

Enhancing Bitcoin returns using momentum?

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What is momentum and why does momentum investing tend to work?

Momentum investing is a strategy that involves buying (or increasing exposure to) assets that have performed well in the recent past and selling (or decreasing exposure to) assets that have performed poorly. It is based on the idea that assets that have exhibited strong performance in the recent past are likely to continue performing well in the future. There are several reasons why momentum investing might be considered:

1. **Behavioural biases:** momentum investing exploits common behavioural biases that investors exhibit, such as herding behaviour and overreaction to recent news and events. Investors tend to chase after recent winners and sell recent losers, which can create self-fulfilling prophecies and drive further price momentum.
2. **Information diffusion:** information about a stock or asset's recent performance tends to spread relatively quickly through the market. As more investors become aware of a stock's strong performance, they may rush to buy it, driving up its price further. Conversely, when poor performance becomes widely known, selling pressure can intensify, leading to further declines.
3. **Trend persistence:** in some cases, trends in asset prices can persist for an extended period. This can be due to various factors, including fundamental factors like improving company financials or macroeconomic conditions that favour a particular industry. When trends persist, momentum investors can ride the wave and benefit from the continued price movement in the same direction.
4. **Market inefficiencies:** markets are not always perfectly efficient, and anomalies can persist for various reasons. Momentum investing takes advantage of these inefficiencies, particularly in the short to medium term, when prices may not fully reflect all available information.

It's important to note that momentum investing also comes with risk. Momentum can reverse suddenly, leading to significant losses if an investor is not prepared. Moreover, this strategy may not perform well during periods of market turbulence or when market sentiment shifts rapidly.

At WisdomTree, we have developed example strategies that seek to participate in the upside exposure while significantly controlling for drawdowns. Our strategies focus on significantly reducing the volatility while aiming to enhance the performance over long Bitcoin exposure.

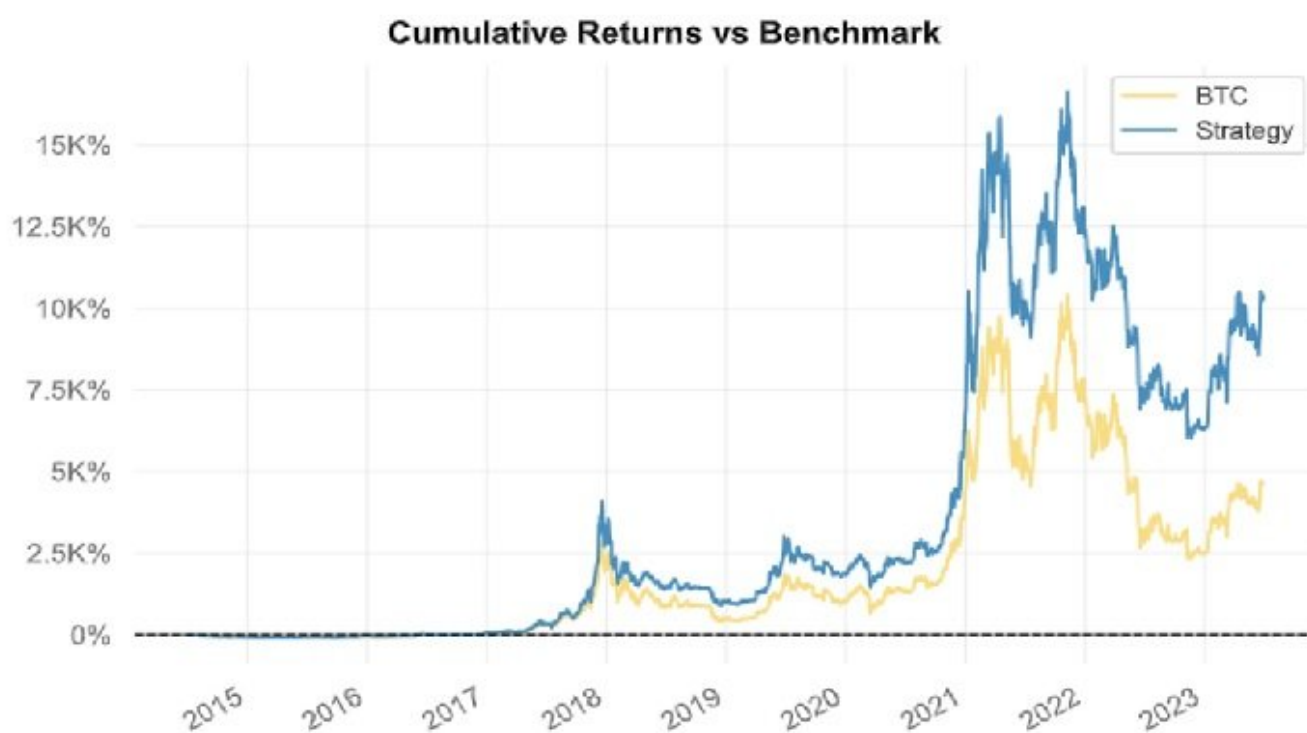
WisdomTree 'Pure Alpha' Bitcoin Illustrative Strategy

The WisdomTree 'Pure Alpha' Bitcoin Illustrative Strategy deploys a three-step process to generate exposures to Bitcoin on a monthly basis as stated below:

5. Calculate equal weighted of 1-month and 3-month returns on a daily rolling basis to form a daily signal.
6. Scale signal from step 1 on the daily history over the last two years. This helps determine the strength of the signal relative to its own history.
7. The signal from step 2 is then further scaled linearly to yield final exposures to Bitcoin between 0.5 and 1.5.

The signals above are reset on a monthly basis at the end of each month. Here, exposure equal to 1 indicates 100% of the capital invested in Bitcoin. Below are the monthly exposures over time along with the results for the backtested period from July 2014 to June 2023.

Source: Includes Backtested Data. The WisdomTree 'Pure Alpha' Bitcoin Illustrative Strategy. From Jul 2014 to Jun 2023. Source: WisdomTree, Bloomberg (BTC daily levels), Ticker: XBTUSD. Historical performance is not an indication of future performance, and any investment may go down in value.



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During the back tested period of July 2014 to June 2023, the WisdomTree 'Pure Alpha' Bitcoin Illustrative strategy had annualised performance of 42.83% compared to 34.41% by Bitcoin with an annualised volatility of 55.6% which was 10% less than the volatility of Bitcoin resulting in a higher Sharpe ratio. The

outperformance was achieved with lower than 100% exposure on average and with lower max drawdown for the period.



Source: Includes Backtested Data. The WisdomTree ‘Pure Alpha’ Bitcoin Illustrative Strategy. From Jul 2014 to Jun 2023. Source: WisdomTree, Bloomberg (BTC daily levels), Ticker: XBTUSD. Historical performance is not an indication of future performance, and any investment may go down in value.

EOY Returns vs Benchmark

Year	BTC	Strategy	Multiplier	Won
2014	-50.67%	-45.28%	0.89	+
2015	36.16%	45.08%	1.25	+
2016	120.31%	95.18%	0.79	-
2017	1375.10%	1845.92%	1.34	+
2018	-73.84%	-63.60%	0.86	+
2019	94.83%	77.82%	0.82	-
2020	305.07%	253.27%	0.83	-
2021	59.79%	78.63%	1.32	+
2022	-64.30%	-48.24%	0.75	+
2023	83.75%	63.67%	0.76	-

Metric	BTC	Strategy
Time in Market	100%	100%
Average Exposure	100%	85.67%
Cumulative Return	4624%	10332%
CAGR	34.41%	42.83%
Volatility (ann.)	62.35%	55.63%
Sharpe	0.84	0.99
Max Drawdown	-83.42%	-75.77%

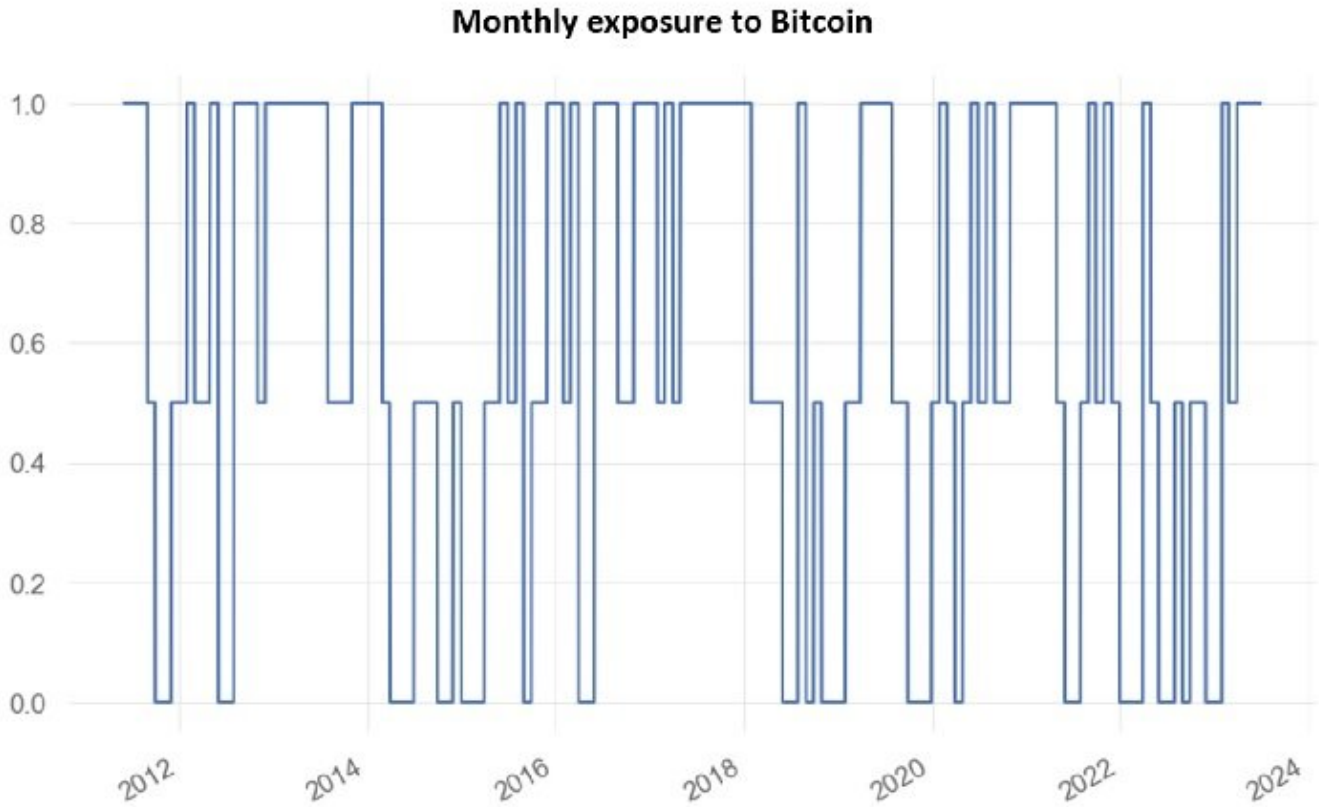
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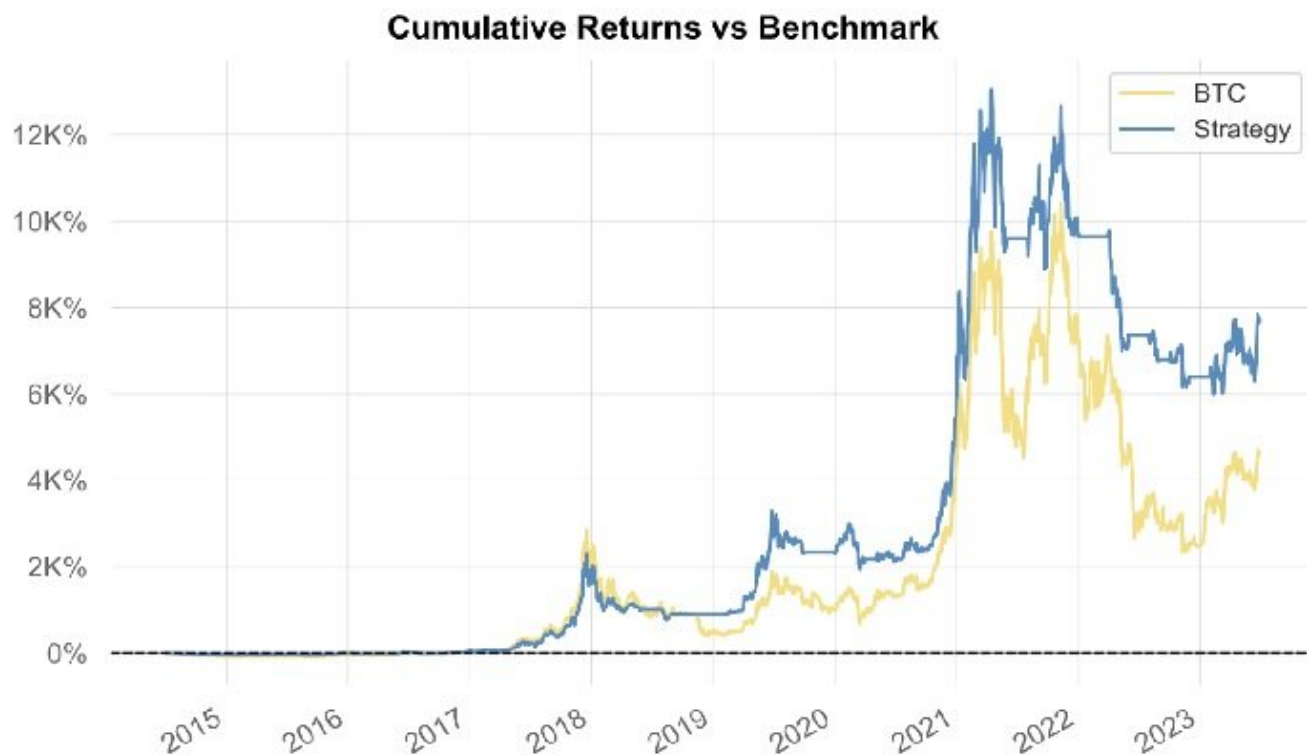
WisdomTree ‘Balanced Alpha’ Bitcoin Illustrative Strategy

The WisdomTree ‘Balanced Alpha’ Bitcoin Illustrative Strategy generates monthly exposures to Bitcoin by deploying ‘confirmation approach’ on 1-month and 3-month Bitcoin returns wherein we maximise the exposure if both the signals are positive, reduce exposure to half if the signals point in opposite directions, and do not take any exposure if both the signals are negative.

This approach translates to full 100% exposure to Bitcoin if both 1-month and 3-month returns are positive, 50% exposure if one of them is positive, and 0% if none of them are positive.

The signals are reset on a monthly basis at the end of each month. Below are the signal exposures, over time, along with the results for the backtested period from July 2014 to June 2023.





Source: Includes Backtested Data. The WisdomTree 'Balanced Alpha' Bitcoin Illustrative Strategy. From Jul 2014 to Jun 2023. Source: WisdomTree, Bloomberg (BTC daily levels), Ticker: XBTUSD. Historical performance is not an indication of future performance, and any investment may go down in value.

The WisdomTree 'Balanced Alpha' Bitcoin Illustrative Strategy exhibited returns while reducing volatility by almost 25% of the Bitcoin volatility leading to a Sharpe ratio of 1.04 compared to 0.84 from Bitcoin, while the max drawdown of the strategy stood at -64% compared to -83.4% on Bitcoin. Note, the average exposure to Bitcoin over the period was just under 60%, indicating that the strategy was able to participate in upside exposure while significantly reducing exposure during drawdowns. The 6-month rolling volatility also remained considerably lower than Bitcoin throughout this period.

Source: Includes Backtested Data. The WisdomTree 'Balanced Alpha' Bitcoin Illustrative Strategy. From Jul 2014 to Jun 2023. Source: WisdomTree, Bloomberg (BTC daily levels), Ticker: XBTUSD. Historical performance is not an indication of future performance, and any investment may go down in value.

Conclusion

We believe that thoughtful implementation of momentum signals in crypto investing can greatly enhance the risk adjusted returns, while reducing drawdowns and volatility. We were able to achieve better performance with less than 100% exposure on average in both the illustrative strategies, indicating higher participation on the upside and reduced exposure during drawdowns.

WisdomTree has a number of cryptocurrency exchange-traded products (ETPs), including [WisdomTree](#)

[Physical Bitcoin](#) which allows investors to gain exposure to Bitcoin and benefit from not having to remember or safeguard 'private keys' with wallets or browser extensions. ETPs offer a familiar transparent structure, trade like exchange-traded funds (ETFs), and plug in easily to investors' portfolio management, trading, reporting and risk management systems. Moreover, ETPs offer institutional grade cybersecurity and safeguarding of digital assets through trusted custodians. ETPs also offer best execution price by getting quotes from several market makers and picking the most competitive among them. They also do not suffer from futures' potential roll yields or investment trusts' discount to net asset value (NAV).

WisdomTree has more than 15 years of expertise in creating and managing ETPs across asset classes. As an established asset manager, WisdomTree uses regulated custodians that safeguard assets in segregated wallets offline and does not allow asset lending.

WisdomTree Crypto ETPs are offered at a competitive total expense ratio (TER) and staking yield is transparent wherein the percent allocated to the ETP is openly shared with investors. WisdomTree also takes care of any 'forking' activity and distributed potential cash proceeds as planned. Key product information about WisdomTree Crypto ETPs can be found below.

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