

## **Bloomberg Markets**

### **As Bitcoin Plunged, These Crypto Hedge Funds Kept Making Money**

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(Bloomberg) -- Bitcoin's terrible start to 2018 is highlighting the appeal of cryptocurrency hedge funds that make money in both bull and bear markets.

Funds specializing in virtual currency market making and arbitrage strategies delivered first-quarter gains even as their mostly bullish peers lost 40 percent on average. That's a big reversal from last year, when digital assets soared and market-making funds lagged far behind their long-biased counterparts.

Pivot Digital Trading-2, managed by Hong Kong-based Amber AI Group, generated some of the biggest gains among cryptocurrency funds that avoid directional bets. It rose 4.3 percent in March to bring its first-quarter return to 30 percent, according to the firm.

Market Neutral Liquidity SP-Institutional, domiciled in the Cayman Islands, earned 5.6 percent in the first quarter, said Cedric Jeanson of BitSpread Group, investment adviser to the portfolio. The results suggest some managers are finding ways to profit from wild swings in cryptocurrencies without having to predict whether they will rise or fall. Such tactics may appeal to investors who want exposure to cryptocurrencies without their extreme volatility.

As a group, cryptocurrency hedge funds are still highly correlated to broad market swings. A Eurekahedge index for the category posted its biggest three-month slump on record last quarter after soaring 1,709 percent in 2017.

Among funds that lost money was Silver 8 Partners. It dropped 25 percent in March and 32 percent in the first quarter, according to a commentary sent to investors. Silver 8 invests in digital assets, along with fintech, blockchain and machine learning companies. "High levels of uncertainty and low market liquidity make investments in blockchain-related assets volatile," the firm said in a newsletter. "They tend to overreact to cycles of euphoria and pessimism, where the market price itself acts as a catalyst for further momentum." The fund has made more than 1,000 percent for investors since its inception in 2016, including a more than 750 percent gain in 2017.

While funds from Amber AI and BitSpread tend to not post such high returns during boom times, they provide investors with some protection when prices of digital assets fall.

Read more on crypto hedge funds that made a killing last year.

PDT2, as the Amber AI fund is otherwise known, trades the 25 largest digital currencies on exchanges including Huobi, OKEX, Bitfinex, Binance, Kraken and BitStamp, said Tiantian Kullander, one of the four former Morgan Stanley traders who started the firm with a one-time programmer at Bloomberg LP, the parent of Bloomberg News. The fund began trading early this year and oversees about \$25 million, said Kullander. Its quantitative trading strategies include market-making, short-term trend following and exploiting pricing discrepancies between different currency pairs and exchanges.

Market Neutral Liquidity SP-Institutional, with more than \$100 million of assets under management, makes markets for currencies such as Bitcoin, Ethereum and Ripple, BitSpread's Jeanson said.