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Highlights

- In this piece, we discuss bitcoin’s recent rise, our view on the cryptocurrency, and applications of blockchain technology.
- We continue to recommend cautious assessments when investing in volatile and speculative assets such as bitcoin and maintain no exposure to bitcoin or other cryptocurrencies.
- We maintain our favorable outlook on bitcoin’s underlying blockchain technology as a business application.
- For a more in-depth look at blockchain and bitcoin, we recommend reading our previously distributed Investment Insights “[Bitcoin and Blockchain Technology.](#)”

Bitcoin on the Rise Again

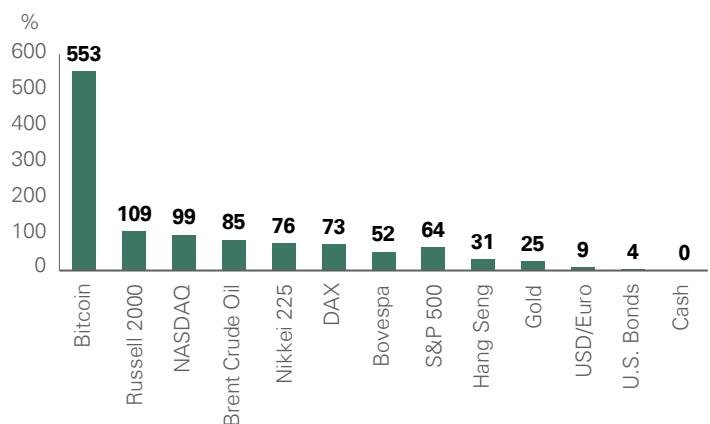
Bitcoin was one of the most volatile but highest-returning assets in 2020; the cryptocurrency fell 52.8% and rebounded 733% to its most recent peak on January 9 and has since come down to its current level of about 37,600 U.S. dollars per bitcoin. Like many assets, bitcoin’s price relative to the U.S. dollar bottomed in March 2020. Since March 16, this asset is up over 553% through January 26. Very few more traditional investments have triple-digit returns over the same time period (Exhibit 1).

Even on a company level, few come close to bitcoin’s performance. Only 41 of the 9,841 stocks in the MSCI All Country World IMI Index have exceeded bitcoin’s return since March 16.

Like any investment, however, with great return potential comes great risk. In Exhibit 2, we demonstrate bitcoin’s annualized 30-day realized volatility along with that of the S&P 500, gold, and the euro relative to the U.S. dollar since bitcoin launched. The S&P 500’s volatility only came close to bitcoin’s in spring 2020, and even then, bitcoin’s volatility was trending around 120% versus the S&P 500’s 80% level. At the time of writing, individual stocks with high short bases have experienced volatility similar to that of bitcoin. This phenomenon is largely due to the proliferation of online equity trading platforms and the network effects that they possess, in our view.

Looking forward, we may see bitcoin rise further in value, but it is likely to remain highly volatile. Bitcoin remains an unregulated asset, which is a part of its appeal but

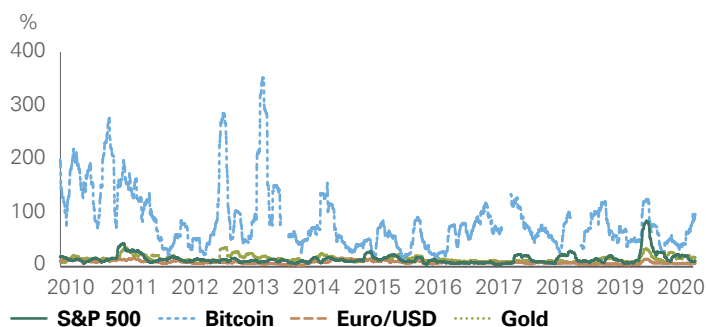
Exhibit 1: Performance of Bitcoin Versus Other Assets Since March 16, 2020



As of January 26, 2021. U.S. bonds are measured using the Bloomberg Barclays U.S. Aggregate, and cash is measured using the Bloomberg Barclays 3 Month T-Bill. Reflects the total return for equity and fixed income returns. **Past performance is no guarantee of future results.**

Source: Barclays, Bloomberg, FactSet

Exhibit 2: Annualized 30-Day Realized Price Volatility



As of January 25, 2021.

Source: Bloomberg

also a reason to invest cautiously. The U.S. government is likely to impose some regulations on the space given growing demand. For instance, in December, the U.S. Treasury announced new provisions to the Financial Crimes Enforcement Network (FinCEN) that would require companies such as Coinbase to file cryptocurrency transaction reports and verify the identities of customers who use crypto wallets. President Biden's administration is reviewing this regulatory proposal. Additionally, in Janet Yellen's Senate hearing to consider her nomination as secretary of the Treasury on January 20, she said that lawmakers must crack down on the use of cryptocurrencies since these digital currencies are used by terrorists and for money laundering.

For the reasons mentioned above, we continue to caution our clients who inquire about investing in bitcoin or any cryptocurrency. None of our funds directly hold cryptocurrencies, and we do not purchase the asset directly on behalf of our clients in accounts held at Bessemer. However, some of the companies we own have exposure to blockchain technology, which we discuss briefly in the next section. If you have any questions, please contact your client advisor.

Blockchain Applications

The blockchain technology that underlies bitcoin and many other cryptocurrencies continues to represent an area where we see immense value. Banks, such as JP Morgan and Bank of America, are using blockchain technology via shared ledgers to speed up cross-border payments. Walmart's Food Traceability Initiative uses blockchain to track its fresh produce along its supply chain, which helps the company pinpoint where a shipment may have experienced contamination along its path to the consumer. Payment processors, such as Visa, use blockchain due to the intensity of the data processing and record keeping, while Microsoft offers blockchain-as-a-service through its cloud platform, Azure. We have exposure to blockchain technology in our portfolios through these indirect means and expect blockchain-related holdings within our portfolios to increase over time as more businesses adopt the technology.

Conclusion

While bitcoin and cryptocurrencies are trending topics that are garnering the attention of investors, we believe these volatile investments require cautious evaluation for the reasons outlined above. Nonetheless, examining the rise of digital currencies provides a perfect segue to a discussion of the future of money, a topic we intend to explore in client communications this year.

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