

# [Bitcoin best opportunities for investor](https://assignbuster.com/bitcoin-best-opportunities-for-investor/)

Bitcoin was undergoing a rally next week. The price is up over 12 percent from last week, and in the week prior, bitcoin increased 30 percent. The year 2013 saw the value of bitcoin rise by more than 6, 000 percent.

For investors who are interested in gaining exposure to this market, there are few options.

Several companies are working to bring more investment vehicles to the public, but for now there are only three ways to get into bitcoin: buy and hold individually through an intermediary or exchange, invest in a fund, or invest in individual companies.

There are no public bitcoin companies yet, so investing in individual companies is only available to venture capitalists. For the general public there are fewer options.

In order to understand the various options open to investors, Forbes interviewed Daniel Masters of the Global Advisors Bitcoin Investment Fund Limited, Brett Stapper of Falcon Global Capital, LP and Barry Silbert of the Bitcoin Investment Trust.

If you are not an accredited investor you only have one option, to buy and hold bitcoin on your own. The process of acquiring bitcoin is risky and requires a lot of due diligence to navigate the landscape properly.

The Mt. Gox collapse is a perfect case in point. Although it was the exchange with the most trading volume, it was also ripe with security breaches. Investors need to understand the risk of individual exchanges before trusting their funds with them.

In addition, investors need to have liquidity channels to purchase bitcoin. This would include purchasing directly from miners, on exchanges or other intermediaries, and from individuals.

After acquiring bitcoins they need to be stored somewhere. Investors need to understand the security risk of storing bitcoin as well.

For an institutional investor, this is not ideal and far from seamless. This is why Daniel Masters is opening the Global Advisors Bitcoin Investment Fund Limited, which is set to launch in July 2014, but will only be available to institutional investors.

Daniel Masters is a master of the commodities markets with over 30 years experience. His bitcoin strategy is based on the parallels he sees from the oil industry in 1999 to the current state of bitcoin.

In 1999 China was on the verge of an industrial boom and Masters correctly predicted that the country’s oil demand would increase significantly over the next decade.

The problem was that the oil industry’s productive capacity was way too low to meet the future expected demand increase. The process of discovery, production, shipping, refining, distribution, and making oil available to the end user has a lag time of almost 10 years.

Masters had the foresight to recognize that the oil industry was not prepared for the major increase in demand and knew prices would eventually spike.

Presciently, he purchased futures contracts. The price of a barrel of oil rose 1, 000 percent, from approximately $10 to $100, between 1998 and 2007.

The other opportunity he saw was that it was very difficult for institutional investors to invest in the oil markets. In response, Masters opened the Global Advisors Commodity Investment Fund.

This company created a vehicle for institutional investors to easily invest in oil by purchasing shares of the hedge fund managed by Master’s team. Global Advisors very quickly raised $350 million from institutional investors and made 91. 4 percent returns over five years.

Institutional investors did not enter the oil markets until hedging products were introduced that were easy to use and managed by someone else, like Master’s Investment Fund and the Goldman Sachs Commodities Index.

This oil tycoon is now enthralled with bitcoin. His investment strategy is built on the underlying premise that the future demand for bitcoin will increase by 3, 000 percent over the next five years.

Masters believes that approximately 1. 5 billion people, basically everyone that uses Facebook, will want to hold roughly $100 worth of bitcoin.

But how do you get $100 of bitcoin into the hands of 1. 5 billion people? Similar to the oil market in 1999, there is a lot of work that needs to be done to get bitcoin to the end user.

As more people demand bitcoin, the price will rise, which will “ support and spur all of the advances that will inevitably occur as part of the coming digital currency revolution,” Masters states.

To facilitate Masters’ estimated demand, the price of bitcoin will need to rise to $15, 000 and he believes it will within five years. Unfortunately, Masters’ fund is located in Jersey and they will not service American clients.

If you are not familiar with Jersey, it is a UK Crown Dependency just off the coast of Normandy, France. Jersey is ruled by the Duke of Normandy, but has its own parliament that regulates the financial, legal and judicial systems.

Masters chose to operate in Jersey because of the stable economy and business friendly environment. His fund is regulated by the Jersey Financial Services Commission (“ JFSC”).

There are a few different options for American accredited investors in bitcoin. Both the CEOs of Falcon Global Capital, LP and the Bitcoin Investment Trust (“ BIT”) are operating under the SEC Regulation D Exemption.

Falcon is available to investors looking to invest $100, 000 to $10 million in bitcoin. They charge a 2 percent subscription fee and a 3 percent administration fee. In return, they take the hassle out of dealing with exchanges and storage, which also tack on fees, as the Director, Brett Stapper, points out:

“ At the end of the day, the fees you would incur investing on your own, will be very similar to the fees we would charge.”

What makes Falcon unique is that their Bitcoin Assets are stored in “ Deep Cold Storage” meaning they are insured and stored offline, where they are not susceptible to hackers. When I asked Stapper about his price predictions, they were less precise than Masters’.

He believes the price for bitcoin will be at $2, 000 by the end of this year based on the venture capital money that’s flowing in and supply and demand. When asked about predicting bitcoin futures over the next five years he said, “ it’s very hard to say, but I do believe it is going to continue to go up.” While reluctant to provide a number, he believes demand will be driven by developing countries adopting the technology over developed countries, which is the opposite of Masters’ prediction.

SecondMarket’s Bitcoin Investment Trust is another option for accredited investors in the US. The BIT launched in September 2013 and is essentially a private Exchange-Traded Fund, structured similar to the SPDR Gold Shares (GLD). BIT creates their own bitcoin market by purchasing and holding in-house. In my interview with CEO Barry Silbert he said,

“ Our trading stream is the most active in the market right now. We have over 200 counterparty relationships.”

Only 20 percent of their purchases are done on exchanges, the rest are purchased from miners, merchants, merchant processors, and individuals. Everyone who sells bitcoin directly to Silbert’s fund has to undergo reporting requirements.

The minimum investment in BIT is $25, 000. They charge a 0. 5 percent front-end fee and 2 percent annual admission and safekeeping fee.

Silbert also plans to offer an EFT on OTC Markets by the end of the year, which would be available to the general public. When I asked him his bitcoin price prediction, he was reluctant to give an exact number, but he said “ in 5 years the outcome is likely binary – either very high or zero.”

Investors have few options to gain exposure to this market without having to oversee the entire bitcoin ecosystem. Anyone can buy and hold bitcoin on exchanges, but there is a big learning curve and additional risk in doing so.

Truly understanding and investing safely in bitcoin could be a full-time job in itself. Daniel Masters believes that the bitcoin floodgate will open when the industry provides an easy to use investment vehicle.

There are a few investment vehicles available to accredited investors in the US where, for a fee, the fund will manage investor’s funds. Non-accredited investors do not have this option yet, but once they do, the opportunity to logarithmically scale your investment could significantly diminish.