PRASOS

QUARTERLY REPORT

Q1 2020

in collaboration with dcresearch

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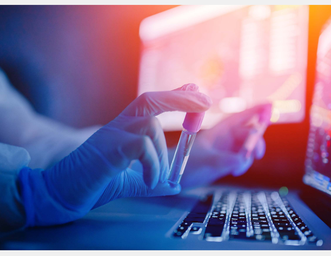
MARKET INSIGHTS

COVID-19 REFLECTIONS TO MACRO-LEVEL ECONOMY

The coronavirus pandemic continues to inflict enormous strain on global macro-level economy.



As we look back at historical data, we see that high-intensity sell-offs usually affect all asset classes, with liquidity escaping to cash, eventually. Bitcoin also experienced a sell-off, dropping up to 50% in early March. However bitcoin has recovered since, rising around 100% up from March lows.

The futures market and heavy deleveraging also contributed to bitcoin's price crash. The sudden fall was led by Seychelles-based bitcoin and cryptocurrency exchange BitMEX, with the bitcoin price dropping to a low of $3600 on the exchange before it was abruptly closed for maintenance [1].

The bitcoin price recovery back to above 7000 USD per unit was led by U.S.-based exchange Coinbase with BitMEX lagging far behind the other major exchanges. Leveraged trades, popular on BitMEX, carry a significant risk where investors can open positions much larger than their own capital. These leveraged instruments can lead to extreme corrections. On BitMEX, investors can borrow against their deposits up to a ratio of 100:1, providing traders the opportunity to amplify their gains, as well as potential losses.

> *"Correlations go to one in a sell-off, what you got is people having to raise cash to deal with a crashing market, deal with margin calls and so forth."*
>
> - Erik Townsend

BITCOIN'S INITIAL REACTION TO THE CRISIS WAS FOLLOWING THE GENERAL SENTIMENT

Bitcoin correlations versus other risky assets increased following March 9th. Importantly, all risky assets faced the same effect, including large portions of the bond market and even gold.

BITCOIN MAINTAINS ITS POSITION AS AN UNCORRELATED ASSET

The 90-day correlation between bitcoin and S&P 500 Index peaked at around 0,5 and is showing early signs of reversing to its historical norm. In the contemporary sentiment, an investor should focus on long-term view. The correlation between gold and S&P500 Index has varied significantly in short time windows and we should not overweight short-term data.

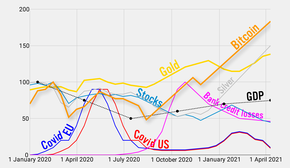
WHAT LIES AHEAD FOR BITCOIN AND GLOBAL ECONOMY?

LET'S EXPLORE A MODEL BY HEDGE FUND MANAGER KARL-MIKAEL SYDING

The main question seems to be where are we heading next? To solve the question we used an outsourced perspective, a scenario provided by Swedish hedge fund manager **Karl-Mikael Syding**.

His model sees COVID-19 pandemic peaking between April and May in EU area, and he estimates the pandemic to peak in U.S. slightly later in May-June. Here's how Karl-Mikael's model sees the medium-term performance of different asset classes.

MACROECONOMICAL FORECAST FOR 2020-2021
data source: Karl-Mikael Syding.



BITCOIN

Karl-Mikael Syding's model is is bullish on long-term prospects for bitcoin. Bitcoin is a scarce asset, as bitcoin's unit count is limited to 21 million. The model sees bitcoin's price dropping momentarily during second and third quarter of 2020, while following a curve up over Q4 into 2021, with a significant potential upside.

GOLD

Karl-Mikael's model sees gold following roughly the same pattern with bitcoin, yet following a lower performance curve. Both bitcoin and gold would be retracing a little short-term, but zooming up during 3rd and 4th quarters. In conjunction with bitcoin, gold is a scarce asset as global supply of gold is radically limited.

"With $130 trillion of assets under management worldwide, institutional investors could have a huge positive impact if they moved even a tiny fraction of those funds into crypto, whose market cap remains under $300 billion."

- Gerrit van Wingerden

STOCK MARKET (S&P 500)

The model sees stock market slowly recovering, however Karl-Mikael doesn't expect large-scale growth for 2020. He estimates that at the end of February 2020, the valuation of the S&P 500 was 2-3x as high as the historical average. The stock market should therefore have fallen at least -50% even without COVID-19.

BANK CREDIT LOSSES

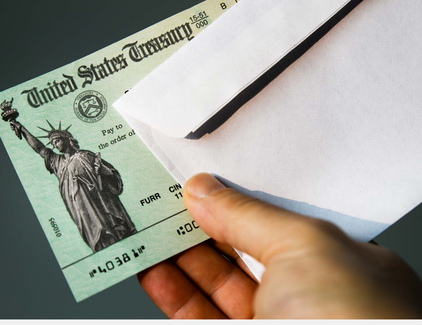
Bank credit losses should be slowly escalating during summer 2020, instalment-free periods are likely to slow the critical accumulation of bank credit losses momentarily. Syding expects bankruptcies and credit losses to spread starting with hotels and leisure, consulting and other staff-intensive activities.

Karl-Mikael also mentions that companies in the U.S. have issued their own bonds over the past ten years (i.e. borrowed money at historically low interest rates) and repurchased and shredded their own shares for several trillion dollars. The companies themselves thus constituted the largest net buyer group of shares in the past decade. The money is now largely gone in the crash but the loans remain and must be serviced and renewed.

A MACROECONOMIC INSIGHT BY HEDGE FUND MANAGER KARL-MIKAEL SYDING

Karl-Mikael Syding is a well-known influencer and investor from Stockholm, Sweden. He was formerly partner at Futuris/Brummer (a billion dollar long/short equity hedge fund) during 2000-2015. Nowadays Karl-Mikael is associated with Cyg Cap and Blockchain AB, among other ventures.

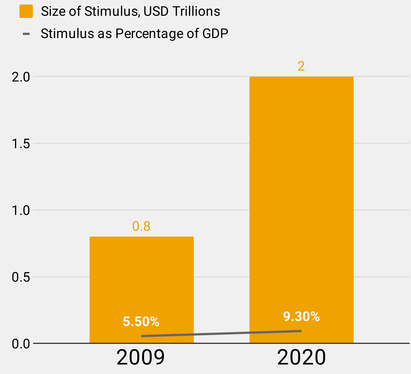
More information on Karl-Mikael and his insights here: mikaelsyding.com.



CENTRAL BANKS ABOUT TO LAUNCH HISTORICAL STIMULUS PACKAGES

Faced by a massive "black swan" economic downturn, the Federal Reserve of U.S. is preparing for scaling up its stimulus. The 2009 stimulus package included 0,8 trillion dollars (USD) worth of stimulus, equal to 5,5% U.S. gross domestic product (GDP). The announced stimulus package for 2020 includes 2 trillion USD worth of assets, equaling a whopping 9,3% in GDP. The recent U.S. stimulus package will be allocated followingly [2]:

STIMULUS PACKAGES COMPARED
data source: FED.



HOUSEHOLDS

250B USD Set aside for direct payments.
250B USD For unemployment.

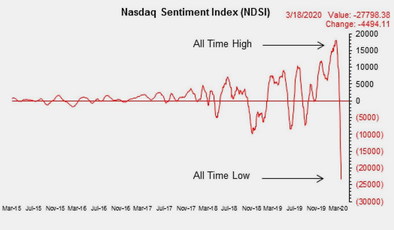
BUSINESS

350B USD In small business loans.
500B USD In loans for distressed companies.

OTHER

130B USD For hospitals.
150B USD State & local government.

While the stimulus packages offer interim help for stabilizing the economy, they do not fix underlying fundamental challenges. Creating new money also includes an escalating inflation risk.



"We are experiencing the end game of the great debt super cycle. As the private sector has become increasingly over-levered, the baton is being passed to the public sector where resources are so strained that the printing press has become the last resort."

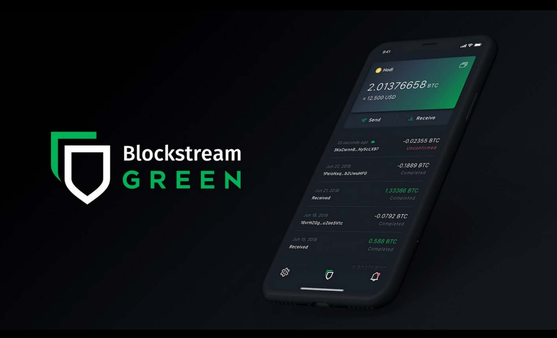
- Gerrit van Wingerden

INDUSTRY-RELATED FUNDAMENTALS LOOKING BRIGHT AMID THE CRISIS

BAKKT CLOSES A 300M USD FUNDING ROUND

One of the leading digital asset custody and futures platform, Bakkt, secured 300 million dollars worth of additional funding. Bakkt has now totally raised over $482 million after raising $182,5 million in late December 2018 [3].

BLOCKSTREAM ANNOUNCES A NEW WALLET FOR LIQUID TRANSACTIONS



Blockstream released a new iOS and Android native app aligned to Liquid sidechain transactions. While the app can be used to store bitcoin on the bitcoin blockchain, it will also soon be able to store their Liquid assets, meaning the company is finally fulfilling its promise to offer a wallet that incorporates its flagship sidechains product [4].

COINBASE AND FIDELITY INVEST INTO COIN METRICS

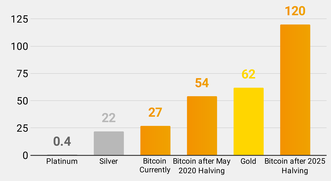
Based in Boston, Coin Metrics said the funding will help expand its offerings and team. The company, which provides analytics on open-source blockchain data for institutional clients, said it had also earmarked funding for improving data sets [5].

UPCOMING HALVING AND STOCK-TO-FLOW (S2F)

Bitcoin halving is a process of dividing the number of generated rewards per block in order to maintain the total supply of Bitcoin, which will not exceed 21 million units. Block rewards are the main engine of Bitcoin mining and, therefore, the main infrastructure behind the network.

$$\frac{\text{Stock}}{\text{Flow}} = \frac{\text{Total stock (Quantity issued to Date)}}{\text{Annual Quantity Issued}}$$

S2F: BITCOIN AND PRECIOUS METALS
data source: Plan B.



When assessing stock-to-flow and its effect to bitcoin, precious metals are a good benchmark. Platinum currently has a 0,4 S2F, which is relatively low. Silver however has 22 S2F, which is closer to bitcoin's current S2F. Noticeably, the upcoming **May 2020 bitcoin halving will elevate bitcoin's S2F to 54,** making it significantly more scarce. Gold's current stock-to-flow is 62. The estimated S2F for bitcoin after 2025 halving will be 120, making bitcoin extremely scarce. Let's remember, only 21 million bitcoin units will ever exist.

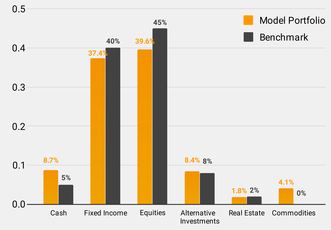
"Before seeing any improvement in the pandemic in Europe and in the U.S., we expect the cryptocurrency to consolidate around current levels. However, as soon as the virus is off the table, we are expecting a sharp recovery, especially regarding the coming BTC halving event, which is expected to happen in May."

- Falcon Private Bank Ltd.

FALCON PB RECOMMENDS 8,4% ALLOCATION INTO ALTERNATIVE ASSETS, INCLUDING BITCOIN

Q1 end recommendation by Swiss Falcon Private Bank, indicates an optimal 8,4% allocation to alternative investments, like bitcoin. Falcon has been recommending digital asset allocation to its client base before as well.

RECOMMENDED ASSET ALLOCATION BY FALCON PB
data source: Falcon Private Bank Ltd.



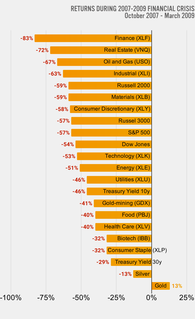
Falcon bank is one of the leading private banks in Switzerland, heavily focusing on digital assets. Their product portfolio includes: Digital asset solutions, investing and trading, digital custody, and blockchain business banking, to name a few [6].

SAMOURAI'S MIXING SERVICE SEES ESCALATING GROWTH

Samourai Wallet's Whirlpool CoinJoin feature has seen a 3x surge in activity. The CoinJoin privacy protocol allows users to mix bitcoin transactions with other users. Most of this volume comes from bitcoiners using Samourai's privacy software on their own nodes [7].

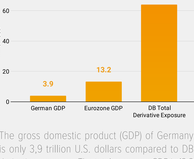
THE RISK PROFILE OF GLOBALLY LEVERAGED FINANCIAL STRUCTURES STILL REMAINS HIGH

Risk happens fast, especially with overly leveraged financial structures. Financial crises have a tendency to occur within a 10 year timeframe, the last one happening in 2008.

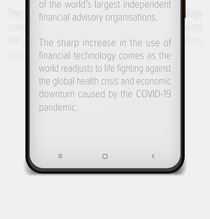


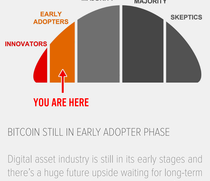
When exploring data from 2007-2009 financial crisis, we see that financial sector (-83%), Real Estate (-72%), and Oil Industry (-67%) were the segments hit hardest by subprime crisis and following meltdown. In contrary, gold-mining performed well (+13%). Bitcoin's scarcity features are close to gold, and after halvening events, bitcoin's scarcity will even surpass gold.

Many would see the derivatives market as one of the major red flags. Exempli gratia, the derivative exposure of Deutsche Bank (DB) was 64 trillion USD before the COVID-19 recession.



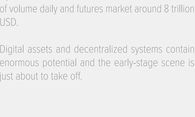
The gross domestic product (GDP) of Germany is only 3,9 trillion U.S. dollars compared to DB derivative exposure. The total eurozone GDP is 13,2 trillion USD, so the combined derivative exposure of Deutsche Bank is roughly 5 times larger than eurozone GDP.





BITCOIN STILL IN EARLY ADOPTER PHASE

Digital asset industry is still in its early stages and there's a huge future upside waiting for long-term investors. When exploring market caps of digital assets (~210 billion USD), to gold (9 trillion USD), and equity market (69 trillion USD), bitcoin's scale is still pretty marginal. The total derivatives market is worth around 640 trillion U.S. dollars.



The daily average volume of digital assets is 7 billion USD, compared with equity markets 320 billion. Options market records 3 trillion U.S. dollars worth of volume daily and futures market around 8 trillion USD.

Digital assets and decentralized systems contain enormous potential and the early-stage scene is just about to take off.

BITCOIN'S VALUE PROPOSITIONS TO INVESTORS

GROWTH

The pioneering blockchain industry is developing with escalating pace and new projects are constantly gaining traction. The mass adoption in bitcoin & blockchain tech and tokenization in general will continue to evolve rapidly in coming years.

DIVERSIFICATION

Bitcoin with a low historical correlation to traditional markets, is an emerging asset class to consider as a part of the portfolio diversification. Even just 1-5% allocation to bitcoin has been historically impacting portfolio performance favorably.

HEDGE

Bitcoin can be seen as a potential hedge to traditional asset classes. Built-in features like 21 million hard cap, inflation-free structure, and antifragile blockchain make bitcoin a store of value.

DECENTRALIZED VALUE

Global, decentralized, censorship-resistant & programmable asset with proven 10-year track record, showing outstanding staying power. With 99,98% uptime since inception, every subsequent day online makes bitcoin more robust, secured by built-in incentive structure.

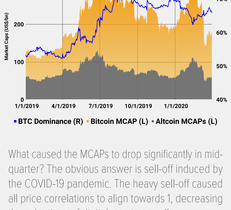
INDUSTRY OUTLOOK

MARKET CAPITALIZATIONS

BITCOIN FIRMLY MAINTAINS ITS POSITION AS THE LEADING DIGITAL ASSET

Meanwhile the combined market capitalization (MCAP) of cryptocurrencies dropped during the first quarter of 2020, bitcoin's relative dominance only decreased slightly, from early Q1 70% to late quarter 66%.

BITCOIN & ALTCOIN MCAPS & BTC DOMINANCE (SINCE 2019)
data source: coin.dance. 31.3.2020.



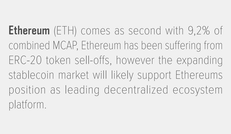
What caused the MCAPs to drop significantly in mid-quarter? The obvious answer is sell-off induced by the COVID-19 pandemic. The heavy sell-off caused all price correlations to align towards 1, decreasing the valuations of digital asset, as well.

While exploring the market cap data we should always remember that MCAP is only a relevant metric when it's supported by volume relative to MCAP, and when volume comes from a broad group of participants that are representative of market demand. Many altcoins don't fit the criteria above, so the real (organic) bitcoin dominance is well over the said percent.

BITCOIN DOMINANCE REMAINS HIGH AT 65%

Bitcoin's (BTC) dominance has remained steady at 66 percent level with top altcoin remaining under 10% each. The fundamental reasons behind bitcoin's dominant position are its first first-mover advantage as the pioneering cryptocurrency. Consequently bitcoin also attracts the most liquidity within industry, leaving especially small-cap altcoins with liquidity risk.

CRYPTOASSET MCAPS
data source: coin.dance. 31.12.2019.



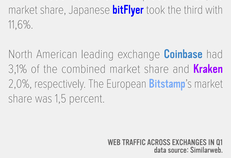
Ethereum (ETH) comes as second with 9,2% of combined MCAP, Ethereum has been suffering from ERC-20 token sell-offs, however the expanding stablecoin market will likely support Ethereums position as leading decentralized ecosystem platform.

EXCHANGES

BINANCE LEADS THE MARKET WITH ABOVE 50% OF OVERALL VOLUME

Binance retained its status as the number one global exchange with 51,6 percent of combined volume. Binance has been active throughout 2019-2020 and expanded aggressively into U.S. market with Binance US company.

EXCHANGES BY VOLUME
data source: Nomics.

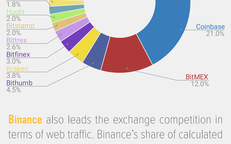


Binance has also established its post with launching exchange tokens, the most successful being Binance Coin (BNB), with an enormous 1,907 billion USD market cap.

BitMEX reached the second place with 22,9% market share, Japanese **bitFlyer** took the third with 11,6%.

North American leading exchange **Coinbase** had 3,1% of the combined market share and **Kraken** 2,0%, respectively. The European **Bitstamp**'s market share was 1,5 percent.

WEB TRAFFIC ACROSS EXCHANGES IN Q1
data source: Similarweb.



Binance also leads the exchange competition in terms of web traffic. Binance's share of calculated web traffic for exchanges is 21,3 percent. North American **Coinbase** reached the close second place with 21%. **BitMEX** accounts for 12% of global exchange internet traffic.

STABLECOIN MARKET

THE EXPANDING STABLECOIN MARKET

The year of 2019 saw divergent growth within stablecoin market. The number of stablecoins launched has grown from 7 in 2014 to 66 last year.

One of the most interesting stablecoin launches recently was Tether Gold (XAUT), which is built on a stablecoin backed by physical gold.

We're starting to see the emerge of private and public digital national currencies. Crypto Francs (XCHF) is a stablecoin backed by Swiss Franc, launched by Swiss Crypto Tokens company, closely associated with Bitcoin Suisse.

Facebook's Libra, which was rejected last year, is trying to conduct a comeback in 2020. Perhaps adding a larger share of USD into Libra's currency basket would make the currency more appealing to U.S. regulators.

TETHER LAUNCHES TETHER GOLD (XAUT)

Tether updated its product portfolio in January 2020 by adding a new gold-based stablecoin called Tether Gold (XAUT). By Tether team, XAUT represents ownership of one troy fine ounce of physical gold on a specific gold bar.

The new stablecoin will be issued on Ethereum and Tron as ERC-20 and TRC-20 tokens. XAUT was created response to the growing demand for a digital asset that provides exposure to the world's most enduring asset and a geopolitical need for an alternative financial system.

The gold backing each token will be stored in a Swiss vault, the release claimed, without naming the facility. Tether will charge no custody fees and "has direct control over the physical gold storage."

Tether Gold aligns to provide the combined benefits of both physical and digital assets, removing the drawbacks of holding gold in more traditional ways, such as high storage costs and restricted access.

Tether's other stablecoin (USDT) is pegged to the U.S. dollar, the euro and offshore yuan [9].

SWISS CRYPTO FRANCS (XCHF)

Crypto Francs (XCHF), launched in October 2018, is fully backed by physical bank notes and there includes no negative interest rate.

Swiss Crypto Tokens has issued more than 10 million XCHF on the Ethereum blockchain so far, using the Ethereum-based ERC-20 token.

Swiss Crypto Tokens has officially stated they don't see Swiss National currency as competitor, as the underlying private blockchain of XCHF and purposes of the two assets are fundamentally different [8].

STABLECOIN INFLOW / OUTFLOW

With turmoil in the global markets, there has been a mass exodus from volatile crypto-assets to stablecoins, with USDT and USDC being the most popular stablecoins.

Instead of withdrawing these stablecoins from exchanges, traders and investors are holding them on exchanges, waiting for some form of sign (positive or negative) to switch back into BTC or other volatile cryptoassets.

This indicates the potential for abrupt and intense volatility once this stablecoin capital is traded for BTC, ETH or other volatile assets.

PEER-TO-PEER MARKET

The Finnish bitcoin OTC giant, LocalBitcoins, has been suffering from decreasing volume through last quarter of 2019 and first quarter of 2020. Despite the decreasing volume, LocalBitcoins still holds the status as leading bitcoin peer-to-peer platform.

LocalBitcoin's weekly volume passed 60M USD suring mid-2020 summer bull market but has weakened since, dropping under 40M in last quarter of 2019, and into 20-30M levels in Q1 2020.

LOCALBITCOINS VOLUME 2019-2020
data source: Coin Dance. 31.3.2020.

LocalBitcoins has been revising its service to comply with new EU regulations, 5AMLD and the upcoming 6AMLD. While the regulatory compliance is mandatory for companies, the feedback from traders has been not so positive. Russia has been LocalBitcoin's most dominant market since the early days.

Bisq is an open-source, peer-to-peer application that allows you to buy and sell cryptocurrencies in exchange for national currencies.

BISQ VOLUME 2019-2020
data source: Coin Dance. 31.3.2020.

Bisq had a great year in 2019 since its highest volume week saw about $10 million worth of BTC traded and in total the trading volumes increased in 2019 compared to 2018 amounting to more than $112 million. While Bisq has low trading volumes than other P2P bitcoin exchanges, it is increasingly popular for individuals who prefer their privacy and financial sovereignty.

Meanwhile LocalBitcoin's volume decreased in first quarter of 2020, the competitor Paxful's volume in turn increased during early quarter, while dropping towards late Q1. Paxful has been able to increase its volume from 20 million USD weekly numbers to up to 30 million.

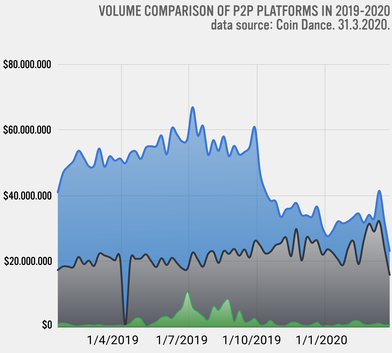
Paxful is especially focused on transactions with gift cards, including partners as Amazon, Apple, eBay, and Google.

PAXFUL VOLUME 2019-2020
data source: Coin Dance. 31.3.2020.

Paxful's volume stayed steady or increased across markets with significant presence in North America. Paxful has historically been well-positioned in North American markets.

P2P MARKET DOMINANCE

The P2P market layout looks especially interesting with augmenting competition between the OTC giant LocalBitcoins and rising challenger, Paxful.

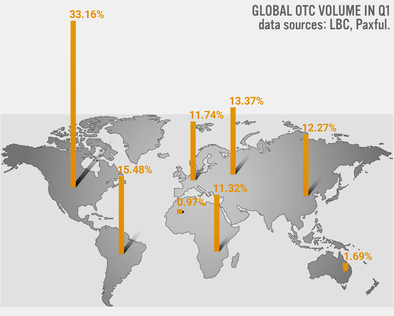


The two P2P platforms have had negatively correlated volume from second half of 2019 into early 2020. Paxful's volume has been increasing while LocalBitcoins is showing historical weakness in it's outlook.

The volumes of all 3 platforms tanked momentarily at the tail-end of first quarter 2020 due to COVID-19 inflicted turmoil.

NORTH AMERICA LEADS THE GLOBAL OTC VOLUME

When looking at global OTC volume (LBC and Paxful combined), North America leads the pack with 33,2% share. North America and particularly U.S. has been the main market for Paxful, consequently Paxful's rising volume and North American growth are positively correlated.



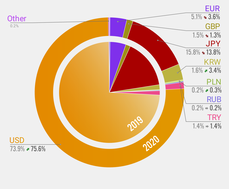
Latin America took the second place with 15,5% share. Latin America's bitcoin demand is fueled by the Venezuelan (VES) crisis and countries like Argentina with their weak fragile national currencies (ARS).

Eastern Europe accounted for 13,4% share, Russia has been a strong single market for LocalBitcoins.

CURRENCIES

As expected in general, USD retained its position as the sovereign global reserve currency. Consequently USD is heavily dominant in bitcoin transactions as well.

MOST TRADED GLOBAL NATIONAL CURRENCIES FOR BITCOIN 2019 vs. 2020
data source: Coinhills

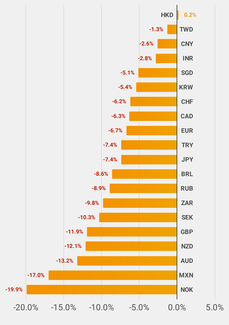


Dollar still shows its strength and is incrementally supported by weakening emerging markets and third world national currencies. It's easy to expect the fundamental support for dollar to continue well into long-term future.

U.S. DOLLAR ANTIFRAGILE AGAINST OTHER NATIONAL CURRENCIES

While USD was the most dominant national currency exchanged with bitcoin, it's performance has also been superior to practically every other national currency since early March 2020. Especially the emerging markets currencies and national currencies closely related to oil have been vulnerable.

PERFORMANCE OF LARGEST NATIONAL CURRENCIES VERSUS USD
SINCE 9.3.2020



What causes USD to be so dominant against EM currencies? Here's the general background:

-> EM currencies suffer from supply and demand shock and money outflows.

-> Emerging markets nations have expansionary monetary (fiscal) policies in general.

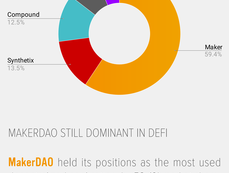
-> EM currencies will be exchanged into USD in an escalating manner, creating a negative feedback loop.

-> EM nations implement capital controls while trying to control currency weakness.

The negative trend of EM currencies is propitious to bitcoin as masses are using the cryptocurrency as an alternative investment, and instrument to avoid capital controls.

DEZENTRALIZED FINANCE (DEFI)

TOP DECENTRALIZED APPLICATIONS (DEFI) FOR ETHEREUM
data source: DeFi Pulse. March 2020.



MAKERDAO STILL DOMINANT IN DEFI

MakerDAO held its positions as the most used decentralized application, by 59,4% market share. **Synthetix** gained a 13,5% market share and **Compound** 12,5%. While the DeFi scene has seen dropping volume during recent market, decentralized finance offers huge potential as part of scaled future ecosystems.

EXCHANGE TOKENS

Binance has also established its post with launching exchange tokens, the most successful being Binance Coin (BNB), with an enormous 1,907 billion USD market cap.

MCAPS OF EXCHANGE TOKENS
data source: CoinGecko.

Exchange tokens launched by other institutions have been wildly successful too, OKB token by OKEx is currently worth 1,223 billion USD and Bitfinex's LEO token is worth slightly over one billion, respectively.

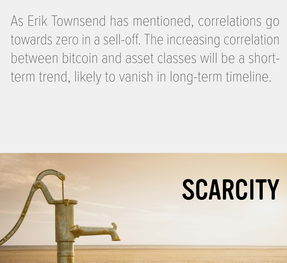
BITCOIN ASSET SUMMARY

CORRELATIONS

BITCOIN'S CORRELATION TO OTHER ASSET CLASSES DURING FIRST QUARTER

Let's explore bitcoin's correlation with major asset classes during the first quarter (Q1) of 2020s. While long-term correlation between bitcoin and other asset classes has remained low, the correlation has increased during the first quarter.

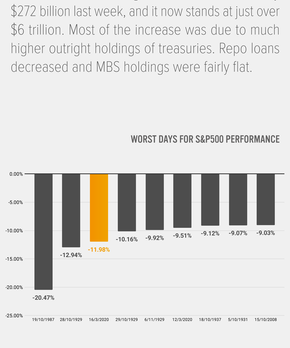
BITCOIN'S CORRELATION TO OTHER ASSET CLASSES IN Q1
data source: Coin Metrics.



The most pronounced example of growing correlation is between **bitcoin and gold**, rising to 0,42 during Q1. The significantly grown correlation indicates bitcoin's to gold-related safe-haven status.

Bitcoin also saw increasing correlation especially with **crude oil** (0,29) and **emerging markets currencies** (0,29). Correlation with **S&P 500**, **Nasdaq**, **U.S. bonds**, and real estate also increased moderately.

As Erik Townsend has mentioned, correlations go towards zero in a sell-off. The increasing correlation between bitcoin and asset classes will be a short-term trend, likely to vanish in long-term timeline.



FEDERAL RESERVE AGGRESSIVELY INCREASING ITS BALANCE SHEET

The U.S. Federal Reserve has been aggressively increasing its balance sheet amid the ongoing COVID-19 crisis.

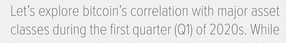
FEDERAL RESERVE'S (FED) BALANCE SHEET (USD TRILLIONS)
data source: FED.

The Federal Reserve grew its balance sheet by $272 billion last week, and it now stands at just over $6 trillion. Most of the increase was due to much higher outright holdings of treasuries. Repo loans decreased and MBS holdings were fairly flat.

WORST DAYS FOR S&P500 PERFORMANCE

The date 16.3.2020 will be marked in history, by data it is the 3rd worst day for S&P500 performance ever in modern history. Only the massive Wall Street Crash of October 1929 and Black Monday (19.10.1987) have seen worse drawdowns.

THE SUPPLY OF BITCOIN
data source: dcresearch.



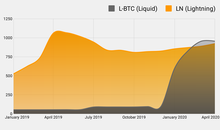
Bitcoin is a non-expiring hedge against the traditional financial system. Federal reserve and central banks are moving into unchartered waters with their experimental fiscal policies. Bitcoin offers limited downside to investors, while the technological and growth-based upside is unlimited.

LIQUID & LIGHTNING

LIQUID NETWORK NOW HOLDS MORE BITCOIN THAN LIGHTNING NETWORK

Blockstream's Liquid Network, built for bitcoin sidechain transactions, crossed Lightning Network by the amount of bitcoin held inside networks in March 2020.

BITCOIN HELD IN L-BTC AND LN
data sources: Blockstream, Lightning Network.



Liquid sidechain, a federated permissioned blockchain pegged to bitcoin that aims to help traders move funds between exchanges more quickly, may be more important for bitcoin in 2020.

WHY IS LIQUID SIDECHAIN IMPORTANT TO BITCOIN ECOSYSTEM?

Liquid, originally launched by Blockstream, is bitcoin's first sidechain and a stepping stone towards new decentralized financial ecosystem. While the actual Liquid network is governed by Blockstream, a U.S. company, the Liquid technology itself can be used open-source. Liquid was originally developed as Elements project and allows anyone to fork it, like the founders behind Liquiditi have done recently.

HASHRATE DISTRIBUTION

CHINA LEADS HASHRATE DISTRIBUTION, HOWEVER WESTERN POOLS ARE CATCHING UP

The Chinese mining pool **F2Pool** held 18,3% of global hashrate. F2Pool is one of the oldest pioneering mining pool, launched in 2013.

Poolin, launched by the founders of BTC.COM, accounted for 17,2% of the hashrate. **BTC.com** itself handling 11,7%.

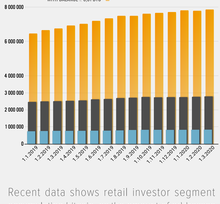
MINING HASHRATE DISTRIBUTION
data source: BTC.com.

Meanwhile China remains the dominant source for mining resources, western mining pools like **SlushPool** from Czech Republic, are gaining more traction.

ADDRESSES

RETAIL INVESTORS ACCUMULATING

ADDRESSES WITH BALANCE
data source: Glassnode.



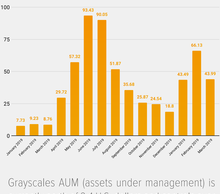
Recent data shows retail investor segment accumulating bitcoin, as the amount of addresses containing between 0,01 and 1 bitcoin or more, has grown from 2019 into early 2020s.

INVESTMENT TRUSTS

GRAYSCALE'S GBTC VOLUME STEADY DESPITE TURN OF THE YEAR DROP

Grayscale's Bitcoin Trust, the leading bitcoin investment product in the industry, saw steady average volume during first quarter of 2020. The daily average volume of GBTC is approximately on the same level as during summer 2019 uptrend.

GRAYSCALE'S GBTC DAILY AVG. VOLUME
data source: Grayscale.



Grayscales AUM (assets under management) is currently north of 2,4 U.S. dollars and controls over 1 percent of all bitcoins in circulation.

By data data released by Grayscale Investments LLC, institutional investors were their largest client segment with 71% of investment capital inflows. These institutional investors were mainy hedge funds.

ALTCOINS

TEZOS LAUNCHES TZBTC, A TOKENIZED BITCOIN FOR TEZOS ECOSYSTEM

In early April yet another way to use bitcoin was introduced: **tzBTC**, a token on the Tezos blockchain backed 1-1 by bitcoin. With bitcoin being the de facto reserve-currency of cryptocurrencies, tzBTC is one of the first examples of tokenization on Tezos ecosystem. tzBTC enables the use of the Tezos blockchain features combined with bitcoin.

tzBTC promises to bring the liquidity and stability of bitcoin to the Tezos network. It gives users more choice how they can use bitcoin and by that increase the utility and strengthen the position of bitcoin as the world's leading digital currency.

The multi-signature (multi-sig) key management system of tzBTC enables a strongly trust-reduced setup with no central issuer as a single point of failure, while being fully transparent. The Bitcoin Association Switzerland will act as an overseer for tzBTC and coordinates with the keyholders [10].

INVESTMENT STRATEGIES

DCA AND VA AS BITCOIN INVESTMENT STRATEGIES

Dollar cost averaging (DVA) is an investment strategy that aims to reduce the impact of volatility on larger purchases. The investment usually takes place every month perpetually, regardless of the specific market situation.

Value averaging (VA) is similar to DCA as investor makes monthly investments similarly. However in VA investor sets a target growth rate or amount for portfolio each month, and consequently adjusts the next months contribution according to the relative gain or loss.

In 10 out of 10 years, Value Average (VA) investing gave a higher return than Dollar Cost Averaging (DCA) on bitcoin. A simple change to the Dollar Cost Average strategy increased bitcoin's return by 20% over the last decade. In summary Value Averaging improves the risk-adjusted return and maximum drawdown of a bitcoin portfolio.

INDICES

SMALL-CAP TOKENS DIMINISHING IN VALUE

Bletchley indices are an essential tool for understanding bitcoin and digital asset markets. While exploring the index data, we'll notice a clear differentiation between Bletchley 10, 20, and 40 indices in 3 core sections.

In the summer 2019 bull market Bletchley 10 and 20 indices were largely correlated, with 20 index even out outperforming the 10. This indicates that many medium-sized digital assets were uplifted during bullish uptrend. However as a contrast, the 40 index, including 40 small-sized digital assets never really benefited from bitcoin's surge.

During the late 2019 retracement Bletchley 10 index took the softest hit while 20 index suffered significantly.

Over the early 2020 downtrend, Bletchley 10 and 20 dropped in close formation, notably the Bletchley 40 index dropped close to -50% year-on year (Jan-Jan), while 10 and 20 indexes are still higher YOY. It's quite likely that many small-cap (Bletchley 40) investors are close to capitulation in this environment.

BLETCHLEY METHODOLOGY

Bletchley 10 index → Market cap weighted index composed of 10 of most valuable digital assets by nominal MCAP.

Bletchley 20 index → Market cap weighted index composed of 20 medium-sized digital assets by nominal MCAP.

Bletchley 40 index → Market cap weighted index composed of 40 small-sized digital assets by MCAP.

The market capitalization of each asset in indexes is calculated off of the expected total supply in 2050, using OnChainFX data.

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