

# Quick Take: Fortune Favors the... Boring?

February 2022

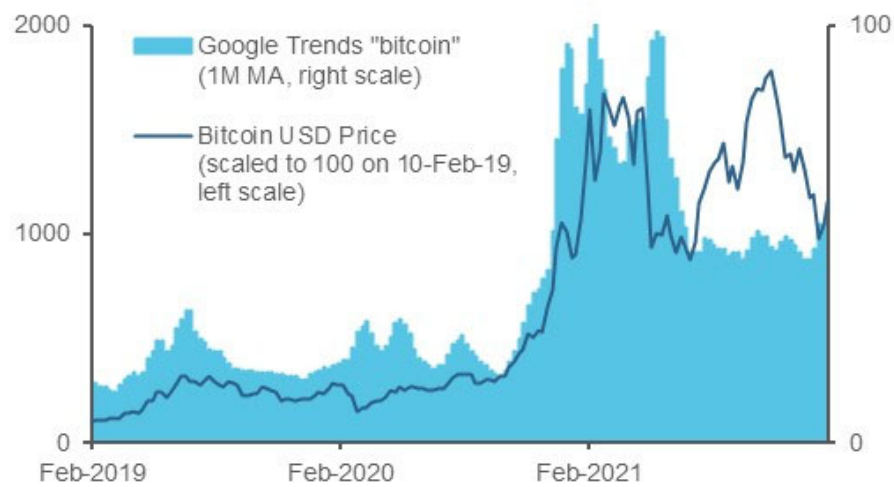
## Celebrities and Super Bowl ads glamorize crypto trading—at any risk

- Bitcoin more than quintupled in 2020 and doubled again through early November of 2021 before retreating. The impressive returns attracted broad popular attention (top chart). They also caught the eye of multi-asset allocators, despite signs of rampant speculation.
- We see the temptation of lottery-like payouts on cryptocurrencies as a major source of their appeal. To the extent that well-established coins enter the investment mainstream and behave more regularly, we expect new coins to attract risk-seekers hoping for explosive gains.
- This affinity for risk is not new: in equities, it has driven the overpayment for high-beta stocks for decades.

## Traders overpay for crypto risk, much as they do in other asset classes

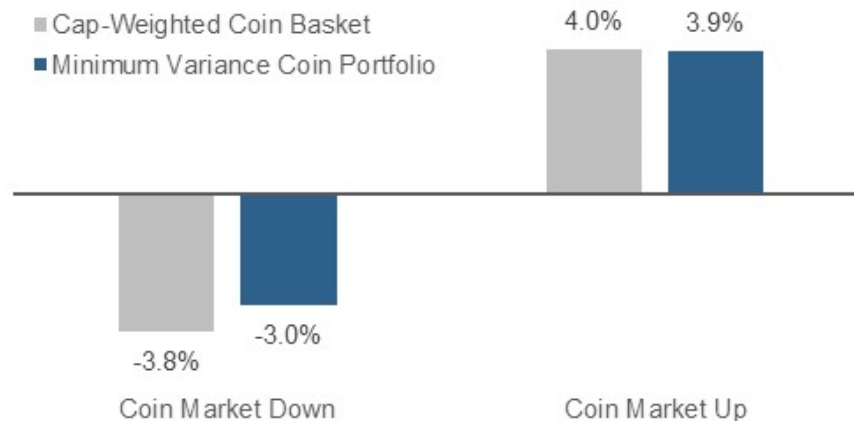
- To assess the pricing of risk in crypto markets, we conducted a simple experiment. From the most popular coins with available prices from January 2021 – February 10, 2022, we estimated a daily risk model and constructed the resulting minimum variance cryptocurrency portfolio. The portfolio exhibits a beta of roughly 0.875 relative to a cap-weighted coin basket.
- This minimum variance portfolio outperforms in much the same way that low volatility portfolios do in other asset classes: over the sample period, it exhibited statistically significant alpha relative to the cap-weighted basket, despite the massive crypto run-up, and larger upside than downside participation (bottom chart).
- Despite the short data history, these results suggest that crypto is yet another asset class in which risk is mispriced, a behavioral phenomenon that we observe within nearly all financial asset classes.

## Surging Bitcoin Prices Attracted Search Engine Interest



Weekly Bitcoin price in USD terms indexed to 100 on Feb 19, 2019. One-month moving average of worldwide web search interest in "bitcoin" normalized relative to peak from Feb 2019 – Feb 6, 2022. Source: Acadian based on Bitcoin price data from Bloomberg and search data from Google Trends. For illustrative purposes only.

## Hypothetical Crypto Minimum Variance Portfolio Upside/Downside Capture



Source: Acadian. This is meant to be an educational illustrative example and is not intended to represent investment returns generated by an actual portfolio. Data does not represent actual trading or an actual account but reflects one-day upside and downside return on a minimum risk coin portfolio versus cap-weighted portfolio of coins selected on the basis of price data availability and popularity (market cap). Average from Jan 2021 – Feb 10, 2022. Hypothetical results are not indicative of actual future results. Every investment program has the opportunity for loss as well as profit.



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