

Zurich IAMs share how their crypto strategy went up as bitcoin dropped 36%

The firm aims for a lower volatility than Bitcoin by trading a range of cryptocurrencies dynamically.

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In May, bitcoin's value dropped 36.2%. By contrast, Zurich independent asset manager Belvoir Capital saw a rise of 0.5% in its cryptocurrency strategy.

Belvoir's Crypto Alpha strategy, which aims to be decorrelated to cryptocurrencies and broad market indices, went up by 11.6% in 2021 as of the end of July and 115.2% in 2020. By contrast, the Grayscale Bitcoin trust delivered performances of 8.6% and 290.7% in those periods. While bitcoin fell by more than 50% at one point in 2021, Belvoir's strategy had annual volatility year-to-date of 22.1%.

CEO Steffen Bauke (pictured left) said that it is important for investors to understand that there are different crypto investments to suit different risk/ return profiles, and his strategy is targeted at investors who want lower volatility compared to what they would get if they bought bitcoin directly.

'I think it is very important to remember that just like you have a wide range of choices in more traditional markets, you can also really adapt your investments to your risk profile into the crypto world. Just as you can decide if you want very low risk fixed income investments or go into early-stage seed investing, the same applies to blockchain and cryptocurrency investment universe.'

To minimise volatility, Adrian Marcu (pictured right), head of investment solutions, said that Belvoir's active trading has been key.

'The trading approach we are using is totally uncorrelated to the broad market. Also, we are not, in principle, long bitcoin and/or other coins, but very actively trading the portfolio. Every hour, the trades are recalibrated, and positions may change hourly. Hence, we expect to trade the market systematically in a profitable way and perform steadily in the long term.'

He said that Belvoir's machine learning system, which uses reinforcement learning, is an important contributor to the investment process. The technology is provided by Speedlab, an alternative investment fintech firm that provides AI technology for institutional clients and is based in Cham, Switzerland.

'We believe that due to the youth of the crypto market, the artificial intelligence algorithms have a very good chance to generate steady returns. We assume this market stage will stay favourable for the next couple of years.'

'Machine learning algorithms deliver great returns to crypto markets, and actually much better than in traditional asset class like foreign exchange index futures. Also, we believe this is because the market is still in a fragmented early stage and therefore much less efficient. Liquidity is lower, so it's easier for the algorithms to recognise movements. To be honest, I think many participants are relatively naive in the market and pay little attention to trade execution, which makes our life easier.'

Marcu compared reinforcement learning to a vacuum cleaner.

'We use reinforcement learning, which is a part of machine learning. You can think of it as like when you buy a robot vacuum cleaner at home. Just as the vacuum cleaner learns to clean as much space as quickly as possible, we have let our programme train completely independently and learn the patterns of the crypto markets.'

'The task of the vacuum cleaner is to clean as much surface as possible in the shortest period of time. When we apply it to the markets, we let it completely independently train and learn the patterns of the crypto market in this case.'

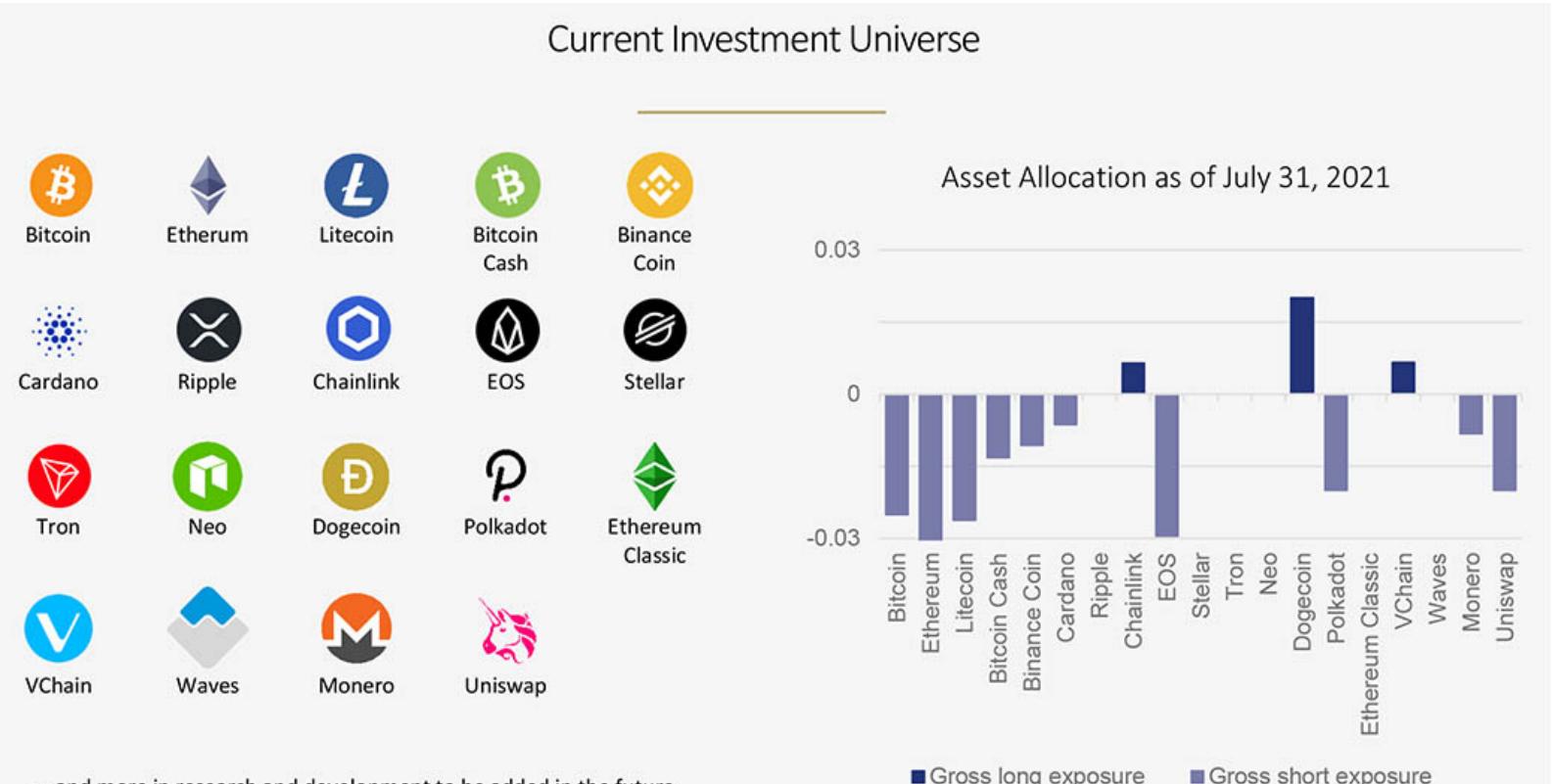
While Belvoir uses algorithms to track different crypto coins' performance, the people managing the strategy do have a degree of control.

'Based on the permanent trainings of the algorithms, we have quantitative results for how several agents perform for several crypto coins. While the live machine learning algorithms are generating the signals and executing them fully automatically, trainings are always ongoing in the background.'

'The human beings pick which agent is being applied to which coin based on the results of the trainings and this decision is reconsidered periodically. After its activation, the algorithms trade fully automatic without human intervention.'

The strategy currently has an investment universe of 18 cryptocurrencies, from heavyweights Bitcoin and Ethereum to Dogecoin, which was originally invented as a joke based on a picture of a dog, but its valuation has risen from \$0.003 on 23 August 2020 to \$0.299 on 21 August 2021, a gain of 8,752%.

The crypto strategy's asset allocation as of 31 July can be seen below, although Belvoir emphasised that positions change dynamically over the course of the month:



Belvoir expects cryptocurrencies to perform well in the longer term. 'We are believers in a long term success of the new technology and its value and wouldn't be surprised to see Bitcoin and the broad market trading at new all-time-highs in the next 12 months,' said Marcu.

As cryptocurrencies' popularity have grown, so has the pressure on mainstream asset and wealth managers to offer exposure to them. Cathie Wood's Ark has a significant Bitcoin exposure, while BNY Mellon has launched a Blockchain Innovation fund with a considerable cryptocurrency holding, the manager of which [spoke to Citywire Switzerland](#) earlier this year.

However, Marcu believes that most larger players are still wary of the sector, which leaves a gap.

'Last but not least, the regulatory hurdle to enter makes it very hard for smart money and large institutions to enter the market at this point, which makes it easier to exploit alpha.'

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