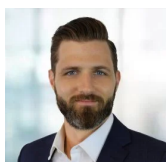


Stablecoin Data Suggests Risk Appetite is Rising, Adding SMLR to Equities Basket



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Key Takeaways

- **Catalyst Watch** – The political tailwinds for crypto have intensified following the attempted assassination of former President Trump. He is scheduled to speak next week at the Bitcoin Conference. While he will likely reiterate the GOP's stated platform, there are rumors circulating about a potential announcement regarding a strategic BTC reserve—something to keep an eye on.
- A strong push to devalue the dollar for onshoring purposes, whether realized or not, could bolster the investment case for a monetary hedge like Bitcoin.
- There is compelling evidence that the broader market is shifting its risk-taking appetite, indicated by a large uptick in USDT market cap this week.
- **Crypto Equities** – This week we are adding Semler Scientific (SMLR) to our crypto equities basket. Despite the industry and company-specific risks, we believe it is on a path to becoming a small-cap MSTR.
- **Core Strategy** – We acknowledge the near-term risk to the market from the ongoing transfer of BTC out of the Mt. Gox estate, which could result in short-lived downside volatility. However, with inflation continuing to fall, economic data remaining non-recessionary, and political tailwinds intensifying, we remain fully allocated.



BTC As a Possible Strategic Reserve

Last week, we discussed the rising political tailwinds affecting crypto. Despite events earlier in the year that might have suggested a changed stance from the Democratic Party, the political divide over the issue has grown stronger. The GOP has become the party that is undoubtedly more favorable to the industry.

The attempted assassination of former President Trump, juxtaposed against a Democratic Party seemingly in disarray, boosted the prospective GOP leader in the polls and on prediction markets.














There is good reason to think that this strength over the weekend was largely due to the shifting political winds, likely adding BTC to many Trump trade baskets, even in investing circles that normally do not wade into crypto due to a lack of interest.



Of course, we are still four months out from the general election, and a lot could change between now and then. Biden stepping aside for a more competent candidate could certainly move pieces on the chessboard against crypto, which is something to be cognizant of. But as it stands, the political tailwinds over the next few months should be an added boost to what have been fairly conducive macro conditions for the asset class.

Catalyst Watch: Trump is [expected to be the headline speaker at the Bitcoin Conference](#) next weekend. While it is more likely that he will simply reiterate the crypto-focused initiatives featured in the GOP platform released last week, [there are rumors](#) that he might discuss the possibility of a strategic bitcoin reserve. While this seems like a pipe dream to many – from a practical perspective, it is uncertain whether BTC is of the size or has the liquidity (yet) to suit the Treasury's needs – it is important to remember that the government is currently in possession of nearly 1% of the total BTC supply, as we have been discussing lately. Thus, it is possible that he intimates that the government should simply not sell their holdings, which, in our view, could have a material effect on the price.



 U.S. Government 			
\$14,047,994,694.54		-\$29.72M	 Share
Government			
PORTFOLIO		HOLDINGS BY CHAIN	
ASSET	PRICE	HOLDINGS	VALUE
 BTC	\$63,793.00 -\$147.00	213.297K BTC	\$13.61B -\$31.35M
 ETH	\$3,410.44 +\$33.78	50.524K ETH	\$172.31M +\$1.71M
 USDT	\$1.00 +\$0.00	121.734M USDT	\$121.73M +\$0.00
 WBTC	\$63,943.00 -\$237.00	750.722 WBTC	\$48.00M -\$177.92K
 BNB	\$569.00 +\$5.02	40.285K BNB	\$22.92M +\$202.23K
 AUSDC	\$1.00 +\$0.00	18.994M AUSDC	\$18.99M +\$0.00
 BUSD	\$0.97 +\$0.00	13.623M BUSD	\$13.21M +\$16.74K
 USDC	\$1.00 +\$0.00	10.14M USDC	\$10.14M +\$0.00

Source: Arkham

Why Would a BTC Strategic Reserve Even Make Sense for the US?

Some might wonder what would make the US even contemplate adding BTC to its balance sheet. The answer is simpler than you think. Over the past 15-20 years, we have seen the emergence of scaled and reliable manufacturing in emerging markets. Due to the global reserve currency status of the USD and its consequent strength relative to these emerging markets, the US economy has largely hollowed out its industrial base, relocating it to Asia and parts of Latin America. This shift has negatively impacted many areas in the rust belt, a significant concern for Trump and his recently announced running mate, Vance. They advocate for reshoring manufacturing, which would naturally involve the devaluation of the USD as companies would need to boost exports to make this venture profitable.

Both political parties support this reshoring for reasons beyond populist fervor, including geopolitical and national security considerations, but Trump has certainly been more outspoken about it, and seems more determined to approach the problem from a dollar devaluation perspective. How can the dollar be significantly weakened? There are several approaches, but mainly through debasement. This entails running a deficit and either monetizing the debt (Japan Strategy) or inflating it away.

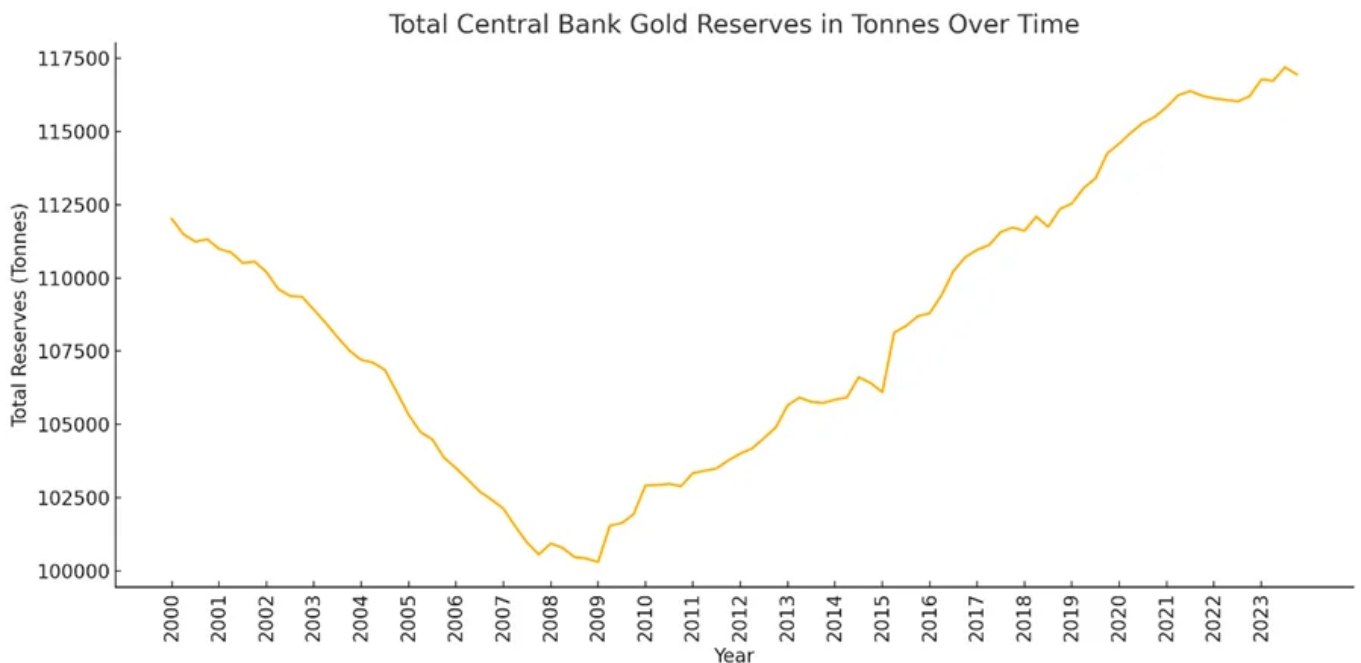
He would make it a goal of U.S. policy to balance trade with the rest of the world, not just China. The implications are enormous. One tool, which Lighthizer has reportedly proposed to Trump, is a concerted effort to weaken the U.S. dollar against other currencies. Other things being equal, a cheaper dollar would reduce the prices that foreigners pay for U.S. exports, make imports more expensive for Americans, and help bring trade closer to balance. The dollar, however, has long been overvalued, partly

Source: foreignpolicy.com

As noted in the screenshot above, there are different nuances around this debasement effort, one nuance possibly involving tariffs. However, tariffs would likely be inflationary, which is just a different way to crack the same egg.

None of these strategies necessitate the end of the dollar as the global reserve currency. However, they would lead to dollar devaluation, making monetary hedges highly valuable in dollar terms. To preserve the wealth of the national balance sheet amidst a falling currency, it makes sense to add a monetary hedge.

Historically, the USD has crowded out other foreign currencies over the past 15 years, prompting other countries to adopt similar strategies, with gold being the most popular monetary hedge. The US might want to add more gold to its balance sheet. To outcompete other countries, it might also consider adding digital gold—Bitcoin.



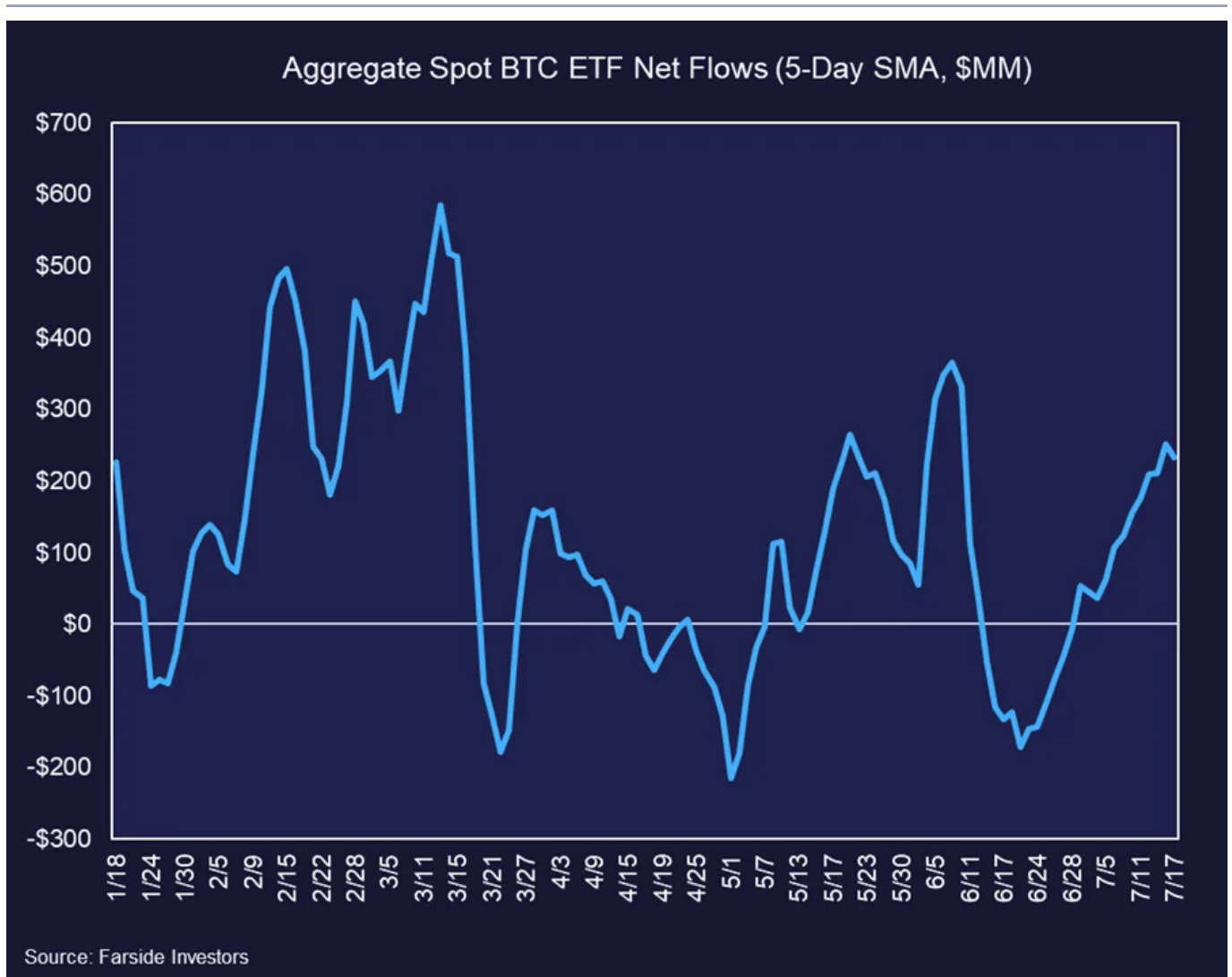
Source: Gold.org

Flows Show Considerable Improvement, USDT Stands Out

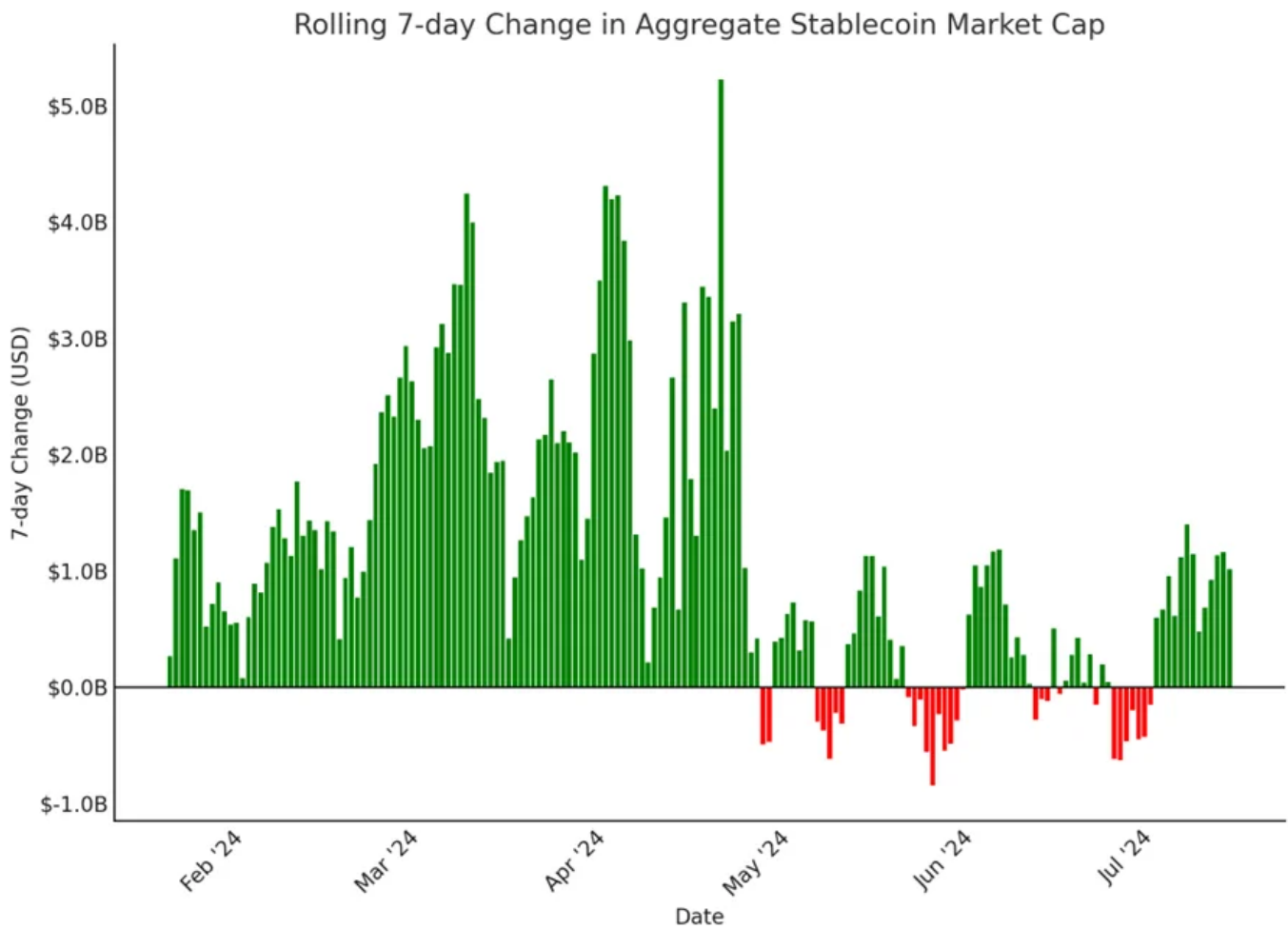
One factor that exacerbated the drawdown following the sales from the German government was the generally illiquid environment plaguing crypto markets toward the end of June and into July. Although ETFs have been consistently acquiring BTC over the past nine days, other areas of the market had not demonstrated a reignition of animal spirits.

However, over the past week, we have seen compelling evidence that the broader market is shifting its risk-taking appetite, and that capital is returning.

Below, we see the rolling 5-day moving average for net BTC ETF flows. This metric has moved up convincingly since early last week.

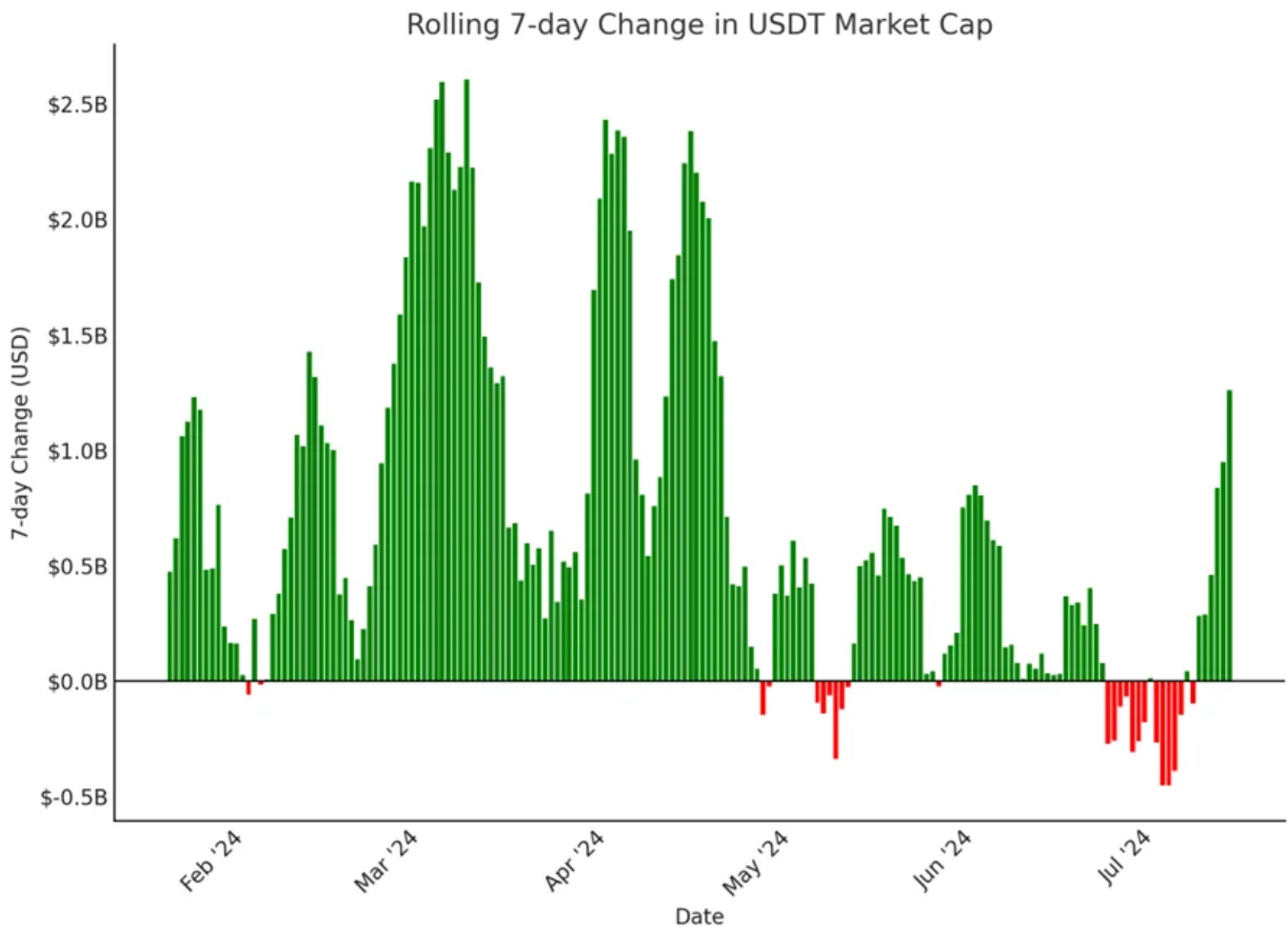


Similarly, the rolling change in stablecoin market cap is another good indicator of capital crossing from traditional financial markets to crypto markets. This metric has also shown a bullish pattern, with the aggregate market cap inflecting higher at the beginning of the month. Last week, we were hesitant to call this a conclusive bullish impulse, as we saw a similar increase in stablecoins at the beginning of June, only to be erased later in the month. However, this pattern has sustained itself for several weeks now.



Source: DefiLlama, Fundstrat

Perhaps the most constructive piece of evidence that this pattern has reversed is the sharp increase in USDT, which rose by \$1.2 billion over the past seven days—the most significant rise since April.



Source: DefiLlama, Fundstrat

Finally, it is worth looking at overall Bitcoin volumes, which serve as a good barometer for market participation. As shown below, there has been a sharp move higher in recent days, following the German-induced drawdown to \$53k. This is a positive sign and could indicate that liquidity conditions and market participation have troughed for the year.



Source: Coingecko, Fundstrat

A Good Time to Add SMLR – A Small Cap MSTR

Semler Scientific (SMLR) experienced a significant rally upon announcing its bitcoin treasury strategy in late May. Given the recent drawdown, we believe it is an opportune time to add SMLR to our crypto equities basket.

Company Overview

Semler Scientific is a medical technology company specializing in products that help physicians detect and diagnose peripheral arterial disease (PAD). For the trailing 12 months, the company reported approximately \$66 million in revenue and \$22 million in net income, reflecting a 33% net margin. Despite 20% topline growth in 2023, revenue declined in Q3 and Q4 after being front-loaded in the first half of the year.



Risks

In 2023, the Centers for Medicare and Medicaid Services (CMS) removed the HCC code for PAD without complications from the Medicare Advantage risk adjustment model for 2024. This regulatory change led to a nearly 50% drop in SMLR's stock price and a 12.6% revenue decline in Q1 2024 compared to the previous year. The company also faces high revenue concentration, with 80% of last quarter's revenue coming from just three customers.



Path Forward

Despite these challenges, Semler Scientific remains confident in the clinical value of their primary product, QuantaFlo, a non-invasive PAD screening tool. They are expanding their customer base beyond Medicare Advantage patients, targeting hospital systems, retail pharmaceutical markets, and delegated medical groups. They are also seeking additional FDA 510(k) clearance for other heart dysfunctions. A three-year phase-in of the CMS changes is expected to support continued PAD screening during the transition.

Investment Thesis

Unlike MicroStrategy (MSTR), a significant portion of SMLR's equity value is derived from its medtech business, making it subject to industry-specific and company-specific risks. However, we believe that over time, their bitcoin treasury strategy will outpace the impact of their operational company (OpCo) on the company's equity value, warranting its inclusion in our crypto equities basket.

Illustrative Analysis

We do not offer an opinion on the medical technology part of the business. Instead, we quantify the upside to the current stock price by holding their market valuation pre-BTC-treasury-strategy announcement constant and assuming the company exhausts its projected financing resources to acquire more bitcoin. Using MSTR as a comp, we calculate the current MSTR premium to the bitcoin on its balance sheet. Applying a conservative 3x multiple to its LTM revenues, we estimate a Premium to NAV of 127%, which we use as a market comp for SMLR.

**MicroStrategy Premium / Discount (as of Jul 18, 2024)****Actuals**

PPS	1,555
Shares (thousands)	17,737
Equity Value (\$MM)	27,585

Share Price from Trading View
From MSTR 8-K as of June 20, 2024

Fair Value

BTC Owned	226,331
BTC Price	63,983
BTC Value (\$MM)	14,481
TEV of OpCo (\$MM) ⁽¹⁾	1,958
Net Debt (\$MM)	(4,278)
Equity Value (\$MM)	12,162

From MSTR 8-K as of June 20, 2024
Price from Trading View
Total Value of BTC Held (USD)
Assumes Approx 3x LTM Revenues of Approx \$500 MM
From May 10-Q Plus Debt Issued on June 20, 2024

Discount / Premium	127%
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(1) Assumes 4x multiple on LTM revenue of \$490 million

For SMLR, we estimate the current premium to NAV at 152%, significantly higher than that of MSTR. While this may be off-putting to some, it is important to note that some of this premium might be pricing in the company's [recent prospectus](#) to issue a \$150 million convertible note and complete a \$50 million ATM equity offering, assumed to go towards purchasing more bitcoin.

Semler Scientific Premium / Discount (as of Jul 18, 2024)

Date 7/18/2024

Share Price	33.17	Price from TradingView
Fully-Diluted Shares	7,782	From SMLR 10-Q as of May 8, 2024
Market Cap (\$M)	\$258.1	

Cash	9	From SMLR 10-Q as of May 8, 2024, Excl. \$57 mm BTC purchase
Debt	0	From SMLR 10-Q as of May 8, 2024
Net Debt (\$M)	-\$8.7	

BTC	828	From Press Release Dated June 6, 2024
BTC Price (\$)	161,421	Implied BTC Price Holding TEV Constant
BTC Value (\$M)	\$133.7	

TEV (\$M)	\$115.8	TEV as of May 24, 2024 (pre BTC Treasury Strategy)
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BTC Price	63,983	Price from TradingView
Implied BTC Premium to NAV	152%	Implied BTC Premium Holding TEV Constant



Below, we assume that the notes and ATM offering are closed and BTC is purchased at the prevailing market price, holding the enterprise value constant. It is worth noting that, despite the outlined risks above, the reduced cost of capital due to their BTC strategy could actually result in multiple expansion. Applying the current MSTR premium to NAV to this revised cap structure and bitcoin treasury, we estimate an implied share price north of \$50, representing a 53% increase from Thursday's closing price.

Scenario: SMLR Issues Note + Completes ATM Offering		
Date	7/18/2024	
Implied Share Price	50.60	Price from TradingView
Shares Outstanding (Fully-Diluted)	8,594	Shares outstanding plus sale amount per S-3 dated June 6, 2024
Market Cap (\$M)	\$435	
Cash	9	From SMLR 10-Q as of May 8, 2024, Excl. \$57 mm BTC purchase
Debt	150	From SMLR 10-Q as of May 8, 2024, plus \$150mm Convertible Note
Net Debt (\$M)	\$141	
BTC	3,172	From Press Release Dated June 6, 2024, plus 3,137 BTC purchased
BTC Price (\$)	145,123	Implied BTC Price Holding TEV Constant
BTC Value (\$M)	\$460	
TEV (\$M)	\$115.8	TEV as of May 24, 2024 (pre BTC Treasury Strategy)
Current BTC Price	63,983	Price from TradingView
Theoretical Premium to NAV	127%	Current MSTR Premium

Finally, it is worth noting that this analysis does not contemplate any appreciation in BTC price. If BTC rises, SMLR's price is likely to follow. Given the current market conditions and strategic moves by Semler Scientific, now is an opportune time to add SMLR to our crypto equities basket.

Core Strategy

We acknowledge the near-term risk to the market from the ongoing transfer of BTC out of the Mt. Gox estate, which could result in short-lived downside volatility. However, with inflation continuing to fall, economic data remaining non-recessionary, and political tailwinds intensifying, we remain fully allocated.



Core Strategy Portfolio - July 18, 2024

Asset	Last Rebalance		First Added	Price When Added	Avg Cost Basis	Current Price	Return vs Current Cost Basis
	Date	Weight					
BTC	7/11/24	60.0%	1/16/23	21,188	38,547	63,989	66%
ETH	7/11/24	17.5%	1/16/23	1,577	2,634	3,426	30%
SOL	7/11/24	10.0%	1/16/23	23.59	104.26	159	53%
OP	7/11/24	2.5%	8/18/23	1.44	2.33	1.83	-22%
STX	7/11/24	2.5%	11/30/23	0.69	1.64	1.84	12%
RON	7/11/24	2.5%	3/13/24	4.41	3.88	2.32	-40%
IMX	7/11/24	2.5%	3/13/24	3.47	2.82	1.52	-46%
MKR	7/11/24	2.5%	5/21/24	3,087	3,077	2,816	-8%

Returns

	Since Inception	YTD
BTC	206%	45%
ETH	121%	46%
Core Strategy	172%	44%

Trade Ideas - July 18, 2024

Asset	Status	Date Opened	Date Closed	Return
DOGE	Closed	12/7/23	4/5/2024	85%
FIL	Closed	2/22/24	4/17/2024	-27%
AKT	Closed	5/17/24	5/23/2024	-6%
BONK	Closed	5/17/24	5/23/2024	44%
DOGE	Closed	5/17/24	6/13/2024	-6%
Average				18%



Crypto Equities - July 18, 2024

Asset	Status	Date Added	Date Closed	Return Since Added	YTD Return
Levered Proxies / ETP Arbitrage					
ETHE	Closed	6/22/23	3/13/24	242%	62%
MSTR	Open	5/2/24		38%	38%
ETHE	Open	5/20/24		10%	10%
SMLR	Open	7/18/24		NA	NA
Average				97%	37%
Crypto Financial Services					
COIN	Open	6/30/23		226%	25%
HOOD	Open	6/6/24		-1%	-1%
Average				113%	12%
Mining					
MARA	Open	6/30/23		71%	-16%
RIOT	Open	6/30/23		-7%	-38%
WGMI	Open	6/30/23		78%	11%
CLSK	Open	4/5/24		9%	9%
Average				38%	-8%
Mining + HPC					
WULF	Open	6/6/24		67%	67%
IREN	Open	6/6/24		0%	0%
CORZ	Open	6/6/24		29%	29%
BTDR	Open	6/6/24		29%	29%
BTBT	Open	6/6/24		31%	31%
HUT	Open	6/6/24		73%	73%
HIVE	Open	6/6/24		23%	23%
Average				36%	36%
Total Crypto Equities Average				57%	22%

Tickers in this Report: #BTC, #ETH, #SOL, #OP, #STX, #HNT, #RON, #IMX, #MKR, \$MSTR, #ETHE, \$COIN, #HOOD, \$MARA, \$RIOT, #WGMI, #CLSK, #WULF, #IREN, #CORZ, #BTDR, #BTBT, #HUT, \$HIVE



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