

Bitcoin: The Real Safe Haven Asset

Q1 2023

"It is well enough that people of the nation do not understand our banking and monetary system, for if they did, I believe there would be a revolution before tomorrow morning." - Henry Ford

KEY TAKEAWAYS

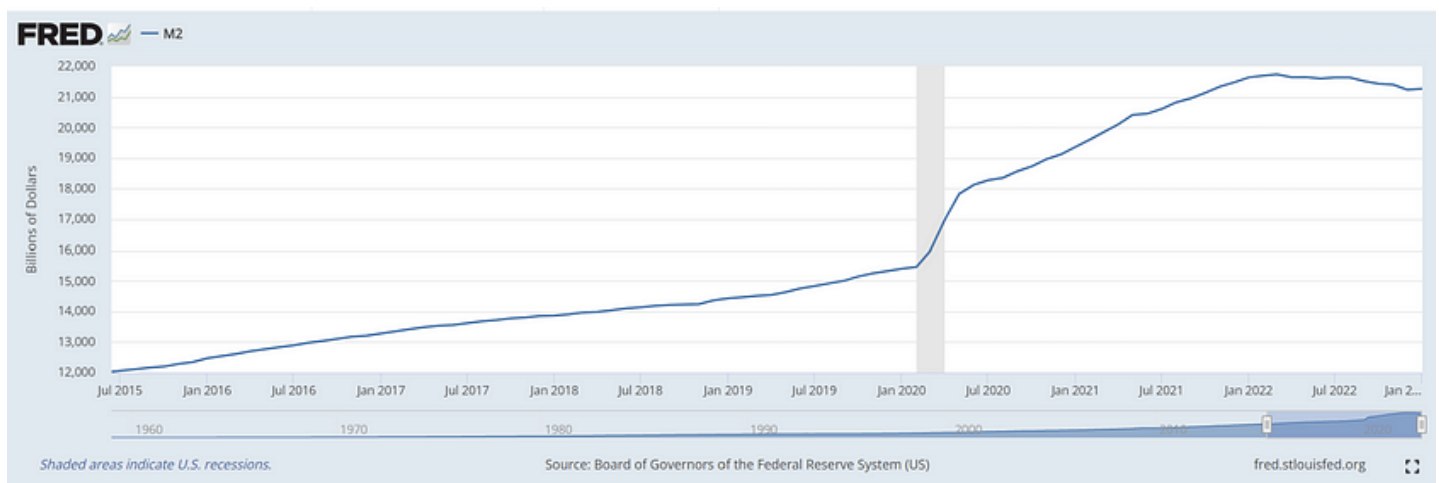
- + Within a complex financial system prone to crisis and arbitrary centralized control, bitcoin could become the global safe haven asset as it becomes more mature and widely understood.
- + The current banking crisis has provided a glimpse into bitcoin's potential during market turmoil; as a hard-coded, decentralized asset with limited counterparty risk, bitcoin represents a paradigm shift for protecting wealth untethered from the opaque financial system.
- + Bitcoin is up nearly 40% since the inception of the current banking crisis, while the 30D correlation now stands at 0.12 vs. the S&P 500, potentially marking a shift in the overall bitcoin narrative.

Bank runs, bailouts, and confusion about which depositors are protected are symptoms of the current financial system. Regional banks are backed implicitly or maybe not. What is a systemically important bank and what isn't is a black box. The system's rules are unknown to even the people running the system. The centralization of decision-making, coupled with the sheer complexity of the financial markets, creates a fog of confusion for all involved.

The comforting blanket of "those in charge know what they are doing" feels like a facade to protect against the dissonance of trusting an opaque system. When the curtain is pulled back on the financial system, what lies beneath is unwieldy, confusing, and [arbitrary](#).

Figure 1: M2 Money Supply Has Grown 40% In Three Years

Source: Board of Governors, Eaglebrook Advisors.



Bitcoin Provides an Outlet

In this system, unintended consequences of decisions made years ago are compounded by the well-intentioned actions of today. Over the last three years, the M2 money supply has increased 40%, spurring what was initially described as transitory inflation. With the realization that inflation was persistent, the Fed decided to raise rates at a record pace, which has helped perpetuate the current banking crisis.

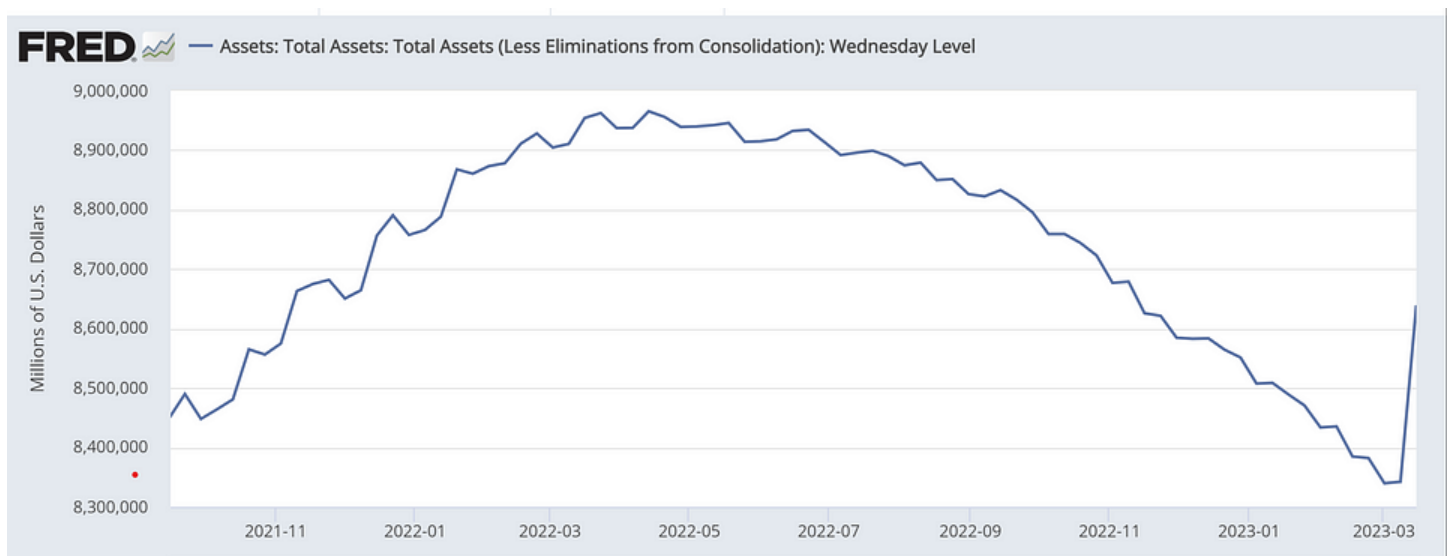
With centralized planning under duress, one thing becomes clear; no one knows what is happening, and counterparty risk is much greater than anticipated.

Bitcoin changes this to some degree or at least provides an outlet to opt out of the system. To hold an asset that is unencumbered, not beholden to the whims of those with power and "expertise," is akin to owning insurance against the boom-and-bust cycle, against failed policy, against unintended consequences, against vast complexity, against arbitrary rules, against the natural entropy of the system.

Bitcoin abolishes the specter of counterparty risk. It is a decentralized network without systematic risk or reliance on money printing.

Figure 2: Fed Reversed About Half of the Quantitative Tightening in One Week

Source: Board of Governors, Eaglebrook Advisors.



An investor can find comfort in understanding that bitcoin represents certainty in a financial world of uncertainty. Bitcoin doesn't alter based on decisions by a select few [oracles](#), nor does the present predicament du jour change the [rules](#). Instead, the monetary policy is set for all to see.

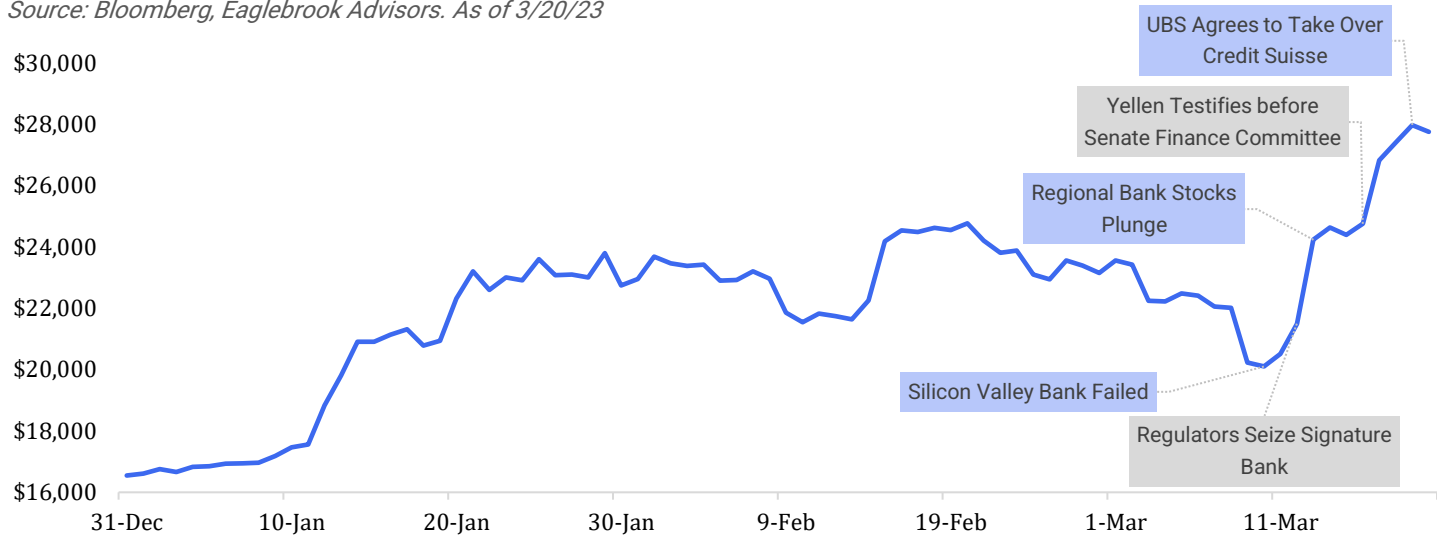
A Narrative Shift is Underway

Currently, bitcoin trades like a speculative risk asset with volatile price swings, making it unappealing to the average investor. However, this price action belies the true nature of bitcoin.

In a world of uncertainty, bitcoin’s hard-coded known monetary policy is a beacon of stability; its decentralized nature is a calming agent against the current financial system’s vicissitudes; and the lack of counterparty risk is a welcome comfort. Bitcoin is the real safe haven asset, and it’s time to take this position is fast approaching.

Figure 3: Bitcoin Acting as A Flight to Safety

Source: Bloomberg, Eaglebrook Advisors. As of 3/20/23



Safety in Code

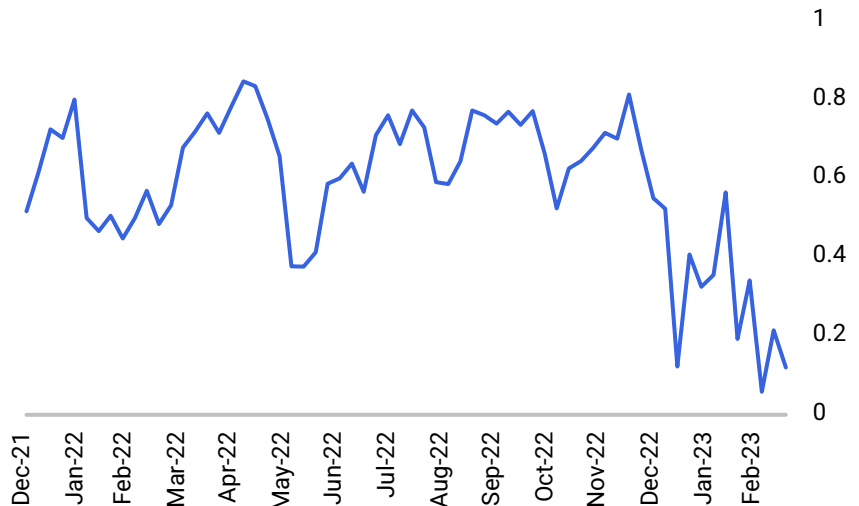
Bitcoin is up nearly 40% since the inception of the current banking crisis as bitcoin’s attributes of limited counterparty risk, and known monetary policy are appealing amidst uncertainty.

After experiencing high correlation with risk assets over the last few years, bitcoin is demonstrating a recent “decoupling.”

Bitcoin’s 30D correlation with the S&P 500 currently stands at 0.12, which compares to near 0.60 at the beginning of the year.

Figure 4: Bitcoin vs. S&P 500 30D Correlation

Source: Bloomberg, Eaglebrook Advisors



DISCLOSURES

¹Realized Price, Source: Glassnode. Realized Price is the Realized Cap divided by the current supply. Realized Capitalization, Source: Glassnode. Realized Cap values different part of the supplies at different prices (instead of using the current daily close). Specifically, it is computed by valuing each UTXO by the price when it was last moved. Market Cap / Realized Cap, Source: Glassnode. Market Value to Realized Value (MVRV) is the ratio between market cap and realized cap. It gives an indication of when the traded price is below a "fair value". Hash Rate, Source: Glassnode: The average estimated number of hashes per second produced by the miners in the network. Total Transfer Volume, Source: Glassnode. Data is change-adjusted, annual sum: The total amount of coins transferred on-chain, adjusted by change volume. Only successful transfers are counted. Avg Daily Transfer Volume, Source: Glassnode. Data is change-adjusted, daily average: The total amount of coins transferred on-chain, adjusted by change volume. Only successful transfers are counted. Avg Transaction Value, Source: Glassnode. The mean value of a transfer, adjusted by change volume. Only successful transfers are counted.

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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.

The indexes presented are unmanaged portfolios of specified securities and the performance shown is gross of fees which do not reflect any initial or ongoing expenses. Indexes cannot be invested in directly. Returns for digital assets may differ significantly from the returns of indexes which hold securities. Returns are for the time periods shown.

There are significant limitations in the comparison of cryptocurrencies, notably Bitcoin, to fiat currencies and therefore the comparison of Bitcoin to fiat currencies in the presentation above is for presentation and discussion purposes and does not imply that Bitcoin is comparable to fiat currencies. The information presented should not be relied upon as a recommendation to invest in Bitcoin or any cryptocurrency and should not serve as an indication of the future value of Bitcoin.

Fiat currency is issued and backed by a government and is largely stable and controlled. Through legitimate monetary policy, central banks determine the amount of money in circulation and when to increase or decrease the supply, which in part affects the value and price of fiat currency.

Cryptocurrency, on the other hand, is decentralized by nature and does not have a central authority governing it. The price of cryptocurrencies is determined by several external factors may including, but not limited to: supply and demand, investors' expectations with respect to the rate of inflation, interest rates, currency exchange rates or future regulatory measures (if any) that restrict the trading of a cryptocurrency or the use of a cryptocurrency as a form of payment. Values of cryptocurrencies have historically been highly volatile, experiencing periods of rapid price increase as well as decline.

There is no assurance that a crypto currency will maintain its long-term value in terms of purchasing power in the future, or that acceptance of Bitcoin payments by mainstream retail merchants and commercial businesses will continue to grow. Bitcoin and other cryptocurrencies are not endorsed or guaranteed by any government, are not FDIC or SIPC insured, are very volatile, and involve a high degree of risk. Consumer protection and securities laws do not regulate cryptocurrencies to the same degree as traditional brokerage and investment products.

BGN, Bloomberg Generic Price: A real-time composite based on quotes from multiple contributors that provides a market indication of where assets are priced. BGN uses both executable and indicative pricing, depending on the type of quotes available in the marketplace at the time of pricing. This methodology is used for bitcoin and ether.

The S&P 500 Index is an unmanaged value-weighted index of 500 common stocks that is generally considered representative of the U.S. stock market. The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency). The Bloomberg US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers. The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Bloomberg EM country definition, are excluded. The Bloomberg US Mortgage Backed Securities (MBS) Index tracks fixed-rate agency mortgage backed pass-through securities guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The ICE U.S. Dollar Index is a geometrically-averaged calculation of six currencies weighted against the U.S. dollar. The Gold Spot price is quoted as US Dollars per Troy Ounce. Bloomberg's spot crude oil price indications use benchmark WTI crude at Cushing, OK; and other U.S. crude oil grades trade on a price spread differential to WTI, Cushing. The Volatility Index (VIX) shows the market's expectations of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. The VIX is a widely used measure of market risk. ARK Innovation ETF is an actively managed exchange-traded fund incorporated in the USA. The Fund will invest in equity securities of companies relevant to the theme of disruptive innovation. Relevant themes are those that rely on or benefit from the development of new products or services in scientific research relating to Genomics Revolution, Web x.0, and Industrial Innovation. iShares MSCI USA Momentum Factor ETF is an exchange traded fund incorporated in the USA. The Fund seeks to track the performance of an index that measures the performance of U.S. large and mid capitalization stocks exhibiting relatively higher momentum characteristics, before fees and expenses. Invesco S&P 500 High Beta ETF is an exchange-traded fund incorporated in the USA. The Fund tracks the S&P500 High Beta Index which consists of the 100 stocks from the S&P500 with the highest sensitivity to market movements, or beta, over the past year. The index is designed for investors initiating a bullish strategy or making a directional bet. The Fund is rebalanced quarterly. iShares Russell 2000 Value ETF is an exchange-traded fund incorporated in the USA. The ETF tracks the performance of the Russell 2000 Value index and holds small cap US equities focused on low price to book ratios and lower forecasted growth. Its investments are primarily focused in the consumer discretionary, financial and industrial sectors. The ETF uses a representative sampling approach. The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978. Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. iShares Russell 2000 Growth ETF is an exchange-traded fund incorporated in the USA. The ETF tracks the performance of the Russell 2000 Growth Index and invests in over 1000 small cap US equities across all sectors. The ETF weights its holdings using a representative sampling indexing strategy, generally investing at least 90% of its assets in the underlying index. Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. The index was developed with a base value of 200 as of August 31, 1992. Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. The index was developed with a base value of 200 as of August 31, 1992. Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. The Bloomberg US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. Treasury bills are excluded by the maturity constraint US Breakeven Rates: The rates are United States breakeven inflation rates. They are calculated by subtracting the real yield of the inflation linked maturity curve from the yield of the closest nominal Treasury maturity. The result is the implied inflation rate for the term of the stated maturity. The MSCI Em (Emerging Markets) Index is a free-float weighted equity index that captures large and mid cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country. The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East. The MSCI US REIT Index is a price-only index, which MSCI began calculating on June 20, 2005. Previously, this index (then known as the Morgan Stanley REIT Index) was calculated and maintained by the AMEX. The AMEX began calculating the index with a base level of 200, as of December 30, 1994. Bloomberg Commodity Index (BCOM) is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production and weight-caps are applied at the commodity, sector and group level for diversification. Roll period typically occurs from 6th-10th business day based on the roll schedule. Standard and Poor's 500 Information Technology Index is a capitalization-weighted index. The index was developed with a base level of 10 for the 1941-43 base period.

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