



INSIGHT
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Digital Assets Research

March 26th, 2020



Senior Digital Strategist David Grider, CFA

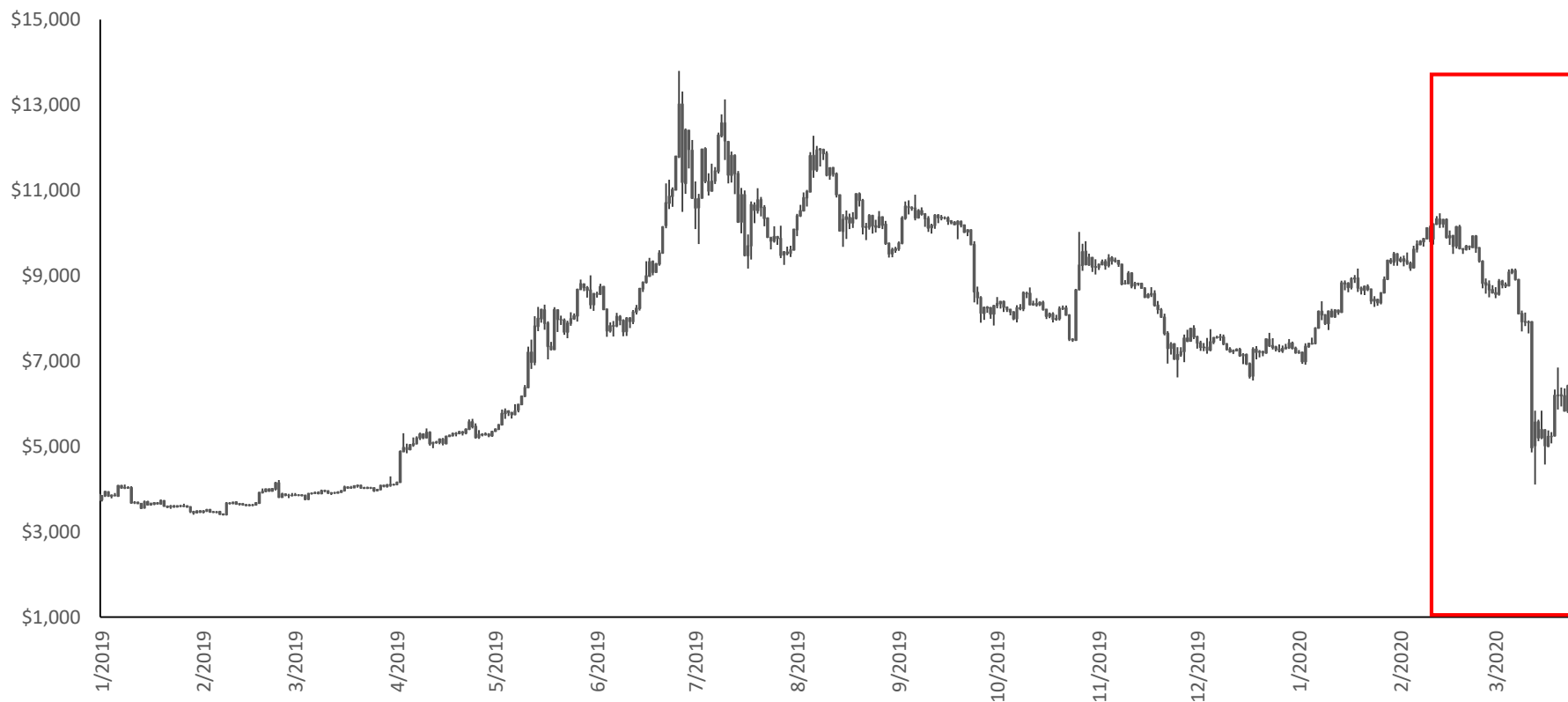
- Crypto industry experience starting in 2015
- Founding Partner at Aenigma, a digital asset focused VC crossover fund and investment banking advisory firm
- PwC consulting & valuation advisory covering debt to equity across cap stack, structured products, distressed & esoteric assets
- Started on Wall Street in 2012 as VP of Equity Capital Markets at small/mid cap focused boutique investment bank, Noble Financial

- **Current Market Environment**
- **Macro Fundamental Perspective**
- **Investment Outlook & Risks**

Current Market Environment

BITCOIN: what's going on?

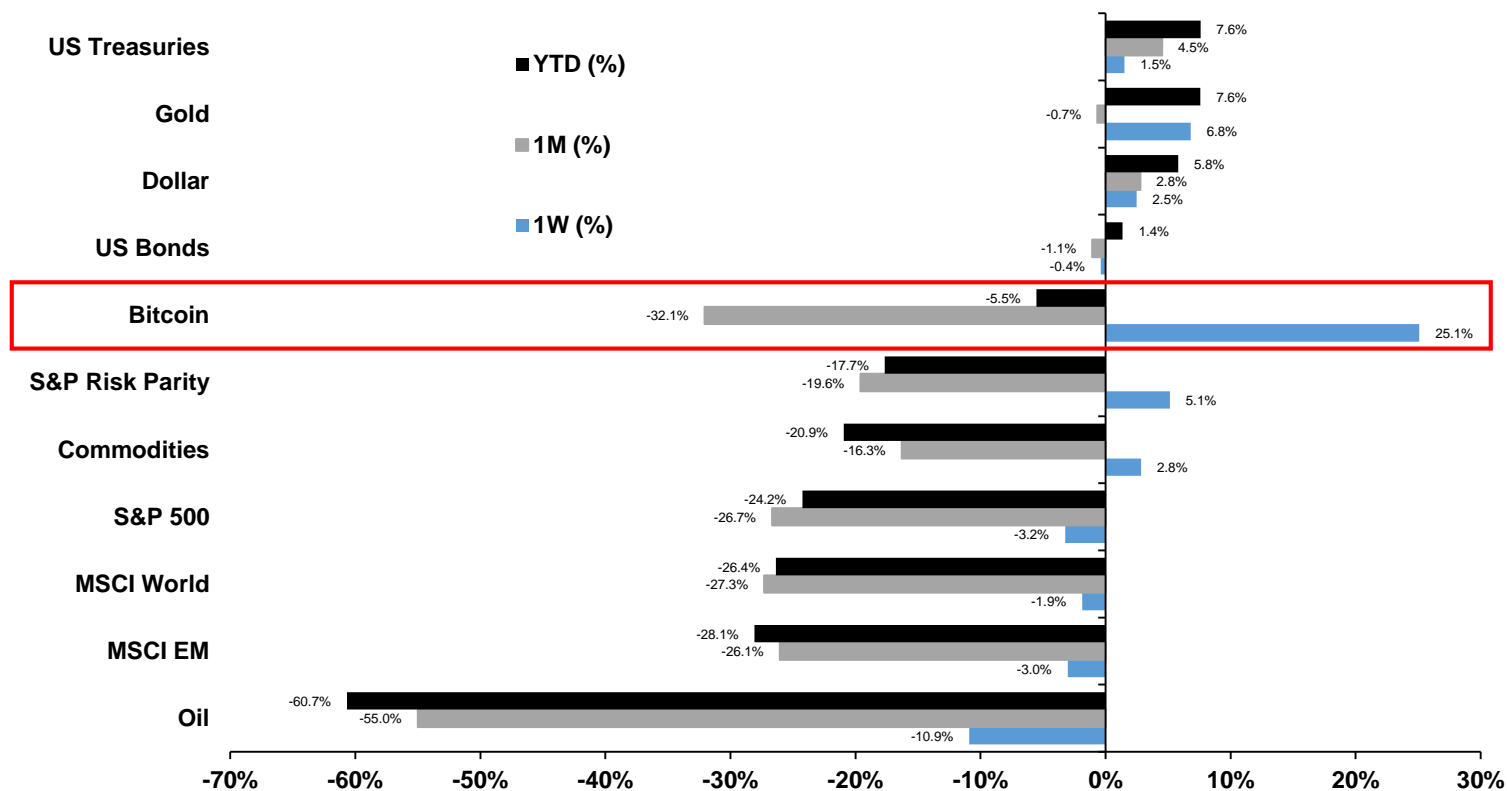
Figure: Bitcoin price
Date: 1/1/2019 to 3/24/2020



Source: Fundstrat, Bloomberg, Factset

CONTAGION: Global economic chaos spillover is easiest answer

Figure: Performance across asset classes
 Asset class return (%), ranked by YTD return (3/24/2020)

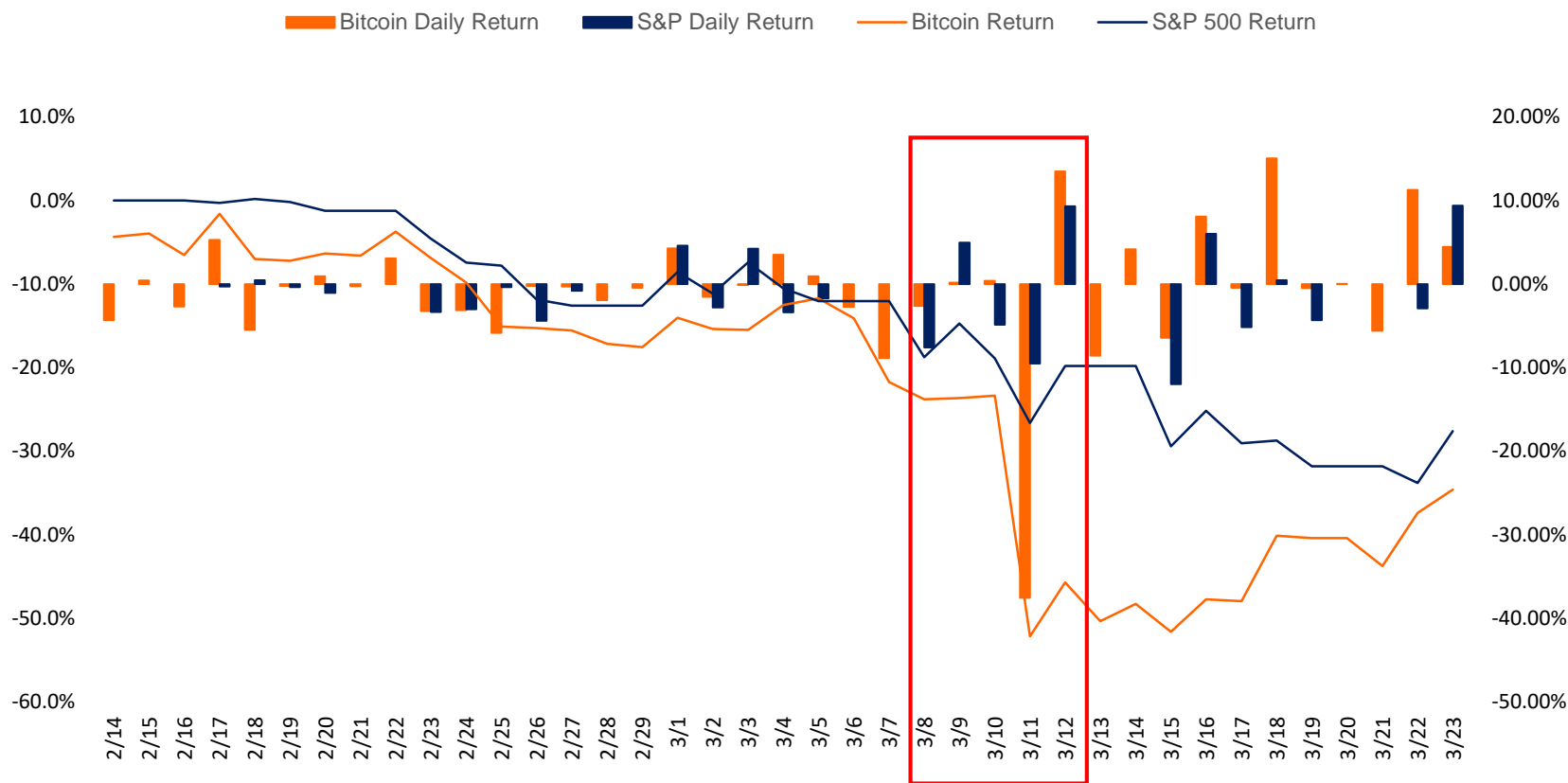


Source: Fundstrat, Bloomberg, Factset

CLOSER LOOK: There may be more nuances worth examining

Figure: Performance of Bitcoin vs. S&P 500

Date: 2/14/2020 to 3/24/2020

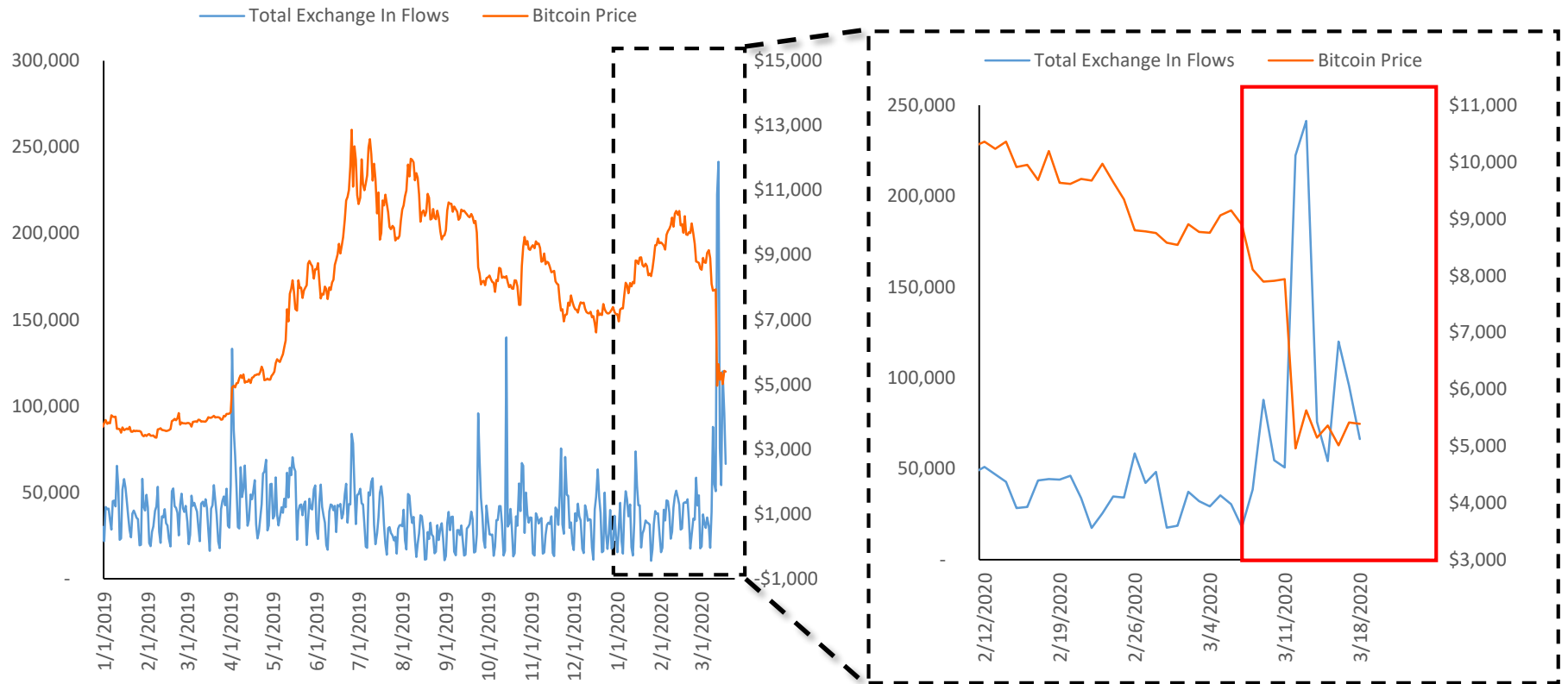


Source: Fundstrat, Bloomberg, Factset

PANIC SELLING: Exchange inflows spiked sharply

Figure: Bitcoin total exchange inflows

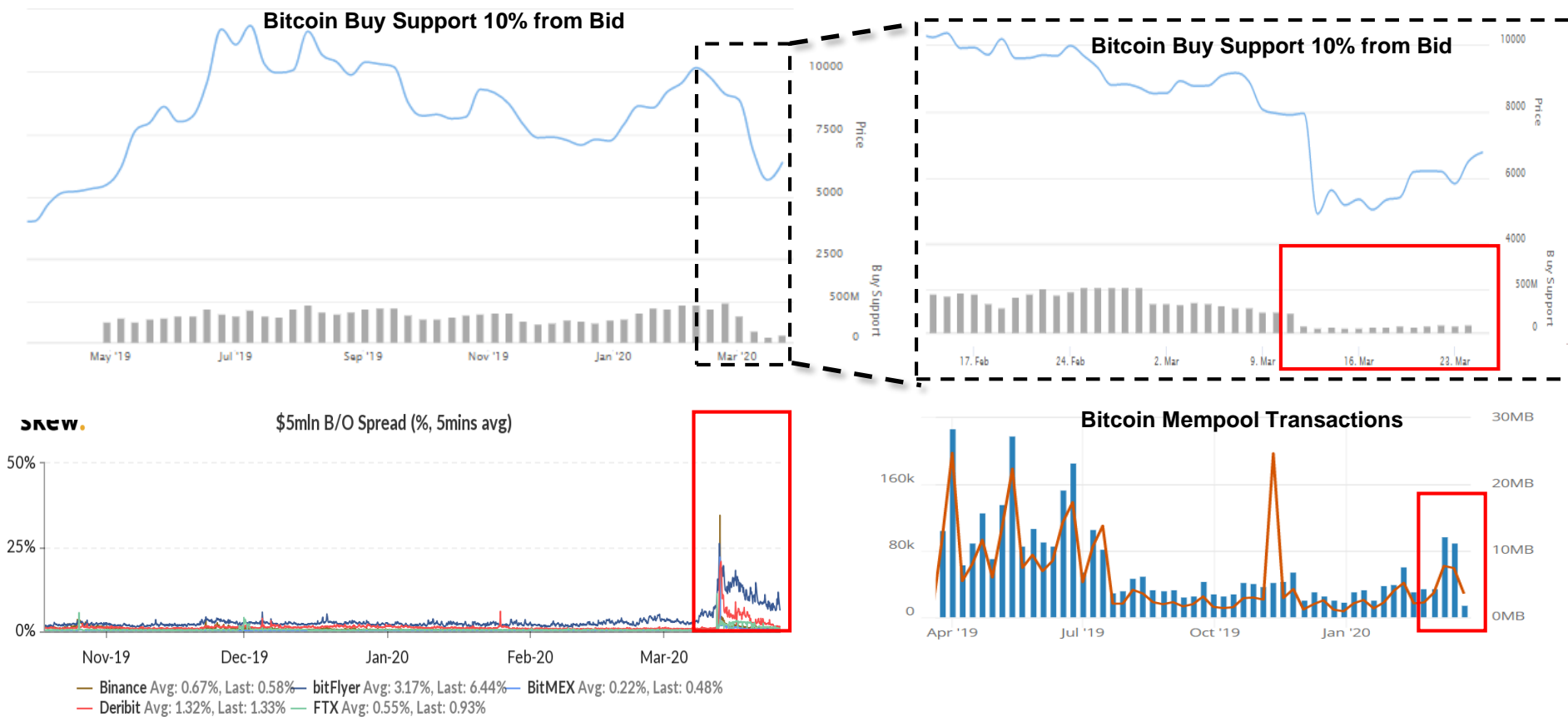
Date: 1/1/2019 to 3/24/2020 and 2/12/2019 to 3/24/2020



Source: Fundstrat, Coinmetrics

PLUMBING CRACKS: Liquidity evaporated & spreads blew out while backlogged transactions surged

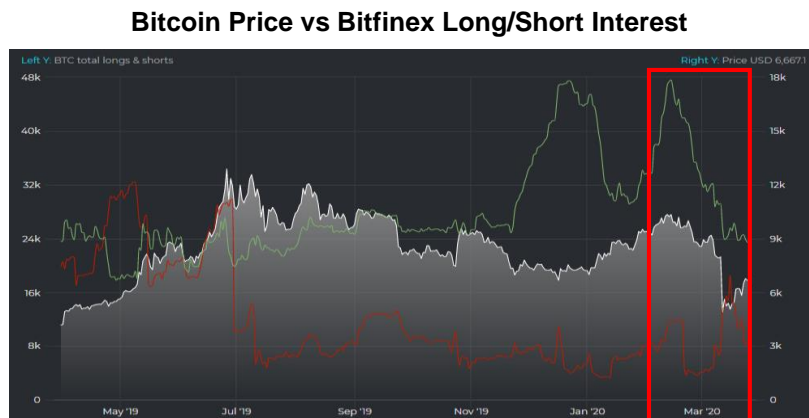
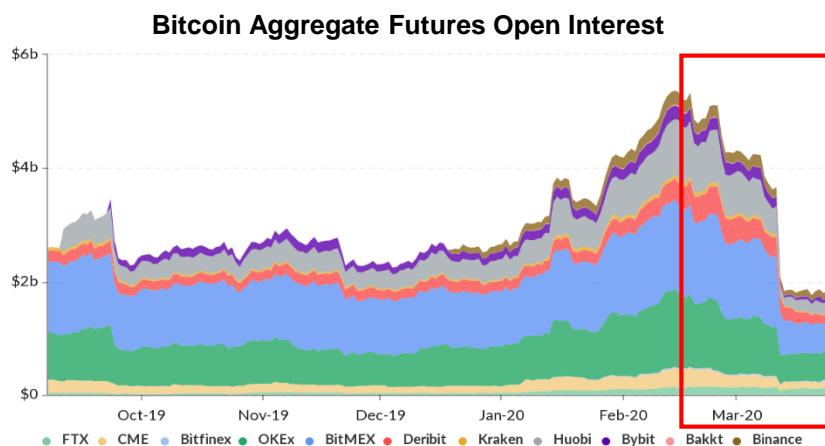
Figure: Bitcoin buy support (top charts), bid / offer spreads (bottom left) and mempool backlog (bottom right)
 As of: 3/24/2020



Source: Fundstrat, CoinMarketBook, Skew, Bitcoin Visuals

CASCADE EFFECT: Structural liquidations & deleveraging

Figure: Bitcoin futures open interest (top left), Bitfinex long/short interest (top right), DeFi collateral (bottom left) and crypto loans (bottom right)
 As of: 2/24/2020



Total Value Locked In DeFi Applications



Private Crypto Collateralized Debt

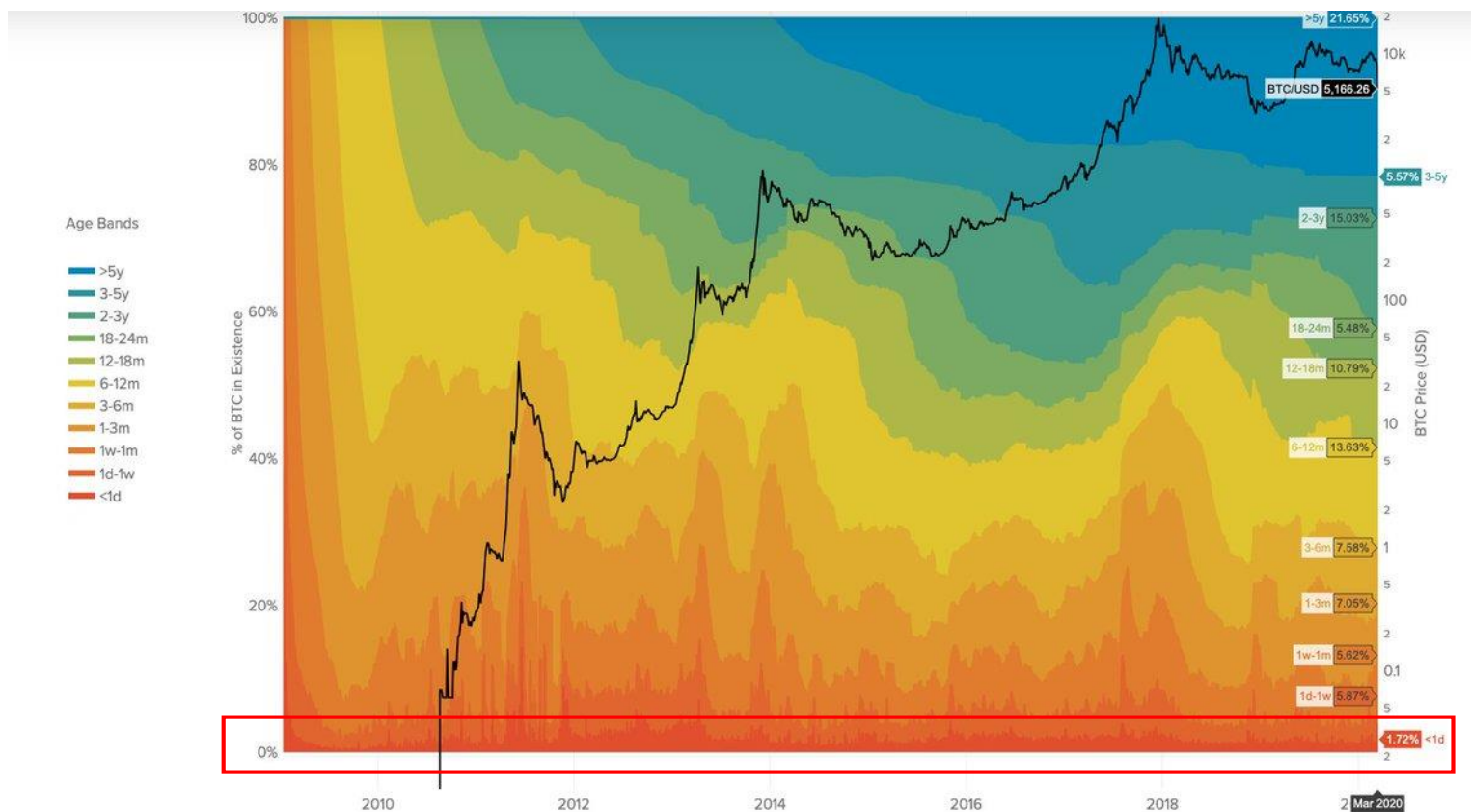
	Q1-2019	Q2-2019	Q3-2019	Q4-2019
Active Debt				
Consumer	\$40	\$88	\$125	\$355
Institutional	\$104	\$578	\$673	\$1,084
Total Private Debt	\$145	\$666	\$798	\$1,441
Growth QoQ%		359%	20%	81%
Active Collateral				
Consumer	\$251	\$345	\$458	\$885
Institutional	\$195	\$807	\$906	\$1,378
Total Private Collateral	\$446	\$1,153	\$1,365	\$2,263
Growth QoQ%		159%	18%	66%
Debt LTV's				
Consumer LTV%	16%	26%	27%	40%
Institutional LTV%	53%	72%	74%	79%
Total Private LTV%	33%	58%	58%	64%

Source: Fundstrat, Skew, Datamish, Defi Pulse

SUPPLY DYNAMICS: The supply turnover looks mostly normal

Figure: Bitcoin price vs coin aging data

As of: 3/24/2020

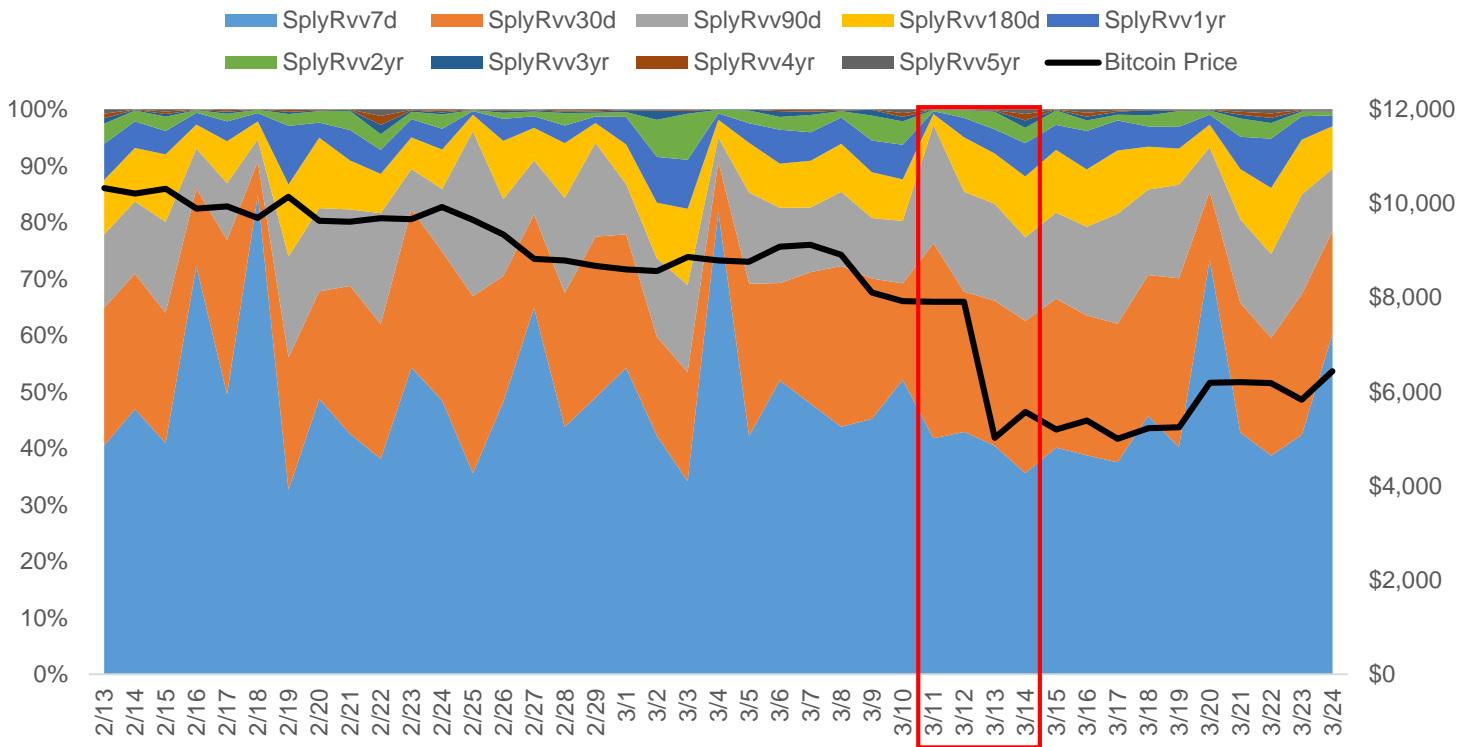


Source: Fundstrat, Unchained Capital

HODL-ON: The selling came mostly from recently moved coins

Figure: Bitcoin price vs. revived supply age

Date: 2/13/2012 to 3/24/2020



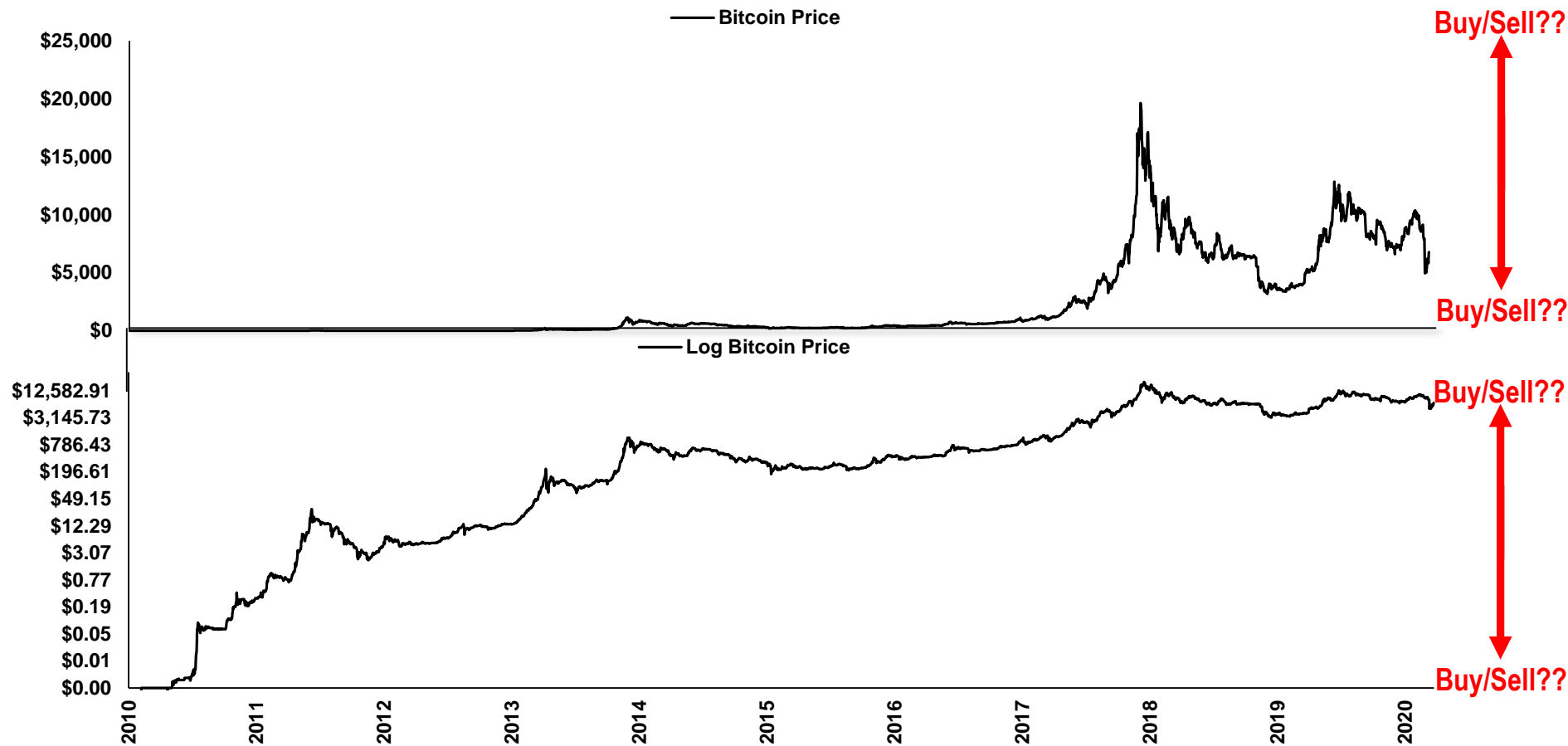
Source: Fundstrat, Coinmetrics

Macro Fundamental Perspective

PERSPECTIVE: Long-term perspective is nice... but its not very useful...

Figure: Bitcoin linear price (top), Bitcoin log price (bottom)

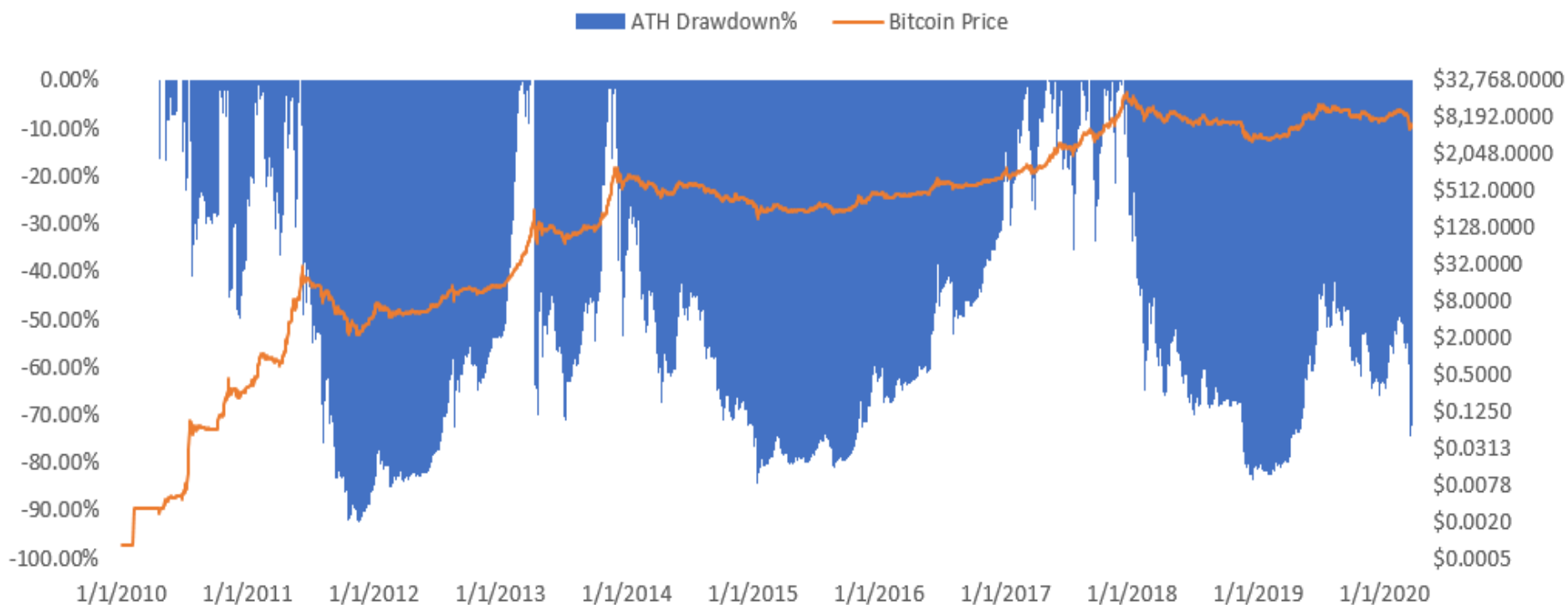
Date: 1/1/2010 to 3/24/2020



Source: Fundstrat, Coinmetrics, Coinmarketcap

...and probably not very comforting, if you're down 70%+ from ATHs

Figure: Bitcoin price vs. ATH downside%
Date: 101/2010 to 3/24/2020

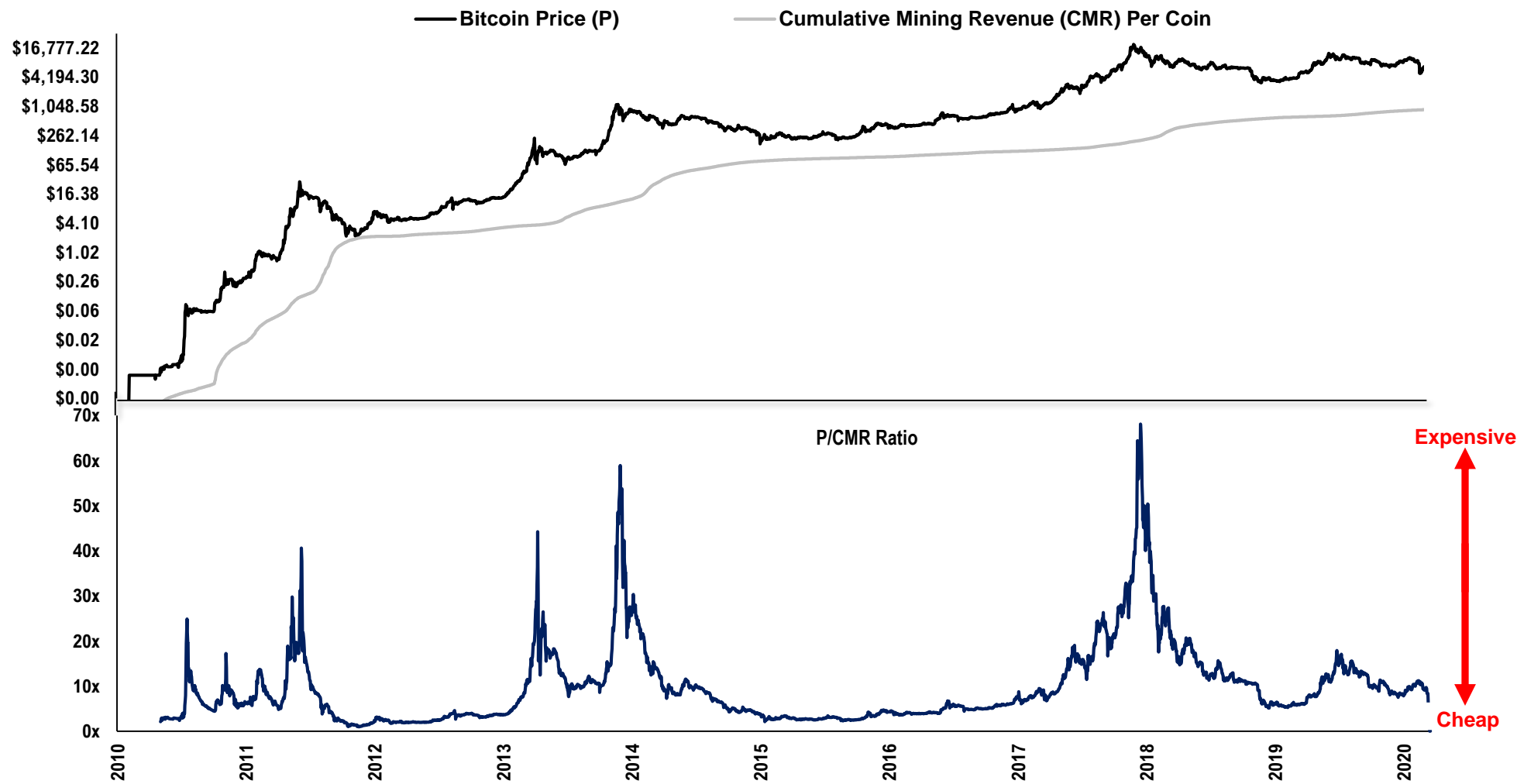


Source: Fundstrat, Coinmetrics

FUNDAMENTALS: Value matters more than price

Figure: Bitcoin price, P/CMR valuation, market cycle history

Date: 1/1/2010 to 3/16/2020

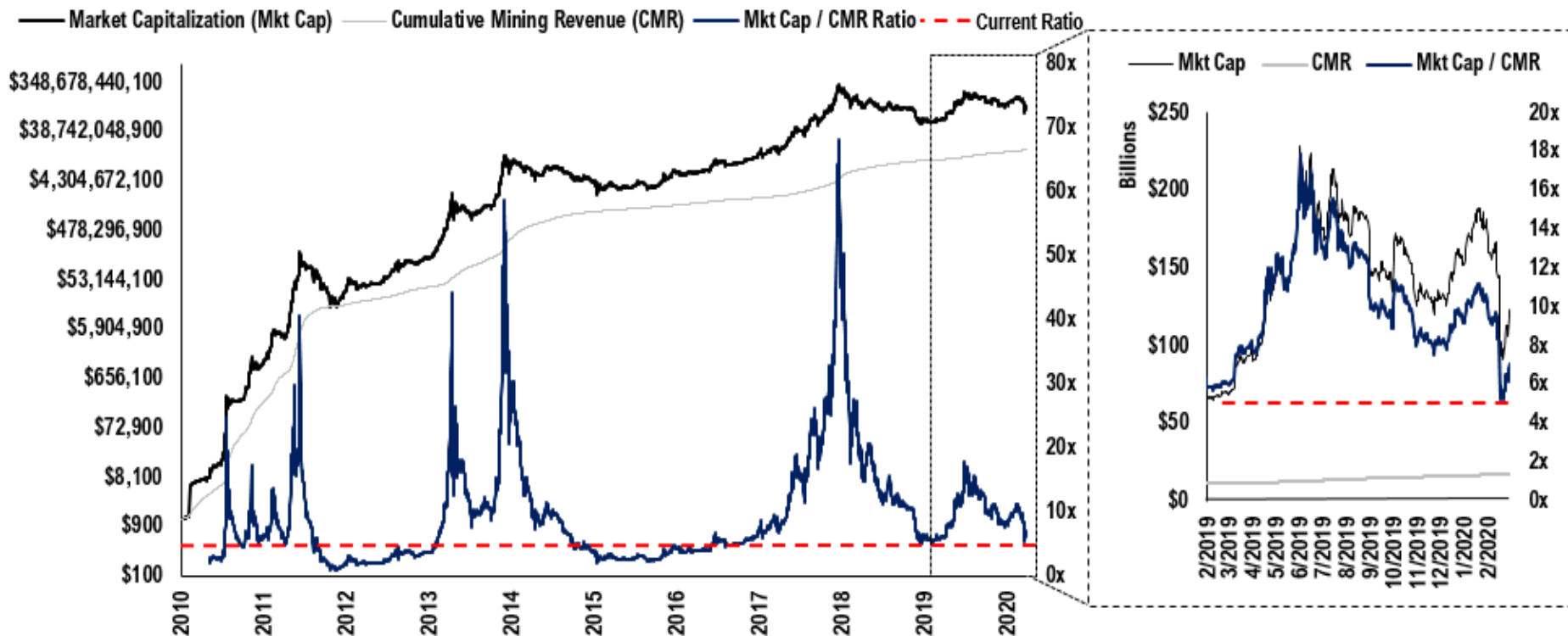


Source: Fundstrat, Coinmetrics, Coinmarketcap

REVALUATION: Has put prices closer to a “value buy” range

Figure: Bitcoin price, Mkt/CMR valuation, market cycle history

Date: 1/1/2010 to 3/24/2020



Source: Fundstrat, Coinmetrics, Coinmarketcap

HISTORY: What does it tell us about current risk / reward?

Figure: Bitcoin historical forward price return by P/CMR valuation

Date: 1/1/2010 to 3/24/2020

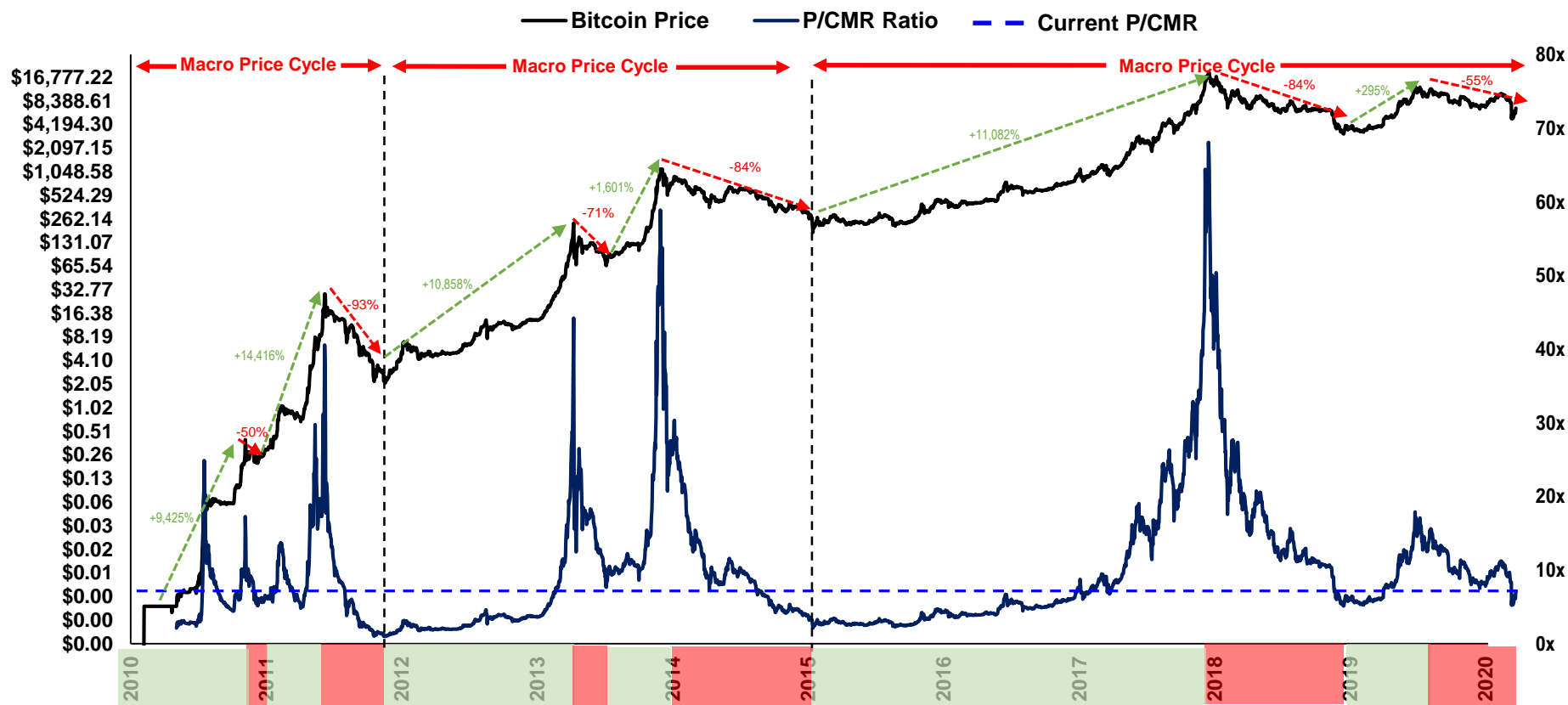
P/CMR		Forward Return %				P/CMR		Forward Return %				P/CMR		Forward Return %			
Valuation	Days	1M	3M	6M	12M	Valuation	Days	1M	3M	6M	12M	Valuation	Days	1M	3M	6M	12M
1x	162	23%	72%	105%	1057%	21x	31	17%	57%	8%	11%	41x	4	-32%	-40%	-48%	-66%
2x	495	7%	25%	61%	394%	22x	27	24%	74%	65%	673%	42x	4	2%	-21%	-38%	-66%
3x	424	7%	82%	277%	1383%	23x	30	27%	43%	36%	6%	43x	3	-12%	-22%	-40%	-63%
4x	273	16%	57%	115%	869%	24x	25	2%	29%	46%	651%	44x	5	-24%	-44%	-50%	-39%
5x	319	34%	181%	746%	1216%	25x	18	15%	5%	-13%	-43%	45x	6	-16%	-35%	-49%	-69%
6x	213	48%	217%	918%	1502%	26x	25	18%	23%	7%	-18%	46x	2	-20%	-32%	-44%	-63%
7x	150	46%	296%	535%	1612%	27x	26	22%	24%	2%	-9%	47x	3	-32%	-41%	-44%	-65%
8x	208	19%	112%	404%	1195%	28x	11	26%	-6%	-8%	8%	48x	4	-25%	-40%	-47%	-67%
9x	206	11%	99%	391%	996%	29x	7	6%	-20%	-41%	-65%	50x	5	-37%	-49%	-52%	-71%
10x	192	15%	132%	293%	860%	30x	12	32%	-10%	-9%	-29%	51x	2	-23%	-45%	-48%	-69%
11x	154	22%	107%	135%	797%	31x	6	30%	-14%	-18%	-45%	52x	1	-25%	-45%	-39%	-62%
12x	125	6%	58%	138%	1013%	32x	7	79%	11%	15%	9%	53x	3	-12%	-35%	-44%	-68%
13x	80	12%	47%	123%	1303%	33x	6	91%	27%	-2%	-41%	54x	1	-30%	-46%	-59%	-75%
14x	63	62%	53%	96%	122%	34x	5	25%	-11%	-29%	-60%	55x	1	-1%	-38%	-49%	-76%
15x	95	21%	28%	148%	103%	35x	3	17%	-12%	-25%	-58%	56x	1	-7%	-43%	-51%	-78%
16x	55	66%	63%	166%	149%	36x	4	-10%	-28%	-28%	-4%	57x	1	-34%	-51%	-49%	-66%
17x	61	12%	0%	138%	135%	37x	6	-7%	-34%	-44%	-67%	58x	2	-25%	-49%	-55%	-74%
18x	33	25%	92%	123%	96%	38x	2	-39%	-42%	-54%	-73%	59x	2	-26%	-48%	-61%	-80%
19x	46	18%	35%	34%	828%	39x	6	22%	-10%	-31%	-62%	61x	2	-7%	-43%	-54%	-80%
20x	28	11%	57%	6%	4%	40x	2	-32%	-62%	-72%	-76%	62x	2	-24%	-50%	-63%	-81%

Source: Fundstrat, Coinmetrics, Coinmarketcap

MARKET CYCLES: Flows may matter more than fundamentals

Figure: Bitcoin price, P/CMR valuation, market cycle history

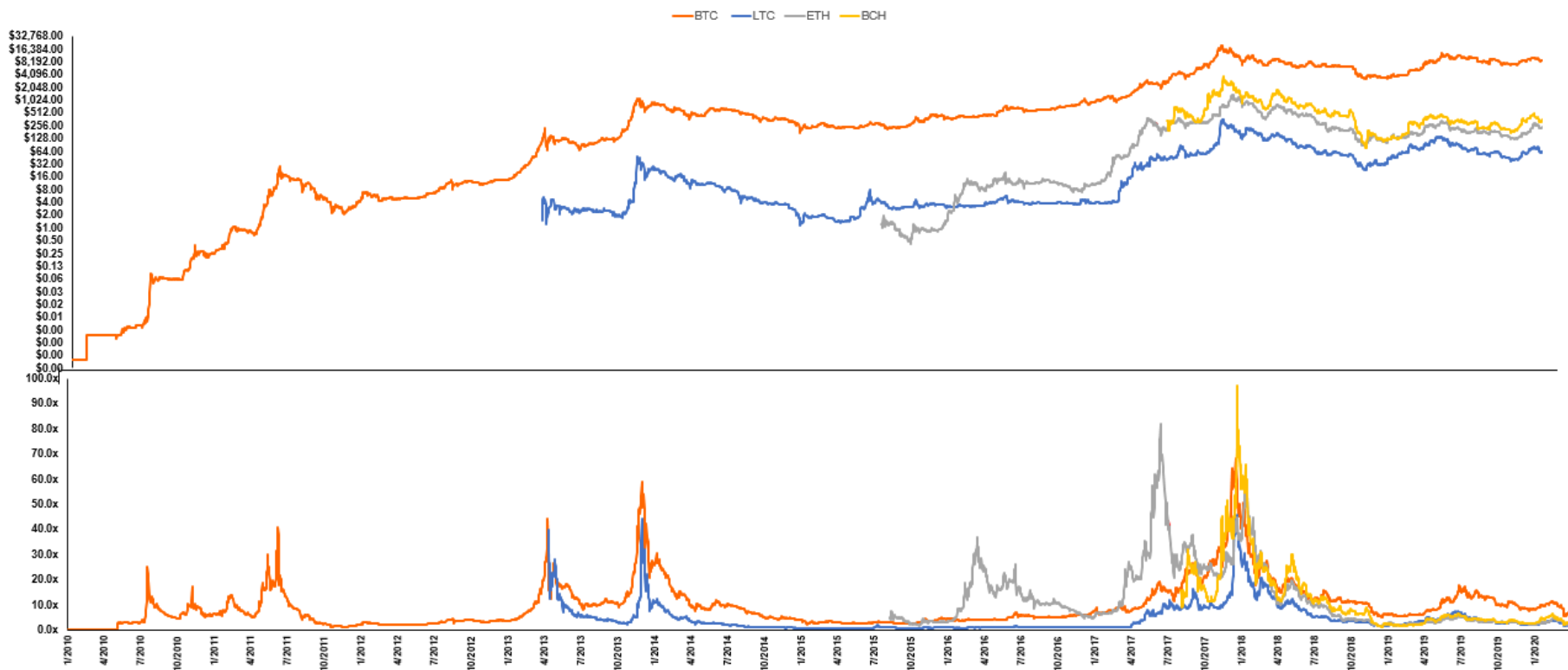
Date: 1/1/2010 to 3/24/2020



Source: Fundstrat, Coinmetrics, Coinmarketcap

VALUATIONS: Largely move together and look cheap across the board

Figure: Crypto price, P/CMR valuation, market cycle history
Date: 1/1/2010 to 3/24/2020



Source: Fundstrat, Skew

Investment Outlook & Risks

NARATIVES: How should investors be framing crypto's drivers and was the recent move a justified fundamental deterioration or an opportunity?

➤ **Emerging Market Play**

- **Crypto as self-sovereign, global, internet-based economies**
- **Influenced like all EM's by macro external forces and shocks**
- **Early innings and idiosyncratic boom/bust drives may dominate**

➤ **Digital Gold Thesis**

- **A month doesn't outweigh 10 years of non-correlation**
- **Gold and Bitcoin's reaction to the turmoil has been mixed**
- **Crypto has been a reliable store of value if bought cheaply**

➤ **Tech Disruption Trend**

- **Secular technology growth drivers favorable in long run**

Bottom Line: Crypto drivers are mixed, and the net outcome depends weight of each.

CATALYSTS: What possible catalysts are on the horizon?

- **Crypto Market Structure**
 - **Supply-Side Dynamics**
 - Halving – Reduced new supply
 - Underwater – Reduced existing supply
 - Deleveraged – Reduced downside squeeze risk
 - **Demand-Side Dynamics**
 - Re-leveraging – Increased long leverage
 - Killer App – Increased fundamental usage
 - Liquidity – More demand may squeeze shorts
- **Central Bank & Fiscal Response**
 - **US – Liquidity Spillover**
 - **Globally – Inflationary Pressure**
- **Macro Market Influence**
 - **Stock Recovery – Market Bottom**
 - **Macro Hedge – Gold/Geopolitical Lift**

RISKS: What are the top possible risks?

➤ **Crypto Market Structure**

- **Low Buy Liquidity**
- **Miner Capitulation**
- **Exchange Infrastructure Failures**

➤ **Regulatory Crackdowns**

- **US Treasury Actions**
- **Exchange Crackdown**
- **CFTC/Manipulation, SEC/ICO's, IRS/Tax, FINCIN/Privacy**

➤ **Unknown Events**

- **Hacking**
- **Code Bug**
- **Systemic Shock**

SCENARIOS: How could things play out over next 12 months?

Figure: Bitcoin market outlook scenarios

	<u>Bear</u>	<u>Stagnant</u>	<u>Recovery</u>	<u>Bull</u>	<u>Bubble</u>
Probability	5%	15%	50%	25%	5%
Forward P/CMR	2x	5x	10x	20x	70x
Price	\$2,000	\$5,000	\$10,000	\$20,000	\$70,000
Return	-70%	-25%	49%	199%	945%

Source: Fundstrat

POSITIONING: How should investors position in this environment?

- **Market View:** Crypto is in 2nd or 3rd innings of a prolonged recovery following its December 2018 bottom, despite the recent bumps and volatility we've seen.
- **Near-Term Outlook:** The future is uncertain, and no one knows for sure what will happen next. Being said, valuations look cheap, it doesn't mean they can't get cheaper, but I suspect we're close, and risk/reward looks attractive over next 12 months.
- **Recommendations:**
 - **Portfolio Allocation:** Over-weight crypto (1% to 2% vs. market at 0.01%) next 3-to-5 years and increase / decrease exposure as valuations become more attractive / stretched.
 - **Size Positioning:** Favor larger cap, blue chip names over smaller cap more speculative assets over medium-term until we have greater certainty on the market turn around.
 - **Defensive vs Cyclical:** Favor more defensive PoW monetary commodity names over more cyclical PoS names near-term until we have greater certainty on the market turn around.
 - **Asset Selection:** Market-weight Ethereum relative to Bitcoin near-term and gradually shift towards overweight for the next 6 to 12 months as technicals improve further.



Head of Technical Strategy Robert Sluymer, CFA

- Over 25 years of expertise in investment research and technical analysis
- Started his career with RBC Capital Markets in Toronto in 1991 as a Research Associate, and later moved to New York where he served as a Managing Director leading RBC's U.S. Technical Research team

TECHNICALS: BTC recaptures 200-week sma – Eyeing next resistance levels

- In last week's note we highlighted that despite the significant technical damage that developed across the cryptocurrency markets, there were silver linings taking developing. Specifically, BTC recaptured important long-term support at its 200-week sma while ETH recaptured its Q4 2019 lows near 116 and have continued to build from those levels. With additional strength this week, we highlight next key resistance levels coming into play on the current bounce.
- **BTC – Firming above the 200-week sma** – Despite the damaging breakdown in March below the 2015-2020 uptrend, we continue to give BTC the benefit of the doubt that it has bottomed at its rising 200-week sma. As a reminder, we focus on the 200-week sma as proxy for the long-term secular trend for most asset classes and view BTC's ability to snap back above that level as a necessary first step required to repair the technical damage that developed in March.
- **BTC – Fitting a decelerating trend 'curve' to BTC's major correction lows.** BTC's long-term chart illustrates a decelerating longer-term uptrend as BTC progressively broke below two linear uptrends between 2018-2020. Without ignoring the risk that the breakdowns from the highs in 2018 could be part of a major top, a positive but decelerating trend 'curve' can be fitted to capture the majority of BTC's lows from 2011 through to 2020. Our expectation is BTC will consolidate above this longer-term support curve as part of base building process to repair the damage that developed in March. BTC now likely range bound for many months within the confines of two important, long-term boundaries between a support band between 3.1-3.8K and resistance between 10-13k. [Slides 3-4](#)
- **BTC – Key tactical levels** – BTC is quickly rallying back from oversold level toward a broad band of resistance between 7.2-8K coinciding with 1) a 50-62% retracement of the recent decline 2) just below declining 50- and 200-dma's and 3) in between the 2015-2020 uptrend and 2H 2018 downtrend. We expect BTC to stall at that resistance band with trading support near 5.5K. *As a reminder, 5.5K is noteworthy level given Funstrat's Digital Asset Strategist, David Grider, has stated that at "5.5K BTC represents an attractive valuation. Bitcoin is trading around a 5.5x Market Cap / Cumulative Mining Revenue ratio. It has not been this cheap on a relative fundamental basis, since it last bottomed out in December 2019 at \$3,400 and before that, in December 2016 at \$700 leading into the last bull market."* [Slides 5-6](#)
- **ETH – Similar to BTC, ETH has recaptured key support at its Q4 lows near 116** – Next key resistance levels begin at 164 followed by 190-212, coinciding with a 50-62% retracement of ETH's Q1 decline. [Slides 7-8](#)
- **ETH-BTC** has declined below first key support at .22 and is now challenging .20-.19 support. Daily RSI momentum is becoming deeply oversold and supportive of pending rebound in the coming week but ETH-BTC's February-March downtrend will need to reverse to support overweighting ETH vs BTC. [Slides 9-10](#)
- **Fundstrat FS CryptoFX index highlights** – The FX 10 large-cap and FX40 mid-cap A-D lines are showing early evidence of reversing to the upside from key technical support at their Q1 break-out levels. [Slides 11-14](#)

www.fsinsight.com

TECHNICAL STRATEGY

Technical Strategy

Rob Sluymers, CFA^{AC}

+1 212 293 7140

inquiry@fsinsight.com | [@rsluymers](https://twitter.com/rsluymers)



US Portfolio Strategy

Thomas J. Lee, CFA

[@fundstrat](https://twitter.com/fundstrat)



Global Portfolio Strategy & Asset Allocation

Brian Rauscher, CFA

Jonathan Lesser

Data Science Research

Ken Xuan, CFA

[@fundstrat_ken](https://twitter.com/fundstrat_ken)



Washington Policy Strategy

L. Thomas Block

[@TomBlock_FS](https://twitter.com/TomBlock_FS)



Key charts in this report...

BTC – A decelerating but positive long-term trend curve



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BTC: Next key resistance band is between 7.2-8K



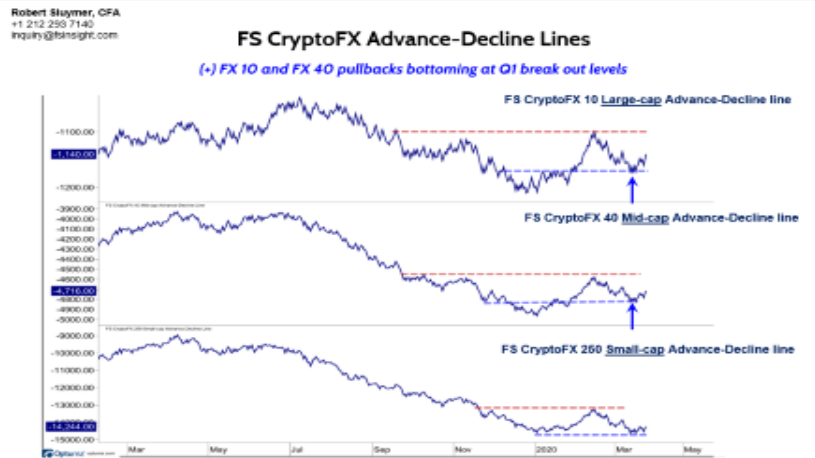
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ETH vs BTC – Downtrend intact but becoming oversold



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FS CryptoFX A-D lines beginning to rally from support



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BTC 2011-2020

The long view: A decelerating uptrend holding critical support at the rising 200-week



BTC - 2017-2020

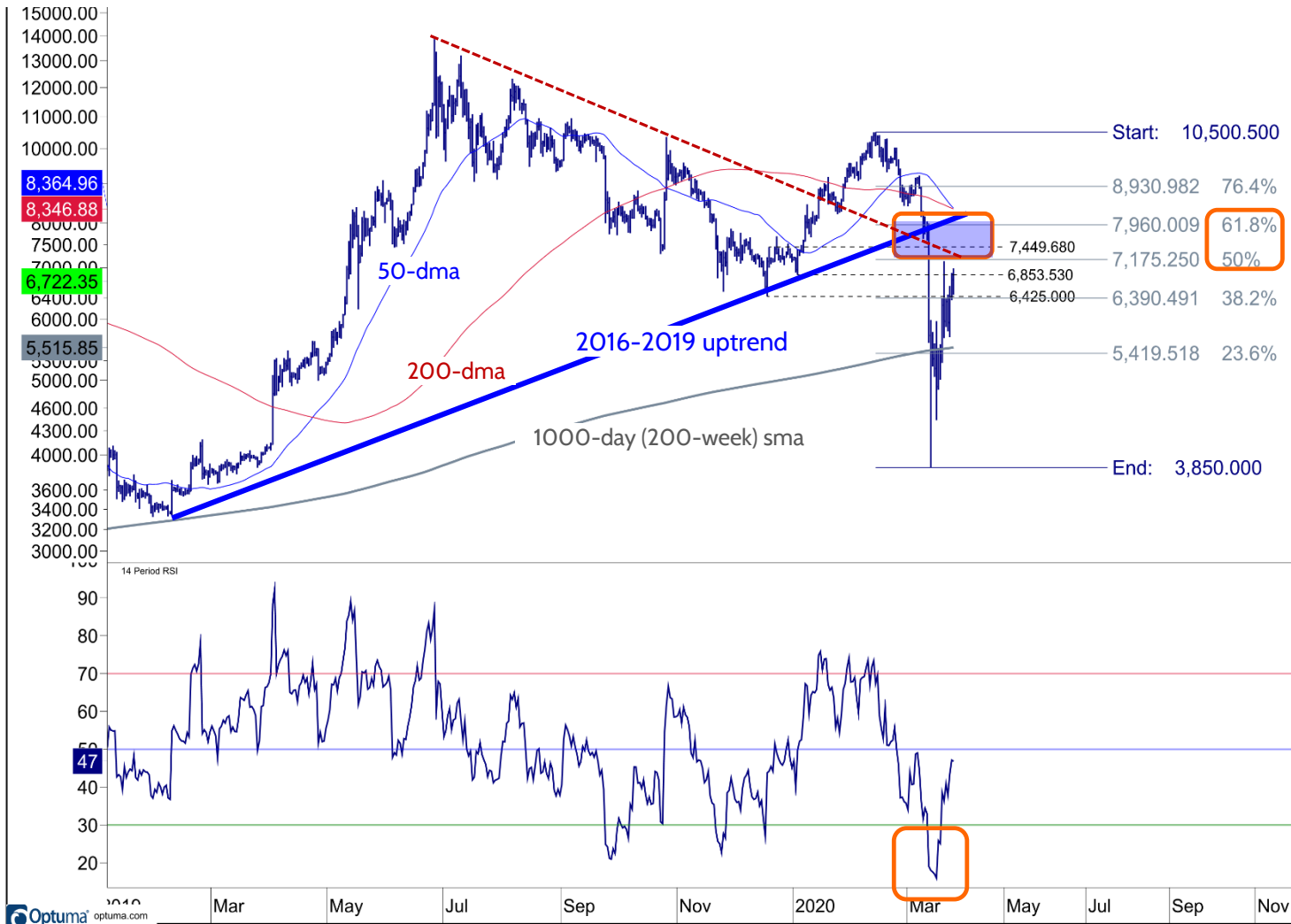
After cracking below key support at the 2015-2019 uptrend, BTC recaptures key support at its 200-week sma



- BTC's 2018-2020 downtrend remains in place coinciding with resistance near 10.5K.
- While the breakdown in March compromised BTC's 2015-2020 uptrend, all asset classes had violent swings as correlations accelerated to 1 globally. The fact BTC held its 3-4K support band and quickly recaptured its 200-week sma is an encouraging technical step toward repairing the technical damage.
- Next resistance is between 7-8K near 2015-2019 uptrend and its 20-week sma.
- See next page for key trading levels.

BTC - Daily

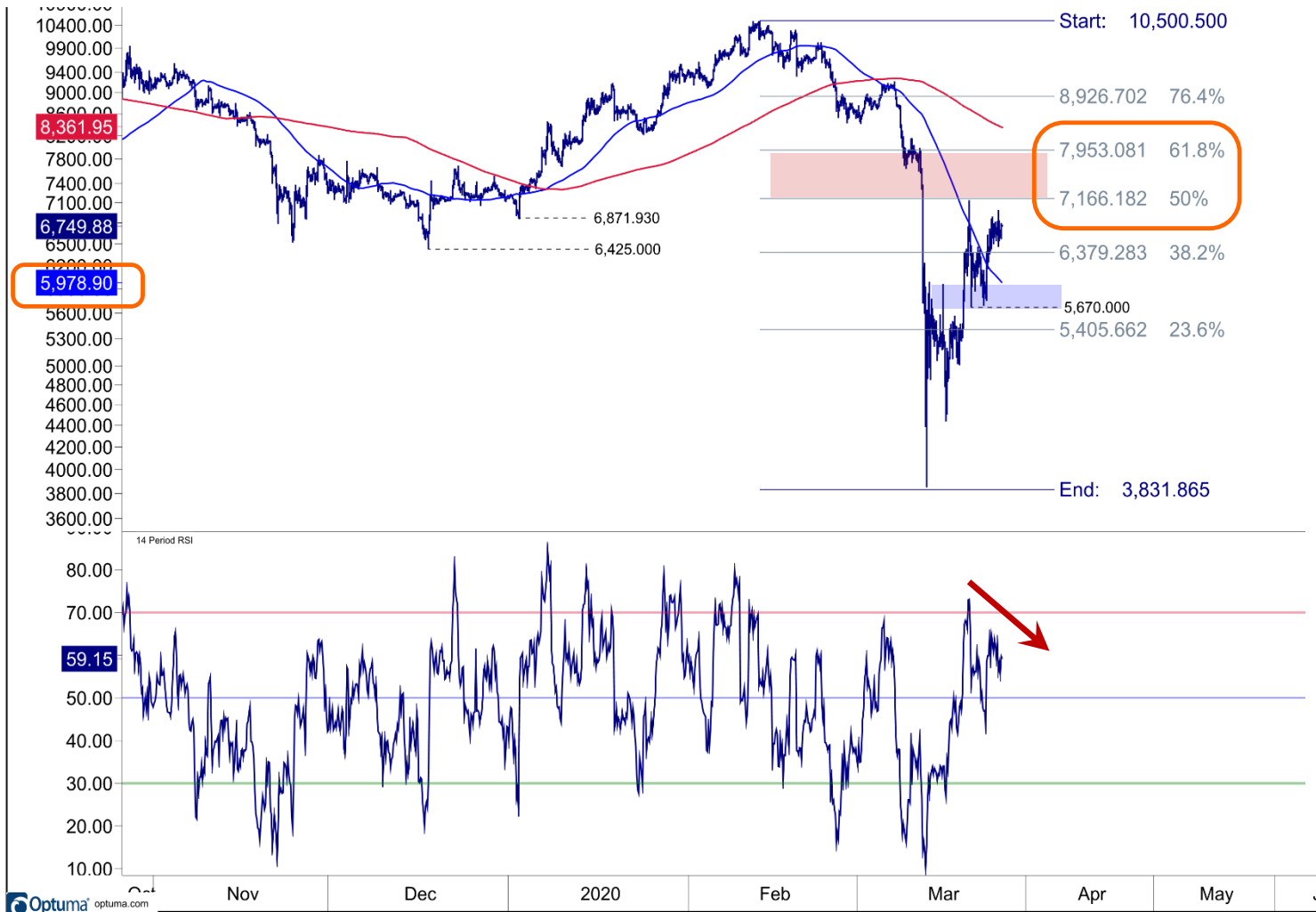
200-week sma recaptured! - Next key resistance band is 7-8K



- BTC has recaptured its 200-week sma (1000-dma) and is quickly approaching a resistance band coinciding with a 50-62% retracement of the 2020 decline, its 2015-2020 uptrend and its 2019 downtrend just below its 50- and 200-dma.
- Expect a pullback/pause near that resistance band.
- Daily RSI has rebounded back to neutral but has yet to show evidence of stalling which we expect moving into early April

BTC - 4-hour

Rallying back toward its 7-8K resistance band with RSI diverging



- Resistance band is at the 50-62% retracement band between 7.2-7.9K
- First support is between near the 15-dma (90-4 hour sma in blue) near 6K followed by 5.7K at the recent lows.
- 4-hour RSI has rebounded into overbought territory and is beginning to negatively diverge suggesting a pending pause/pullback.

Ethereum - Daily

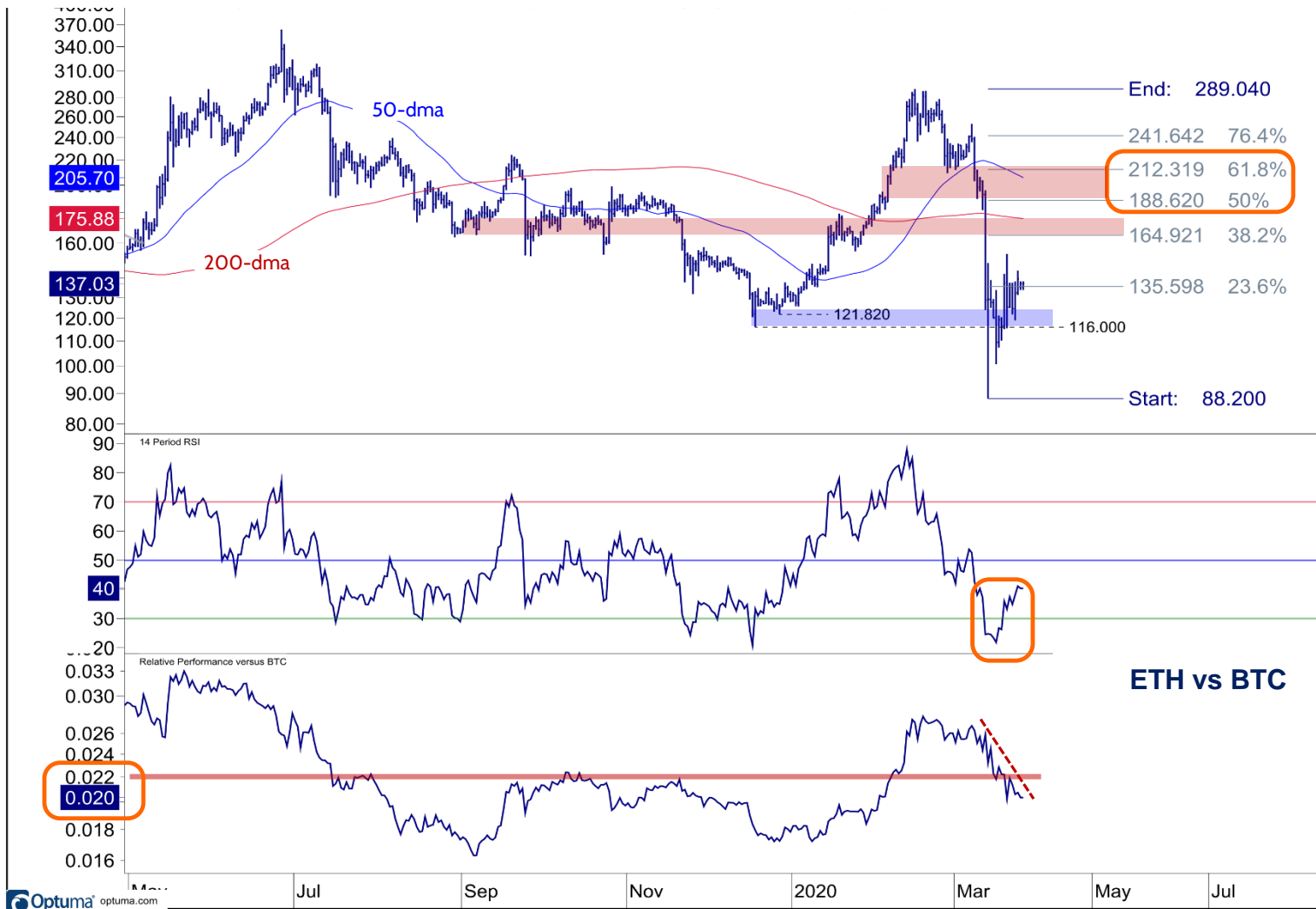
ETH temporarily breaks key support near 120 only to recapture to the Q4 2018 lows



- ETH failed near 300 resistance and temporarily broke support near 120 but has since recaptured that key support level at the Q4 2018 lows.
- ETH's technical profile remains compromised but recapturing the Q4 2018 lows near 120 is an encouraging first step in repairing ETH's technical profile.
- (+) Daily RSI is early in an upturn suggesting further upside into month-end.
- ETH vs BTC - see next page for a more detailed view.

Ethereum - ETH

Back above key support between 116-121



- ETH has recaptured key support between 116-121 with next resistance at the its 38% resistance near its 200-dma followed by the 50-62% retracements between ~190-212.
- Daily RSI is building positively from oversold levels suggesting further upside
- ETH vs BTC remains in a short-term downtrend that will need to reverse to support overweighting ETH vs BTC

ETH versus BTC

Back below key support at .022 but RSI becoming oversold



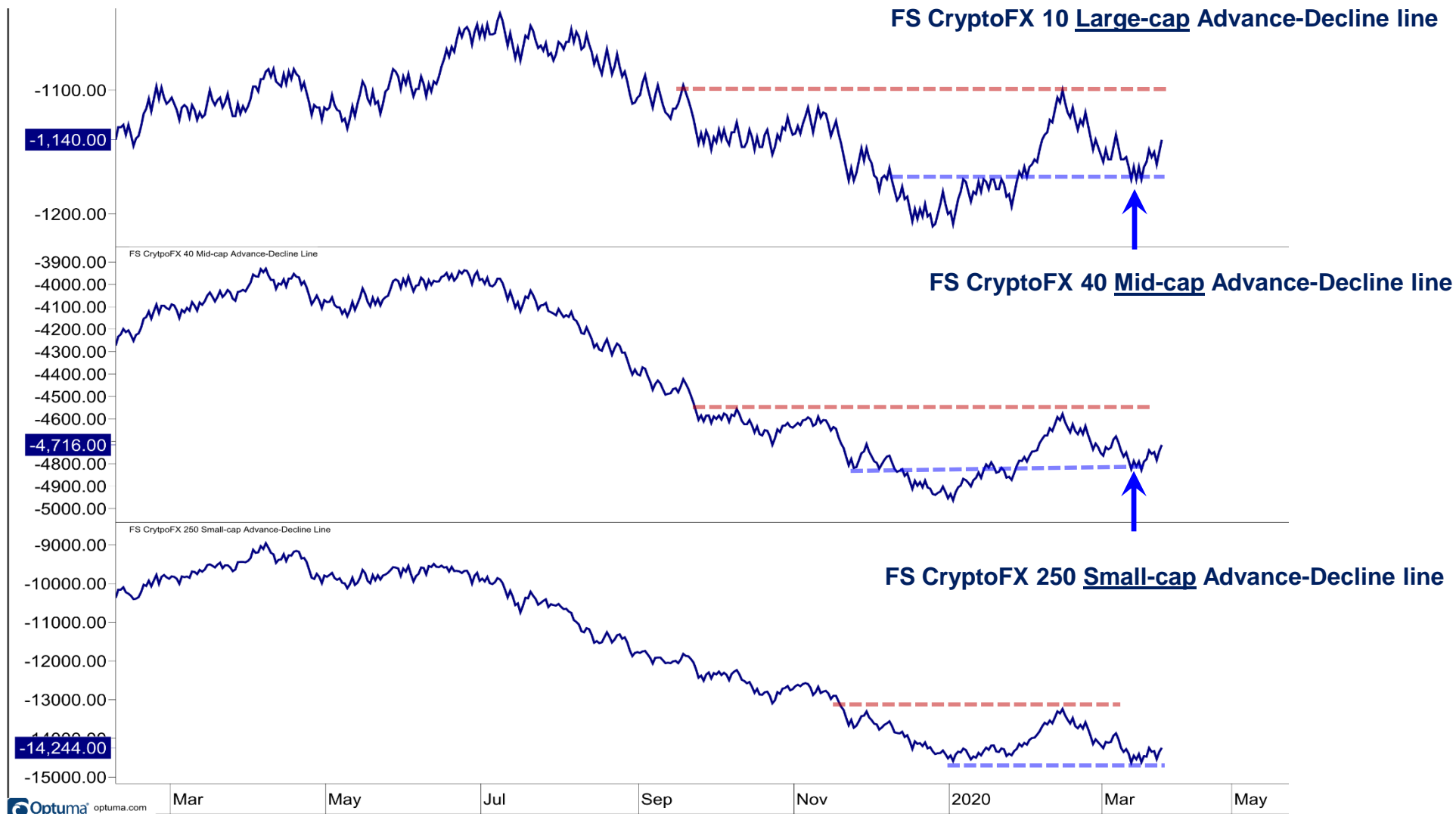
ETH versus BTC

Back below key support at .022 but RSI becoming oversold



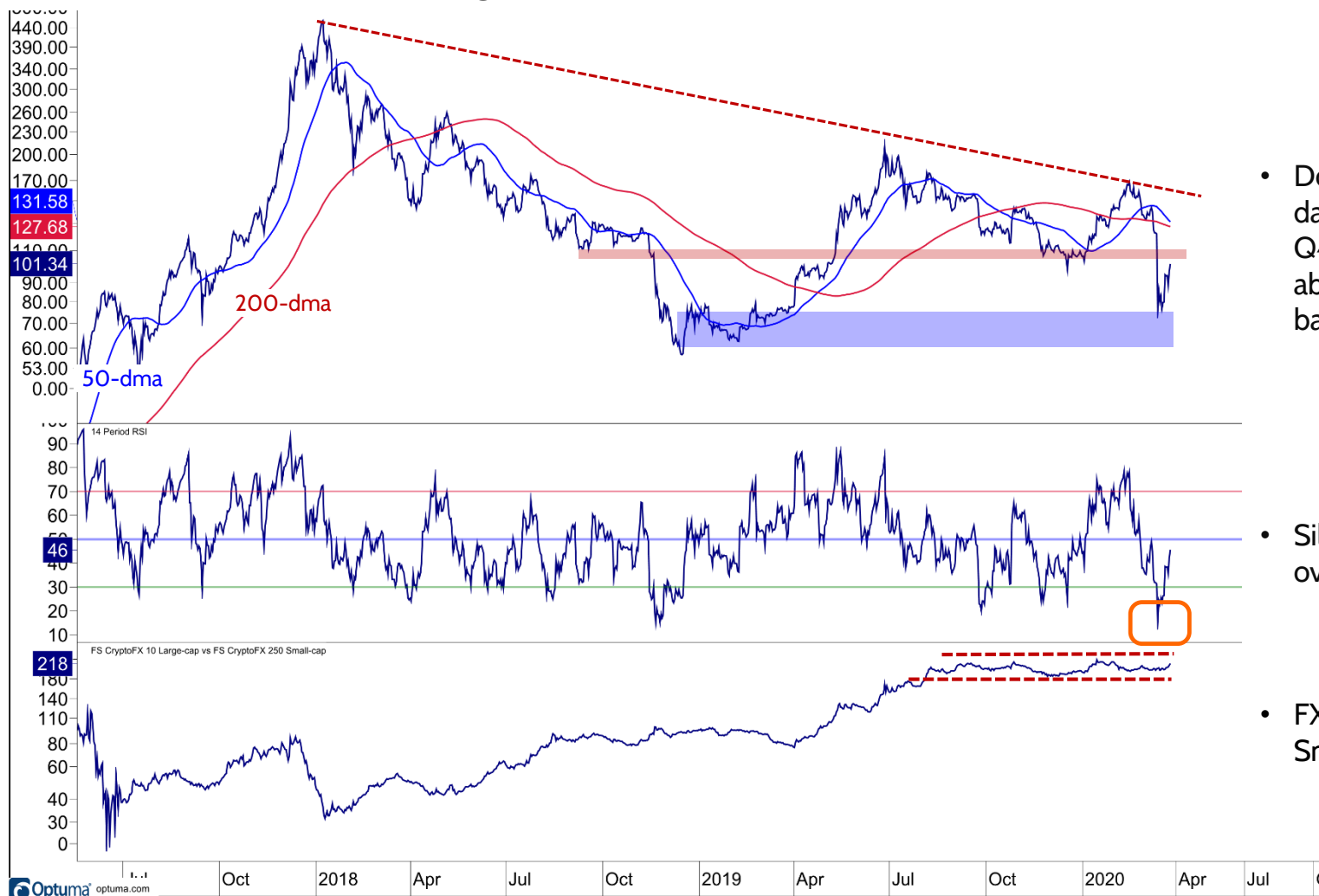
FS CryptoFX Advance-Dcline Lines

(+) FX 10 and FX 40 pullbacks bottoming at Q1 break out levels



FS CryptoFX 10 – Large-cap Index

10 largest cryptocurrencies by market cap and liquidity



- Downtrend intact with a damaging break below the Q4 2019 lows BUT holding above the Q4 2019 support band.
- Silver lining: Daily RSI deeply oversold and rebounding
- FX 10 Large-cap vs FX 250 Small-cap – Still range bound

FS CryptoFX 40 Mid-cap Index

Weights 11-50 by market cap and liquidity



- Lower highs (downtrend) remains in place with the FX 40 holding key support at the Q4 2019 lows

- (+) Daily RSI rebounding from deeply oversold levels

FX 40 Mid-cap vs FX 10 Large-cap

- (+) Higher highs and lows remain in place. Pullback/pause needs to hold above the January lows.

FS CryptoFX 250 Small-cap Index

Weights 51-300 by market cap and liquidity



- (-) Downtrend intact with lower highs and another lower low.
- Rebound needs to recapture the Q4 2019 lows to signal the beginning of improvement.
- (+) Daily RSI rebounding from deeply oversold levels
- FX 250 Small-cap vs FX 10
 - (-) Longer-term downtrend intact with a neutral to negative shorter-term trend

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