



Cerity Partners Presentation  
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# BEYOND BITCOIN: Digital Assets in Wealth Management

**Presented by:**

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# Digital Assets in Wealth Management

## Agenda

1. Defining an asset class
2. Defining the case for digital assets
3. Defining where you want to play in the digital ecosystem
4. Defining the risks

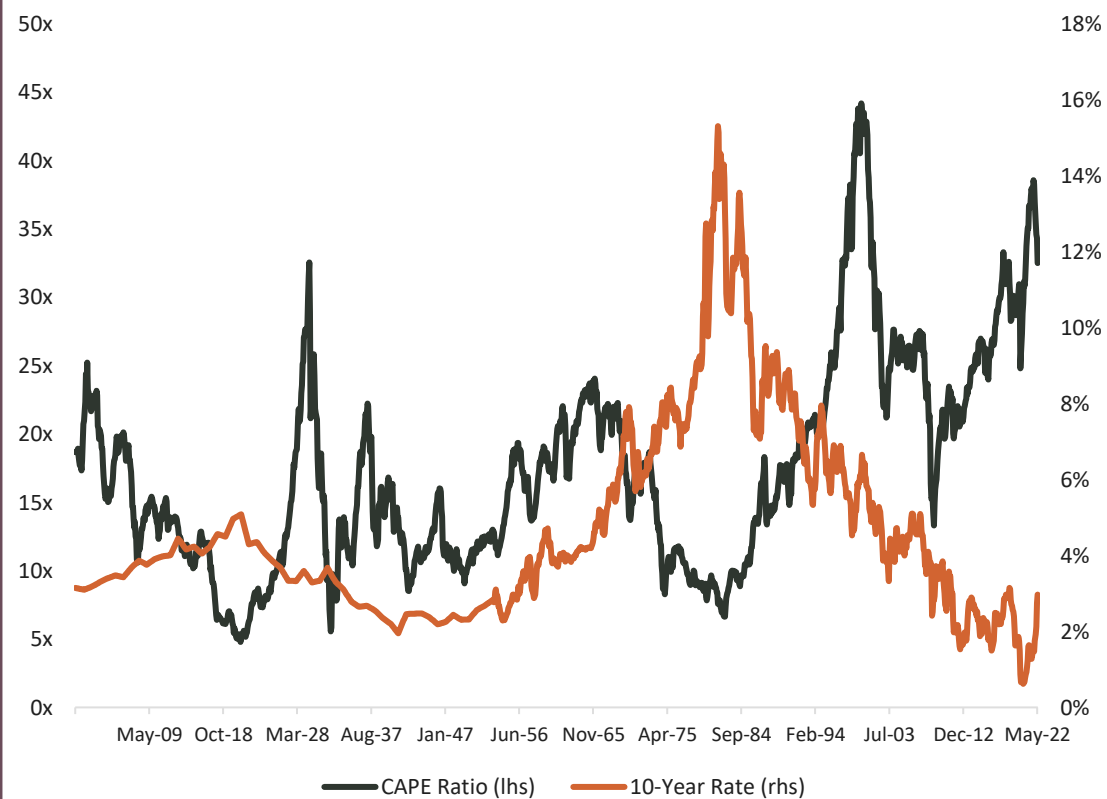
# Thinking About Crypto As An Asset Class

*Pinning down the definition of an asset class can be difficult.*

## Defining an Asset Class

- Is it unique (return/ risk)?
- Is there an economic rationale?
- Is it investable?
- Is it additive?

## The Search Beyond Stocks & Bonds



Source: Robert Shiller Website

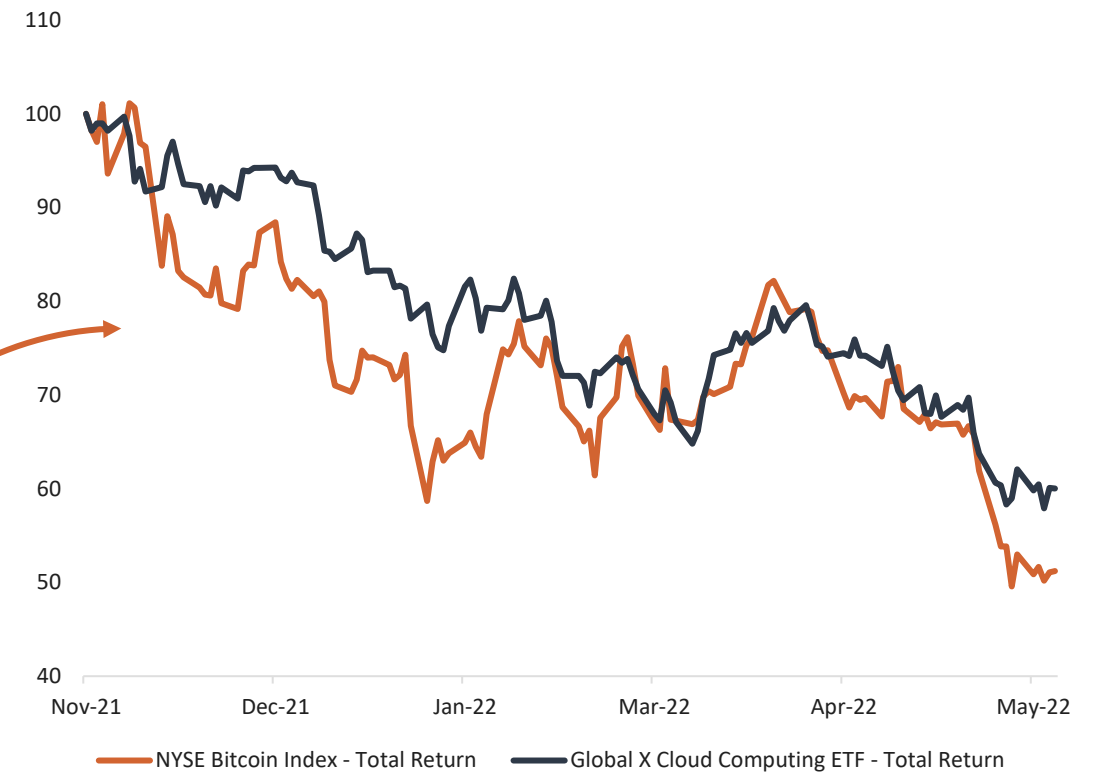
# The Case for Bitcoin & Digital Assets

*Not a single case for digital assets.*

## Reason to Own Digital Assets

- Gold replacement (non sovereign money)
- New financial (decentralized) infrastructure
- Diversifying asset(s)
- Technology play (Web 3.0)

## Bitcoin as a Software



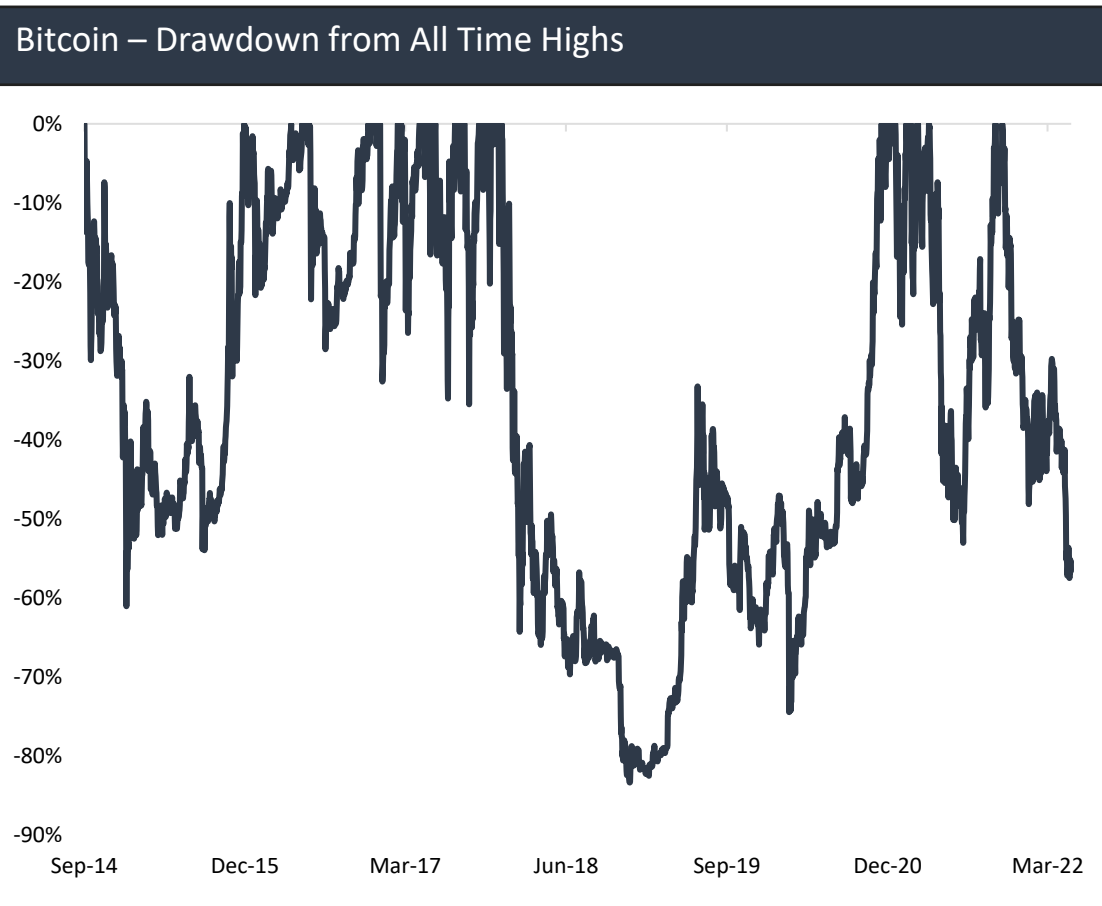
# Losing Trillions

*Cryptocurrencies have traded like regular good old risk assets.*



# Can You Handle the Volatility?

*The structure of cryptocurrencies makes price movements more pronounced.*



## Severe Drawdowns in Bitcoin

Year	Max Drawdown High Date	Max Drawdown Low Date	Max DD	DD Length (High to Low)	Max DD Recovery Date	Total DD Length (High to Recovery)	Annual Return	Annual Closing Price
2022	3/28/2022	5/11/2022	-41%	44	?	?	?	?
2021	4/15/2021	7/20/2021	-53%	96	10/19/2021	187	60%	\$46,334
2020	2/12/2020	3/16/2020	-53%	33	7/27/2020	166	305%	\$28,996
2019	6/26/2019	12/17/2019	-48%	174	10/21/2020	483	95%	\$7,158
2018	1/5/2018	12/14/2018	-81%	343	11/17/2020	1047	-74%	\$3,674
2017	6/11/2017	7/16/2017	-36%	35	8/6/2017	56	1375%	\$14,043
2016	6/16/2016	8/15/2016	-25%	60	12/2/2016	169	120%	\$952
2015	1/2/2015	1/14/2015	-42%	12	10/30/2015	301	36%	\$432
2014	1/6/2014	12/3/2014	-69%	331	12/28/2016	1087	-58%	\$317
2013	4/9/2013	7/5/2013	-70%	87	11/4/2013	209	5428%	\$747
2012	1/5/2012	2/16/2012	-39%	42	7/9/2012	186	218%	\$13.5
2011	6/8/2011	11/18/2011	-93%	163	2/20/2013	623	1317%	\$4.3
Average (2011 - 2021)			-55%	125		410	802%	

Source: Bloomberg, Eaglebrook Advisors.

# What Are Investors Saying?

*Hard to disentangle fundamental interest from the price interest.*

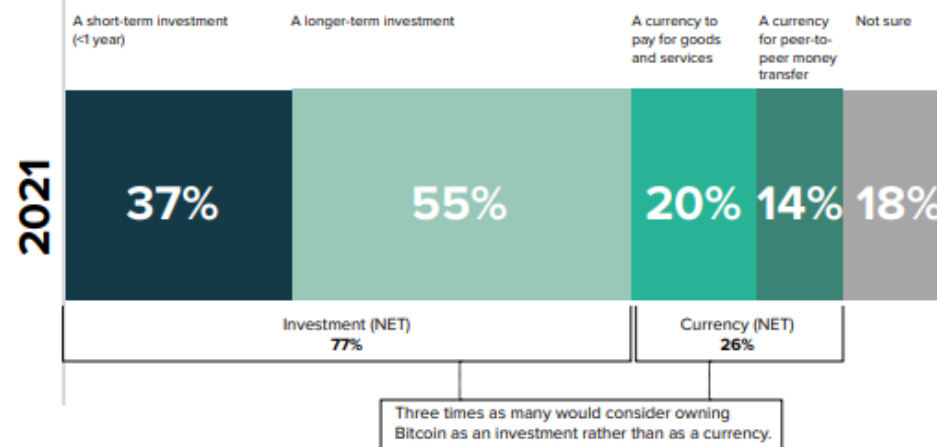
## Bitcoin – Drawdown from All Time Highs

### Consideration of Bitcoin Investment Product<sup>1</sup>

Response	2019	2020	2021
Definitely / Probably would	36%	55%	59%
Might or might not	30%	26%	26%
Definitely / probably would not	34%	19%	15%

## Severe Drawdowns in Bitcoin

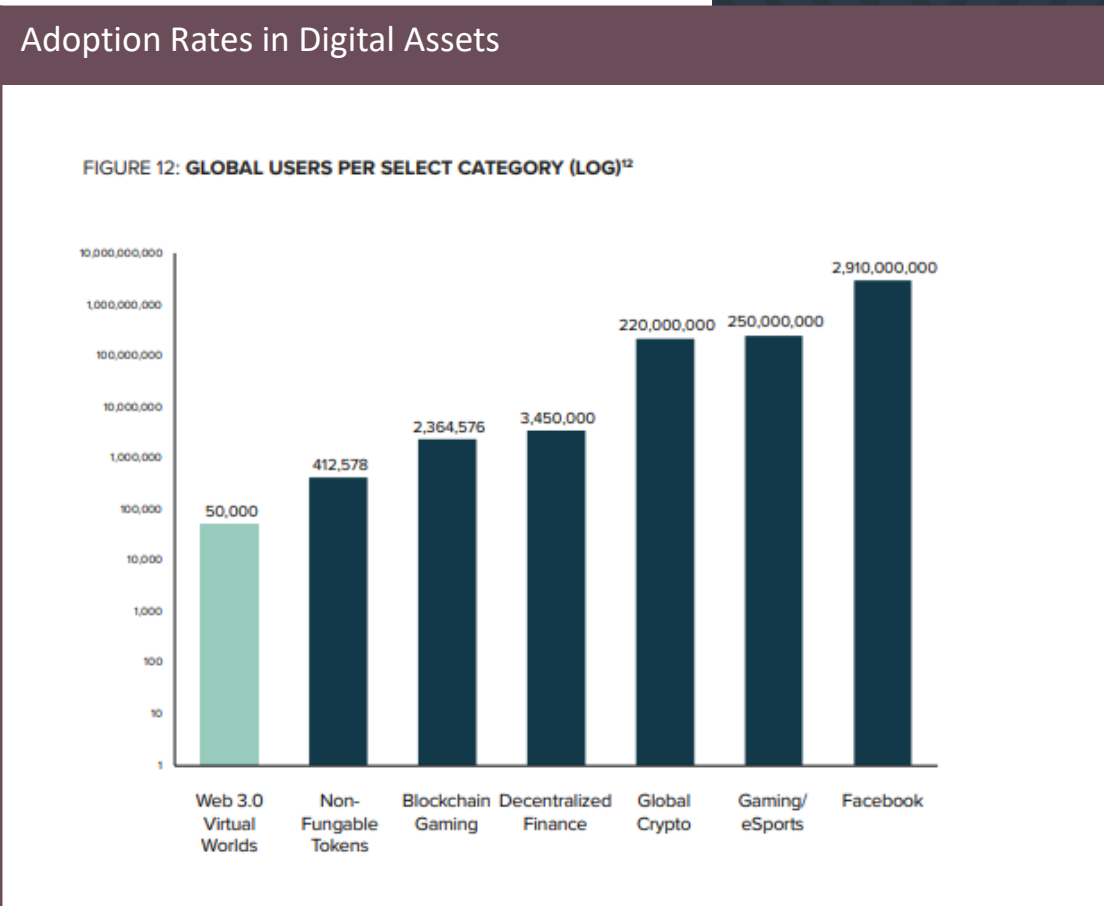
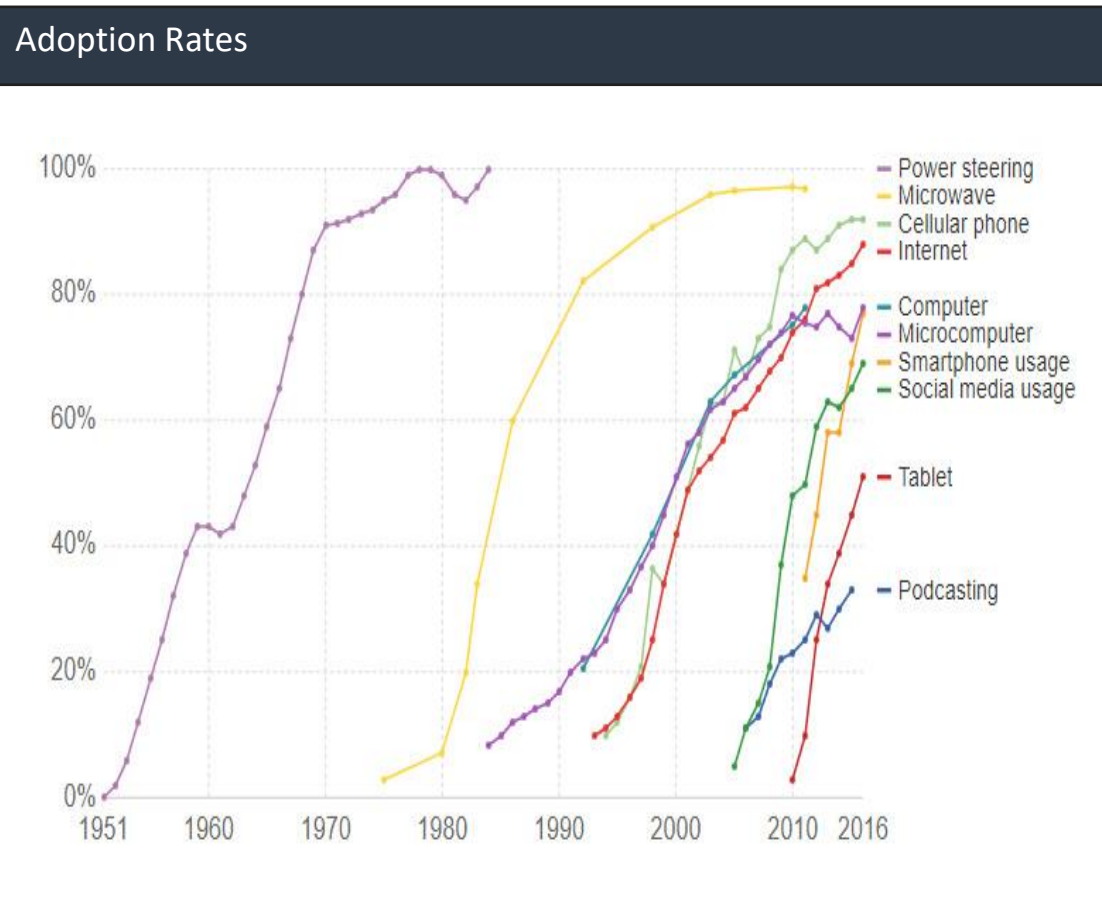
### Perceptions of Bitcoin as an Investment or Currency<sup>1</sup>





# Where Are We in the Digital Asset Cycle?

*The bull case rests on a technology angle.*





# There Are Asset Classes and Assets

*Not too different from stock selection.*

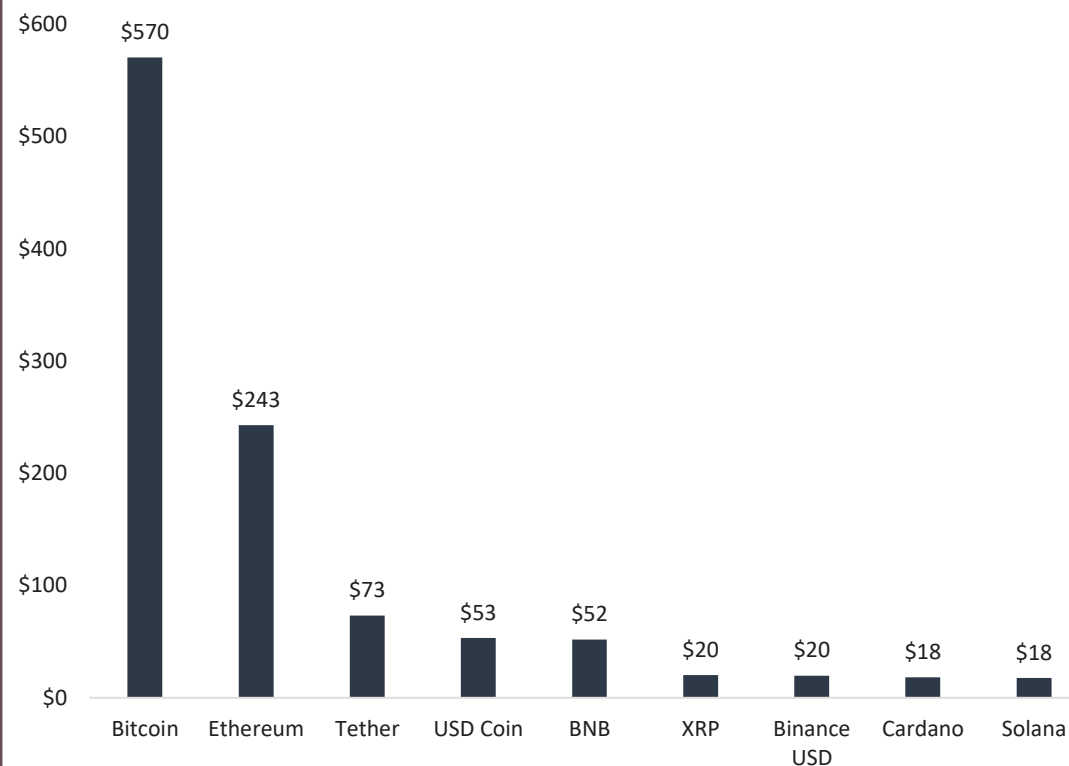
## Early = Wrong

Innovation and Their Predecessors

Innovation	Predecessor
Software as a Service	Application Service Providers (Corio, JamCracker)
The World Wide Web	The Information Superhighway (Time Warner "Full Service Network")
Amazon Web Services	IBM Utility Computing, Sun Grid, LoudCloud
Apple iPhone	General Magic
Google Search	Altavista, Lycos, Infoseek, Ask Jeeves
Tesla Model S	General Motors EV1
Spotify	MusicNet, PressPlay, Rhapsody
Instacart, Fresh Direct, Amazon Grocery	Webvan
Netflix (as a streaming service)	Pseudo.com, Digital Entertainment Network, Pop.com
Venmo	PayPal (before they pivoted to merchant acquiring)

Source: Bernstein analysis

## Top 10 Digital Assets by Market Capitalization

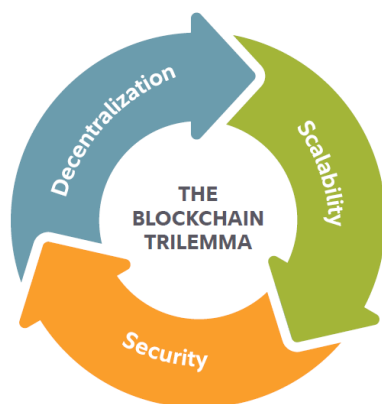


Source: Bernstein, CoinMarketCap

# A Broad Universe

*Investor's face choices in the digital asset world.*

## Blockchains, Plural



### GOAL

- Maximize Decentralization
- Maximize Security

### TRADE-OFF

- Accept Slow Speed
- Accept Limited Functionality



### GOAL

- Maximize Decentralization
- Maximize Functionality

### TRADE-OFF

- Accept Limited Functionality
- Accept More Security Risk

## Companies in the Digital Ecosystem

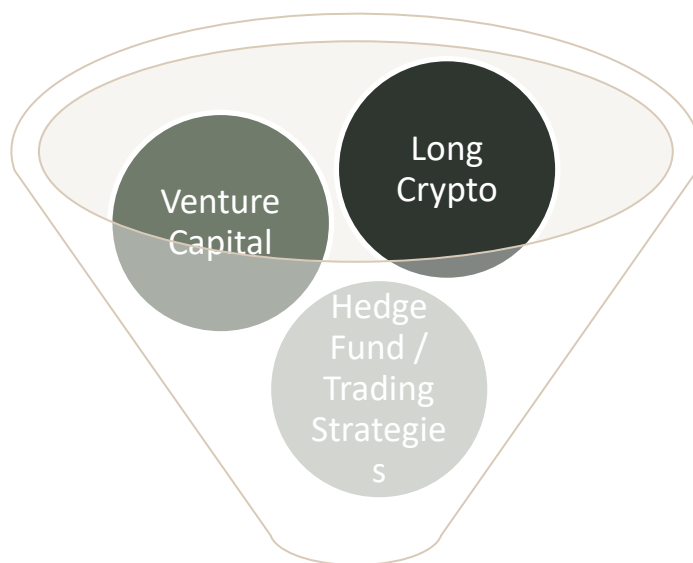
Cryptocurrency/Blockchain and related infrastructure examples of companies			
Exchanges / brokers	<b>BINANCE</b>	<b>coinbase</b>	Robinhood
Blockchains / platforms	<b>ethereum</b>	<b>SOLANA</b>	<b>polygon</b>
Decentralised exchanges	<b>UNISWAP</b>	<b>PancakeSwap</b>	<b>Curve</b>
Crypto lenders (centralised)	<b>BlockFi</b>	<b>Celsius</b>	<b>nexo</b>
Crypto lenders (decentralised)	<b>Aave</b>	<b>MAKER</b>	<b>Compound</b>
Crypto custody	<b>BitGo</b>	<b>NYDIG</b>	<b>coinbase</b>
Asset management / funds	<b>GRAYSCALE</b>	<b>GALAXY DIGITAL</b>	
Payment ecosystem, wallet, etc.	<b>CIRCLE</b>	<b>PAXOS</b>	<b>METAMASK</b>
NFT marketplaces	<b>OpenSea</b>	<b>AXIE</b>	<b>TOP SHOT</b>
Crypto miners	<b>MARATHON DIGITAL</b>	<b>HIVE</b>	<b>RIOT</b>
Traditional banks	<b>Silvergate</b>	<b>SIGNATURE BANK*</b>	<b>SEBA</b>
Analysis	<b>Chainalysis</b>	<b>ELLIPTIC</b>	
Retailer payments	<b>flexa</b>	<b>bakkt</b>	<b>PayPal</b>

Source: Company websites, Morgan Stanley Research. Note that we have just listed two or three companies in each category but there are hundreds that have growth in the new industry. Some companies may also overlap, offering a variety of crypto services beyond just the category given in this table.

# Digital Assets and Wealth Management

*Ways to play and risk considerations.*

## How to Play Crypto



## Risk Considerations

- Investment risk
- Client / sizing risk
- Crowding Risk
- Regulatory risk
- Operational / Custody risk

# New Asset or Risk Asset?

*The market and economy has come full circle.*

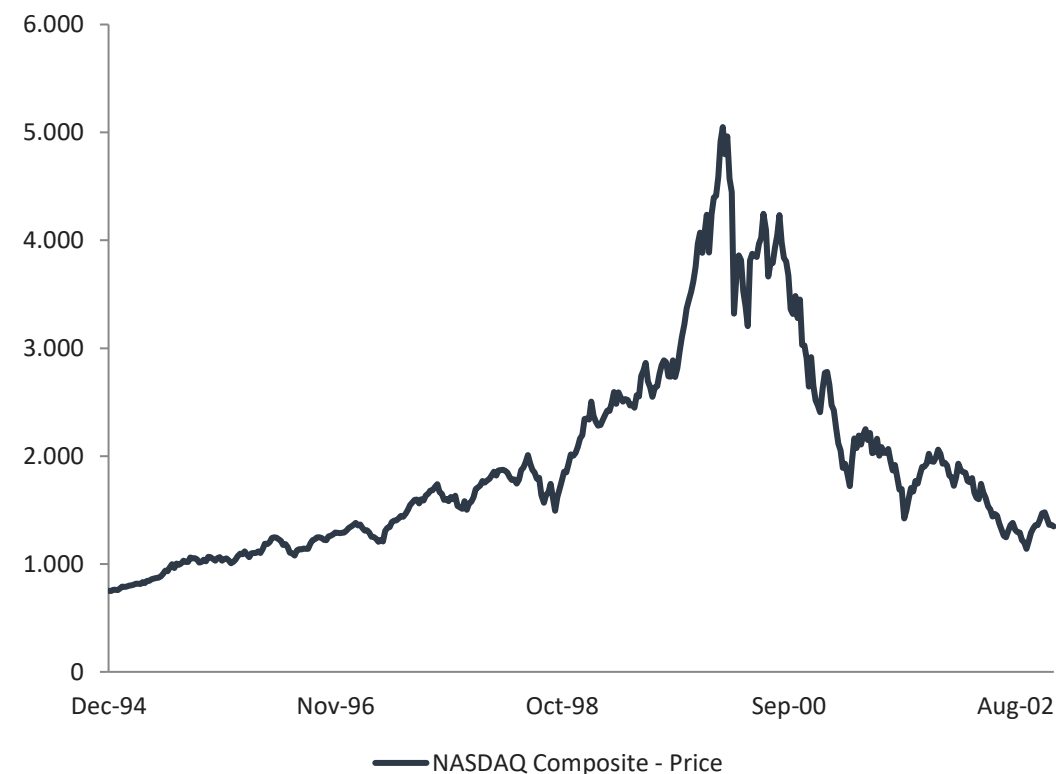
## Fundamentals and Expectations

“Most investors fail to distinguish between fundamentals and expectations. When fundamentals are good they want to buy and when they are poor they want to sell. But great investors always distinguish between the two.

...Horse racing is a good example. The amount bet on a horse gets reflected in the horse's odds, or probability, of winning the race. The goal is not to figure out which horse will win but rather which horse has odds that are mispriced relative to how it will likely run the race. Fundamentals are how fast the horse will run, and expectations are the odds. You need to consider those elements separately.”

- Michael J. Mauboussin, Thirty Years – Reflections on the Ten Attributes of Great Investors

## Are We Living Through the Tech Bubble 2.0?



## Takeaways

1. Institutions and wealth managers don't have the same risk tolerances.
2. Bitcoin and the rest of the crypto market are different use cases.
3. Blockchain is now a dedicated sub-set of broader technology exposure.
4. Be cautious when the market shifts from expectations to a fundamental focus for long duration assets.

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