

Zero to One: The Biggest Change in Crypto

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IN THIS ISSUE, WE DISCUSS:

- >> We're no longer talking about whether crypto will play a role in our future — now the question is how big that role will be.
- >> This is a profound realignment that will embolden new waves of capital and talent to enter the space.
- >> As it becomes clearer that crypto isn't going away, the kinds of risks that investors are willing to take will start to shift as well.

“Tulip bulbs.” “Ponzi scheme.” “The bubble of all bubbles.”

It wasn't long ago that these words were in common rotation, used by everyone from Warren Buffet to Jamie Dimon to dismiss crypto out of hand.

Oh my, how things have changed.

As I sit down to write this piece, the cover stories of both **Barron's** and **The Economist** are focused on crypto, and the scope and tone of the pieces are stunning.

Barron's: *The war over money is heating up. For the first time in more than a century, the dollar's supremacy is being challenged. The rise of cryptocurrencies and “stablecoins” has spurred a rethinking of what a currency is, who regulates it, and what it means when it's no longer controlled by a national government.*

The Economist: *[T]he rise of an ecosystem of financial services, known as decentralised finance, or “DeFi,” deserves sober consideration. It has the potential to rewrite how the financial system works, with all the promise and perils that entails.*

Challenge the dollar? Rewire the financial system?

Two years ago, such words were consigned to fringe crypto media. They would get you laughed out of polite company. But today, they are everywhere, echoing from the boardrooms of Wall Street to the bike paths of Silicon Valley to the cloistered halls of Washington, D.C.

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THE IMPACT OF GOING FROM ZERO TO ONE

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What's changed for crypto since 2019? We've gone from zero to one.

Last week I spoke on the lead panel of the Blockworks Digital Asset Summit in New York. The event was sold out; the Cipriani South Street packed with 800+ institutional investors, family office advisors, crypto market participants, and more.

It had been two years since this conference was last held (the 2020 meeting was canceled due to Covid), and the moderator asked us: *What's changed since 2019?*

My answer was simple: We've gone from zero to one.

Over the past two years, we've had a series of major zero-to-one moments that unlocked huge waves of progress in crypto.

- In May 2020, Paul Tudor Jones became the first major hedge fund investor to publicly allocate to crypto ... and now 10 of the top 100 hedge funds by AUM are Coinbase clients.
- In August 2020, MicroStrategy became the first publicly traded company to put crypto on its balance sheet ... and now dozens of companies are taking that step.
- Earlier this month, El Salvador became the first country to make bitcoin legal tender ... and now others are starting to line up behind it.

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But by far the biggest zero-to-one moment has been the simple recognition that crypto isn't going away.

Two years ago, even at a crypto conference, there was an uncomfortable undercurrent to crypto conversations; a worry, among many professional investors, that they'd wake up someday and see that crypto was just a fad.

But with most major banks and wirehouses now facilitating bitcoin investment ... with the rise of DeFi and NFTs ... with the potential approval of a bitcoin futures ETF later this year ... those conversations have ended.

That's a game-changer, both for the space as a whole and for investors specifically.

For the space, ending the zero-or-one debate will unlock new waves of capital and human talent. If crypto isn't going away, it becomes a lot easier to bet your career on crypto; if DeFi is here to stay, it makes more sense to invest billions in integrating with the ecosystem; and so on.

For investors, however, the shift is more meaningful still.



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If crypto isn't going away, mentioning it to clients isn't an existential threat. There's less career risk in recommending an asset that is held by some of the top financial institutions in the world than the “magic internet money” Warren Buffett laughed at.

If crypto isn't going away ... if it could tackle markets as big as *Barron's* and *The Economist* suggest ... if it might rewire the entire financial ecosystem ... it stops looking quite so risky to invest in the space, and starts looking quite a bit riskier to ignore it.

CONCLUSION

None of this is to say that crypto is in the clear. The space remains volatile and the outlook uncertain. There are icebergs ahead, including challenging regulatory questions that could stunt the growth of certain markets. As always, investors should not invest more than they can afford to lose and should understand that drawdowns are par for the course.

But the questions have started to get more interesting in crypto, and that's a big deal.

It's going to be an exciting 12 months.

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ABOUT BITWISE

Based in San Francisco, Bitwise is one of the largest and fastest-growing cryptoasset managers. As of August 31, 2021, Bitwise managed over \$1.3 billion across an expanding suite of investment solutions. The firm is known for managing the world's largest crypto index fund (OTCQX: BITW) and pioneering products spanning bitcoin, ethereum, DeFi, and crypto-focused equity indexes. Bitwise focuses on partnering with financial advisors and investment professionals to provide quality education and research. The team at Bitwise combines expertise in technology with decades of experience in traditional asset management and indexing, coming from firms including BlackRock, Blackstone, Facebook and Google, as well as the U.S. Attorney's Office. Bitwise is backed by leading institutional investors and asset management executives and has been profiled in Institutional Investor, CNBC, Barron's, Bloomberg, and The Wall Street Journal. For more about Bitwise, visit www.bitwiseinvestments.com.

ABOUT MATT HOUGAN

Matt Hougan is one of the world's leading experts on crypto, ETFs, and financial technology. He is the Chief Investment Officer for Bitwise Asset Management, the world's largest provider of cryptocurrency index funds. He was previously CEO of ETF.com and Inside ETFs, where he helped build the world's first ETF data and analytics system, the leading ETF media site, and the world's largest ETF conference. Matt is co-author of two publications for the CFA Institute Research Foundation: “A Comprehensive Guide to Exchange-Traded Funds” and “Cryptoassets: The Guide to Bitcoin, Blockchain and Cryptocurrencies for Professional Investors.” He is a crypto columnist for Forbes, a three-time member of the Barron's ETF Roundtable, a member of ETFdb's ETF Hall of Fame, and the eighth person to receive a Lifetime Achievement Award from ETF.com for contributions to the ETF industry.



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