



# DIGITAL HEDGE CAPITAL

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ANNUAL INVESTMENT REPORT  
2021



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## DIGITAL HEDGE CAPITAL

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NAME	PRICE	24H CHANGE	7D CHANGE	1M CHANGE	3M CHANGE	MARKET CAP ↓	24H VOLUME	C. SUPPLY
 <b>BTC</b> Bitcoin	\$47,162	-0.43%	-7.28%	-16.75%	-1.69%	\$892.14B	\$89.01B	18.92M
 <b>ETH</b> Ethereum	\$3,742.47	-0.22%	-7.65%	-17.39%	9.52%	\$445.26B	\$19.36B	118.98M
 <b>BNB</b> Binance Coin	\$516.41	0.07%	-5.18%	-16.59%	19.51%	\$86.14B	\$2.48B	166.80M
 <b>USDT</b> Tether	\$0.999573	-0.16%	-0.34%	-0.10%	-0.33%	\$78.35B	\$48.04B	78.38B
 <b>SOL</b> Solana	\$172.88	0.93%	-10.80%	-22.59%	0.36%	\$53.51B	\$1.86B	309.51M
 <b>USDC</b> USD Coin	\$0.999958	-0.01%	-0.01%	0.00%	-0.01%	\$42.37B	\$2.35B	42.37B
 <b>ADA</b> Cardano	\$1.32	-0.70%	-5.99%	-14.22%	-41.93%	\$41.59B	\$1.45B	31.46B
 <b>XRP</b> XRP	\$0.841646	0.28%	-8.52%	-13.38%	-19.73%	\$38.83B	\$1.86B	46.14B
 <b>LUNC</b> Terra Classic	\$89.16	2.63%	-8.13%	42.04%	95.82%	\$32.23B	\$1.86B	361.54M
 <b>AVAX</b> Avalanche	\$109.71	5.82%	-4.29%	-5.98%	55.17%	\$26.71B	\$1.88B	243.47M

Cryptocurrencies by Market Capitalization  
Historical Snapshot - December 31, 2021.

Contents in this report are intended to be used for information and education purposes only and do not constitute financial advice. Past performance is not indicative of future results. It is very important to do your own research before making any investment decision. Any comments about the contents of this report will be received by email at [info@digitalhedge.com](mailto:info@digitalhedge.com)

## INTRODUCTION

### EXECUTIVE SUMMARY

Digital Hedge Capital is proud to present its second Annual Investment Report for 2021. We reiterate our outstanding commitment to our investors and thank them for their tremendous support, without which we wouldn't be able to continue working towards shaping a better financial future.

This report breaks down some crypto market insights, starting from notes on market capitalization and moving towards price growth. Despite all risks and high volatility, major cryptocurrencies generated meaningful returns for those investing in the digital asset class.

Market dominance and notes on technical analysis are presented, explaining how capital shifted within the crypto space during the year and some of the critical fundamental forces behind such trends and significant themes.

The "comparative benchmarks" and the "fund performance" sections englobe some key reasons why we introduced Bitcoin as our new primary benchmark and updated our commission schemes. We believe both are worthy decisions that take a higher consideration into the market's returns to charge fairer fees that align with the fund's updated objectives.

Finally, the fund performance is presented with Digital Hedge Capital's highest registered returns, significantly outperforming Bitcoin, the S&P 500, and the Nasdaq 100 over the same period.

The team looks forward to increasing its assets under management for 2022, a year for which we are prepared and will likely yield even better returns than present 2021.



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**Jorge Ruiz Espín**  
Chief Investment Officer  
Digital Hedge Capital

## CRYPTO MARKET OVERVIEW

## CRYPTOCURRENCY MARKET INSIGHTS

Bitcoin Price and Market Capitalization 2021



Source: [CoinMarketCap](#)

### — Bitcoin Price and Market Capitalization —

According to Binance, the price of Bitcoin started the year at \$29,330. After highly volatile up and downswings, the leading cryptocurrency closed the year at \$46,216, generating a return of 59.79%.

During Q1 of 2021, the crypto rally continued with the first significant price corrections of around 25% after hitting the expected \$1 trillion capitalization. Positive sentiment on the crypto market was higher than ever while investors poured capital into smaller projects looking to outperform BTC, similar to the 2017 ICOs.

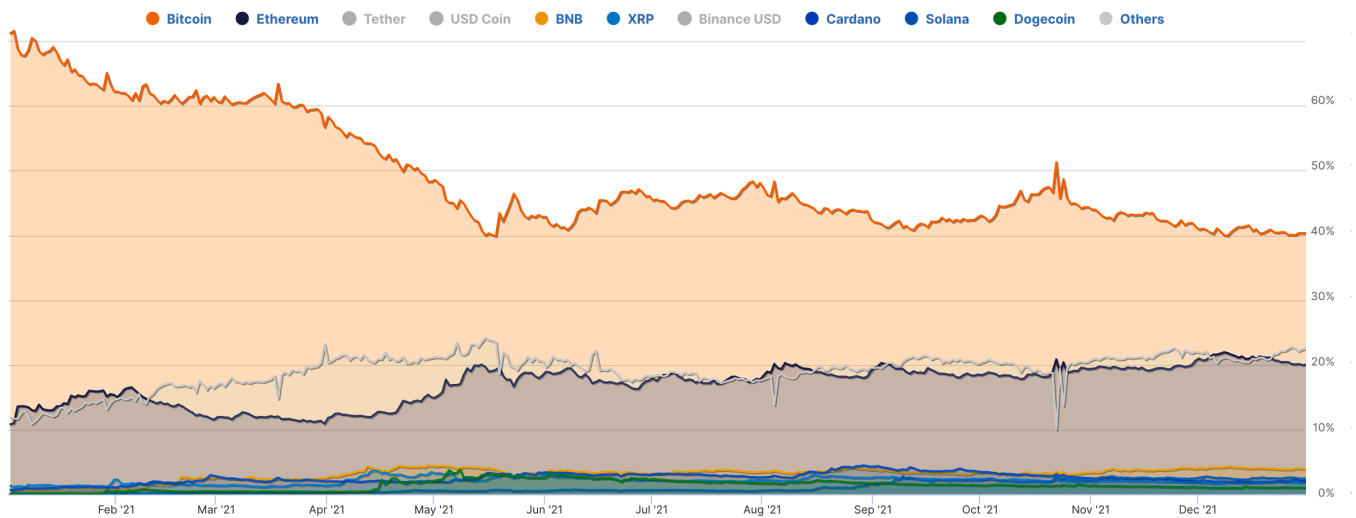
Spirits changed on Q2 and Q3 when the price of Bitcoin and all other significant digital assets fell over 50% from their all-time highs, leading to what may have been the start of a bear market from an unusually high drawdown.

In Q4, the price recovered, again setting a new all-time high at around \$69,000 before falling over 30% for the second time in the year.

## - Market Dominance -

Dominance is the market capitalization of a selected cryptocurrency relative to the total market capitalization. It is useful in understanding which particular projects or categories outgrew others over a certain period of time.

### Major Crypto-assets by Market Dominance

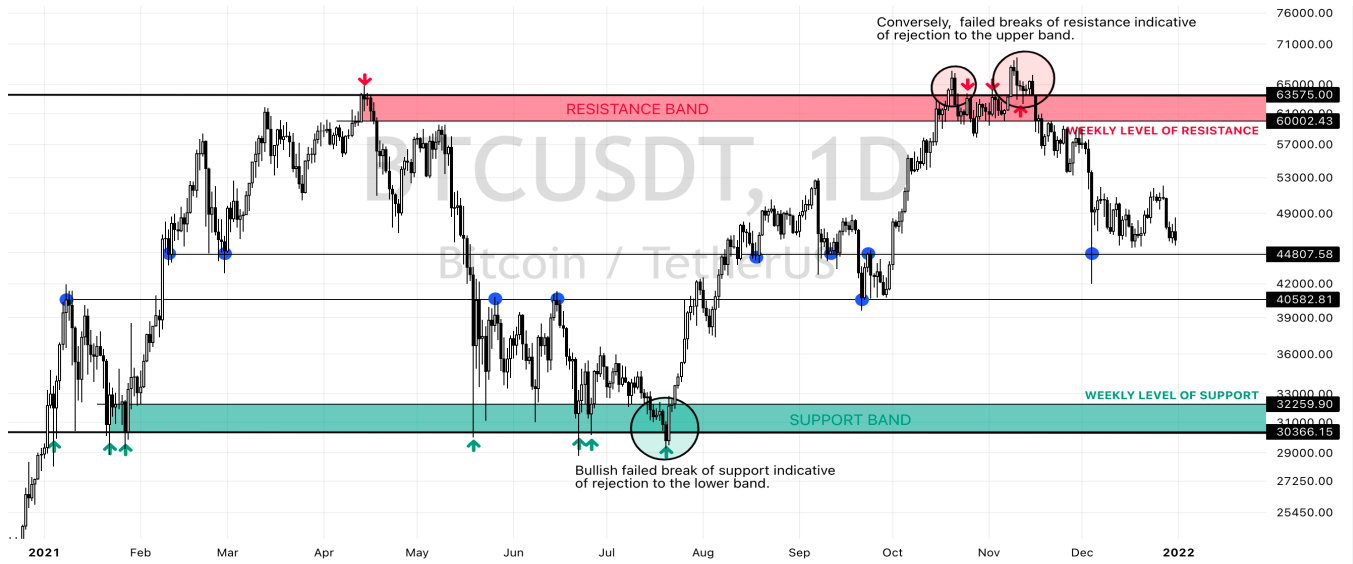


Through the analysis of 2021 data, the inverse correlation of Bitcoin's dominance against Ethereum's dominance becomes apparent. Bitcoin lost almost half of it while Ethereum's doubled, a truth that we attribute to many factors, including some of which we list in the "Key Fundamental Forces" section of this report.

Similarly, the most remarkable shift in market dominance during 2021 was that of smaller altcoins, which account for BNB, XRP, ADA, SOL, DOGE, and Others. These combined grew from 14.66% to 33.59%, reducing that of Bitcoin even further as expectations rose around DeFi projects, Exchange tokens, and smart contract platforms.

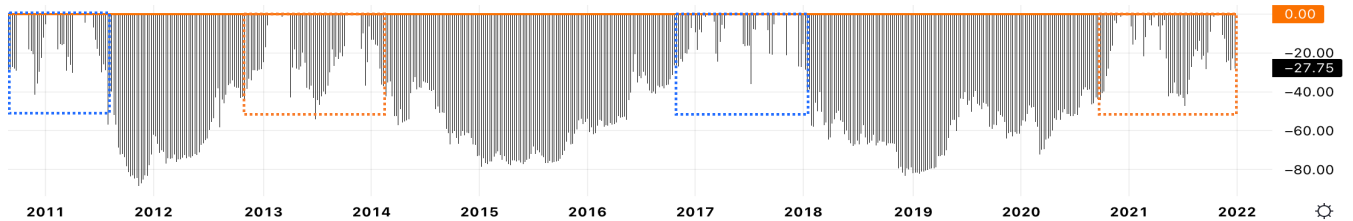
## - Bitcoin Technical Analysis-

The chart below shows two primary ranges of weekly and daily support and resistance established during the first four months of 2021 at \$30.3k-\$32.3k and \$60k-\$63.5k, respectively. Secondary ranges at midpoints were also established, at \$40.5k and \$44k.



All four levels were tested several times during the year, confirming their importance through wick rejections and shifts in price direction, inside what looks like a massive range with  $\approx 50\%$  drawdowns and  $\approx 100\%$  upswings. Rejections from the upper band have been more decisive, while rejections from the lower band have been more plentiful and often stop in a midrange. The reason why this is important is that levels of support and resistance tend to weaken with every price contact, making in this case, the lower \$30.3k-32.3k range more likely to finally break, in

**Bitcoin Historical Drawdown**



what could lead to a higher drawdown with the price returning to the previous 2017 all-time high.

Another way to analyze this year's performance is by looking at drawdown, which refers to how much an investment is down from its peak in percentage terms. The previous graph illustrates how all four bull markets have taken place throughout bitcoin's history, followed by a bear market that sinks the price between 75%-85% before setting a new all-time high years later.

Although the 52% drawdown that started in April was not a full retracement relative to previous years, it was strong enough to shake the crypto space before bouncing to new all-time highs. In retrospect, this marks a double top formation, similar to the previous 2013 cycle.

## CRYPTO MARKET OVERVIEW

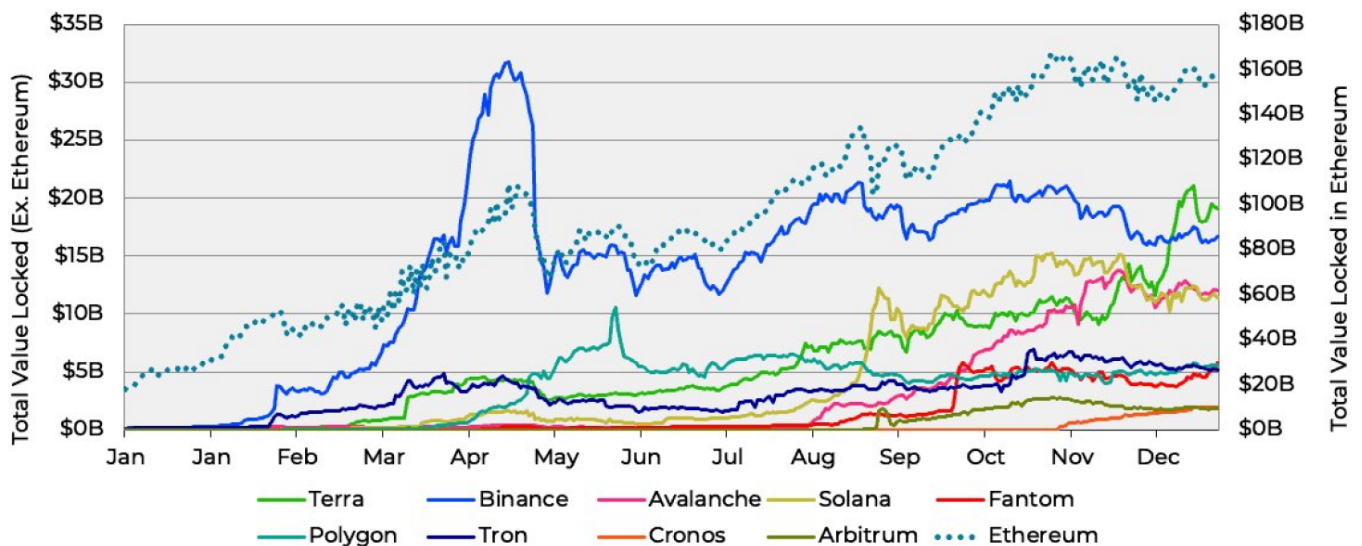
### KEY FUNDAMENTAL FORCES

As mentioned in the “Cryptocurrency Market Insights” section of this report, key fundamental forces heavily impacted how capital shifted within crypto during 2021. Some of those forces and significant themes will be listed here, referencing the exchange platform Crosstower on their 2021 Crypto Recap <sup>1</sup>.

#### - Layer 1 Blockchains Crowd Out Ethereum -

In 2021, investors became fed up with Ethereum’s high fees due to network congestion, and sought out cheaper alternatives. This led to the rise of DeFi ecosystems on Binance Smart Chain, Polygon, Solana, Avalanche, and Terra, as well as significant appreciation in the chains’ respective native tokens. This is in stark contrast to 2020, in which Ethereum was the favored platform for many investors and DeFi participants. The rise of Layer 1 blockchains has validated a multi-chain thesis, but a lot remains unknown. Will monolithic blockchains prevail or will only those that pivot to become modular through Layer 2 scaling solutions succeed? 2022 may give us an indication.

**Top 10 Blockchains by Total Value Locked 2021**



Source: Delphi Digital. <https://members.delphidigital.io>

### - NFT And Metaverse Go Mainstream -

NFTs proved to be one of the largest winners of 2021, with generative art, historical NFT collections, and profile picture NFTs proving especially popular. NFTs saw two waves of interest (in Q1 and Q3), and demand for NFTs remains strong going into 2022. OpenSea, the most popular NFT marketplace, has posted NFT volumes of \$2 to \$3 billion the last several months, further highlighting robust NFT activity.

NFTs also led to a surge in interest in the Metaverse, given they enable governance through the blockchain. The Metaverse remains a popular investing theme at year end and investors are looking at how the closely-related blockchain gaming industry will shape up after play-to-earn crypto games like Axie took off during the year.

### - Bitcoin Further Evolves Into Macro Asset -

Bitcoin saw further adoption from institutional investors and even public companies like MicroStrategy, Tesla, Square Inc and Coinbase, who increasingly view it as a credible store of value and inflation hedge, buying bitcoin as part of their corporate treasury.

The lightning network also saw impressive growth, with capacity, nodes, and channels ending the year at or around all-time highs, indicating growing user interest in the scaling solution and the cheap, fast payments it offers. Bitcoin also received validation as an asset class with the SEC's approval of the first Bitcoin futures ETF, which has AUM of \$1.2 billion as of writing. Bitcoin was able to shake off many challenges throughout the year, such as doubts regarding Tether's reserves, regulatory uncertainty, and China's crypto mining crackdown.

Today, Bitcoin's hash rate has fully recovered and the network implemented Taproot in November, its first major upgrade since SegWit in 2017. The network is humming and Bitcoin continues to attract adoption in light of global factors, such as inflation <sup>2</sup> and central bank money printing <sup>3</sup>.

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<sup>2</sup> Lahiff, K. (2021, December 13). *Consumer inflation rises at fastest pace in nearly 40 years – five experts weigh in*. CNBC. <https://www.cnn.com/2021/12/13/inflation-rises-at-fastest-pace-in-nearly-40-years-experts-weigh-in-.html>

<sup>3</sup> U.S. *Currency in Circulation*. (2022, July 26). FRED Economic Data. <https://fred.stlouisfed.org/series/WM2NS>



## DIGITAL HEDGE CAPITAL COMPARATIVE BENCHMARKS

This year brought significant changes within the organization regarding our benchmarks and commission schemes, which have become much more competitive by taking a higher consideration into the crypto market returns, setting bitcoin as our new primary benchmark.

### - Bitcoin -

Just like traditional funds use traditional indexes, the decision to use Bitcoin as our new primary benchmark comes from Digital Hedge Capital’s investment objectives:

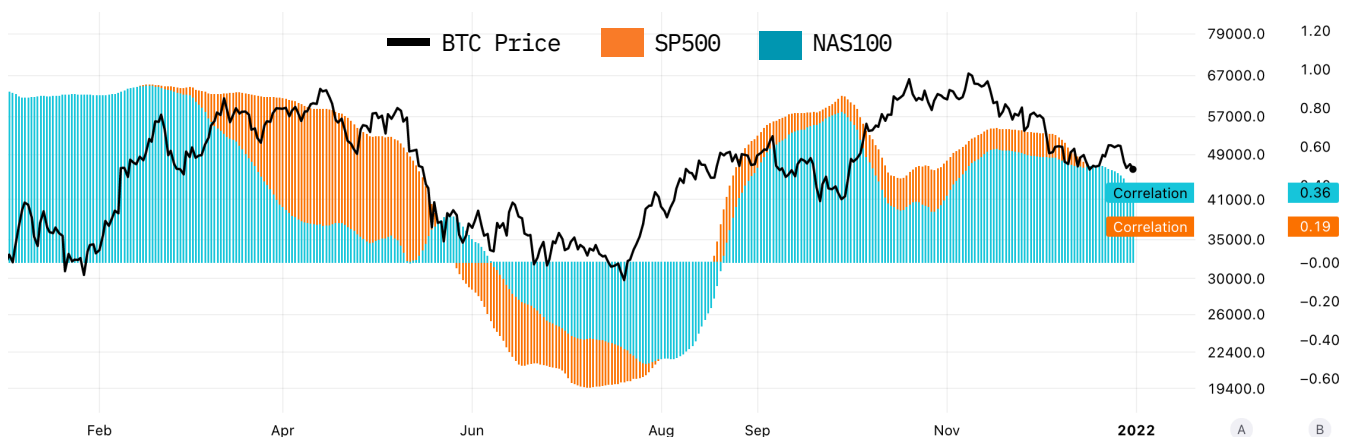
1. Hedge against market risk, reducing volatility.
2. Outperform Bitcoin, the main cryptocurrency in the market which we operate.

Historically, the volatility incurred by the fund during trading operations is smaller than that of digital assets, therefore resembling bitcoin the most as its long history and high dominance are likely to prevail and prevent it from fluctuating as much as smaller and newer cryptocurrencies. Conversely, using Bitcoin, a cryptocurrency with a mean annual return of 93.8% as a benchmark, entails many challenges. However, we believe it is the righteous choice not to charge outperformance fees unless we generate higher than market returns.

### - Traditional Indexes-

We have also decided to maintain comparisons against indexes such as the S&P 500 and the Nasdaq 100, highlighting the strengthening correlation between traditional and cryptocurrency markets.

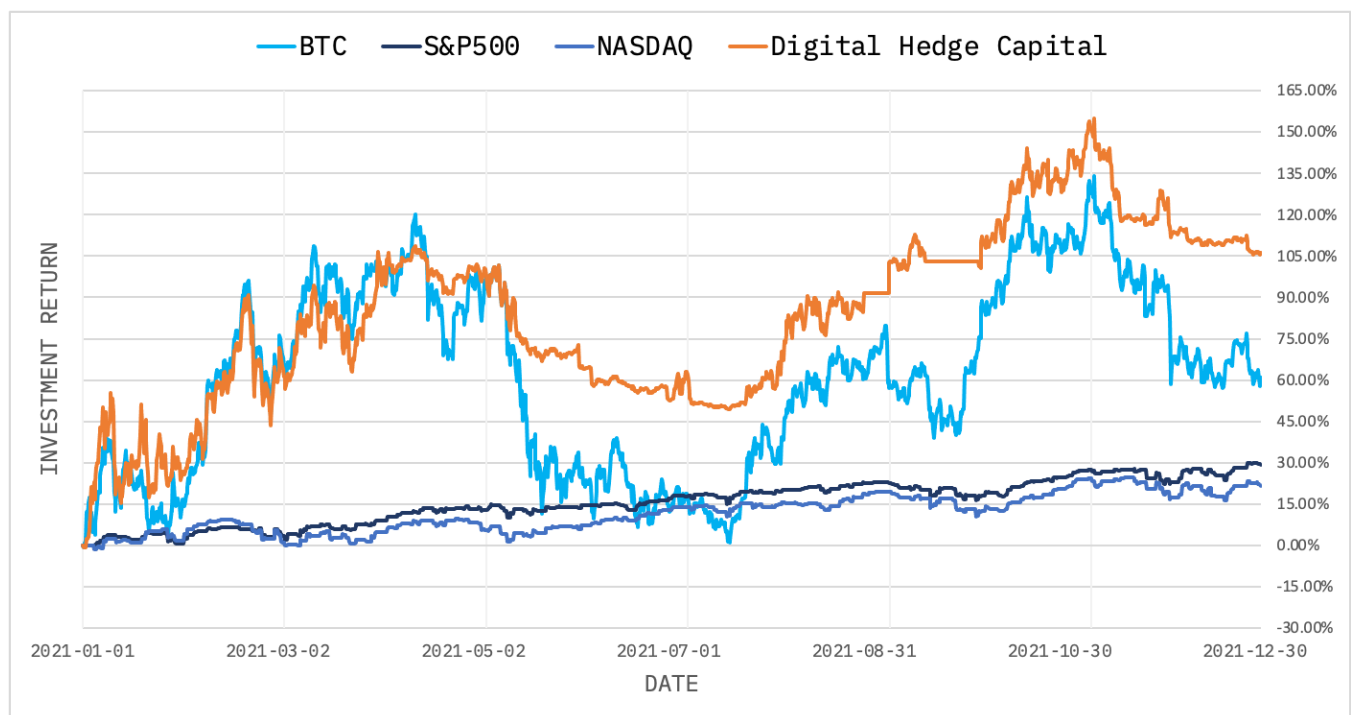
**Correlation of Bitcoin Against Traditional Indexes 2021**



## DIGITAL HEDGE CAPITAL FUND PERFORMANCE 2021

Digital Hedge Capital generated a gross return of 106.18%, successfully outperforming Bitcoin (59.79%), the S&P 500 (29.17%) and the Nasdaq 100 (21.56%) over the same time period.

Gross Return	Benchmark Return	Outperformance Fees	Net Return
106.18%	59.79%	23.05%	81.71%



Even after fees, the outperform of 21.92% against Bitcoin, 52.54% against the S&P 500, and 60.15% against the Nasdaq 100 positions Digital Hedge Capital as an attractive alternative to investing in digital assets with a lower level of risk accomplished through a multi-strategic approach.

With all things said, the team thanks our outstanding investors and looks forward to increasing its assets under management for 2022, a year for which we are prepared and will likely yield even better returns than those of 2021.