

Providing liquidity is BitSpread's strategy for delivering returns in a highly-volatile digital currency world

The cryptocurrency specialists' have developed a quantitative trading system to profit from the asset class' arbitrage opportunities

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The value of bitcoin and other cryptocurrencies has fluctuated wildly in recent months, giving institutions cause for concern when considering investing in digital currencies.

Yet, a new offshore hedge fund advised by cryptocurrency specialists BitSpread, which has offices in Singapore, London and New York, aims to deliver returns even when the currencies nosedive.

The Market Neutral Liquidity strategy is insulated from the appreciation and depreciation of the price of selected blockchain assets using cross-market arbitrage. And the firm's flagship is generating impressive returns while keeping a market-neutral exposure.

It delivered a stunning 105.7% performance in 2017 as it benefitted from the considerable fluctuations in the value of the bitcoin and other digital currencies, and importantly avoided monthly drawdowns.

It achieved this performance even when the value of bitcoin crashed in reaction to China's decision to ban digital currency exchanges. An impressive +24% gain in May remained its best performance month to-date; in the subsequent months, it delivered steady and robust gains, such as an impressive 6.4% gain in December and 5.95% in November.

So far BitSpread has scaled the strategy to more than \$100m after its launch to outside investors in May last year.

"Essentially, our added value to the blockchain eco-system is to facilitate the conversion of bitcoins and other digital currencies to local currencies for people receiving the crypto-currency as a form of payment," said Cedric Jeanson, the founder and CEO of BitSpread.

Jeanson said the sharp fluctuations in the value of bitcoin and other digital currencies last year widened trading spreads enjoyed by the firm.

Bitcoin's growing popularity clearly boosted Jeanson's and BitSpread's success as a market-maker, but credit is also due to Kensington, a quantitative trading system that Jeanson put together with his team over the last three years. The system works as an order-routing system that drives liquidity into the platform.

Jeanson added it would be difficult for other groups to replicate their strategy given the amount of time needed to develop a glitch-free system like Kensington.

"The whole-market making process to a certain extent is purely mechanical, and so while we have a global team of traders based in New York, Europe and Asia, our key objective is always to develop the necessary IT skills within our team to develop the system," he added.

The sophisticated system now handles at least \$1 billion in transaction volume every month.

Not that BitSpread is completely risk-free. Jeanson said counterparty risk, such as when an exchange fails to settle due to bankruptcy, is a cause for concern although he did add that he has yet to experience such as situation.

To try and avoid such a risk, the team at BitSpread has been quite selective with the exchanges that they choose to operate from. Jeanson said that while there are now hundreds of exchanges focused on cryptocurrencies, the team only trades with 14 established platforms, and employs a rigorous

due diligence review to onboard a new exchange, adding that the onboarding process could often take as long as six months.

“An exchange that elects to receive our liquidity must comply with regulators requirements such as having proper KYC provisions and cyber security besides also being run by an experienced management team with proper support and the right banking relationships,” said Jeanson.

While BitSpread is taking advantage of the arbitrage opportunities created by bitcoin’s status as largely restricted currency there are questions around the strategy’s durability.

Arbitrage opportunities may disappear in the future as the currency goes more mainstream and with the rise of improved technology and systems is not quite clear.

Jeanson however remain very optimistic about the future: “Bitcoin is something that everyone is now excited to learn more about and we are seeing a lot of investors who are keen to test the technology and see how it can transfer value from one wallet to another.”

And he sees the future as particularly bright in Asia. While his team started the strategy four years ago in London they decided to create an Asian presence in Singapore due to strong interest among Asia-based investors. He said they were attracted to the robust operational infrastructure and sophisticated quant technology behind it.