



P A N T E R A

CRYPTO MARKET THOUGHTS

CONFERENCE CALL



# Agenda

## CRYPTO MARKET THOUGHTS

Given the recent activity in both cryptocurrency and broader markets following COVID-19's outbreak, we want to provide our thoughts on what has transpired thus far, and how we are positioning ourselves moving forward.

- Pantera Operations
- The Macro Environment
- Crypto Markets
- Fund Positioning
- Understanding the Virus
- Forward Outlook



# Pantera Operations

## ADJUSTMENTS

Pantera is continuing to follow recommendations from the CDC and other experts during this time.

We are monitoring updates closely and will share any information that has material effects on our operations.

### **Remote Work Policy**

Pantera employees are working remotely and can be contacted via email or cell phone.

### **Digital Meetings**

All Pantera employees are equipped with video conferencing software (Zoom) and can host live video meetings upon request.

### **Hours of Operations**

Hours of operation will remain the same. The best way to communicate with us is through [ir@panteracapital.com](mailto:ir@panteracapital.com).



# The Macro Environment



# *Free To Choose*

## AN EXCEPTION TO THAT RULE

*“Free to Choose: A Personal Statement maintains that the free market works best for all members of a society, provides examples of how the free market engenders prosperity, and maintains that it can solve problems where other approaches have failed.”*



# COVID-19

## THE BLACK SWAN OF BLACK SWANS

A massive pandemic is a black swan of black swans.

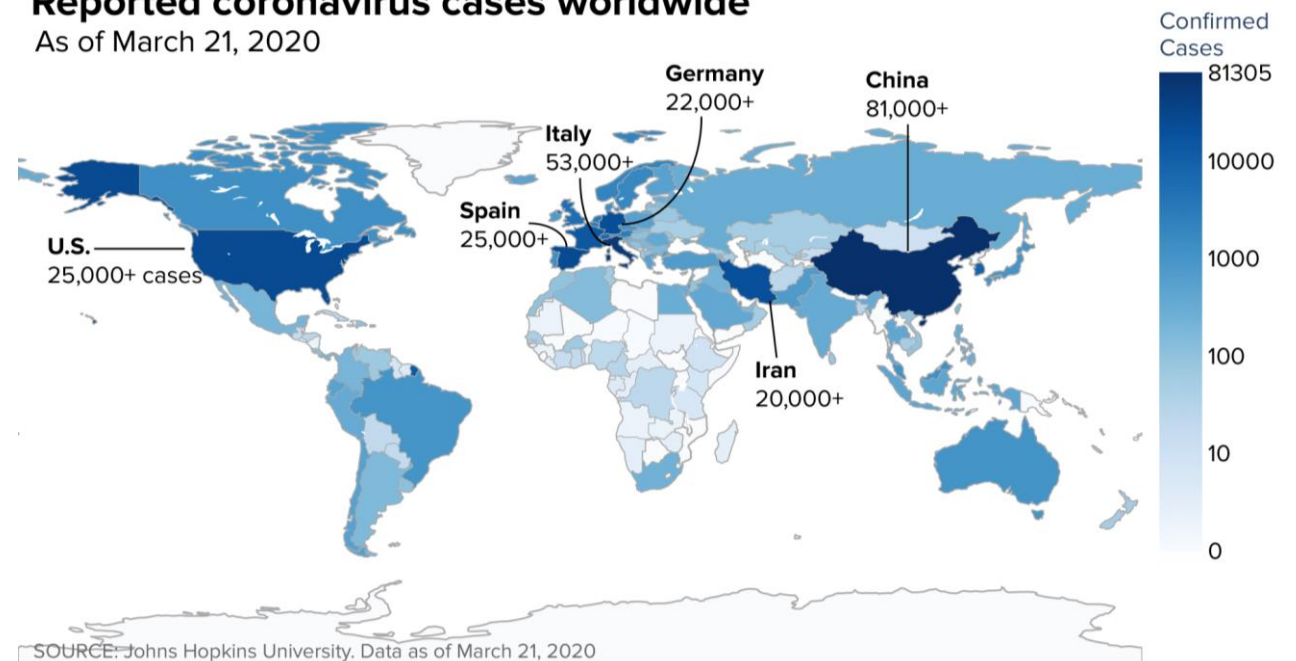
This one is especially unique in that it is causing supply shocks, demand shocks, and healthcare system shocks that are rippling through all industries and locations.

A **black swan** is an unpredictable event that is beyond what is normally expected of a situation and has potentially severe consequences.

Black swan events are characterized by their extreme rarity, their severe impact, and the widespread insistence they were obvious in hindsight.

### Reported coronavirus cases worldwide

As of March 21, 2020



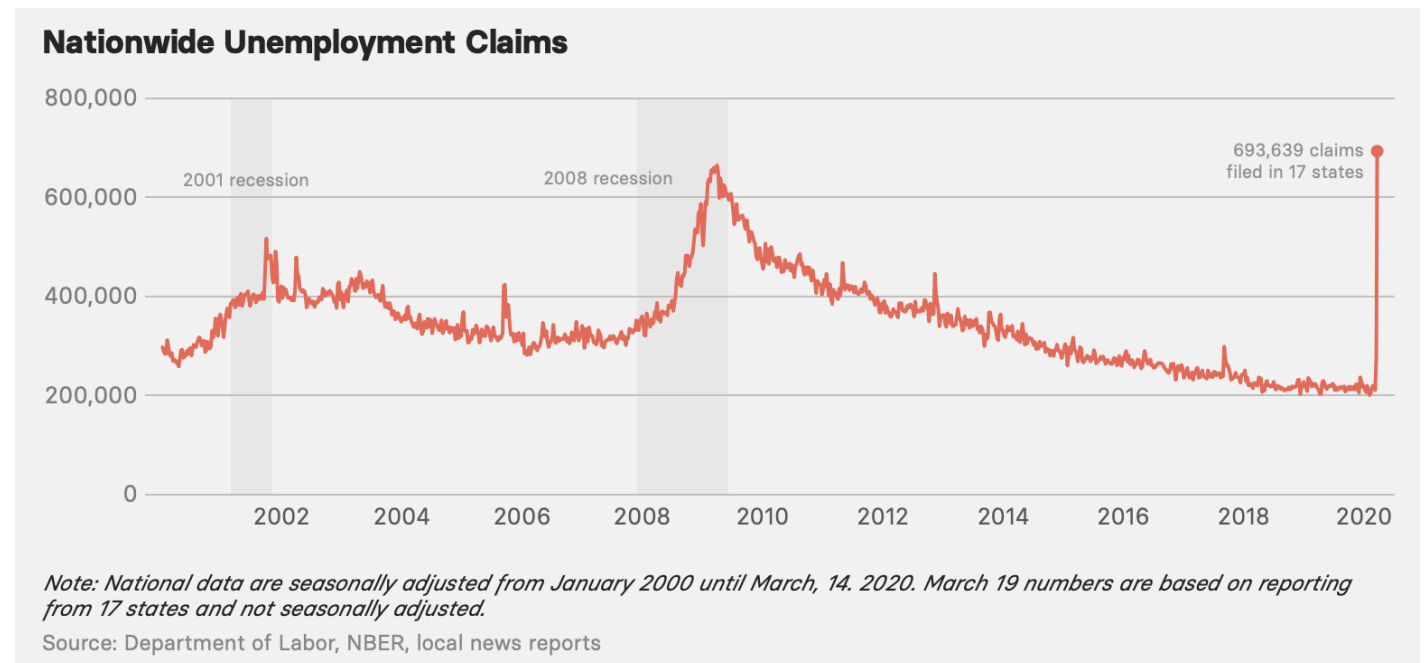


# Demand Shocks, Supply Shocks...

## RIPPLING EVERYWHERE

Factories are being shutdown, businesses are closing, people aren't spending, jobs are being lost.

This downturn has resulted in jobless claims at a faster and steeper rate than the credit crisis or the recession following 9/11.





## WEAKENING

# Macro Environment

The S&P 500 is currently down 25%. Oil dipped below \$20. The Dow has had some of the largest single-day drawdowns in history.

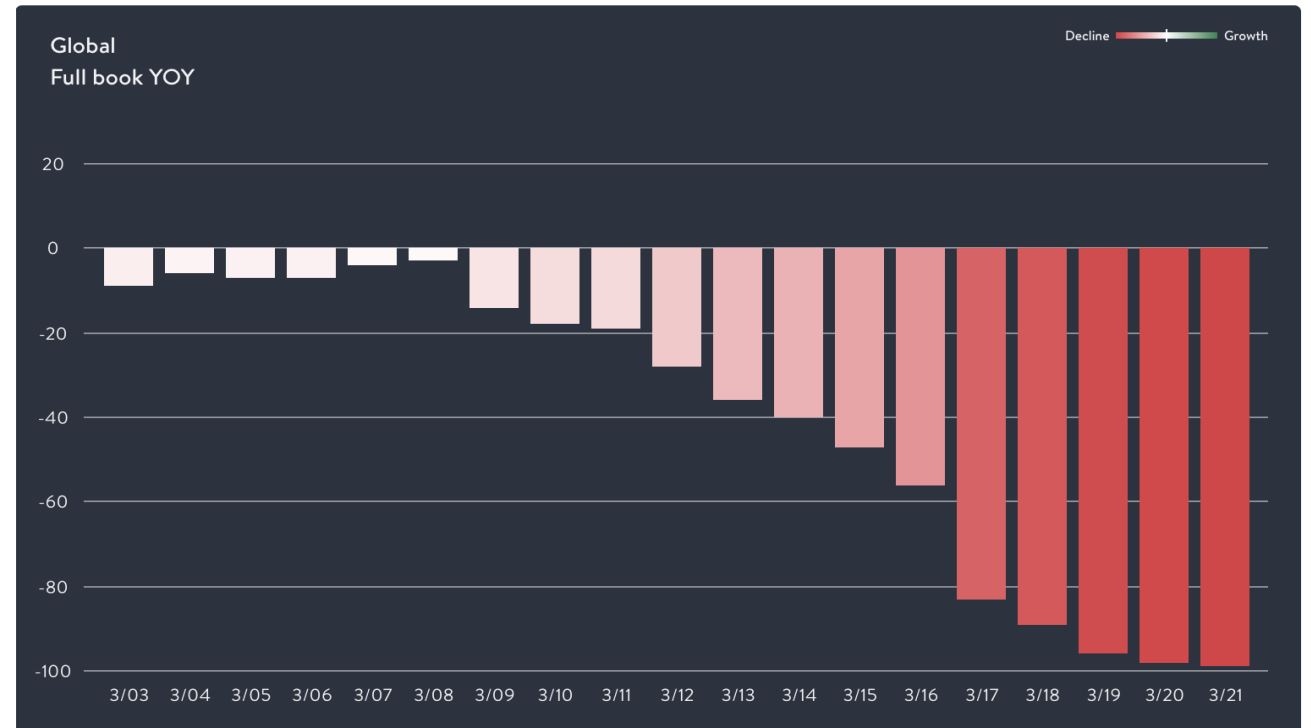
We anticipate a severe weakening of the global economy to play out over the ensuing months.

There's a lot of pain occurring across all markets and asset classes.

Source: Opentable

## Year-Over-Year Restaurant Bookings

| Name           | 3/21  | 3/20  | 3/19 | 3/18 | 3/17 | 3/16 | 3/15 | 3/14 | 3/13 | 3/12 | 3/11 | 3/10 |
|----------------|-------|-------|------|------|------|------|------|------|------|------|------|------|
| Global         | -99%  | -98%  | -96% | -89% | -83% | -56% | -47% | -40% | -36% | -28% | -19% | -18% |
| Australia      | -54%  | -52%  | -53% | -50% | -43% | -30% | -12% | -11% | -8%  | -12% | -10% | -4%  |
| Canada         | -100% | -100% | -99% | -97% | -94% | -60% | -47% | -41% | -40% | -28% | -19% | -18% |
| Germany        | -100% | -99%  | -98% | -95% | -90% | -63% | -46% | -38% | -28% | -17% | -11% | -16% |
| Ireland        | -99%  | -99%  | -99% | -97% | -86% | -70% | -75% | -52% | -51% | -46% | -27% | -28% |
| Mexico         | -91%  | -85%  | -78% | -73% | -62% | -48% | -35% | -21% | -16% | -16% | -15% | -16% |
| United Kingdom | -100% | -94%  | -91% | -88% | -82% | -52% | -31% | -20% | -26% | -24% | -14% | -17% |
| United States  | -100% | -99%  | -98% | -91% | -84% | -56% | -48% | -42% | -36% | -28% | -19% | -18% |







# Global Margin Calls

As economic activity comes to an abrupt decline, two global margin calls have started to sweep throughout the financial system.

Both cause an indiscriminate sale of assets across asset classes to fund the liabilities/expenses.

## Balance Sheet (related)

Leveraged financial positions are being sold to fund liabilities.

## Income Statement (related)

The loss of business revenues is leading to the sale of assets to fund expenses.

Crypto is not immune to these margin calls.



# Crypto Markets



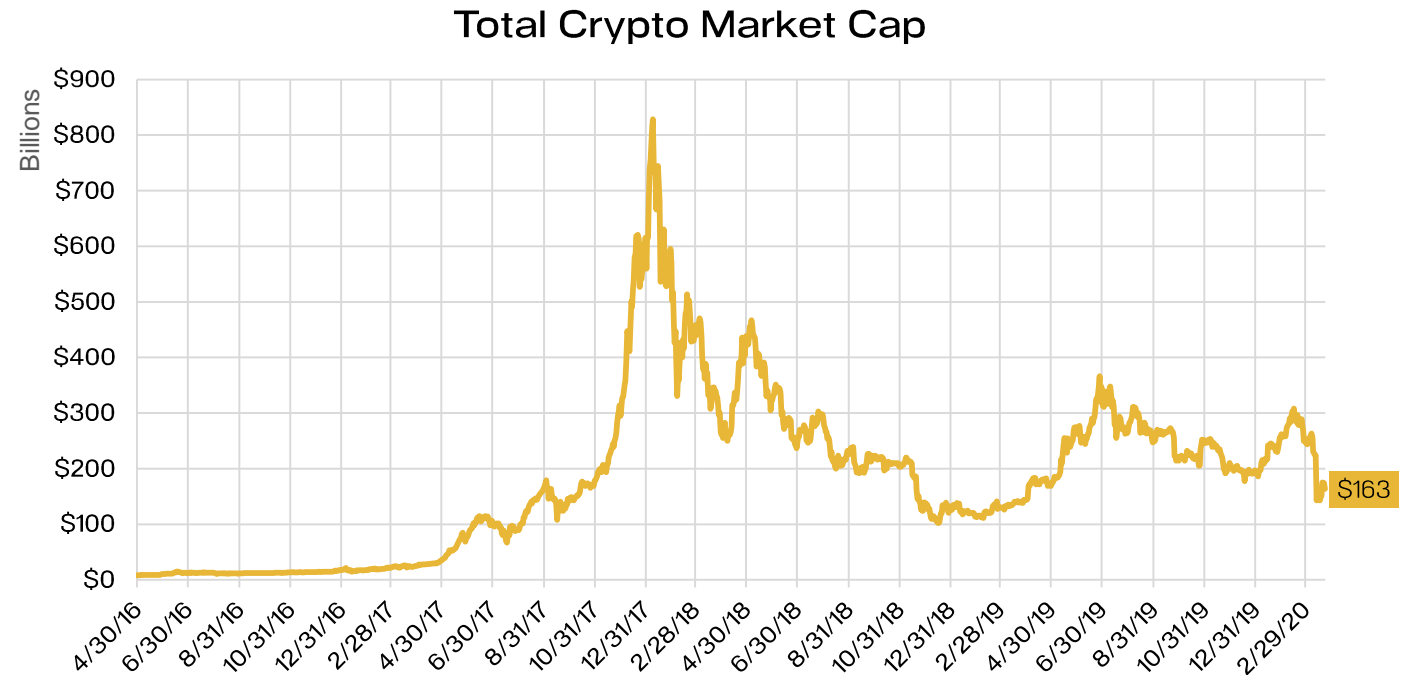
# Risk-On or Risk-Off?

## CRYPTO AS AN ASSET CLASS

A common misconception is that crypto, in the short-term, serves as a risk-off safe-haven asset.

Although we believe this should hold true over the long-run, it is clear that leading into this downturn, it was not ready to be.

Impending stimulus and QE could change this narrative quickly though.





# Correlations in Crises

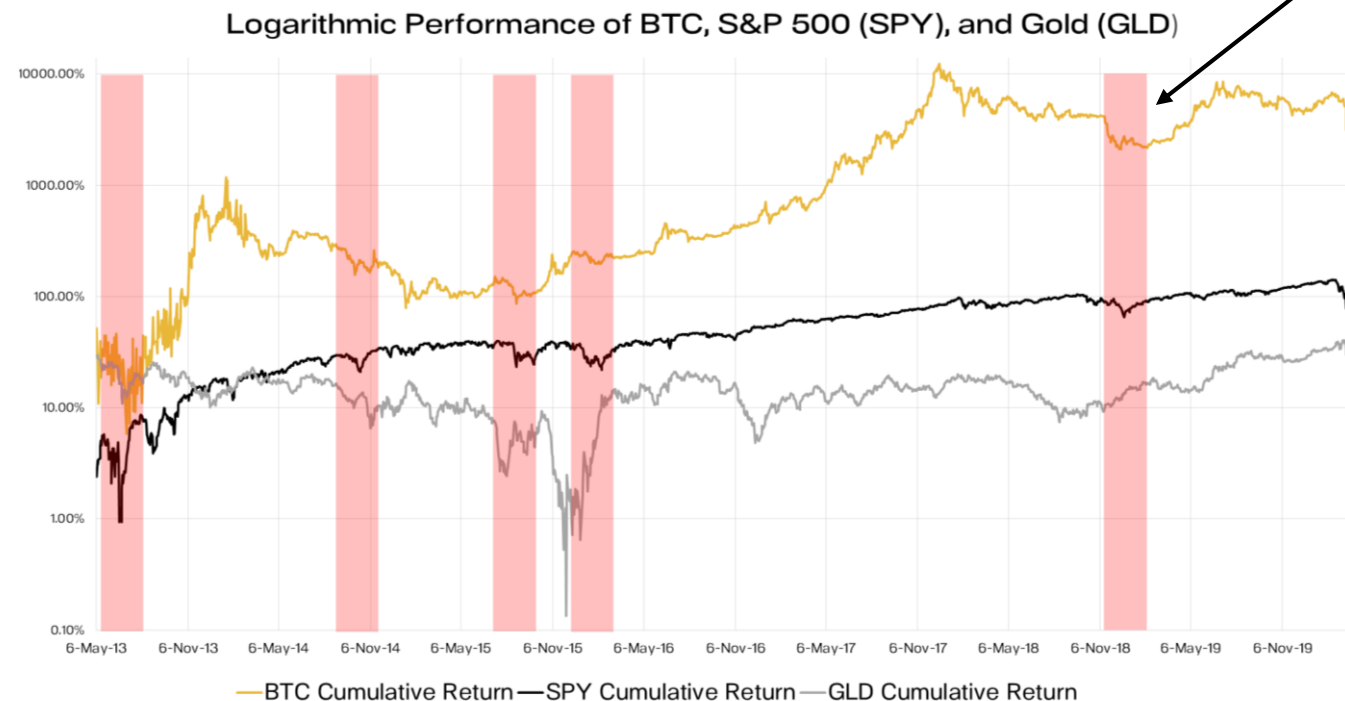
## ALL GO TO ONE

Despite Bitcoin being uncorrelated in trending or range bound markets, it is not uncorrelated in sharply down equities markets over short periods.

In this crisis and ones of the past, it seems that all asset correlations seem to go to one. Even treasuries last week saw a sell-off on some days (there was one notable day when equities, gold, and treasuries went down a sizable amount).

- Bitcoin remains essentially non-correlated over the long-term to equities
- This does not exclude it from showing +/- correlations in short-term cycles

Downturns in  
SPY & BTC



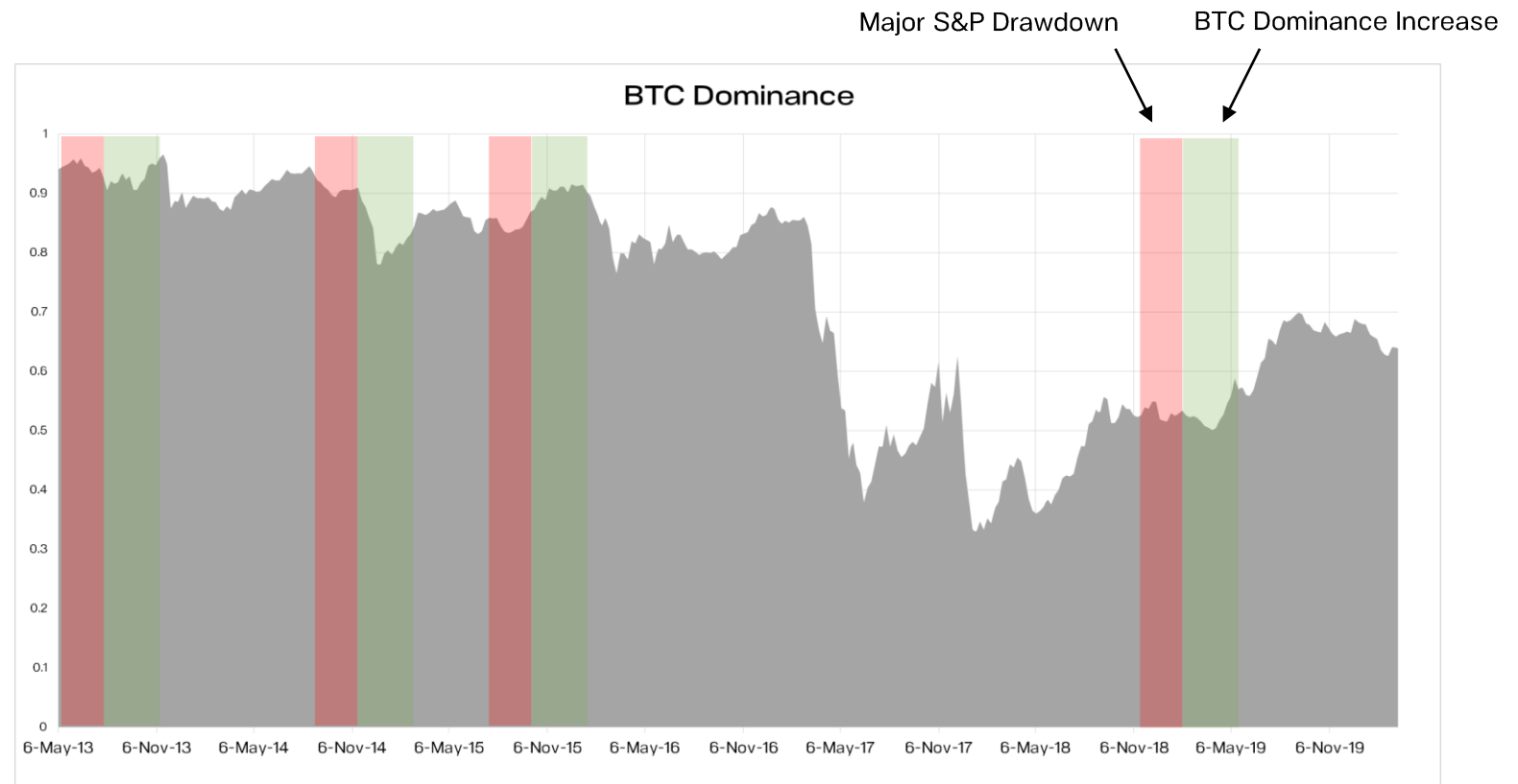


# Bitcoin Dominance Pattern

## IN RELATION TO S&P 500 DRAWDOWNS

Bitcoin dominance has risen relative to other digital assets around major SPY drawdowns – avg. growth of 8% over a 4-month period.

We anticipate Bitcoin to do the same this time and have rebalanced our portfolio accordingly.





# Crypto-Asset Movement

## MARKET REACTION TO COVID-19

Since Bitcoin's high on February 11<sup>th</sup>, nearly all assets are down an avg. of -50% relative to bitcoin's -39%.

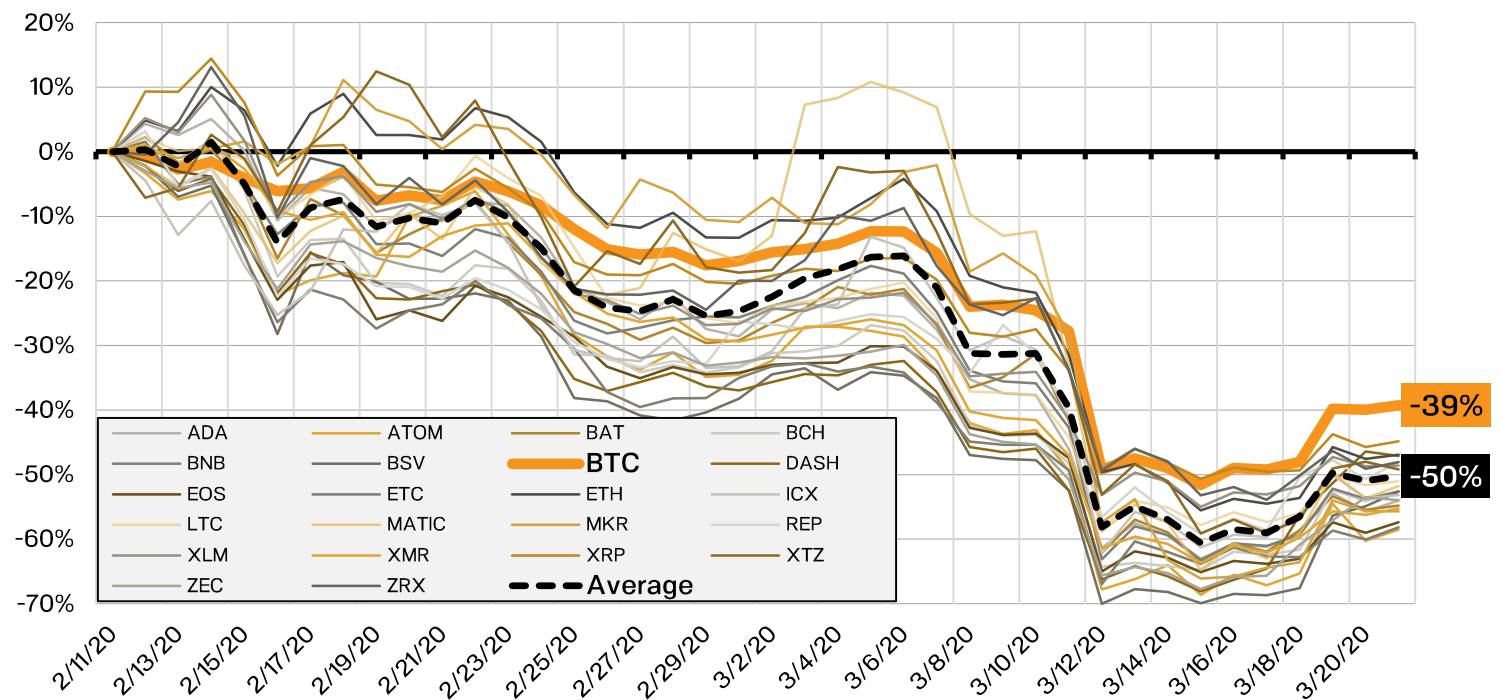
Bitcoin tends to act as a “safe-haven” within the crypto-asset sphere as perceived risk is lower than other digital assets.

A few reasons contributing to this:

- Longest track record
- Most widely owned
- Fixed supply
- Most liquidity

Note: not all cryptocurrencies are shown in the graph

Crypto-Asset Movement





# Added Sell-Side Pressure

## BITMEX HACK AND PLUSTOKEN SCAM

Although Bitcoin has recovered to be about on par with the S&P 500's drawdown shedding approximately 1/3 of its value, you probably noticed it take a huge plunge touching \$3800/BTC.

There is speculation of a couple reasons for this temporary outsized dip:

1. **BitMEX DDoS Attack**
2. **PlusToken Scam Sell-Off**

### **PlusToken:**

A ponzi scheme exposed in the summer of 2019 stealing tens of thousands of BTC.

### **What we know:**

A researcher tracking the stolen bitcoin claims 13,000 BTC were moved out of PlusToken wallets into mixers.

This allegedly occurred on March 5<sup>th</sup> (BTC was at \$9000).

### **What may have happened:**

We believe PlusToken coins entering the market have been adding fuel to the sell-side pressure forcing BTC even lower.



# BitMEX DDoS Attack

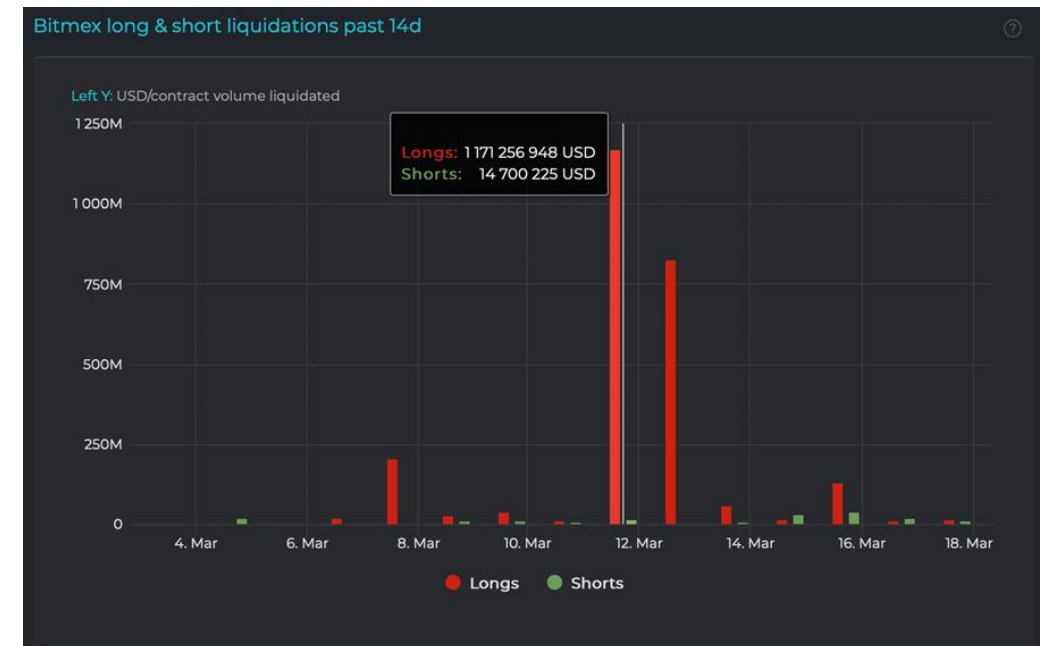
**\$1.17 BILLION LONG POSITIONS LIQUIDATED**

**BitMEX:** A leading crypto exchange and derivatives platform.

**What we know:** A DDoS attack successfully halted trading for 25 min.  
The attack occurred on March 12th (\$6000/BTC).  
Bitcoin shortly after dropped to \$3800.

**What may have happened:** This likely caused a series of cascading margin calls that led to the liquidation of \$1.2bn in BTC long positions.

(note: \$1.2bn on \$20bn of total daily crypto trading volume is very significant)







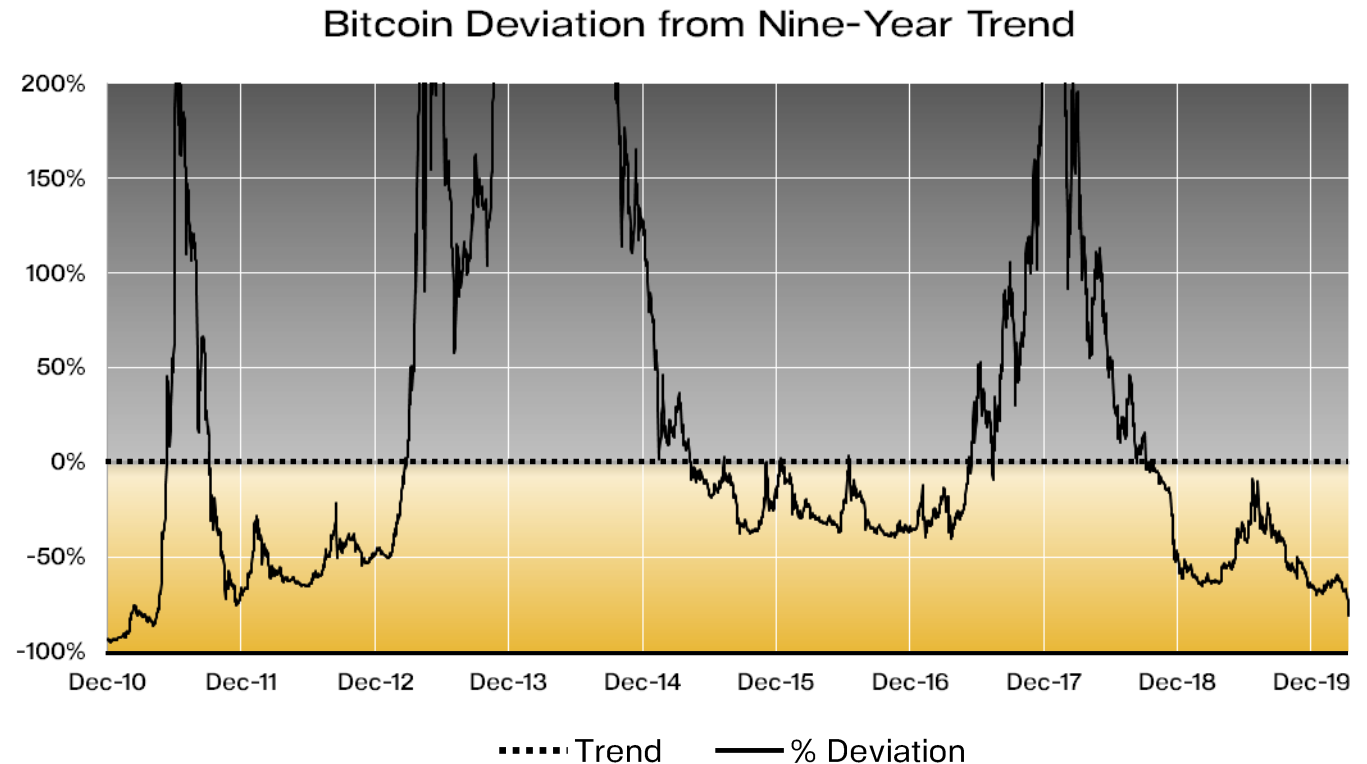
# Deviation From Trend

## BITCOIN PRICE

The price of Bitcoin has been pushed down significantly below its nine-year logarithmic trend.

Bitcoin's deviation from its trend is the most it's been since April 2011, currently at the 3<sup>rd</sup> percentile.

Note: Pricing data taken from Dec 1, 2010 – March 12, 2020





# Fund Positioning



# Digital Asset Fund

## STRATEGIC ADJUSTMENTS

Digital Asset Fund has already undergone adjustments to its portfolio composition to mitigate the effects of further economic instability.

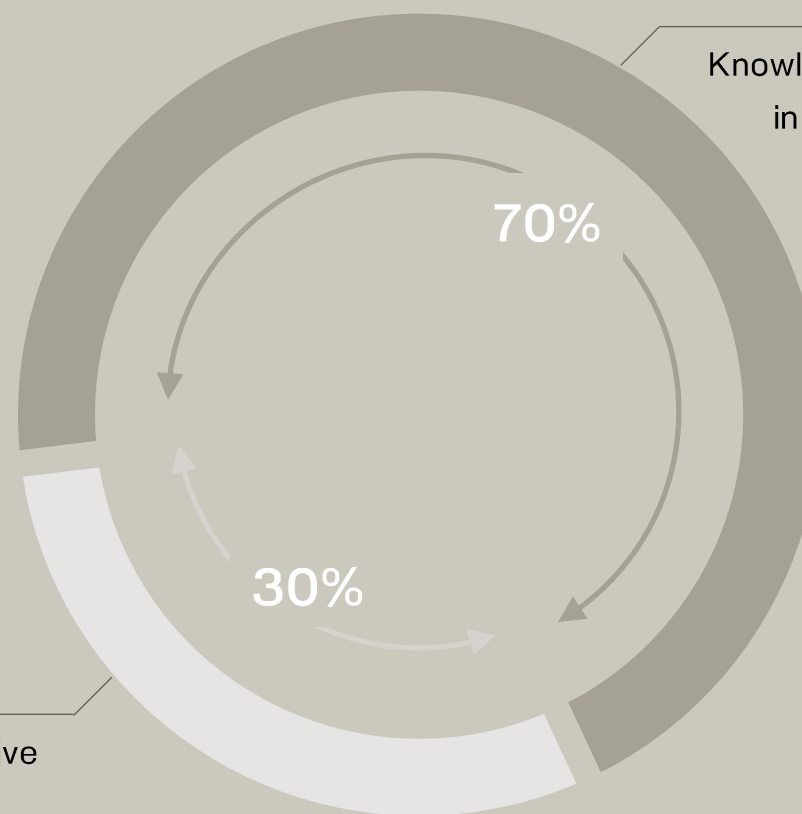
1. We have increased our quant strategies to 30%.
2. Discretionary has rebalanced further into BTC (approx. 33%), reducing exposure to other assets.

### Quantitative

Machine learning, quantitative models seeking alpha

### Discretionary

Knowledge-based investing in high-growth potential digital assets





# Venture & ICO Funds

## STRATEGIC ADJUSTMENTS

Venture Fund III and ICO Funds will continue to source deals within the given environment.

The overall strategies do not change much but investment decisions will be made through the lens of a weakening global economic environment.

## Adjustments

- Focus on uses-cases that can thrive during this time e.g. speculation and digital payments.
- Help portfolio companies strategize, how to lengthen runway, and create scenario analyses for better financial projections.
- Decide which companies need bridge rounds. Brainstorm alternative forms of fundraising.
- Evaluate pending transactions for appropriate valuations given current market conditions.
- Be patient. Investor appetite will cool and sophisticated, experienced investors will be able to deploy into the right companies at this time with potentially favorable/discounted valuations.



# Understanding the Virus



# Understanding The Virus

## THE DRIVER OF HEALTH AND ECONOMIC RECOVERY

Understanding the virus, inside and out, is imperative to making well-informed strategic responses amidst this economic decline.

We will closely monitor virus containment, spread data, and vaccines to make decisions within the portfolios.

### **R0**

how contagious it is

The virus has a high R0 – for every one person who has it, they'll infect two other people on avg. during their contagious period.

### **CFR**

fatality rate

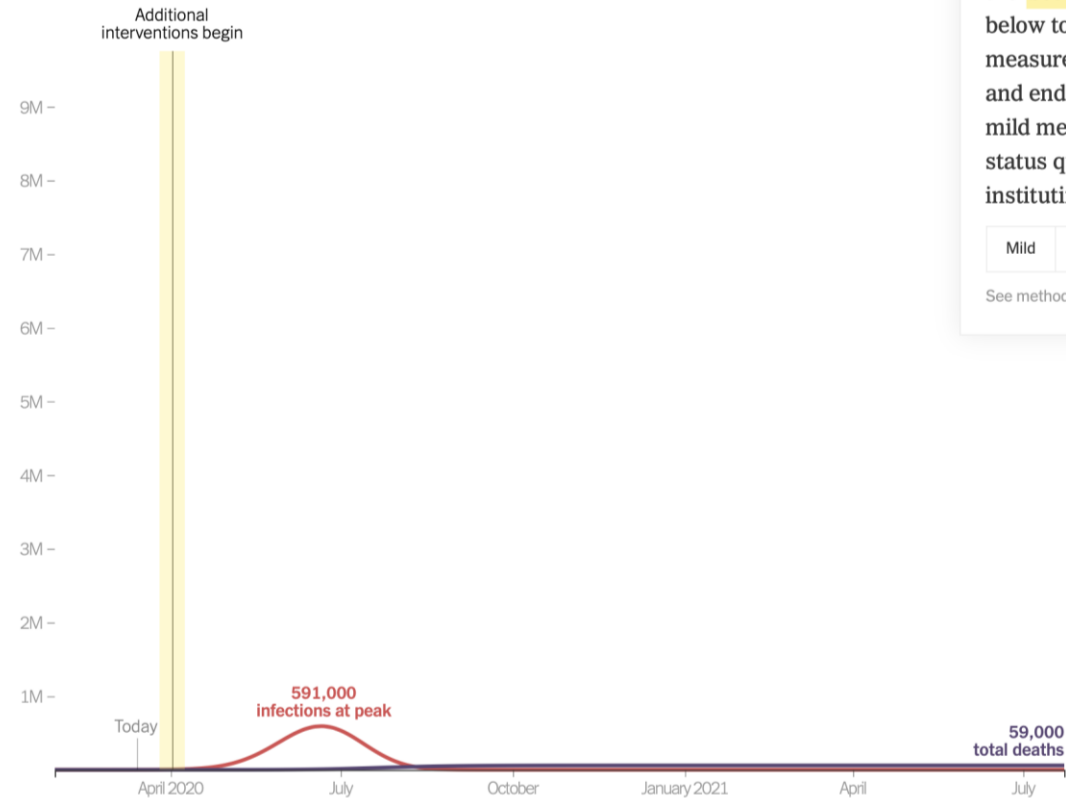
The rate is about 3% right now which is 9-60x more deadly than the seasonal flu.  
(undiagnosed cases could drop this much further)



# Flatten The Curve

## EPIDEMIOLOGICAL OUTCOMES MODEL

The latest epidemiology numbers from the CDC and others show that if we do widespread testing and end large gatherings, implement social distancing and school and workplace closings (which are all happening now), we'll see about 6-10M cases and 60-100k deaths through July.



Aggressiveness matters, too. Adjust the **severity** of the interventions below to see why: Aggressive measures include widespread testing and ending large gatherings, while mild measures are essentially the status quo (although some places are instituting tougher measures).

Mild Modest **Aggressive**

See methodology below for details.

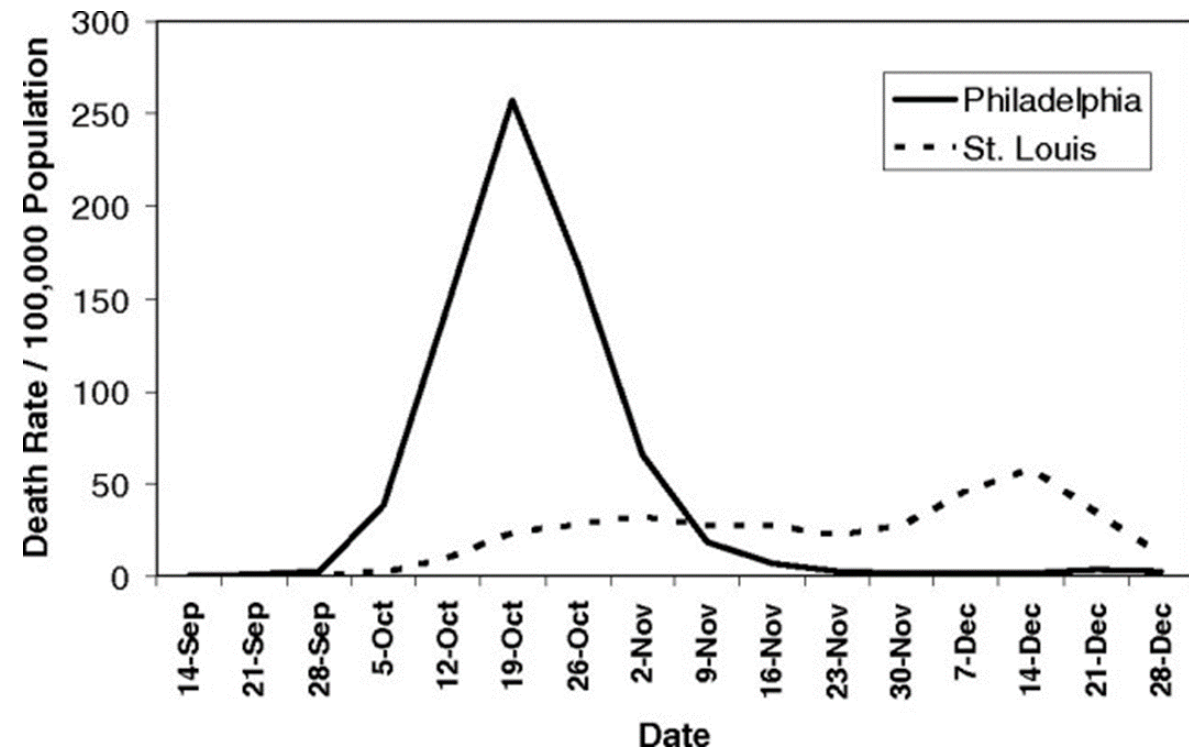


# Looking to the Past

## IMPLEMENTATIONS OF SOCIAL DISTANCING

In a time like this, it's important to look to the past to see what happened and how it could play out.

If we look at the Spanish Flu in 1918-1919, we can see the difference in two cities where one implemented social distancing and the other didn't until later, it's clear that St. Louis moved quickly:





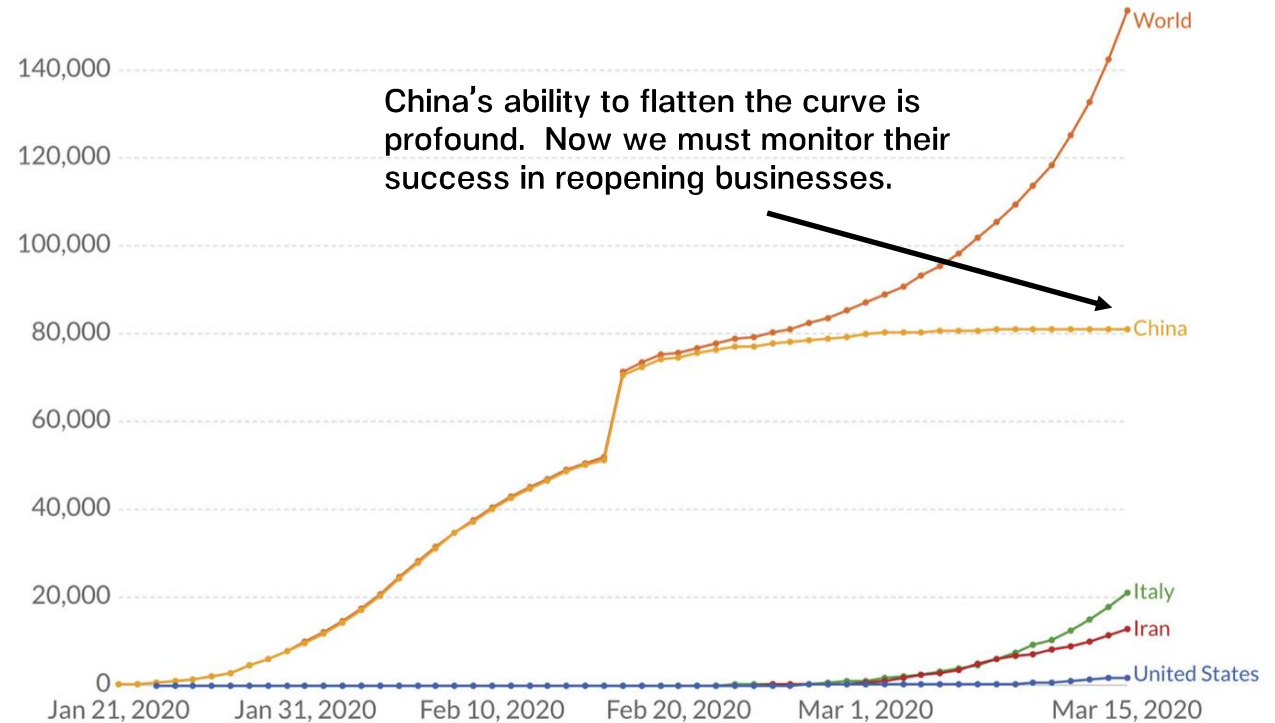


# All Eyes on China

## MONITORING THEIR RECOVERY

An important metric to pay attention to is number of cases in China as they start reopening stores, restaurants, factories, and other businesses, and people begin resuming their normal lives.

If this goes well over the next few weeks, it bodes very well for the U.S. and Europe. If it doesn't, it means a lot more pain over the next few months.





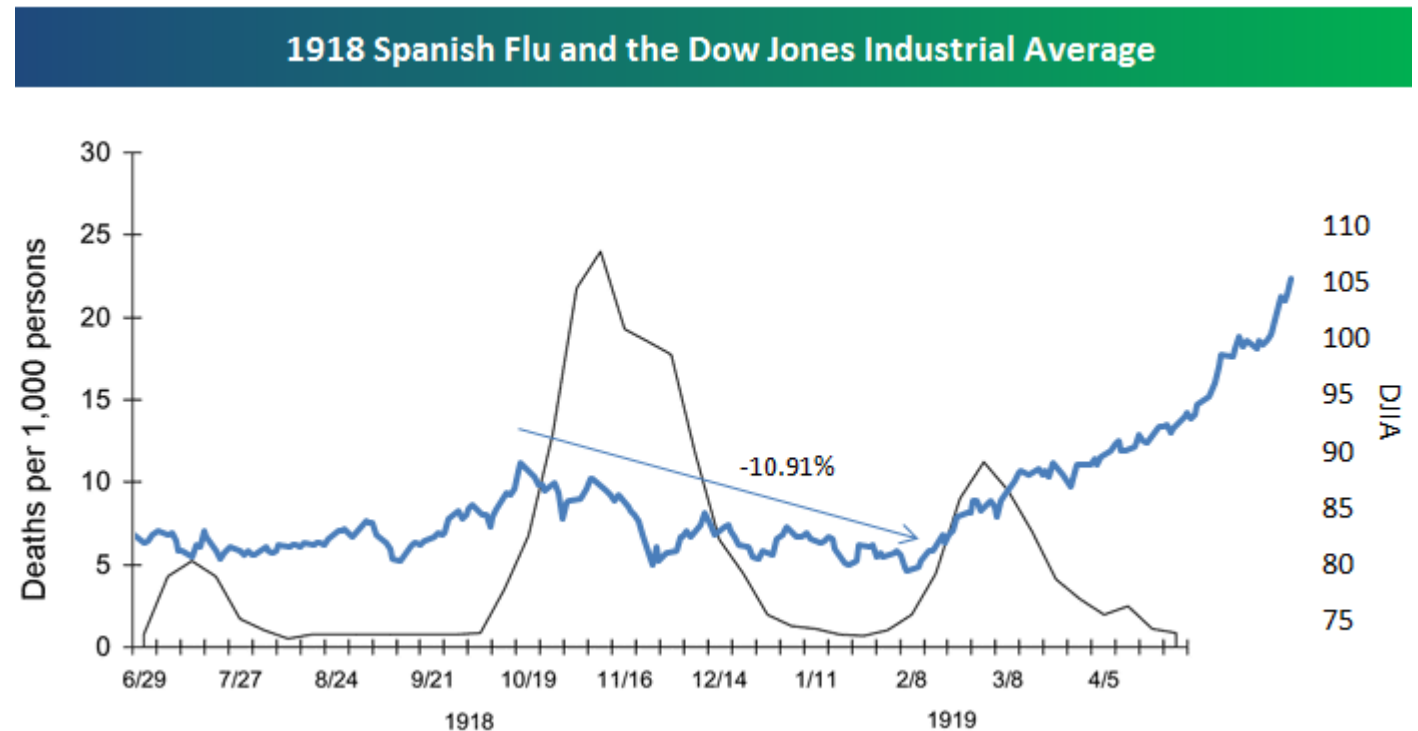
# Spanish Flu and DJIA

## PAST RECOVERIES

Since the pandemic is a true systemic shock, the system will likely bounce back faster than people think. After 1920, the market started a massive bull rally for instance.

For COVID-19, the global supply chain is tied up, there's a huge global demand shock, and people literally cannot go outside. As soon as these conditions get better and lifted, it should only be up from there.

Source: <https://seekingalpha.com/article/133636-1918-spanish-flu-and-the-market>





# Forward Outlook



# Catalysts for a Bottom

## **TIMING THE MARKET**

We are continuing to monitor all aspects of this global phenomenon to best understand when we'll begin recovering both health-wise and economically.

When many of these things happen, it's time to consider getting more heavily back into the market.

## **Catalysts to monitor for a bottom:**

- Max pain in 2-4 weeks when cases begin to peak. If Italy doesn't peak in 1-3 weeks, then it's more likely we peak in May or June instead of April
- Successful drugs exist that lower CFR > 10x
- People are so fearful that they shop online even for staples like groceries
- > \$1T in stimulus plans and > \$250B in bailouts
- When the S&P is below support at \$2000
- Bad Q1 numbers
- Bitcoin staying above \$5k despite continued declines in the SPY



# Institutional Adoption

## EXTENDED FURTHER OUT

Institutional adoption may be delayed as a result of this global economic shock.

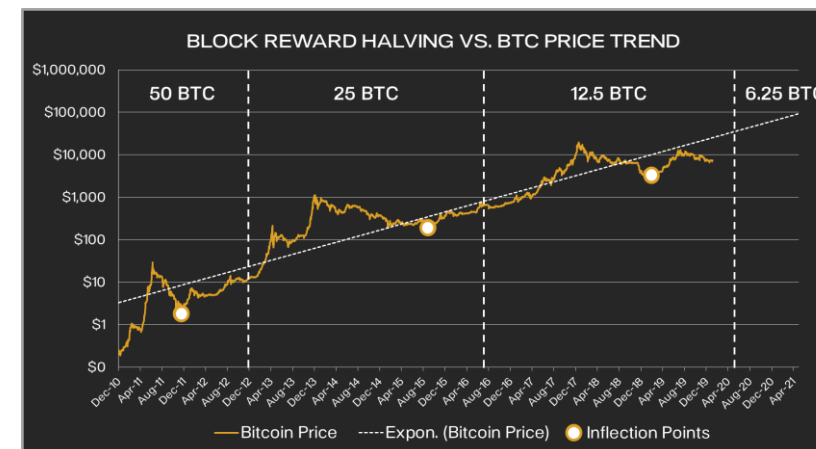
Crypto's perception as a non-correlated asset class has taken a hit with this drawdown, one of the core narratives for institutional exposure.

### Two things that could change this:

If crypto begins to decouple from traditional equities, this would be a great sign for institutions to gain crypto exposure amidst falling equities.

Halvening – if Bitcoin repeats it's halvening pattern, institutions could identify it as a potential top performing asset amidst this global economic setback.

| Halvings | Inflection Points |
|----------|-------------------|
| 2012     | 376 days prior    |
| 2016     | 320 days prior    |
| 2020     | 515 days prior    |
| Average  | 403               |





# Fiscal Policy

The U.S. is debating 6-7% of GDP. Larger than any fiscal stimulus since World War II. Fiscal stimulus of some sort is needed to support aggregate demand for the most vulnerable.

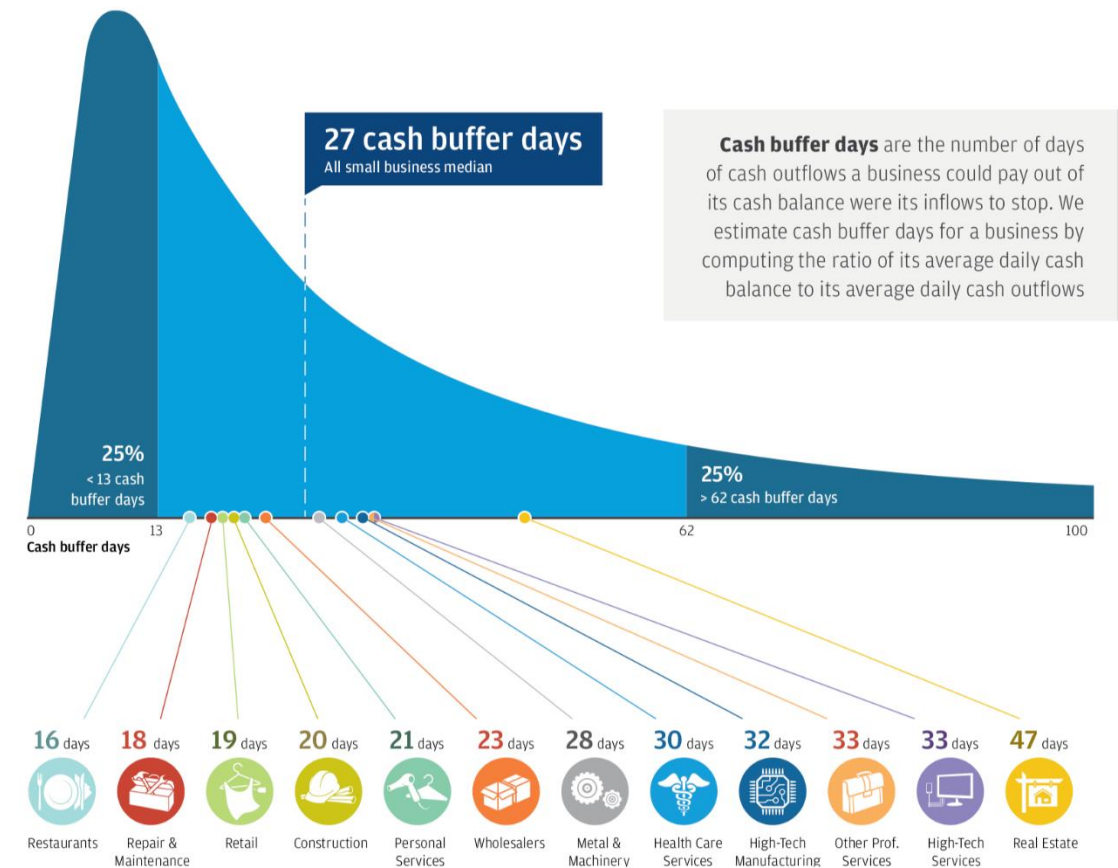
The ARRA enacted in 2008 was \$850 billion or about 6% of GDP.

Globally the fiscal policy response is likely to be greater than 1% of GCP.

Fiscal stimulus is very hard to direct against an invisible, physical adversary.

Source: <https://www.jpmorganchase.com/corporate/institute/document/jpmc-institute-small-business-report.pdf>

As an example of how hard it is for fiscal policy to help – and help fast enough – the median small business has enough cash to last 27 days with no revenue.





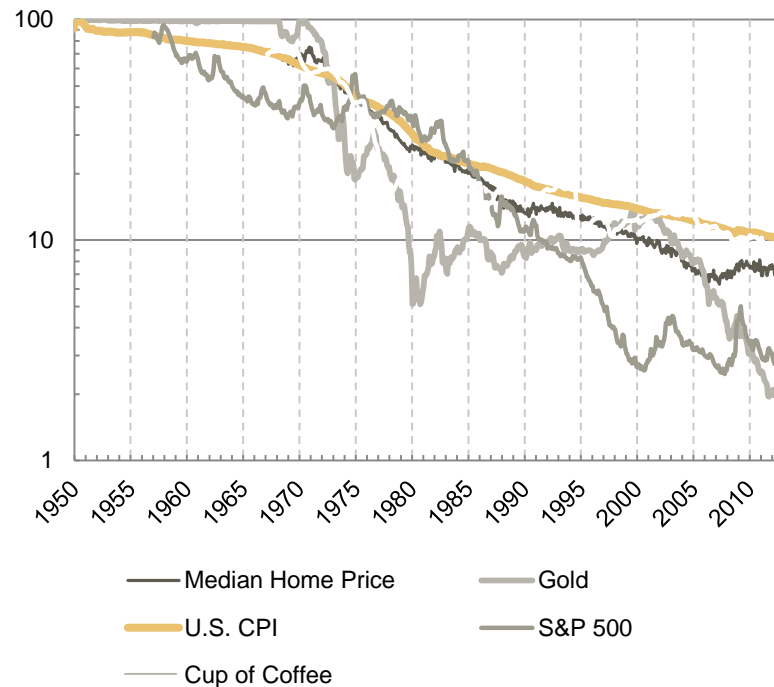
# Quantitative Easing

## UNLIMITED QE!

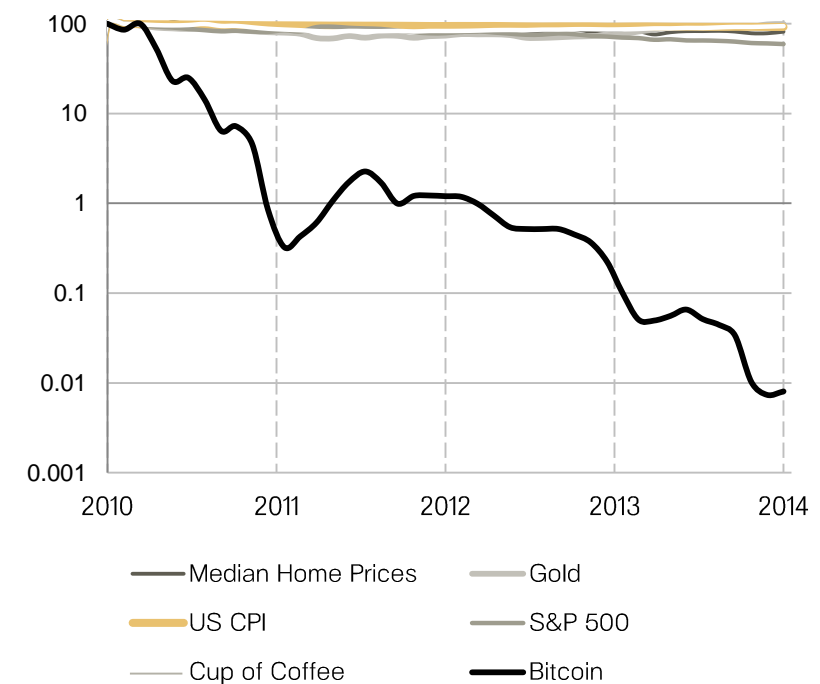
The lesson the Fed learned from 1929 and 2008 was that it must counter the decline in the velocity of money with a significant increase in money supply.

The Fed just announced unlimited QE.

THE DOLLAR HAS LOST 90% OF ITS VALUE SINCE 1950



THE DOLLAR HAS LOST 99.99% OF ITS VALUE SINCE 2010 RELATIVE TO BITCOIN





# Hedge Against Monetary Policy

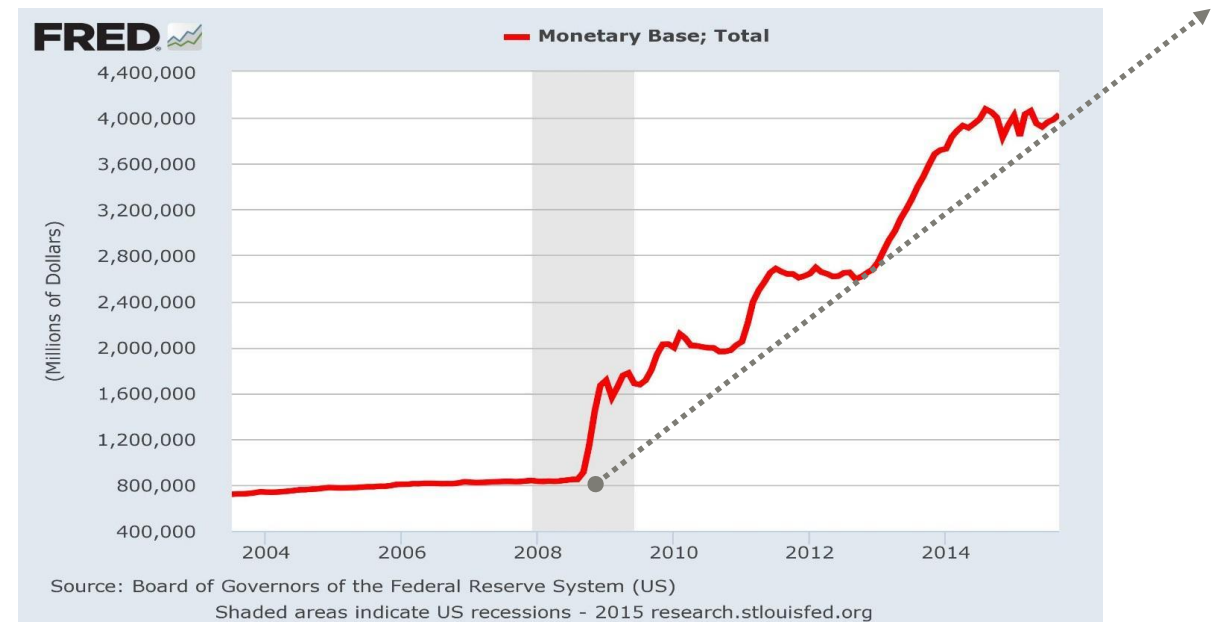
## CRYPTO BALLOON EFFECT

Increasing the money supply could lead to inflated prices and diminished purchasing power of the dollar

This could likely drive value to fixed-supply assets like Bitcoin as the dollar slides down against it

Bitcoin may emerge as a better hedge against inflation relative to traditional hedges like gold

Bitcoin has near identical properties to gold but with far greater features, portability, and liquidity.







# Coming of Age

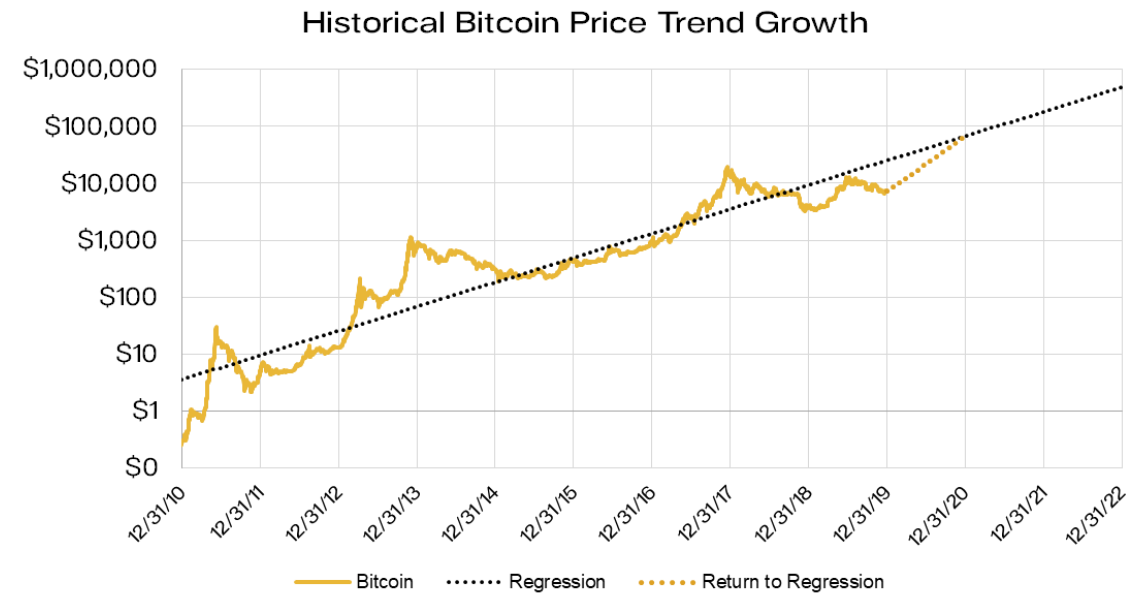
## BITCOIN AND CRYPTOCURRENCY

Bitcoin was born amidst the 2008 financial crisis that highlighted the fragility of our financial system.

This crisis, we believe Bitcoin will emerge as a major winner as central banks around the world begin dropping helicopter money to stop the bleeding.

*Bitcoin was born in a financial crisis.*

*It will come of age in this one.*



# P A N T E R A

**pan terra** (Latin), 'spanning the earth'  
**pantera** (Italian and Spanish), 'panther'  
**pan era**, 'spanning eras'



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