GETTING BOLD WITH GOLD

INTRODUCTION

With Gold notching yet another all-time high this month we're looking at the BOLD Index, composed of Bitcoin and Gold. This report explores the "digital gold narrative" in more detail, questioning the value of Bitcoin during market tumults and showcasing the importance of Gold. We also look at how the index combines Bitcoin and Gold to enhance returns, while mitigating downside risk.

KEY POINTS

- The digital gold narrative
- Importance of consistent returns
- Safe haven qualities
- BOLD dampens Bitcoin's high volatility

SECTION ONE: PRODUCT OVERVIEW

OLD MEETS NEW: DIGITAL GOLD

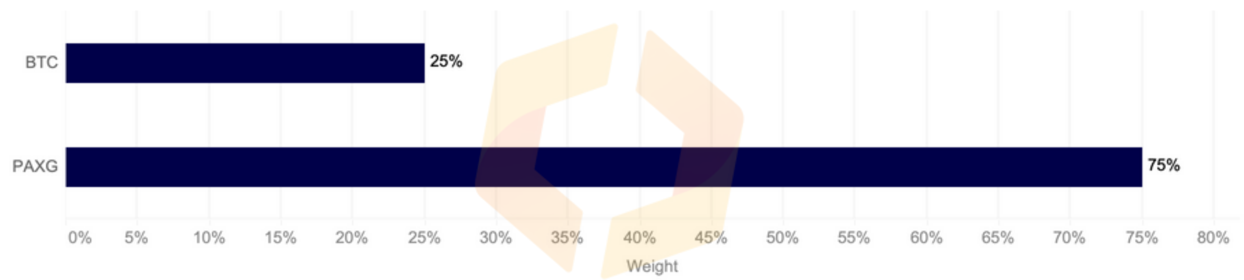
The digital asset space is full of narratives, with varying levels of success. To date the most successful one has been Bitcoin's "Digital Gold" moniker. Digital gold is a digestible way to describe the pioneering cryptographic network. In fact, it works so well even BlackRock's Larry Fink has co-opted it. Why?

Bitcoin exhibits several key similarities with Gold, most notably its scarcity. Just as Gold is a finite resource the supply of Bitcoin will never exceed 21 million.

Another popular comparison is Bitcoin's ability to act as an inflationary hedge, similar to Gold. The supply of most fiat currencies is control by central banks, who have intermittently increased supply over the years through quantitative easing programs—much to the chagrin of crypto investors.

Its impossible for any central bank or government to do this with Bitcoin or Gold.

BOLD Asset Weighting



Source: Kaiko Custom Indices and Benchmark Reference Rate data.

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SECTION TWO: INVESTMENT RATIONALE

COMBINING QUALITIES

As wars continue to ravage different parts of the world gold remains useful, but its not totally censorship resistant. Throughout history private ownership of Gold has been outlawed at times, with governments often profiting from seizures.

Massive amounts of Bitcoin have also been seized over the years, but the digital asset is somewhat harder to exert control over. The ability to be more censorship resistant than Gold gives the newer asset an edge Gold. As such means investing in both offers some worthwhile diversification benefits.

Diversification	Low	Med	High
Volatility	Low	Med	High
Returns	Low	Med	High

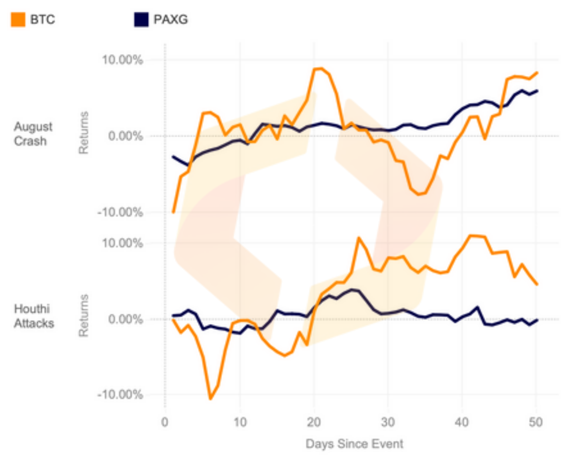
SAFE HAVEN DEBATE

Safe haven assets should maintain or improve their value during market tumults or extended periods of geopolitical uncertainty.

Gold is often seen as the ultimate safe haven asset, but Bitcoin's use case here is less certain—with some regional trends suggesting it has strong safe haven qualities.

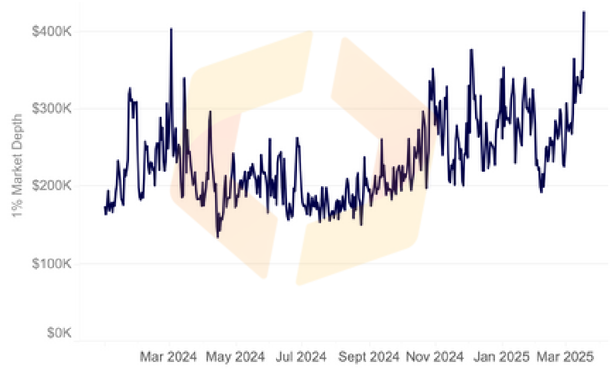
Over the past year major global events, such as disruption to the world's largest shipping channel the market shock brought on by the Japanese carry trade unwind have shown how the two assets behave differently here. Gold often holds its value better in the near-term, and Bitcoin tends to be higher over time.

Impact of Major Market Events



Source: Kaiko Analytics Solution, fair market value data.

PAXG Liquidity Profile



Source: Kaiko Custom Indices and Benchmark Reference Rate data.

LIQUIDITY MATTERS

Bitcoin and Gold also have very different liquidity profiles.

BOLD holds PAXG as its gold investment, a crypto token which is backed by one ounce of Gold. The PAXG-USD pair, which accounts for 75% of BOLD's assets, with 1% market depth below $400k. However, Gold's relative illiquidity doesn't impact it as much as it might for Bitcoin.

Due to its safe haven properties and physical nature Gold doesn't typically trade as much as Bitcoin. The crypto market is more fragmented. This has meant that Bitcoin's liquidity profile has come into question over the years. However, it has improved since the launch of spot Bitcoin exchange-traded products.

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SECTION THREE: RISK AND RETURN PROFILE

CONSISTENCY IS KING

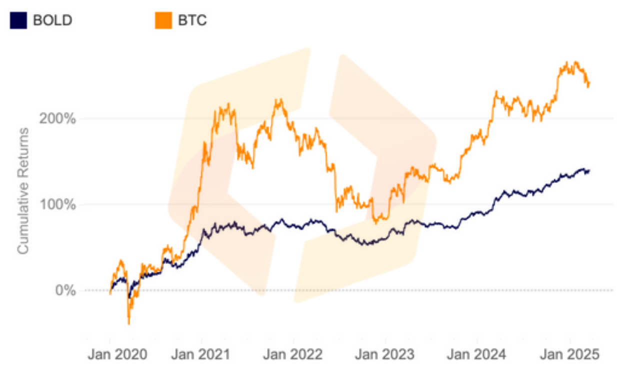
Bitcoin has been one of the most, if not they most, successful assets over the past 15 years. Since 2020 BOLD has clocked log returns over 140%, while Bitcoin registered gains of 235%. However, crypto is still largely seen as a fringe asset class with limited regulatory oversight.

At just around $1.7 Trillion, its market capitalization is significantly lower than all other major asset classes. Gold's estimated market capitalization is closer to $20 Trillion for instance, while the global bond market is several multiples bigger than that again. What does this mean? Most of Bitcoin's returns have been experienced by a small subset of investors.

While the market has grown rapidly since the launch of spot Bitcoin ETPs, its possible that many investors will still show hesitancy toward the asset class. While Bitcoin can easily rip 20% in a week, it can also experience a double-digit drop the next. Combining the nascent asset with Gold gives exposure to its returns in a smoother fashion.

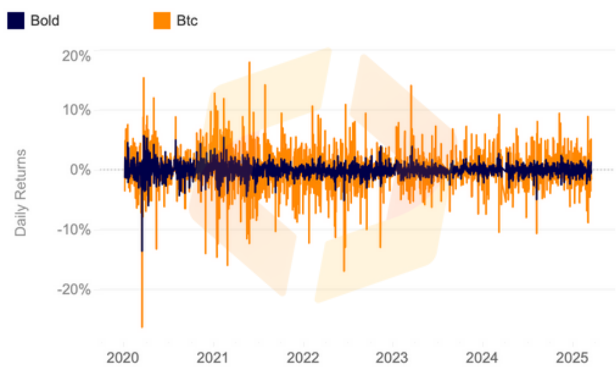
This is evident when it comes to daily returns. Bitcoin's range from approximately 10% to -10%, while BOLD's returns are in the tighter range between 5% and -5%.

BOLD versus BTC Cumulative Returns



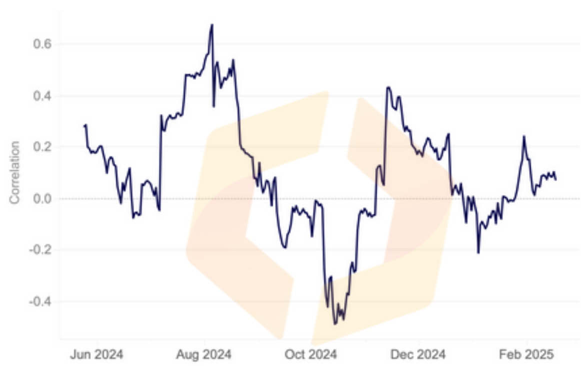
Source: Kaiko Custom Indices and Benchmark Reference Rate data.

BOLD versus BTC Daily Returns



Source: Kaiko Custom Indices and Benchmark Reference Rate data.

30-Day Correlation



Source: Kaiko Indices calculations based on Kaiko Analytics Tools, Fair Market Price data.

UNCORRELATED RETURNS

Despite Bitcoin and Gold purporting to offer protection against inflation, their correlation is often quite low.

While Bitcoin can exhibit high correlation to Gold, and even equites, its usually for brief periods. These periods of heightened correlation tend to coincide with broad market shifts and changes to broader market liquidity conditions.

The rolling 30-day correlation between the two assets hasn't been above 0.67 in the past year. The assets are often negatively correlated, with the correlation sinking to -0.48 following the U.S. election in November.

Over the long-run the relationship between returns is insignificant.

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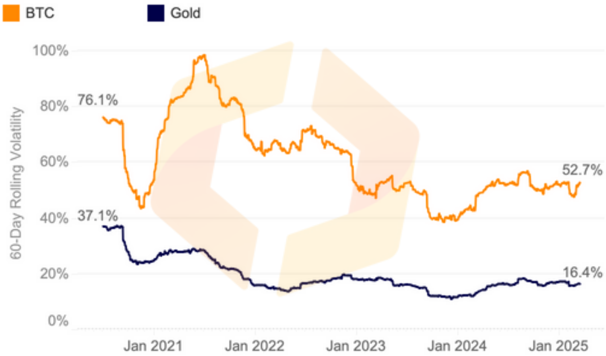
DAMPENING VOLATILITY

When making a case for investing in Bitcoin most proponents have to grapple with the assets historically high volatility.

Regardless of whether Bitcoin's realized volatility has been following over the past few years it remains much higher than most assets. Gold's rolling 60-day volatility have been below 20% since 2021, while Bitcoin's remains above 50%—although it has fallen from its peak (100%) consistently.

Combining both Bitcoin and Gold in this index offers more suitable risk-adjusted returns for those investors that are hesitant of the higher volatility asset.

BTC vs. BOLD Realized Volatility



Source: Kaiko Custom Indices and Benchmark Reference Rate data.

BTC vs. BOLD Realized Volatility

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OPTIMIZING RISK-ADJUSTED RETURNS

The optimal risk-adjusted returns are evidences through BOLD's superior Sharpe ratio compared to Bitcoin.

The Sharpe ratio accounts for both upside and downside risk and anything above two is considered very good. While Bitcoin and BOLD have quite similar Sharpe score, BOLD has offered better risk adjusted returns since the beginning of last year. Supporting the investment rationale for this index.

CONCLUSION

BOLD Index offers a compelling solution to investors keen to gain exposure to Bitcoin while mitigating risk. As the Digital Gold moniker suggests, Bitcoin does indeed display some qualities that liken it to Gold, but its not yet solidified as a safe haven asset.

Therefore, combining both Bitcoin and Gold in an index can leverage Bitcoin's growth potential while using Gold as a hedge against volatility, ultimately delivering superior risk-adjusted returns.

As digital assets continue to evolve, the dynamic between Bitcoin and traditional safe haven assets like Gold will remain a crucial topic.

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