

Q: Are people losing confidence in Bitcoin?

Brian Lockhart: There are likely people who are not ‘true believers’ that have lost confidence in cryptocurrencies when you get 25% pullbacks like Bitcoin and Ethereum are experiencing, but not the majority of crypto holders. In fact, it is my opinion that when Bitcoin corrects it reinforces most crypto investors’ thesis on why they own the alternative currency. Consider the financial news cycle of late -- look at how much influence the Fed exerts over the markets by what they say and what they don’t say. At a time when inflation is the highest in decades, you still have many politicians who are calling for trillions of additional government spending funded by debt. The Senate was within 1 or 2 votes of approving a multi-trillion spending package in an attempt to transform the economy into what critics derided as a socialist nirvana. It is easy to see why people would develop a belief that the dollar and other major currencies will eventually fail and a currency that is not controlled by Central Banks will keep rising in value. It is positive that the development of blockchain technology, smart contracts (and perhaps NFTs) are able to decouple from the cryptocurrencies and become mainstream. The governments of the world will do their best to discredit Bitcoin and others, but it is more likely those efforts only embolden the true believers in crypto and add to their numbers.

Clint Pekrul, CFA: I think another way to answer this question is to consider whether bitcoin, or any cryptocurrency for that matter, is truly an asset class. To me an asset class must meet some baseline criteria. It must represent some economic value. For example, stocks are considered an asset class because successful companies generate profits, which in turn accrue to shareholders. Long-term equity owners are generally rewarded with attractive real rates of return (i.e., equity owners tend to beat inflation in the long run). Likewise, a bond, whether issued by a sovereign like the U.S. or a corporation, pays interest to the owner. Higher rates of interest are paid in return for assuming credit risk. A bondholder can achieve a positive real rate of return over extended time horizons.

To me, bitcoin resembles a commodity. It has no inherent value in that it pays no dividend or interest and does not make a profit. It generates no earnings. Its price is simply determined by supply and demand. As such I view bitcoin as any other commodity. To simply buy and hold bitcoin doesn’t seem like a viable long-term investment strategy. If you’re going to invest in cryptocurrency, I think it’s wise to actively trade it either through a pooled investment like a CTA or through a momentum-based strategy using long and short positions. In the long run I think that’s the only way to achieve an attractive rate of return.