mortgage rates have gone down for 40 years.



Source: St. Louis Fed

However, most assets are rising relatively to the USD and we are surely not creating more land! Measured against a less inflationary asset like gold, the median home price rise is less impressive: Up 84% absolute terms, which translates to a modest 1.5% CAGR.

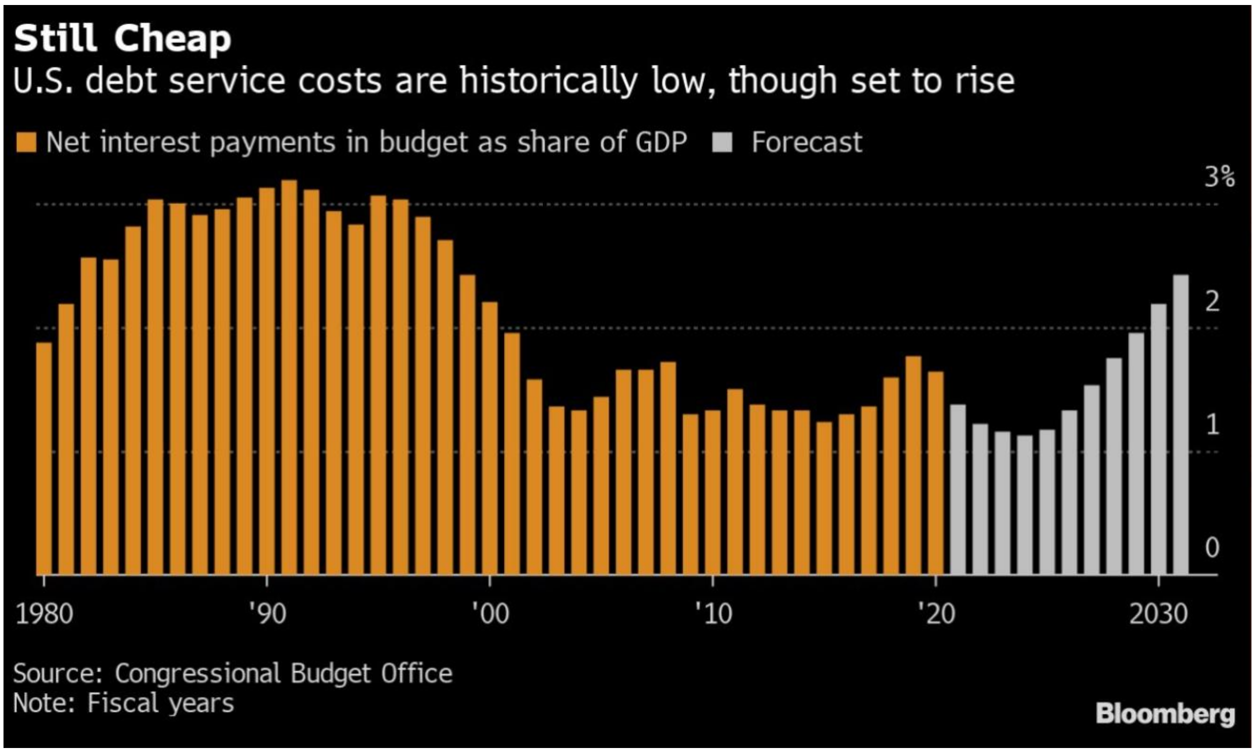


Source: St. Louis Fed

Perhaps this is a poor example because you can't live inside a bar of gold. However, if you have investment properties, think about the relative return opportunities and not just the US$ return. The median home price return analysis leaves out the impact of leverage, which would raise the return profile of the above examples.

US Debt service cost is still low

I am always looking to challenge my views and the chart below suggests the risks from higher rates won't be a concern to the US Treasury immediately. Debt service as a % of GDP is low and set to fall in 2021, according to Bloomberg. Note the grey bars show projections for 10 years. This is the power of Fed intervention with lower rates, but it may not prevent markets overshooting and taking rates higher, as we are seeing once again this week.



India Banning crypto currencies

This is likely going to be the reality for investors in India if the parliamentary bill passes. This Reuters article has more details on the speculated ban. Events such as this one highlight the need to be located in a jurisdiction with robust legal safeguards. Crypto currencies are an asset in the US, and it is unlikely that the government can confiscate or ban private citizens' assets without significant opposition, due process, constitutional protection, and litigation.

Bitcoin School

All bitcoins and wallets are visible…. **Are you late to bitcoin?**

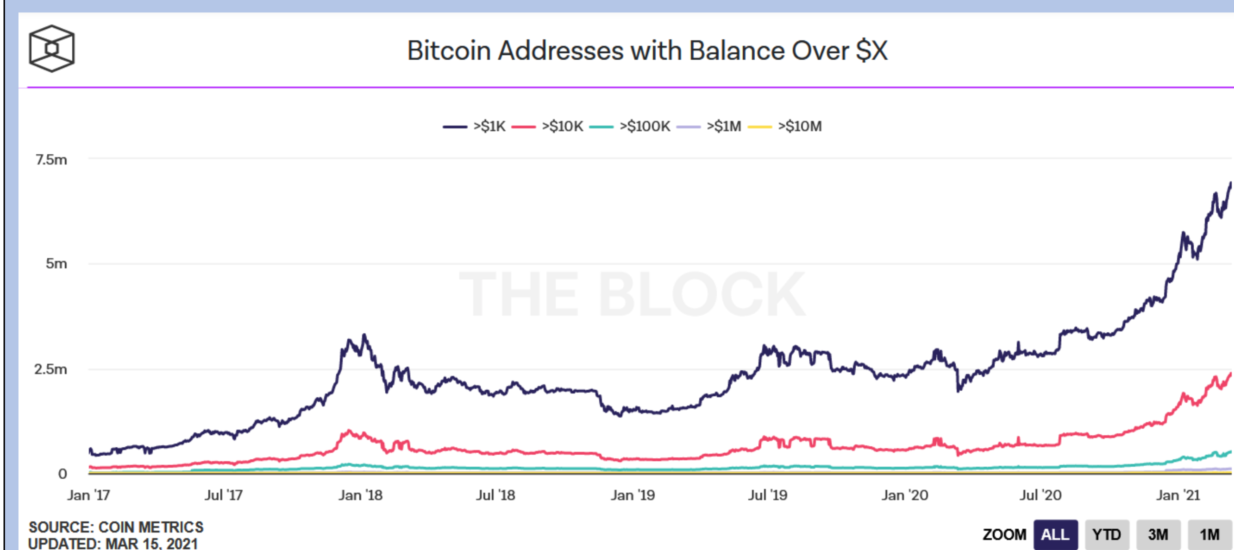
The most common comment I receive when talking about bitcoin is something along the lines of "oh, it too late" or "oh, I missed it and will wait for a pullback." Since we know the number of wallets on the blockchain and how many coins each wallet holds, this data should provide clues to answer the above question.

- To reiterate, bitcoin is never associated with anyone by name but is attached to a wallet instead, which you control.
- Individuals can (and will) own multiple wallets to hold their bitcoin.

The stats from the chart below are as follows.

- **2.5m wallets own between $10K-$100K in bitcoin.**
- **491K wallets own between $100K - $1m of bitcoin**
- **104K wallets own between $1m -$10m & 10K wallets > $10m**

Think about that, the world has an estimated $80tn in wealth management accounts and 24m US$ millionaires (BCG report), but ONLY 605K wallets have more than $100K worth of bitcoin. The actual number of individuals owning more than $100K in bitcoin is well less than 605K wallets, which is just scratching the surface of the adoption opportunity. The non-exchange wallets shown below control 87.5% of bitcoin in circulation.



Source: The Block

When coins in exchange wallets peaked at 3m, that accounted for 16% of bitcoin outstanding. We have seen a sustained withdrawal from exchange wallets since Covid hit, and today exchange wallets hold 12.5% of all bitcoin, as shown in the chart below.

Source: Glassnode

Stay safe and do reach out if you have any questions or comments about the material in this dipatch.

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