

Bitcoin as a New Asset Class

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Abstract

Since its first trades on the now infamous Mt Gox exchange in mid-2010, bitcoin has achieved a staggering performance, with total buy-and-hold returns exceeding 10 000%. Currently, the aggregated daily exchange volumes around the world regularly exceed 2-3 million BTC, which corresponds to more than 1 billion USD. At the same time, bitcoin price history is rich in extraordinary growth (culminating in bubble-like behavior) and significant downturns (including flash-crashes). The volatility, even in current calm market environment, far exceeds the volatility of other asset classes - FX and equities and even the most volatile commodities and VIX.

In this short presentation, I will briefly discuss main characteristics of bitcoin as an asset class. First, I will evaluate its sources of value in the context of the bitcoin economy. I will then present its properties as a portfolio diversifier, given its low correlation to the other main asset classes. In addition to that, bitcoin's 'safe' haven properties will be analyzed, in particular during extreme market moves and uncertain times, such as Brexit.

Finally, I will evaluate its investability. This includes not only outright purchase of bitcoins or gaining exposure via investment funds, but also via rapidly developing derivatives - futures and options - providing long and short leveraged investment opportunities for this one of the most innovative alternative asset class.

Keywords: bitcoin, virtual currencies, cryptocurrencies, portfolio diversification, new asset class, safe haven, hedging, alternative investments

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