



Is it too Late for Crypto?

A presentation for the BAMM investor

by Hans Overturf, August 3, 2021

Disclaimer

This presentation is for informational purposes only. No recommendations for any type of investments are made. Unless otherwise noted, the opinions in this presentation are my own. Crypto currencies are inherently volatile and subject to steep price declines.

When I talk about bitcoin, I often mean crypto currencies in general. It is context-specific.

About Me

- ★ Multiple interests, but all about investing: monetary systems, compounding, legal entities, decision making, financial planning, behavioral economics, game theory habit forming, trading rules, organization & logistics
- ★ Multi-faceted investment approaches, interested in many asset classes and trading approaches.
- ★ Ultimate interest is to have various categories of investments and trading strategies that are compounding returns relatively steadily while minimizing Black Swan risk.

Is it too Late for Crypto?

No.

Table of Contents

- Setting the stage
- Core of this presentation
- Part I, blockchain technology
- What is bitcoin?
- How do cryptocurrencies work?
- Terms and facts
- Practical applications
- Why I believe BTC and cryptos have potential
- PART II: How to invest into bitcoin and other cryptos
- Bitcoin as an investment, overview
- How to invest, long vs. short term, IRA, non-IRA,
- Deposit rates, spread trading, arbitrage, staking, margin, futures
- How to store, cold storage, hardware devices, on exchange
- Resources

Setting the stage

Bitcoin behaves like any other publicly traded instrument. The price action reflects support and resistance, volatility reflects investor emotions and volume represents conviction or the lack thereof. You don't need to study bitcoin or crypto currencies to invest in them if you apply a trading style that takes advantage of the price and volatility characteristics.

Why should you listen to the first part of this presentation, then?

At the same time, there are unique aspects to bitcoin (and cryptos):

- Large impact of whales and unknown holders, such as 1m BTC in Satoshi Nakamoto's name
- Limited supply, 19m of 21m have been mined. Done in 2140
- 24/7 market, non-regulated exchanges, can be manipulated.
- Insider trading may not be illegal (yet)
- Only about 20% of the available bitcoins are in the float. Rest is lost or has not been traded for years.
- Helpful to understand basic blockchain principles to appreciate potential

Core of this Presentation

- Cryptocurrencies have significant upside & downside. Presentation is not about blockchain, bitcoin, and other cryptocurrencies per se, but how to manage an investment that is unpredictable.
- This is not a presentation about the technical nuances of cryptos and blockchain.
- When potential bubbles are forming, you need trading strategies to stay in while preventing catastrophic loss.
- Part I is about blockchain principles, the basics of bitcoin and its future potential, Part II about how to invest into it.
- Questions: ask them any time by putting them into chat or raise your hand. Dennis is moderator.

Part I



Crypto currencies as currency, monetary systems and technology



What Is Bitcoin?

History

This presentation is primarily about **bitcoin**, the first and most robust cryptocurrency. Most of what applies to bitcoin, applies to most other cryptocurrencies.

It is called a **cryptocurrency** because of the **cryptographic technology** used to secure the network that makes up bitcoin or any other type of cryptocurrency.

Bitcoin has had obscure beginnings. Challenge was how to avoid the double spending problem of digital currencies. Satoshi Nakamoto published the source code in 2008.

There are many substitutes to bitcoin: gold, fiat currencies, and other crypto currencies. Few have the finite mechanism that bitcoin has. Bitcoin has proven itself as the most robust crypto.

Although bitcoins have been stolen before (Mt.Gox), the Bitcoin network has never been hacked. Clunky but robust. Can't be counterfeited. Governance structure is absent.

How Do Cryptos Work?

Functionality

- Simplified: It is a ledger, just like bank ledger. Shows all deposits and withdrawals for client accounts, except ledger is called blockchain, is housed on tens of thousands of computers instead of a bank's core banking system. The entire blockchain/ledger is updated each time somebody sends around bitcoin. [How Blockchain Works - in 2 Minutes](#)
- The people/machines that maintain the bitcoin network are called miners. Miners have two functions: creating new blocks of bitcoins (mining) and validating transactions. If 51% of the miners confirm the validity of the transaction, the bitcoins are transferred from one party to another via private and public keys.
- Bitcoins are held in a wallet.
- Bitcoin network vs. bitcoin, ether vs Ethereum network

Terms & Facts

- Blockchain: Each block is chained to two other blocks, except the genesis block
- Block: every 10 minutes 6.25 BTCs are mined: block reward. One block is 1 MB
- Halving: every few years, the block reward is halved, which creates scarcity.
- Maximum number of BTC: 21 million. Currently there are 19 million mined, of which up to 3 million may be permanently lost. Last block will be mined around 2140.
- One Satoshi is 1/100,000,000 of a bitcoin
- Stable coins act like fiat currency but not regulated

Terms & Facts continued

- Hot wallet vs cold wallet
- Transaction costs are relatively high, but much lower than Western Union. Usually less than 0.2%
- Market cap of BTC is \$750 billion. There are 20 trillion \$, of which 2 trillion are cash. BTC = 3.75% of dollar circulation

Practical Applications

- Can you buy stuff with it? YES! Is it practical? NO! Or shall we say, not yet.
- Taxes, utilities in Zug (Switzerland), ransom, illegal weapons, drugs. A slowly-growing number of coffee shops, retailers, taxi drivers, and city of Miami, PayPal etc., accept cryptos.
- Downside: transaction costs are high, data intensive as the entire chain has to be verified with each transaction.
- Technology is making transacting more efficient : Lightning network, other cryptos, such as litecoin. Can do away with Western Union.
- Venezuela, Zimbabwe, North Korea, Iran.
- Use it for emergency funds and as a substitute for gold (in times of revolutions and hyper inflation).

Potential

- Smart contract: part of blockchain technology. A protocol that simultaneously executes a two-party transaction: eliminates escrow & clearing. For example: vending machine, bitcoin transaction. Smart contracts can eliminate all middle men, including middle men in stock trading. Buzz word DeFi
- Real Estate, art, collectibles (NFTs), equities, debt, lending markets, IP rights, streaming rights, income streams, etc., will ALL become tokenized. Anyone can own anything with the ownership recorded in the trust of blockchain protocols and instantly transferable and divisible. You could literally own \$1's worth of Park Avenue real estate. (from Real Vision, Deep Dive 02-26-2021, page 74)
- Bitcoin is already used extensively as collateral. Bitcoin deposits command higher interest rate than \$.

Network Effects

Crypto currencies are huge networks. Networks of transaction, networks of miners, networks of information.
Utility tokens have different networks based on functionality.

Proof of Stake vs. Proof of Work

Proof of work = how bitcoin is mined and transactions are verified. Complex equations solved by specialized computers/graphic cards. The faster my specialized mining computer can solve equations, the more rewards I receive. Energy intensive. Rewards are paid to mine new bitcoins and to confirm transactions.

Proof of stake = how fiat money works: I own a pile of it and lend it out. I maintain a node or supernode, which maintains the network.

In times of political correctness, i.e. ESG, moving to proof of stake has become the fashionable thing to do.

Bitcoin will never move to POS. Bitcoin has no governance structure.

Part II, investing

- ★ The Power of compounding has two components: Time and the rate of return. AAAND: don't blow up.
- ★ Optimal mindset for the crypto market: understand the potential, but be aware of its trading characteristics and be open to other interpretations. Do the opposite of what the crowd does at the inflection points.

Climbing a Wall of Worry

Nouriel Roubini tweet: bitcoin is not a hedge against tail risk. Elon Musk may be buying it but that doesn't mean everyone else should follow suit. The fundamental value of Bitcoin is negative given its massive environmental cost.

Nouriel Roubini in recent interview: it's too volatile: see it came down 12% yesterday and Janet Yellen said it's bad.

After many years of raging against bitcoin, he is running out of arguments.

Kevin O'Leary in 2019: Bitcoin is a nothing burger. Kevin O'Leary today: 3% of his asset are in bitcoin and he is financing crypto miners.

🪙 Climbing a Wall of Worry

- Peter Schiff: Bitcoin isn't money. In theory it's a digital fiat currency but in practice it does not work. When bitcoin is occasionally exchanged for good or services, transactions are more like barter. It is a digital token. The price reflects what collectors or traders are willing to pay.
- Political & regulatory risks. China, India, SEC, central banks. Unknown future risks. The flaring up of these risks has always been a buying opportunity.

Here's Why I Won't Buy Bitcoin, and You Shouldn't, Either

Bitcoin's many bull theses can be easily debunked.



 Sean Williams (TMFUltraLong)

 Dec 20, 2020 at 6:36AM

 [Author Bio](#)

This has been a history-making week, and I'm not just talking about the rollout of coronavirus vaccines. On Wednesday, Dec. 16, we witnessed the largest cryptocurrency in the world by market cap, bitcoin, blow past its previous high and [eclipse \\$20,000 per token](#). In fact, bitcoin went on to also blow by \$21,000 and \$22,000 within a matter of hours.

For as volatile as the stock market has been in 2020, you wouldn't know it by looking at bitcoin, which is up by 201% on a year-to-date basis.

The Motley Fool Announces \$5 Million Investment in Bitcoin

The Motley Fool is announcing plans to allocate \$5 million of its own cash to Bitcoin. Here's why.



 Motley Fool Staff (The_motley_fool)

 Feb 17, 2021 at 2:20PM

In our [Discovery: 10X](#) campaign, we've created a new solution focused on finding investment opportunities with potential to increase 10x in value within the next five, 10, 15 years.

This campaign highlighted that we were recommending *a* cryptocurrency as part of this real-money 10X portfolio. Now we're telling you which cryptocurrency that is.

In our 10X real-money portfolio, we are

What Is Money?

- Backed by the “full faith and credit of the government”. Used to mean something when dollars could be exchanged for gold. Now currency tends to lose purchasing power over time (inflation) as the dollar printing is accelerating. 40% of the \$\$\$ in circulation today was printed during the past 12 months. , hard money tends to maintain or increase its purchasing power over time.
- The supply of bitcoin is known and limited, whereas the supply of dollars is unlimited.
- Monetary systems should be competing against each other. Venezuelan Bolivar and Zimbabwean dollar are losing, bitcoin is winning.

Bitcoin = libertarianism + purest form of market economy

- 80 pages of code and a few geeks got the ball rolling!
- No VCs, no board of directors or governing body, no regulation, no marketing agency, no code of conduct. Nobody controlling the monetary supply, no policing for counter fitting, not backed by anything but miners, smart contracts do not require any escrow or transfer agents, no banks and no Western Union network of branches. The miners have an economic interest to maintain network. Various factions to advocate for different types of miners.

Bitcoin as Digital Gold

- Parallels to gold: The deeper the gold in the ground, the more difficult and expensive it gets to mine additional gold. Same with bitcoin. Halvening mechanism ensures that mining initially becomes less lucrative (like gold deeper in the ground), leading to less supply and higher prices, which then leads to a higher level of prices. Additionally, just with gold mining techniques, bitcoin mining technics have also improved (graphic cards to ASIC miners)
- The bitcoin network is robust. It has **never** been hacked.
- Bitcoin's function as a medium of exchange is not very efficient, just like gold isn't. However it is a great store of value, just like gold.
- Contrary to gold, you can send bitcoin from and to Mars.

Long Story Short

Potential to become reserve currencies

Hard money characteristics

Tesla, Microstrategies, the cities of Miami and Zug are accepting bitcoin as a currency. My bet is that one day a central bank will buy a handful of bitcoins...

Ethereum

- Basically a more versatile brother of bitcoin.
- Started in 2015
- Run as a foundation
- Ethereum = the network, ether = token that runs on the Ethereum network
- ERC-20 is the technical term for the primary token used on the Ethereum network. Most new cryptos are issued as an ERC-20 token.
- Proof of work vs. proof of stake. Staking = lending money.
- Sharding, massive scaling possible, complex but also much smaller data chains

PART II, Investing & Trading Bitcoin

Investing Topics

- Characteristics of crypto prices
- Ways to invest into the blockchain space
- Infrastructure, publicly traded companies
- Investing vs. trading, pooled vs holding cryptos directly.
- Pooled investment vehicles
- Buying direct: exchanges (one-time vs trading), fees, how to store, margin trading, staking
- Exchanges
- Alt coins
- Spread trading, arbitrage, staking, futures
- Tax implications
- How to invest in an IRA
- Resources

My only **Red Light** Trading Rule

Never sell a position at a loss.

My Bitcoin trading strategy is the anti CAN SLIM trading strategy.

Bitcoin is the anti US Treasury bond.

Bitcoin is an asymmetric bet.

Characteristics of Crypto Prices

- Very high IV (implied volatility), high correlation with other speculative assets
- 24/7 market
- VERY volatile. Crypto Winter
- Whales
- Little regulation, insider trading
- Not a single market place. Arbitrage is inefficient, price distortion.
- Leads investors to stupid decisions driven by FOMO
- Lends itself well to certain investment strategies

Charts

<https://coinmarketcap.com/currencies/bitcoin/>

<https://www.tradingview.com/chart/?symbol=BITSTAMP%3AETHUSD>

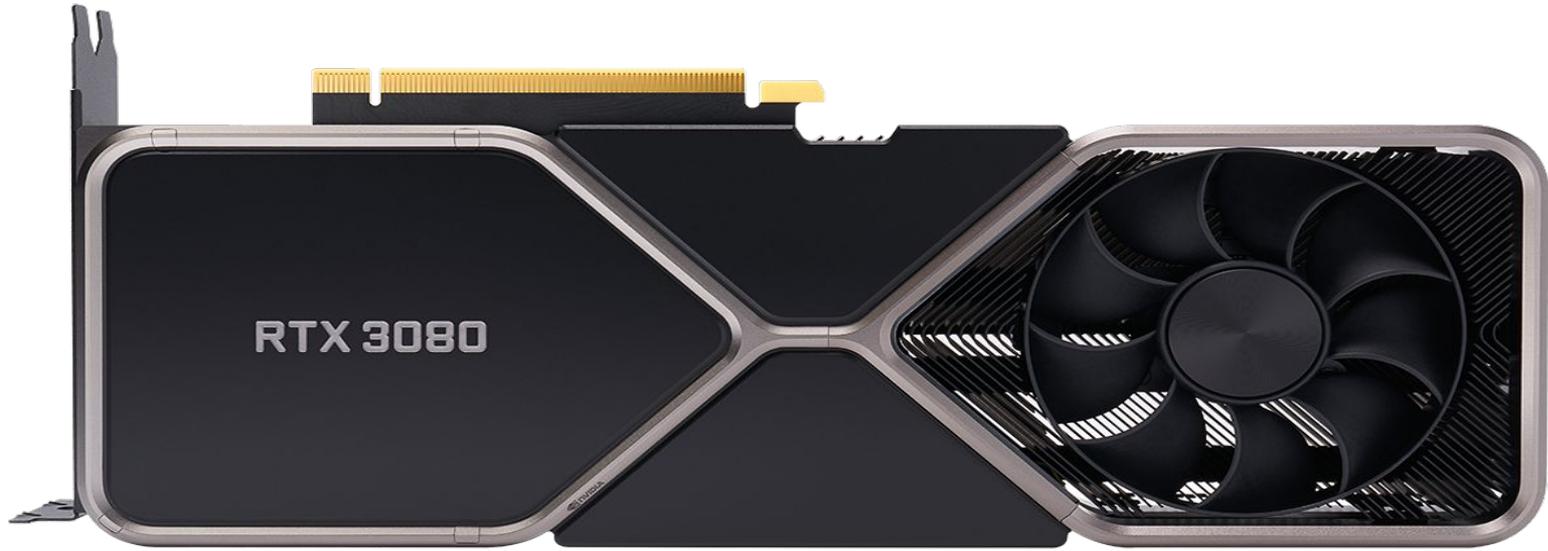
Ways to Invest in Blockchain Space

- Mining, particularly attractive if you have access to cheap electricity
- Infrastructure, via publicly traded companies, IPOs, ICOs
- Pooled investments: ETNs, ETFs, hedge fund, futures : high expenses
- Directly buy bitcoin, ether and other cryptos

Infrastructure, Publicly Traded Companies

Crypto friendly: Tesla, Microstrategies

Nvidia NVDA



Silvergate Bank, SI





More Publicly Traded Companies

Miners: Marathon Digital Holdings MARA, Riot RIOT, Bit Digital BTBT, Hut 8 Mining Company HUT

Overstock.com OSTK, Coinbase COIN

Consider covered call positions or option put credit spreads due to high IV.

Pooled Crypto Investment Vehicles

- Grayscale Bitcoin Trust, GBTC or Ethereum Trust ETHE. Only buy when at a discount.
- ETFs: Purpose Bitcoin BTTC.IO. Available via Fidelity. Small difference betw. price and NAV.
- Hedge funds. Beware of their strategy.
- Advantages & Disadvantages

Gray Scale Bitcoin Trust, GBTC

Grayscale Bitcoin Trust (BTC) (GBTC)

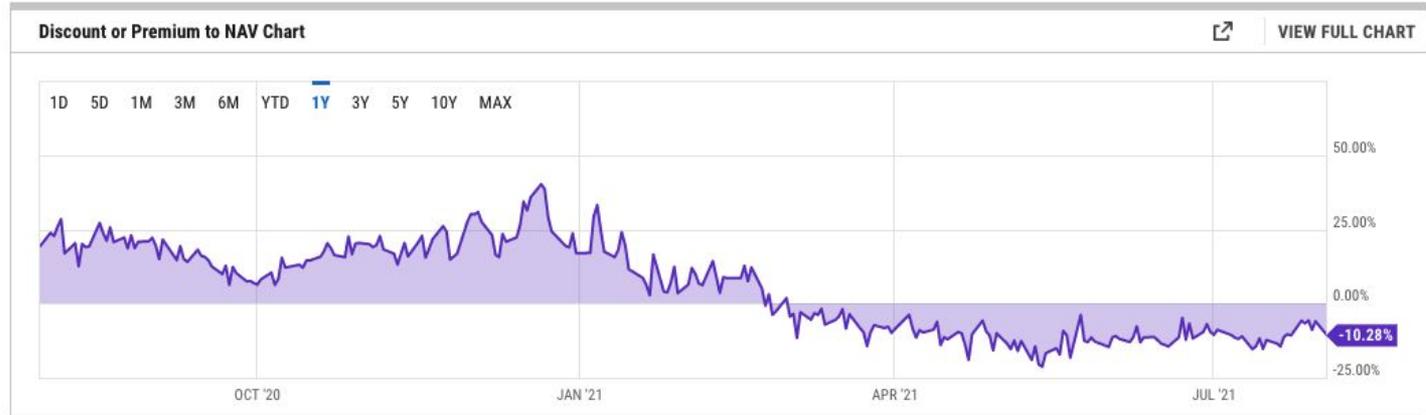
32.51 ↓ -1.04 (-3.10%) USD | Aug 03, 11:26

Quote Performance Allocations Holdings Fundamental Chart Tech Chart **Data**

GBTC Discount or Premium to NAV: -10.28% for Aug. 2, 2021

VIEW 4,000+ FINANCIAL DATA TYPES:

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Gray Scale Ethereum Trust

ETHE Discount or Premium to NAV: -9.51% for Aug. 2, 2021

VIEW 4,000+ FINANCIAL DATA TYPES:

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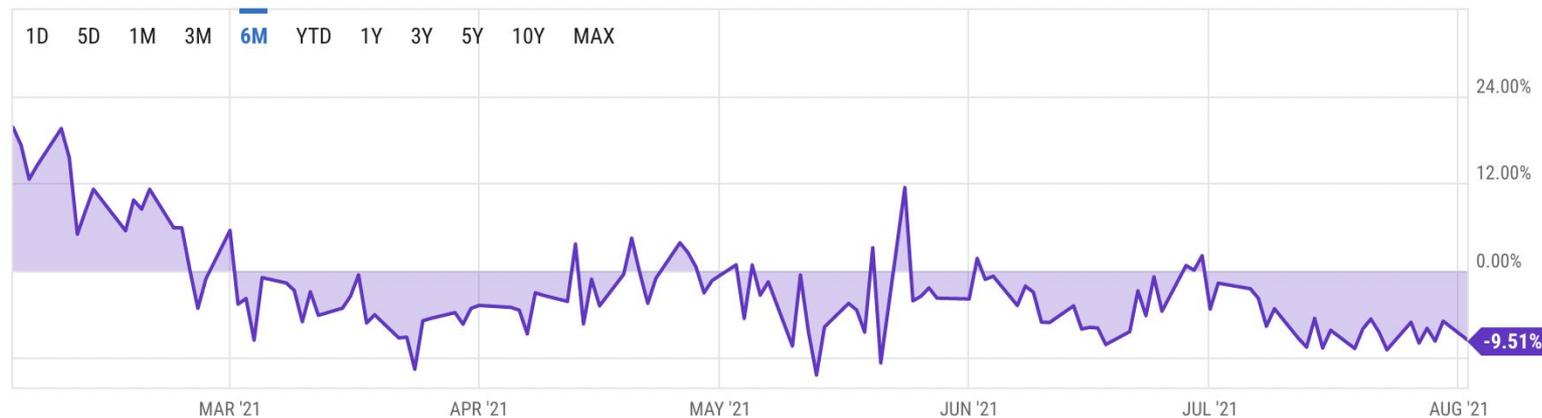
 BROWSE

Discount or Premium to NAV Chart



VIEW FULL CHART

1D 5D 1M 3M **6M** YTD 1Y 3Y 5Y 10Y MAX



Buy Direct, My Preferred Method

- Advantage: 24/7 market, 5 times more trading opportunities: 168 hours/week instead of 32.5 for stock market.
- Low fees for hodlers, no premium to pay, very low bid/ask spreads.
- Disadvantage: Relatively high fees if your wallet trading volume is below 100k per month (around 0.5%).
- Tax filing can be a hassle.

Invest Directly into Cryptos

- Most prudent BTC investment approach: dynamic \$-cost averaging.
- You need to open a wallet and keep your private keys safe or put your coins into cold storage.
- How to open a wallet: You open a wallet directly with an exchange. Exchanges are not regulated, but arbitrageurs do away with large price differences. Price finding mechanism is inefficient. Many exchanges are untrustworthy and opaque regarding how they charge.
- Ok to make your first purchase via a conventional channel, such as Cash App by Square, Robinhood, PayPal, but transaction costs are very high.

Crypto Exchanges

Can buy via PayPal, but fees are very high. OK for hodlers

- Kraken most suitable for most investors. Does not have mobile trading app.
- Coinbase is good alternative, has higher fees for occasional traders. Coinbase does not offer margin.
- Bittrex from Seattle has lots of volume and only does coin to coin.
- Binance: lowest fees, highest volume, low margin rates. Low trustworthiness.
- Beware of margin. Margin rates are extremely high. Usually more than 20% p.a.
- Cryptovantage.com and <https://www.bestbitcoinexchange.net/> show which exchange may be best suited for you.

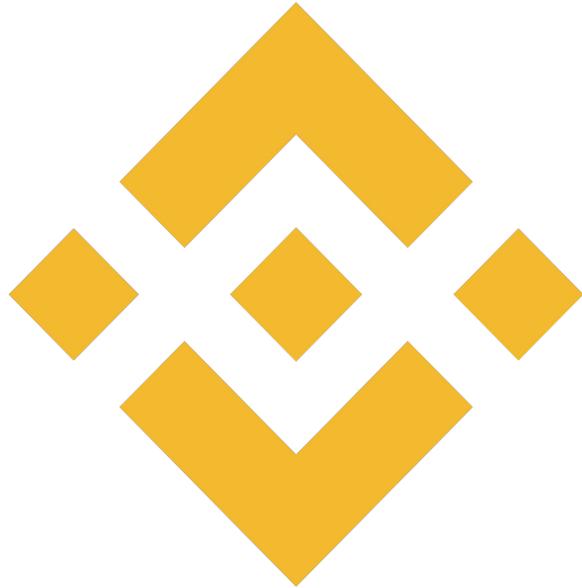
STORING Your Cryptos

Coinbase, Kraken is relatively safe

Can store off exchange, off internet: cold storage. Use hardware wallet



Altcoins



Binance Coin, BNB



ETH



Litecoin, LTC

Investing vs. trading

Investing: buy and hold, aka hodl. Time horizon: 3-10 years

Trading. Consider price characteristics. Time horizon 1-5 years.

Prudent Passive Bitcoin Investment Strategy

- Dollar cost average strategy: same amount each month into ETH and BTC for at least 3 years.
- Smart dollar cost average strategy: invest \$500 each, each month into ETH and BTC , on the first of the month. If the price is down from the previous month, invest \$1000. Minimum time horizon 2 years.
- Dynamic investing strategy. Immediately Invest 50% of your target allocation into ETH and BTC. Invest the remaining 40% via dollar cost averaging over next 12 months. After 13 months, start taking out 10% of profits each month. Each time BTC or ETH drops 10%, reinvest 25% of profits, if it drops 20%, reinvest 25%, 30% drop 25%, 40% drop remaining 25%.
- Can stake cryptos, deposit it into an account, just like a bank savings account. More info at BlockFi

Active trading

- ★ Wide price swings lend themselves for active strategies, such as swing trading, day trading.
- ★ Arbitrage: sell futures short, go long underlying, make 1-2% per month, with no price risk.
- ★ Go long funds that trade at a discount, such as GBTC, go short BTC.
- ★ Go long on margin: **beware: very risky. Limit margin to 20% value of wallet** (initial max.), max. 40% (maintenance margin). Can make huge difference due to compounding, carries significant risk due to high margin rates. Consider using margin after big selloffs.

Digital Crypto Bank

Idea is to have crypto and fiat and other assets on one platform and be able to borrow against crypto (margin) and lend out crypto to short sellers. Have a single account for margin purposes with crypto, stocks, futures all in one platform.

Acquire existing bank

Future fund. Active trading, arbitrage, spread trading, volatility-based trading.

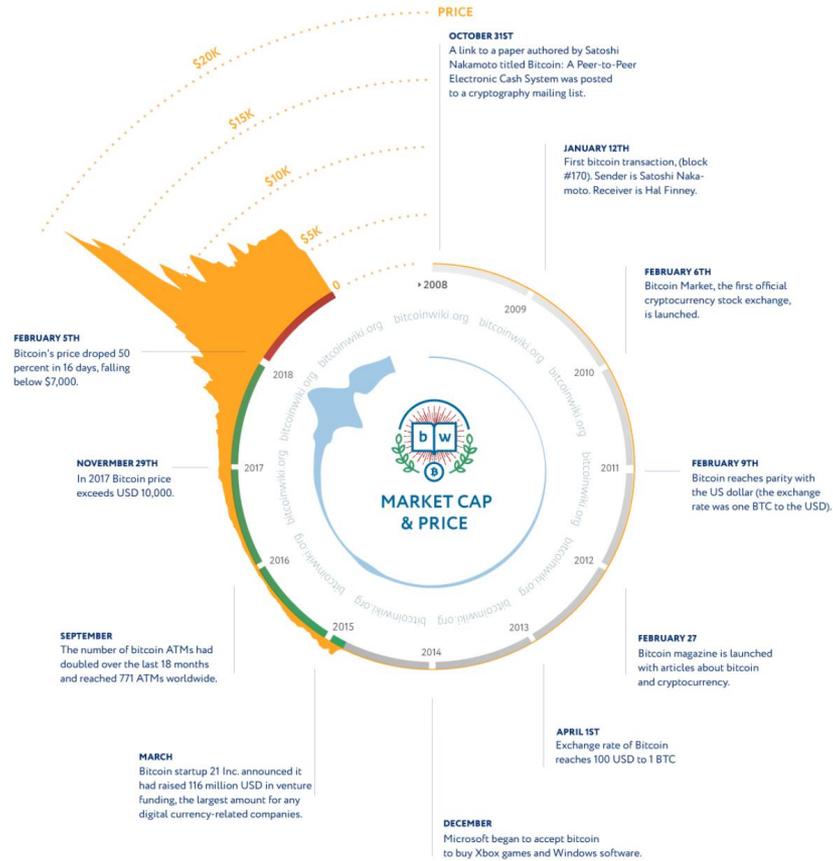
Resources

- Coindesk.com, Ethereum by Diedrich Henning, The Bitcoin Standard by Saifedean Ammous
- https://en.bitcoinwiki.org/wiki/Main_Page
- <https://www.bestbitcoinexchange.net/>
- Real Vision
- Blockworks.co
- Coindesk
- My newsletter, has weekly paragraph about crypto currencies. Send email to Ida@sisucapital.io

“Free” trading a la Robin Hood”

Manspreading





 Bitcoin historical price

 Bitcoin historical market cap

 Price rise/fall