

# Highlights from the Block Plus Summit on Crypto Investment Management

Fordham Business School, New York

Andrea Leccese  
November 2018

## Executive Summary

On November 11, 2018 Bluesky Capital was invited at the Block Plus Summit conference, held at the Fordham Business School in New York, to discuss the current state in the crypto investment management industry among leading experts in the space. From the discussion, the following key takeaways emerged:

- While some institutional investors are starting to explore the crypto market, the industry is still characterized by a vast majority of retail investors
- Most regulators are adopting a wait-and-see approach to allow the industry to grow and at the same time provide some protection to investors
- There is a consensus that there may be a next bull wave in the crypto market when institutional players will enter the market within probably the next 2 to 5 years
- Among the most promising strategies to potentially profit from the crypto market are systematic long/short, due to the high volatility present in the industry, and HFT market-neutral strategies, which capture spreads by providing liquidity and are not affected by price action as a consequence, but only by traded volume

This paper is intended for academic and educational purposes and is not an investment recommendation. The hypothetical models discussed in this paper do not reflect the investment performance of any actual product or strategy in existence during the periods tested and there is no guarantee that if such product or strategy existed it would have displayed similar performance characteristics. A decision to invest in any product or strategy should not be based on the information or conclusions contained herein.

## Contents

Key Takeaways from the Conference	3
1. What is the current state of the crypto investment management landscape? When will institutional players enter the market?	3
2. What is the current regulatory framework in the United States regarding the crypto investment management industry?	3
3. What might bring the next bull wave in the cryptocurrency market?	3
4. What are your predictions for the crypto market?	3
5. What do you think are the best strategies to invest in the crypto market?	3
6. What's the trend in the crypto investment management industry?	4
Disclaimer	5

## About the Author

Andrea is President and Portfolio Manager at Bluesky Capital. Prior to founding Bluesky Capital, Andrea worked as a Quant at Sauma Capital, a quantitative hedge fund in New York, and as a management consultant at Ernst & Young. Andrea holds an M.S. in Financial Engineering from Columbia University, and an M.S. in Industrial Engineering from the University of Rome "La Sapienza".

## Contact

For more info about our investment products or questions about this paper, you can use the contact information below:

T: +1 (646) 465-9295

E: [info@blueskycapitalmanagement.com](mailto:info@blueskycapitalmanagement.com)

W: [www.blueskycapitalmanagement.com](http://www.blueskycapitalmanagement.com)

## Key Takeaways from the Conference

Below are the key takeaways from the conference.

### 1. What is the current state of the crypto investment management landscape? When will institutional players enter the market?

The crypto market is still characterized by the presence of a majority of retail investors. Institutional investors are still shy away from investing large amount of capital in the markets for 4 main reasons:

- **Custody risk:** currently there are not institutional-grade custodians and standardized procedures able to safely take cryptocurrencies in custody. There are in fact been many occasions where crypto wallets have been lost or hacked on exchange or personal wallets due to a lack of effective custody procedures or improper following and training by the company's employees
- **Counterparty risk:** most exchanges where cryptocurrencies are currently traded bring a high degree of counterparty risk due to intensifying competition and the high volatile nature of the market
- **Reputational risk:** many institutions do not want invest in a product that was previously used in the black market to hide transactions or launder money and more recently by a variety of scam ICO's
- **Regulatory risk:** regulatory bodies around the world, and particularly in the US, are still developing a framework to regulate cryptocurrencies. Until proper rules will be established that assure that institutional investors are compliant it will be difficult for them to want to invest in this asset class

### 2. What is the current regulatory framework in the United States regarding the crypto investment management industry?

Currently the SEC and the CFTC are using a wait-and-see approach. On one side, they see potential benefit in the application of the blockchain technology and cryptocurrencies and do not want to limit their evolution by defining them illegitimate as other countries like China did. On the other side, they also need to provide some protection to investors from scams and potential abuse inherent in this new industry by defining an initial set of rules.

### 3. What might bring the next bull wave in the cryptocurrency market?

A bull market is generated when demand for a particular product exceeds its supply, causing the price to go up. The demand in the crypto market is determined currently mainly by retail investors, and possibly in the future by institutional investors and corporations adopting the technology. For the previous reason, there can be multiple factors that can potentially bring an increase in price in the crypto market:

- **New technological applications of the blockchain:** there are new themes like tokenization that might increase the demand for cryptocurrencies and the blockchain industry as a whole from more investors and corporations
- **Entrance of institutional players:** a reduction in the risks previously discussed and the potential for portfolio diversification due to the low correlation of crypto to traditional asset classes can potentially make institutional players more confident in investing in the industry
- **Speculation:** the inherent volatility in the market can give great potential for profits for professional investors like CTA's who can benefit from a volatile market.

### 4. What are your predictions for the crypto market?

We believe it is almost impossible for anybody to predict the direction of a market with a reasonable degree of accuracy and correctly time when to invest. The only way to generate consistent performance is by identifying inefficiencies in a particular market or repetitive patterns in data that can be exploited systematically through quantitative research. We think that the innovative nature of cryptocurrencies and yet to be discovered applications in blockchain can potentially increase the price of cryptocurrencies in the long term, but we do not know if and when it is going to happen. This agnostic approach is the opposite to what is currently adopted by the majority of other players in the market, who are currently long cryptocurrencies for their investing approach and continue stating that the market will go up sometime in the future to justify their losses in a bear market.

### 5. What do you think are the best strategies to invest in the crypto market?

We believe there are 2 main strategies that can potentially generate superior performance in the crypto market:

- **Systematic long/short:** the high volatility in the crypto asset class is the perfect environment for investors like CTA's that can go both long/short in a fully systematic way and potentially take advantage of fast market conditions in both bull and bear markets
- **Market-neutral HFT:** players who have invested heavily in

low-latency technology can potentially generate returns collecting a spread, irrespective of market direction, by providing liquidity in the market or employing statistical arbitrage techniques.

## 6. What's the trend in the crypto investment management industry?

Currently many established hedge funds and prop trading companies have not entered the market yet because of reputational risk and limited capacity constraints. This provides an opportunity for more nimble players to enter this new asset class and potentially position themselves as market leaders in the sector by having the advantage of being first movers.

## Disclaimer

This report is prepared and circulated for informational and educational purposes only and is not an offer to sell or the solicitation of an offer to buy any securities or other instruments. The information contained herein is not intended to provide, and should not be relied upon for investment, accounting, legal or tax advice. This document does not purport to advise you personally concerning the nature, potential, value or suitability of any particular sector, geographic region, security, portfolio of securities, transaction, investment strategy or other matter. No consideration has been given to the specific investment needs or risk-tolerances of any recipient. The recipient is reminded that an investment in any security is subject to a number of risks including the risk of a total loss of capital, and that discussion herein does not contain a list or description of relevant risk factors. As always, past performance is no guarantee of future results. The recipient hereof should make an independent investigation of the information described herein, including consulting its own tax, legal, accounting and other advisors about the matters discussed herein. This report does not constitute any form of invitation or inducement by Bluesky Capital to engage in investment activity.

The information contained herein reflects, as of the date hereof, the views of Bluesky Capital Advisors, LLC (together with its affiliates, "Bluesky Capital") and sources believed by Bluesky Capital to be reliable. No representation or warranty is made concerning the accuracy of any data compiled herein. In addition, there can be no guarantee that any projection, forecast, or opinion in these materials will be realized. Certain information contained in the presentation discusses general market activity, industry or sector trends, or other broad-based economic, market or political conditions and should not be construed as research. The views expressed herein may change at any time subsequent to the date of issue hereof. These materials are provided for informational purposes only, and under no circumstances may any information contained herein be construed as investment advice or an offer to sell or a solicitation of an offer to purchase (or any marketing in connection thereof) any interest in any investment vehicles managed by Bluesky Capital or its affiliates. The information contained herein does not take into account your particular investment objectives, financial situations, or needs, and you should, in considering this material, discuss your individual circumstances with professionals in those areas before making any decisions. Alternative investments can be highly illiquid, are speculative, and may not be suitable for all investors. Investing in alternative investments is only intended for experienced and sophisticated investors who are willing to bear the high economic risks associated with such an investment. Investors should carefully review and consider potential risks before investing. Bluesky Capital may make investment recommendations and decisions that are contrary to the views expressed herein, and may sponsor and hold interests in investment vehicles that have holdings that are inconsistent with the views expressed herein.

Bluesky Capital makes no representations, express or implied, regarding the accuracy or completeness of this information, and the recipient accepts all risks in relying on this report for any purpose whatsoever. This report is being furnished to the recipient on a confidential basis and is not intended for public

use or distribution. By accepting this report, the recipient agrees to keep confidential the existence of this report and the information contained herein. The recipient should not disclose, reproduce, distribute or otherwise make available the existence of and/or all or any portion of the information contained herein to any other person (other than its employees, officers and advisors on a need-to-know basis, whom the recipient will cause to keep the information confidential) without Bluesky Capital's prior written consent. This report shall remain the property of Bluesky Capital and Bluesky Capital reserves the right to require the return of this report at any time.

Some of the images, logos or other material used herein may be protected by copyright and/or trademark. If so, such copyrights and/or trademarks are most likely owned by the entity that created the material and are used purely for identification and comment as fair use under international copyright and/or trademark laws. Use of such image, copyright or trademark does not imply any association with such organization (or endorsement of such organization) by Bluesky Capital, nor vice versa.

© 2018 Bluesky Capital Advisors, LLC. All rights reserved.

Bluesky Capital

T: +1 (646) 465-9295

E: [info@blueskycapitalmanagement.com](mailto:info@blueskycapitalmanagement.com)

W: [www.blueskycapitalmanagement.com](http://www.blueskycapitalmanagement.com)