

Wall Street Journal
Hedge Funds Grow Wary of Cryptocurrency Mania
Gregor Stuart Hunter and Laurence Fletcher
24 January, 2018

Hedge funds that rode the wave as cryptocurrencies surged last year have turned cautious, the latest sign of doubt among investors that the red-hot rise of bitcoin and its ilk can be sustained.

Bitcoin's rise of more than 13-fold in 2017 helped fuel a stellar year for the still-small number of hedge funds dedicated to cryptocurrency investing. An index of about 17 cryptocurrency hedge funds from data provider HFR Inc. rose almost 3,000% in 2017, light-years ahead of the 8.7% average return across the global hedge-fund industry.

Several crypto-focused funds now say it is time for a break.

"You need to sit down and put a towel on your head and have a think about things," said Lee Robinson, founder of Monaco-based hedge-fund firm Altana Wealth, whose \$45 million cryptocurrency fund returned roughly 1,500% last year.

Mr. Robinson said he became concerned when the time taken for the price of cryptocurrencies to double was halving late last year, a sign the market was overheated.

He said the fund is now positioned to profit from price falls on stocks associated with bitcoin and blockchain technology, and cut back its bet on rising cryptocurrency prices. Blockchain is the technology that underpins bitcoin and other cryptocurrencies and records transactions on a public ledger.

The change of heart among investors like Mr. Robinson has coincided with other factors now buffeting bitcoin's fortunes. Financial regulators have become concerned about the bubbly prices of cryptocurrencies and their association with illegal activity, particularly in Asia, where much of the world's trading in bitcoin and its peers takes place.

Late Wednesday, the price of bitcoin rose 2%, to \$11,208.38, according to news and research site CoinDesk, down from a peak of \$19,283 on Dec. 16. It started 2017 at \$892.

Few cryptocurrency funds have established much of a track record, and many private banks have been reluctant to offer them to clients, said Mohammad Hassan, head of hedge-fund research at Eurekahedge Pte. Ltd. in Singapore.

Most cryptocurrency funds use a simple strategy of buying cryptocurrencies and selling them after they appreciate, he said.

"What they're doing is pure market timing," he said. "For me, the question is, why would anybody pay 20% fees for this?"

But professional fund managers are interested, as the launch of bitcoin futures markets in the U.S. late last year gave investors concerned about those markets' highly speculative nature some confidence they are becoming more mainstream. They have also made it easier to bet on falling—not just rising—prices.

Now, some money managers are leaving lucrative positions on Wall Street and other financial centers to set up funds.

Hong Kong-based Lewis Fellas, a former portfolio manager at Harvard Management Co., which manages the university's endowment, left Boston in 2016 to set up cryptocurrency-focused Bletchley Park Asset Management, domiciled in the Cayman Islands.

The fund returned 106% last year, basing its investing decisions on technical analysis of cryptocurrency markets and by comparing digital currencies to social networking companies like Facebook Inc. and Twitter Inc., which it believes share similar characteristics.

But Mr. Fellas said he has turned cautious on cryptocurrencies this year, and is currently 50% invested, down from 90% in December.

"We felt the market was looking pretty stretched across most coins," he said.

Data from the Commodity Futures Trading Commission show that hedge funds overall entered 2018 with bets bitcoin prices would fall, known as short positions. Those short bets outweighed those wagering it would rise by a factor of four. As of Jan. 16, such short positions still outnumbered those taking the opposite bet, the data show.

Still, some funds remain bullish. California-based Pantera Capital wrote in a note to clients last month that bitcoin could rise to \$50,000 by 2019 and to a "fair value" of \$500,000 in the next 10 years.

It said the currency had probably got ahead of itself "but not in an unprecedented way."

As bitcoin's roller-coaster ride continues, some hedge funds are developing strategies they believe could prove more sustainable than simply betting on rising prices.

BitSpread Ltd., a Cayman Islands-based cryptocurrency hedge fund, uses an internally developed algorithm to sniff out variations in the prices at which various digital coins like bitcoin trade on different exchanges. It earned an annualized return of 106% in 2017 and has more than \$100 million in assets under management, according to a fund fact sheet.

The strategy means BitSpread's funds are "always 100% invested," according to its chief executive officer and founder, Cedric Jeanson, whose career in banking spanned trading desks at JPMorgan Chase & Co., BNP Paribas SA and Nomura Holdings Inc.

Hong Kong-based Lewis Fellas set up cryptocurrency-focused Bletchley Park Asset Management, which is domiciled in the Cayman Islands. An earlier version of this article said the fund is based in Hong Kong. (Jan. 25)