Eaglebrook Insights

Bitcoin Market Commentary

Planting the Safe-Haven Seed: Week ending 2/27/2022

EAGLEBROOK ADVISORS

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Key Takeaways

- A seed has been planted for bitcoin as a safe-haven asset in times of geopolitical stress: weekend donations, alternatives to bank runs, and hideouts from FX volatility have significant use-case
- Bitcoin has again rallied off the low $30,000s, closing at $41,655 at the end of February 2022
- Sparks seen on Thursday and Monday reflect the lessening of "overhangs" that will ultimately end in the rear-view mirror
- Amidst volatility, holding trends strengthen: 62% of circulating supply held greater than one year

The Focus

Last week, Russia launched a full-scale invasion in Ukraine, sending risk assets in a whirlwind of declines, reversals, and rallies.

It appears that a "sell the rumor, buy the news" event has occurred as bitcoin and risk assets bounced off lows seen overnight on Wednesday. Bitcoin hit a low of $34,337 just after the initial invasion, ultimately reversing higher to a close of $38,414 on the very same day (+12% from lows). Follow through occurred again on Monday with the asset closing at $41,655 or now 26% higher than the intraday lows of $32,970 prior to the January FOMC meeting.

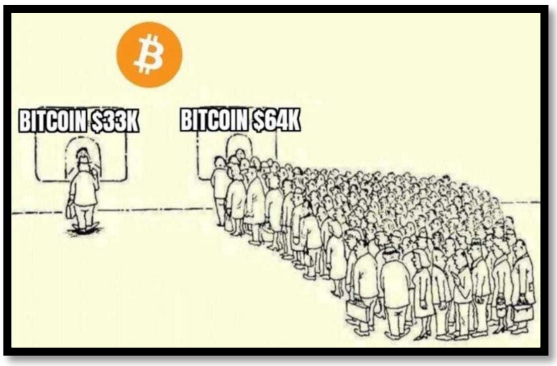
Considering that the Nasdaq Composite has experienced the third-worst drawdown in the last decade, bitcoin has weathered a significant storm. The Nasdaq's max drawdown of 18.8% compared to bitcoin's max of 47.8% reflects that yes, bitcoin is down, but not out. The pullback is in "good company."

Going back to 2021's open of $28,996, bitcoin has tested and bounced sharply off intraday lows of $28,824 on June 22, 2021, $32,970 on January 24, 2022, and now $34,337 on February 24, 2022.

Each of these bounces and higher lows should remind investors that bitcoin is "here to stay." Max drawdowns in the last three years range from 48% to 53% (see page two), and polarization between bulls and bears has been significantly reduced.

These sparks seen on Thursday and now Monday reflect the lessening of "overhangs" that have placed holds on the rallies of bitcoin, ether, and digital assets.

For investors that are on the fence and waiting for the "perfect entry," we recommend a consideration of the following meme, which to us still reflects the very nature of many bitcoin investors:



Now with geopolitical uncertainty joining monetary uncertainty in the rear-view mirror, a "not all that bad" rally may be presented as participants ultimately realize that these concerns were "more bark than bite."

Planting the Safe-Haven Seed

While recent volatility through this geopolitical turmoil illustrates bitcoin's emerging nature, these events likely plant a seed for better trading throughout the next geopolitical turmoil event.

Just this past week, investors have learned:

- Bitcoin made it possible to send $19m in donations to Ukraine on the weekend when banks were closed
- Russian citizens, many of which opposed the invasion, were impacted by government decisions that ultimately led to bank runs and empty ATMs
- The ability to sanction through fiat is crucial to national and global security but can lead to significant volatility in emerging FX

Bitcoin is non-sovereign, apolitical, and uncensored- so why in the future, wouldn't it be considered a safe-haven for geopolitical risk?

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With Bitcoin, Volatility is Your Friend

While bitcoin's 90D realized volatility has improved, it still averages 62% since the beginning of 2019.

This reflects the emerging nature of the asset class.

With an annual perspective, bitcoin has experienced an average 55% drawdown per year, but annual returns are positive in 9 out of those 11 years.

So while bitcoin draws down, it certainly recovers.

For those with long-term conviction, this provides many attractive opportunities to buy bitcoin "on-sale."

Year	Max Drawdown High Date	Max Drawdown Low Date	Max Drawdown	Annual Return	Annual Closing Price
2022	1/1/2022	1/23/2022	-25%	?	?
2021	4/15/2021	7/20/2021	-53%	60%	$46,334
2020	2/12/2020	3/16/2020	-53%	305%	$28,996
2019	6/26/2019	12/17/2019	-48%	95%	$7,158
2018	1/5/2018	12/14/2018	-81%	-74%	$3,674
2017	6/11/2017	7/16/2017	-36%	1375%	$14,043
2016	6/16/2016	8/15/2016	-25%	120%	$952
2015	1/2/2015	1/14/2015	-42%	36%	$432
2014	1/6/2014	12/3/2014	-69%	-58%	$317
2013	4/9/2013	7/5/2013	-70%	5428%	$747
2012	1/5/2012	2/16/2012	-39%	218%	$13.5
2011	6/8/2011	11/18/2011	-93%	1317%	$4.3
Average			-55%	802%	

Strong Holding Trends Amidst Volatility

Bitcoin continues to be purchased, removed from exchanges, and placed in custody to be held for long-periods of time.

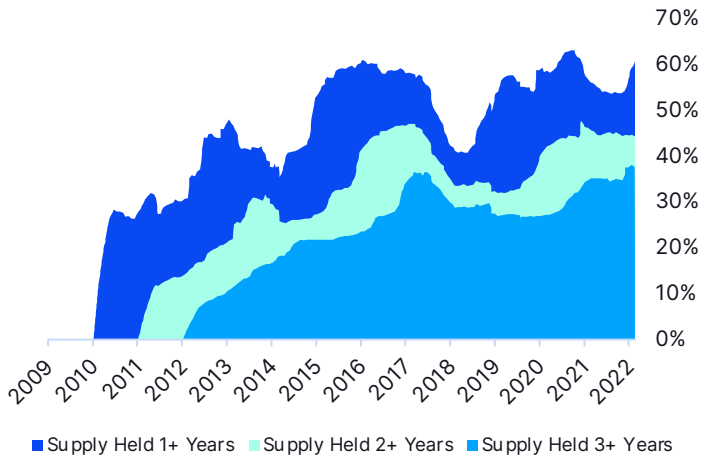
This reflects the continued success of bitcoin as a "store of value." Long holding periods validate the use-case and confidence around the ability to both hold and monetize value stored in bitcoin's network.

As of last week, 62% of circulating supply has been held for longer than one year, nearing the all-time-high of 63% placed in Q3 '20. 38% of supply has now been held for longer than three years.

Holding trends continue to improve.

BTC: HOLDING TRENDS

Source: Glassnode, Eaglebrook Advisors



As always, please reach out with any questions or comments.

Stay Tuned,
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Volatility Risk: Digital currency is a speculative and volatile investment asset. Investors should be prepared for volatile market swings and prolonged bear markets. Digital currency can have higher volatility than other traditional investments such as stocks and bonds and market movements can be difficult to predict.

Economic Risk: The economic risk associated with digital currency is in the lack of widespread or continuing digital currency adoption. The market and investors could decide that digital currency should not be valued at the current market capitalization due to a variety of factors.

Regulatory Risk: Digital currency could be banned or highly regulated by governments that would deter investors from buying or holding digital currency.

Technical Risk: Digital currency is a dynamic network with a codebase that is updated to add new security and functionality features. The updated code that is merged by the core developers could potentially have an error that threatens the security or functionality of the digital currency network.

Cybersecurity Risk: Digital currency exchanges and wallets have been hacked and digital currency has been stolen in the past. This is a potential risk that clients must be comfortable with when investing and holding digital currency. Theft is less likely when holding digital currency at a qualified custodian in offline systems (cold storage) with institutional security and controls.

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