

Dispatch #15 - 2021

May 14th, 2021

This week started with Bitcoin acting like a mature asset, correlating to the stock selloff. However, we were quickly reminded that Bitcoin is just a 12-year-old asset when Elon Musk's tweet led to a sharp selloff. The top story, though, is a SEC staff comment that further solidifies the Dispatch's view that a Bitcoin ETF approval is unlikely in the next few months. The letter, though, does lay the groundwork for the Gensler-SEC to work to fast track crypto regulatory clarity. The full list of items for discussion includes:

- SEC staff comment warns Bitcoin funds on compliance
- Tesla will stop accepting Bitcoin for car purchases
- Did someone "front-run" the Musk tweet?
- UBS joins the Bitcoin party!
- Bitcoin has a new Quarterback – Tom Brady
- 1st Billion-dollar crypto deal: Galaxy Digital buys Bitgo
- BITCOIN SCHOOL: Bitcoin miners are accumulating coins. What does that mean?

SEC comment warns of Bitcoin risks, but could clear up uncertainties long term

The staff comment begins with a warning to investors considering Bitcoin funds, but the main target is fund management firms. The comment reiterates the lack of regulation and investor protection that Commissioner Gensler voiced during his recent confirmation hearing. This reset the Bitcoin agenda for a more informed and engaged Gensler-SEC, in the Dispatch's view.

The Division of Investment Management ("IM") staff strongly encourages any investor interested in investing in a mutual fund with exposure to the Bitcoin futures market, as discussed below, to carefully consider the risk disclosure of the fund, the investor's own risk tolerance, and the possibility, as with all investing, of investor loss.^[1] Among other things, investors should understand that Bitcoin, including gaining exposure through the Bitcoin futures market, is a highly speculative investment. As such, investors should consider the volatility of Bitcoin and the Bitcoin futures market, as well as the lack of regulation and potential for fraud or manipulation in the underlying Bitcoin market. As with any fund investment, investors should focus on the level of risk they are taking on, and the level of risk they are comfortable taking on, prior to making an investment.

Much of the letter is directed at Mutual Funds and other investment vehicles that are investing in Bitcoin spot and futures markets today. These would be the funds that companies like Morgan Stanley are offering their clients. The SEC says it will be focusing of these funds' compliance with the Investment Company Act of 1940.

A positive take away is that the **SEC is accelerating the investigation of Bitcoin markets on deficiencies seen by the SEC**. This will hopefully lead to quicker guidance from the SEC on ETF approval and custody rules. (They already had a comment period on this issue.) In the near term, **the letter reinforces the Dispatch's view that Bitcoin ETF approval is unlikely in June**. However, if consumers have access to the \$60bn physical gold ETF (ticker: GLD), it's tough to argue that these same investors shouldn't have access to a Bitcoin ETF. In April, Bitcoin traded more than \$80 billion a day on average. In contrast, how liquid and transparent is the physical gold market? The **full SEC comment is [here](#)**. This Block Works [article](#) provides a good summary.

Musk tweet says Tesla has stopped accepting Bitcoin for auto purchases

Part of the statement tweeted by Musk on behalf of Tesla is below. It further adds that Tesla will not sell any of the remaining Bitcoin from the \$1.5bn February, 2021 purchase. Now **who believes that the "world's smartest person" didn't know, or failed to consider, that the bitcoin network consumed lots of energy?** The Dispatch would also not be surprised, if in the coming months, that Tesla announced it had sold all the Bitcoin. This sadly removes one of the only realistic monetary transaction uses for Bitcoin, but it's good for Bitcoin to divorce itself from a highly volatile cheerleader like Musk. This [WSJ article](#) covers the story

Tesla has suspended vehicle purchases using Bitcoin. We are concerned about rapidly increasing use of fossil fuels for Bitcoin mining and transactions, especially coal, which has the worst emissions of any fuel.

Source: [Twitter](#)

The statement does highlight the environmental headwinds that Bitcoin faces, which could slow the pace of adoption. Would other large companies want to invest in Bitcoin give the potential environmental backlash? While there is growing use of renewable energy for bitcoin transaction processing/security, that's not the dominant narrative in the debate around bitcoin network's energy intensity. The Dispatch now sees the environmental narrative as the largest risk to wider bitcoin adoption (price) instead of regulatory risk.

Ironically, Elon Musk is pushing Doge Coin (see tweet below) even though Doge Coin also relies on the same energy intensive [proof-of-work](#) (PoW) algorithm as Bitcoin. The only reason Doge Coin doesn't consume as much energy is that the network is small and is far less secure. Yet, none of the green energy advocate are likely to highlight this dichotomy.



Did someone “front-run” the Tesla Tweet?

The chart below shows Bitcoin inflows and outflows from exchanges. To sell Bitcoin you first must move coins into an exchange (this assumes sophisticated investors keep coins in cold storage custody and not on an exchange wallet). **There was a sharp 10K coin inflow (red circle) into exchanges before the Tesla tweet.** However, the debate over privileged information or front-running in Bitcoin markets is more nuanced because it is NOT a security like company shares or bonds. Bitcoin does not have financial reports, for example. We should be careful applying our securities law/lens/expectations to the Bitcoin market.



Source: [Willy Woo via Twitter](#)

Since the blockchain is visible to all, we already know the history of the 10K coins that were moved to the exchange prior to the tweet. Those 10K coins were previously moved on 2 Jan, 2021 as part of a 4 x 12K coin movement out of coinbase, according to this [blockchain analyst](#).

Ultimately, was Musk’s tweet not like a short-seller fund like Muddy Waters releasing a bearish report or Warren Buffet purchasing stock before disclosing a position? Does the concept of privileged information hold in an asset that has ZERO traditional financial information? These are all the questions that society needs to answer. The SEC is highly likely to use the price action this week to buttress the argument for more regulatory oversight of crypto markets. The Dispatch sees some investor protection as helpful, to protect small investors from larger investors with market moving information. This is a subject to be debated more thoroughly, and the hope is that the SEC facilitates that debate.

- The short-term volatility should be of limited concern for investors that take a 5 year+ view on this volatile asset. The Dispatch encourages a long-term view.

UBS joins the Bitcoin party!

The headlines shown below tell the story! Another global bank joins embraces Bitcoin.

Menu	Q Search	Bloomberg Wealth
Cryptocurrencies		
UBS 2021....	UBS Explores Offering Crypto Investments to Rich Clients	
...UBS a mere three years ago in 2018		
UBS chairman warns against bitcoin investment as cryptocurrency falls 12%		
Axel Weber says cryptocurrency ‘not an investment we would advise’ while South Korea bans anonymous trading		

Source: [Bloomberg](#) headline – 2021 & [The Guardian](#) headline- 2018

Bitcoin has a new Quarterback – Tom Brady

Tom Brady updated his Twitter profile picture to the laser eyes meme adopted by bitcoin fans.



Source: [Twitter](#)

The Brady news is unlikely to impact near term fundamentals, but in our media obsessed society, it could further spread the adoption story. The tweet below from the pioneering NFL athlete in Bitcoin – Russel Okung – shows network effect of Tom Brady's tweet.



MARKETS | FINANCE

Galaxy Digital to Buy BitGo in Crypto Sector’s First \$1 Billion Deal

Purchase coincides with a nearly yearlong rally in the sector, whose market value has surged to \$2 trillion

Canada listed Galaxy Digital announced on May 5th that it is buying institutional crypto custodian Bitgo for \$1.2bn. These articles by [The Block](#) and [WSJ](#) have more details.

BITCOIN SCHOOL: Miner behavior & cycle-to-date performance look

Miners accumulating coins is positive

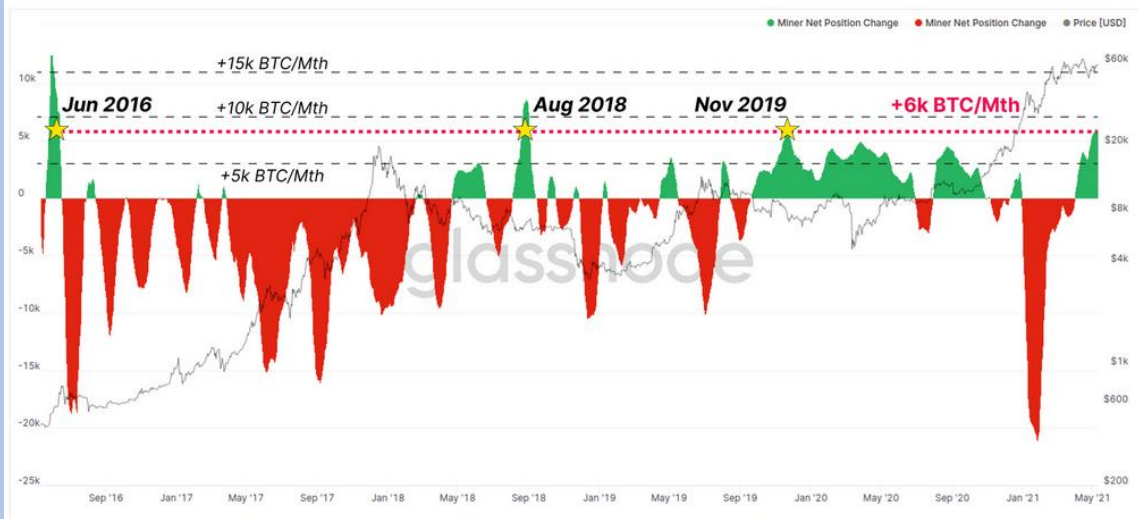
Miners have been accumulating coins, which is bullish because miner selling is the ONLY source of newly created bitcoin supply. The miner community globally gets 6.25 Bitcoin about every 10 mins, or 900 Bitcoin a day, for securing the network/transaction processing. The end of this section has a more detailed description of miners and why they sell.



Source: Glassnode

This is a longer-term chart of the above data

Bitcoin: Miner Net Position Change (14d Moving Average)



Miner/mining basics: A miner is a computer (usually a collection of specialized computers) that secured the protocol & support transaction processing on the bitcoin blockchain. Miners’ revenue is the Bitcoin granted by the protocol for their computing power. As the amount of computing power (called hash power) securing the network rises, the security of the protocol/network increases.

All miner costs are in USD or some other currency where they are located. By far the largest operating cost is electricity and power is sold in the local currency. As a result miners have to sell their Bitcoin to obtain local currency to pay the bills.

A look at the cycle-to-date performance across the years

With the recent soggy performance of Bitcoin, let’s look at how the current price action compares to the last two cycles: Bitcoin in this cycle is +197% since the halving, which is tracking just ahead of +182% at the same point in the 2017 cycle.

BULL PHASE	Halving Date	Months After Halving																			Statistics		
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	Sum	Mean	Media
2012	Nov 2012	7.8%	51.4%	63.8%	179.0%	47.8%	-7.2%	-28.0%	7.7%	31.0%	-1.6%	59.1%	469.1%	-36.2%	8.6%	-31.6%	-16.6%	-2.6%	40.4%	2.5%	844.3%	44.4%	7.8%
	Jul 2016	-7.6%	6.1%	16.1%	5.0%	30.3%	-0.3%	22.5%	-9.2%	27.0%	68.2%	6.6%	17.0%	65.2%	-8.3%	48.6%	54.2%	39.8%	-26.9%	1.4%	355.6%	18.7%	16.1%
2020	May 2020	-3.3%	24.3%	2.7%	-7.6%	28.2%	42.5%	47.1%	14.5%	36.4%	30.0%	-1.7%	-15.6%	TBD	TBD	TBD	TBD	TBD	TBD	TBD	197.4%	16.5%	19.4%

Source: [Blockchain analyst via Twitter](#)

The Dispatch is fully vaccinated and enjoying life returning to normal. Stay safe and do reach out if you have any questions or comments about the material in this Dispatch.

Important Disclosures

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