MRP CAPITAL INVESTMENTS, LLC

Cryptocurrency

8/26/2021

Inside this report:

Introduction

It seems everywhere you look these days people are talking about bitcoin and cryptocurrency. Despite everyone talking about it, no one really seems to know much about it. Given that the returns being generated on it are so wild, we think it is a good time to dig deep into the cryptocurrency markets.

Throughout this report, we will cover the following topics:

-What is Bitcoin?

-Why bitcoin?

-Why now?

-How to invest?

-What the future could hold for the digital asset market place?

As a sidenote to our readers, "Bitcoin" refers to the entire network and "bitcoin" refers to the virtual coin.

What is Bitcoin?

It appears to have all started with a group of, for lack of a better term, computer geeks who called themselves the "Cypherpunks." They were, effectively, Libertarians with an elite understanding of computers, technological innovation, programming, and cryptography. One of their most famous declarations was their 1993 "CypherPunk's Manifesto," which detailed their concerns for privacy in the digital age. Below are what I consider the highlights of that manifesto:

"Privacy is necessary for an open society in the electronic age. Privacy is not secrecy. A private matter is something one doesn't want the whole world to know, but a secret matter is something one doesn't want anybody to know. Privacy is the power to selectively reveal oneself to the world.…

privacy in an open society requires anonymous transaction systems. …

We the Cypherpunks are dedicated to building anonymous systems. We are defending our privacy with cryptography, with anonymous mail forwarding systems, with digital signatures, and with electronic money.

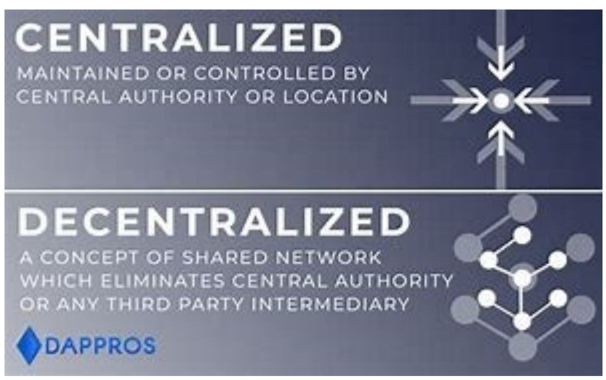
From there, these Cypherpunks, and other's of similar mindsets, set out to develop "currencies" that could be transacted over computer networks not controlled and run by governments and/or government entities.

With that, we see the genesis idea for cryptocurrency. Bitcoin, the most famous digital asset, is a consensus cybernetwork that enables an autonomous payment system and a completely digital money. It is the first decentralized peer-to-peer payment network that is powered solely by its users with no intervention by central authorities or middlemen.

In more simple terms, Bitcoin is nothing more than a mobile app or computer program that allows a user to send and receive bitcoins.

Behind the scenes, the Bitcoin network is sharing a public accounting ledger called the "blockchain". This ledger contains every transaction ever processed on the Bitcoin network, allowing a user's computer to verify the validity of each transaction. The authenticity of each transaction is protected by digital signatures corresponding to the sending addresses, allowing all users to have full control over sending bitcoins from their own Bitcoin addresses. In addition, anyone can process and verify transactions on the blockchain by using their own computer and some specialized hardware.

This public verification of the transactions makes up the backbone of Decentralized Finance. No one central authority needs to be “trusted” to get everything right. Rather, the community, as a whole, must agree the transactions are valid before anything is processed.



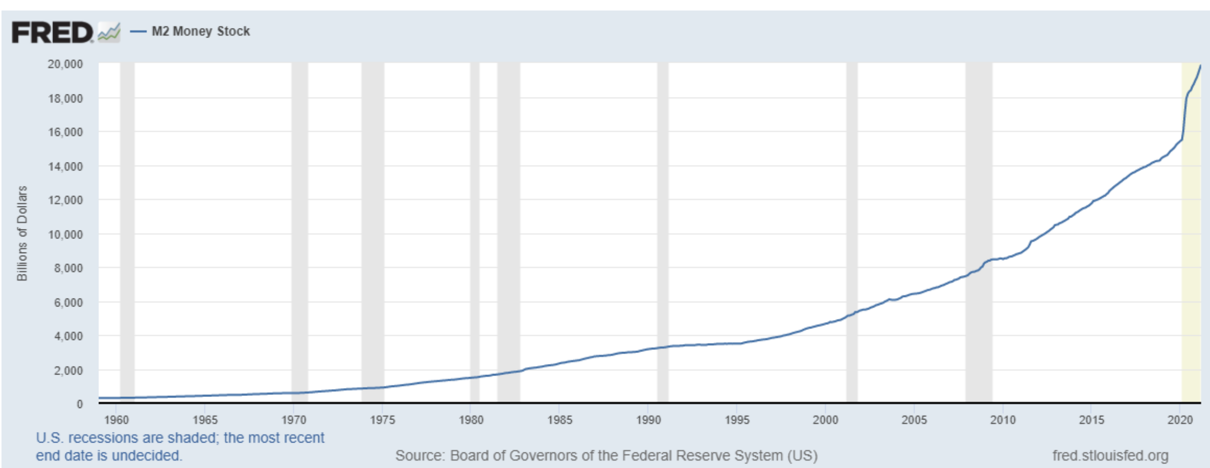
The Bitcoin ecosystem is the anonymous payment system that the Cypherpunks were striving to create. Since the creation of Bitcoin in 2009, there have been other cryptocurrency protocols developed and some have aspects that function better than Bitcoin’s ecosystem. The improvements that the Bitcoin protocol has brought to the market place combined with these other protocol’s improvements have shown that our current centralized financial system is far from perfect.

Why Bitcoin?

My entire reason to even consider bitcoin, and the cryptocurrency markets in general, comes from one specific thing and one specific thing only; the financial health of our current global economic system.

When someone really looks at the data, it certainly appears that the financial landscape of the global economy is in an unstainable trend. Prior to the 2008 Financial Crisis, global debt levels were $97 trillion and global GDP was $57.68 trillion. Now global debt is $281 trillion and GDP is currently estimated to be $83.844 trillion. To put all of that together since the financial crisis and after COVID, global debt has gone up $184 trillion and global GDP has only risen by $26.2 trillion.

To deal with all of this debt, world leaders decided to print money. And print money they have. In the U.S. alone, M2 (supply of money) has grown over 25% since late 2019. Which, naturally, has investors concerned with inflation.



M2 Supply from 1960-2021 supplied courtesy of The St. Louis Federal Reserve

To me, the most appealing aspect of bitcoin is that it has a fixed supply. Per the protocol's code when the mining for new coins is complete, there will have been 21,000,000 bitcoins created and that is all there ever will be created. This fixed supply theoretically makes bitcoin a perfect inflation hedge. As long as the market place values bitcoin, the more U.S. dollars, Japanese Yen, Euros, or any other currency that is being constantly printed, the price of the fixed amount of bitcoin should rise versus those currencies.

This perfect inflation hedge is what drew me to bitcoin and the current state of our economy is what makes me very excited about Bitcoin's potential. To summarize and clarify the reasons that I am interested in bitcoin's inflationary protections in our current market environment are:

Global economic trends that appear unstainable

Continued Government Overspending

Continued Money Printing to pay for overspending

Apparent lack of political will to stop this vicious cycle of currency debasement

Why Now?

Investors can see the potential for inflationary pressures to pick up in our current economic environment. To **protect** and **grow** our client's portfolios, we are looking for investments that offer one or both of those characteristics. Bitcoin is certainly an asset that is worthy of consideration given it has the potential to offer our clients both of those things.

Traditionally, the "go to" inflation hedge has been gold. To be as transparent as possible, I personally own gold and gold etf's and I frequently invest discretionary portfolios in a similar fashion. I think gold is a very good hedge against inflation. However when I compared and contrasted gold with bitcoin, I came to the conclusion that bitcoin deserves some serious consideration when trying to protect a portfolio against inflation and/or currency debasement.

Comparing and contrasting bitcoin to gold is an important process to go through. Gold has been a "safe haven" assets for decades. For some reason, people love gold despite that fact that it has very little use in the business world. Other metals, in almost every instance, are better than gold in industrial/business applications. But, nevertheless, the marketplace values gold. Most people/entities buy it, lock it up in a safe, and keep it forever.

This is fascinating to me because that is exactly what many investors do with bitcoin. Buy it. Lock it up. Keep it. As the world prints more money, bitcoin should go up in value as long as the market places a value on it. Which is precisely what happens with gold.

In a world that is increasingly moving towards becoming fully digital, the case can be made that bitcoin is superior to gold. Large amounts of gold are hard to store, while millions of dollars of bitcoin can be stored on a device not larger than a USB thumb drive. If you need to pay for something or move large amounts of it, it is a click of a button for bitcoin and a very laborious process of shipping and safeguarding for gold.

I've done a ton of analysis and I could go on and on comparing bitcoin to gold. A strong case can be made that bitcoin is the better asset to own as we move into the digital age. However, even if it is, this transition will take quite some time.

As people begin to seriously consider moving assets into bitcoin the question that always gets asked is, "am I too late to bitcoin?" Inherent in this question is, "what is the appropriate valuation of bitcoin?" To break this down, let's continue our gold comparison. Right now, bitcoin's market capitalization is right around $1 trillion and the amount of gold in investment portfolios is $11 trillion. If one considers bitcoin to be as good of an inflation hedge as gold, I'd make a strong case that their valuations should be equal. This would equate to a price for bitcoin that is right around $300,000 per coin, given bitcoins price at the time of writing this report.

Some more bullish bitcoin analysts think that it will replace gold completely as our world becomes more and more digital. This leads them to place a higher valuation on bitcoin. I am a bit skeptical of this as I can't see gold being completely erased from the menu of attractive inflation hedges.

But, nevertheless, bitcoin at current levels appears to have plenty of profit potential and its anti-inflationary characteristics seem to be ideally situated for our current environment. Which leads many investors to consider owning bitcoin and/or other cryptocurrencies right now.

BITCOIN VS GOLD

(As of 08/26/2021)

SUPPLY	21 million	Unknown
STORAGE	Digital Wallet	Safe or Vault
MARKET CAP	$1 Trillion	$11 Trillion
GAINS IN 2020	300 %	23%
FIRST USED AS A CURRENCY	2009	500 B.C.
ALL-TIME PRICE HIGH	$63,729.5	$2,067.15

How to invest?

Since this asset class is still fairly new, actually investing in it is difficult. Major brokerage firms are running as fast as they can to set up the infrastructure that will allow them to offer cryptocurrency to their clients. But until regulators figure out exactly how to classify cryptocurrency and, therefore, who is in charge of actually regulating it, many investors are in a bit of a quandary regarding how to invest.

A popular way to invest in bitcoin is through the Grayscale Bitcoin Trust (GBTC). This trust is offered by some brokerage firms. It is great in that it gives many investors easy access to an asset that closely resembles bitcoin. However, there are a few key disadvantages.

First off, they charge very high fees. The fee for this fund is 2% per year. What do investors get for their 2%? Aside from exposure to an asset that is somewhat linked to the price of bitcoin, not much. Grayscale buys bitcoin and holds it. That is it. In fact, the price of the trust is driven by the demand for it, not the NAV of its underlying assets. Therefore, the actual market price for the trust might be at a premium or discount to the actual value of bitcoin it holds.

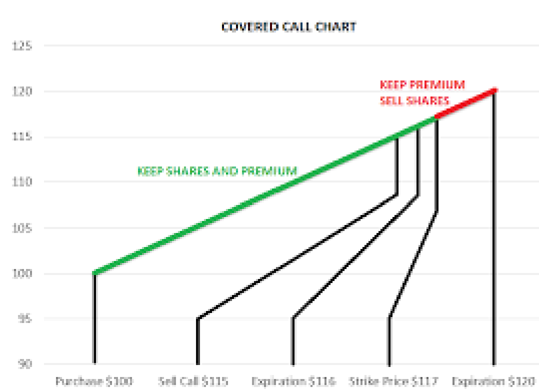
Again, it is great that this option is available at many brokerage firms, but all they do is buy bitcoin and hold it. And you don't actually own bitcoin. You own shares in a trust that owns bitcoin. You can not withdraw your bitcoin. You can not transact on the Bitcoin network. You simply own an asset that tries to mimic the price of bitcoin.

As I began looking into ways to enhance returns in excess of simply holding the Grayscale Bitcoin Trust, all things being equal, it was obvious that buying bitcoin directly could avoid that 2% fee all together. Due to the fact that the traditional brokerage firms don't have an infrastructure in place that can handle cryptocurrency transactions and custody, finding places to efficiently and safely buy and hold bitcoin is a bit of an ordeal.

In fact, the process of simply opening accounts is frustrating due to the newness of the crypto industry combined with the massive surge in demand for their services. To be frank, they seem overwhelmed. And then when you add in this new and overwhelmed industry's need for diligence regarding their "Know Your Client" reviews, the delays and frustrations go to another level. It takes time and is a hassle, but I have done all of that leg work and am in position to help get clients access to bitcoin (and other cryptocurrencies) and not have to pay that big 2% fee.

Furthermore, there are firms that will pay you interest to simply hold your crypto assets with them. Right now, I have some of my personal bitcoin assets being housed at specific custodians that are paying me interest to simply hold it there. By doing these two things, I have avoided the 2% fee and added an income stream to my portfolio. This will boost my annual returns when compared to the Grayscale Trust, assuming GBTC tracks Bitcoin's price.

I have also discovered places to write calls on my bitcoin holdings to further enhance returns. There are futures contracts that can be used as well. Additionally, there are other exciting opportunities in the crypto world that warrant discussion, but those conversations can get very detailed and complex. Given the length of this report, we will offer those conversations up for anyone who has interest in meeting face to face to discuss.



In the world of cryptocurrency, Bitcoin is not the only asset. And, therefore, not the only investment opportunity. There are a tremendous amount of other coins. In fact, there are too many to cover in this report. But I need to touch base on one. That one is Ethereum. It is a protocol, like Bitcoin, that has its own network. However, this network is faster than Bitcoin's and it has an added feature of smart contracts being imbedded in its blockchain. These smart contracts are considered to be revolutionary and could change the business world as we know it. A major event involving Ethereum just occurred in the last few months, which we posted on our website (www.mrpci.com) in the Capital Market Notes section on April 29, 2021. Verbatim, here it is:

"One of the most interesting things I've ever seen is occurring right now.

The European Investment Bank (EIB), according to Bloomberg, is selling "Digital Bonds" on the Ethereum blockchain. The EIB is the lending arm of the European Union. They are the biggest multilateral financial institution in the world and one of the largest providers of climate finance. Ethereum is the second largest cryptocurrency blockchain protocol, with only Bitcoin having a larger market capitalization.

This digital bond offering is the first of its kind. Goldman Sachs, Banco Santander, and Societe Generale are underwriting the offering, which consists of €100 million (roughly $121 million) issuance of two-year notes that are set to be priced next Tuesday.

The Ethereum protocol's unique value-added proposition in the cryptocurrency/decentralized finance space focuses on their "smart contracts" which are embedded in the transactions on their blockchain. The long-term usefulness of these smart contracts are being tagged as revolutionary to the business world as they could save time and expense on any transaction that involves any type of contract between buyers and sellers. For instance, these digitized contracts could streamline the home buying process.

I find it beyond fascinating that the world's largest multilateral financial institution, with a very large focus on combating climate change, has teamed up with some of the most powerful global investment banks for the first ever digital bond offering through a cryptocurrency protocol.

This is a clear sign that the dawn of a new era in finance is upon us."

What does the future hold?

It is clear to me that what the future holds for digital assets is “mass adoption.” Much like the internet craze of the late 1990s, this mass adoption will bring about some massive winners in terms of individual investments and some investments that go to zero. In my mind, there is no question that mass adoption is coming and with it the build out of the digital asset infrastructure used to support these Decentralized Financial systems. The moves being made by PayPal, Square, Visa, and Mastercard to implement the processing of Bitcoin payments is only the tip of the iceberg in terms of this infrastructure buildout.

As was mentioned earlier in this report, the world’s larger brokers, investment banks, and commercial banks are running as fast at they can to not get left behind in this industry’s development. This will, undoubtedly, cause billions of dollars to flow into further enhancing the cryptocurrency platforms.

However, the potential **game changer** will be adoption of digital currencies by Central Banks (CBDC’s). This should finalize the push towards an all digital world. Transactions should be more efficient and visible with the CBDC and, therefore, tax collections should be a lot more robust.

Frankly, I do believe the CBDCs will change the world as we know it. It is my supposition that any firm operating without a fully functional digital asset platform, much like a robust internet platform in the early 2000s, will be left in the dust by their competitors. This digital transformation is real, but it is just in its infancy. There are lots of opportunities and lots of risks. We feel that by putting in the legwork now, we can keep our client's portfolios a step ahead of the this transformative process in the markets.

Risks

To go along with the many great aspects concerning cryptocurrency and decentralized financial markets, there are also many risks associated with them as well.

Government intervention is probably the most discussed risk. We've seen some countries try to ban cryptocurrencies, but in most instances the Government issuing notices about the pitfalls of investing in the cryptocurrency markets is one of the most common actions. The purpose of such warnings, which are mostly issued by central banks, is to inform the public about the difference between actual currencies, which are issued and guaranteed by the government, and cryptocurrencies, which are not. Many of the warnings issued by different countries also highlight possibilities for illegal activities such as money laundering and terrorism arising from cryptocurrencies. As of now, the United States seems to be leaning towards regulatory improvements rather than any type of ban.

Custody of digital assets is a concern because, unlike fiat currencies, cryptocurrencies require digital wallets to store them. These wallets are not government issued and lack the protections provided by government backing. These wallet are a fairly new invention and so are the decentralized exchanges that these wallets interact with. This newness makes holding these assets a process for most investors.

Security of the entire network, not just the assets held in individual wallets, is a source of concern. Currently, we are seeing an inflow of institutional capital because the security concerns are being somewhat alleviated. However, a big new hack could reverse this very quickly.

ESG Impact is another issues to consider. Given the fairly new global focus on energy consumption, the energy consumption by the "miners" on the crypto networks could become an issue concerning the long-term viability of the industry.

Wrong Coin and/or New Technology could be a risk too. We've talked a lot about bitcoin in this newsletter, but there are quite a few more cryptocurrencies to choose from. Ethereum, Binance, Ripple, and Swipe are but a few of the available coins and all have some interesting technologies that make them worthy of consideration. Picking the wrong one could be a big risk as these markets mature and some flourish and others wither.

Let's make no mistake about it, there are a heck of a lot more risks to discuss. This asset class is new and, with that, it has a lot of kinks to work out. These "kinks" can be a risk to investors, but they can also be opportunities for investment. Which is why we think investing your total portfolio into a broadly diversified pool of assets is the best choice. Including some crypto in your investment portfolio might make sense for some investors, but a conversation with your financial advisor is recommended before that decision is finalized.

Throughout this report, we hope that we have outlined what bitcoin/cryptocurrency is, why someone might consider investing now, and what the future might hold for this asset class. It is an interesting new arena, should anyone have questions feel free to reach out to us at your convenience.

Appendix

This report is an amalgamation of my personal experience in the digital asset space and my research on the topic from other reputable sources. Four of my most utilized outside sources are listed below. I list them here because I think they are very important to read if someone truly has an interest in learning more about the crypto space.

When I began drafting this report, I was 40 pages deep but was only half way through the information I wanted to pass along to clients. My team and I discussed this and decided that very few people would read an 80 page report. With that, we trimmed our report to 14 pages and offered more of a high level view of the topics. But, as was mentioned above, we have listed the reports below that will give our readers that deep dive type of research that they may be interested in. And, as always, we are a phone call away to discuss and/or set up a face to face meeting.

The most important research piece I've ever read about cryptocurrency was put out by Citigroup in March of 2021. It is titled "Bitcoin: At a Tipping Point." It is a 108 page report that does a DEEP DIVE into the world of digital assets.

Furthermore, PWC in 2016 wrote a report titled "A Strategist's Guide to Blockchain." I think it is vital research report to read.

Ray Dalio's January 2021 piece called "What I think of Bitcoin" is a must read for anyone who is interested in the concept of bitcoin as digital gold.

And concerning adding crypto to your overall portfolio, Morgan Stanley's March 17, 2021 report "The Case for Cryptocurrency as an Investable Asset in a Diversified Portfolio" is excellent.

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