

The background of the entire page is a complex, abstract network graphic. It consists of numerous small circular nodes connected by thin, light-colored lines. The nodes are scattered across the frame, with some appearing more prominent than others. The overall aesthetic is clean, modern, and technical, suggesting a digital or data-driven environment. The colors used for the nodes and lines are primarily shades of blue, teal, and grey, with some white nodes visible in the lower-left quadrant.

2020 REPORT

CRYPTO HEDGE CAPITAL

DECEMBER 1ST, 2020

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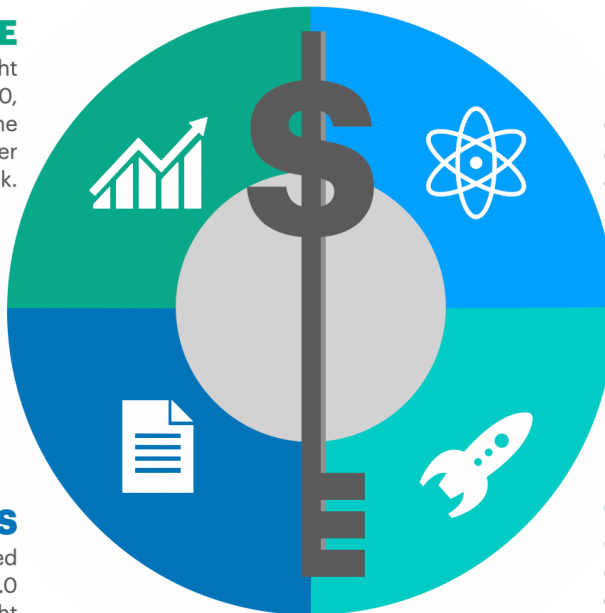
19 2021 Outlook for Crypto Hedge Capital

ABOUT CRYPTO HEDGE

Pioneer investment fund located in Mexico City to invest in Cryptocurrencies. The fund is designed to invest mainly in international exchanges with its own exclusive algorithms, and intra-day trading. The goal is to create a well-organized channel for all those qualified investors who want to invest in Cryptocurrencies, but have little time devoted to fundamental and technical analysis. It offers a well-organized corporate structure which includes legal advisory, tax strategy & follow up, independent board of advisors and full-time analysts. It is also compliant with all KYC procedures and highly committed to transparency.

PERFORMANCE

Crypto Hedge Capital brought returns of +61% in 2020, outperforming the S&P500, the Nasdaq 100 and every other benchmark.



R&D

Implementation of systems and investment on research and development are taking place to keep an edge over the market with evolving algorithms and new strategies.

KEY FACTS

The creation of Decentralized Finance, the launch of Ethereum 2.0 and mass acceptance brought awareness and new users to crypto.

OUTLOOK

Crypto Hedge Capital is very optimistic about crypto for 2021, but even more on its systems that will yield great returns no matter the market condition.

EXECUTIVE SUMMARY

2020 has been a spectacular year not only for Crypto Hedge Capital but also for the cryptocurrency market and for investors who have chosen to include this asset class in their portfolios. Market capitalization grew by 203% while the price of Bitcoin rose to \$19,900 for the first time in years, making a new all time high.

The organization has improved its systems and developed new algorithmic strategies that follow the trend and filter out low volatility for both Bitcoin and alt-coins, diversifying portfolios into many correlated and uncorrelated currencies, to a point that reduced risk, without sacrificing performance.

This is clear with the returns of Crypto Hedge Capital that outperform the returns of the SP 500 and the returns of the Nasdaq 100, while the hedge fund industry reports its worst year since the financial crisis of 2008, at an average year to date return of -4.61%, given the COVID-19 pandemic that caused the market crash of March of this year.

Although this drop also greatly affected cryptocurrency prices, Crypto Hedge Capital took advantage of the circumstances with long and short positions, and with event driven positions around exogenous factors, such as the DeFi boom, which brought new technologies to the crypto space, and the announcement of the upcoming Ethereum 2.0 network that will bring the scalability and security it needs to continue growing.

Crypto Hedge Capital also looks forward to increasing its assets under management for 2021, a year that will likely yield even better returns than those of 2020.

OVERVIEW OF THE CRYPTO MARKET

CRYPTOCURRENCY MEGA TRENDS

2020 radically changed the macroeconomic landscape as investors and hedge funds in all major regions, adopt cryptocurrencies as a shelter against the financial crisis caused by the COVID-19 pandemic that crashed markets in March this year.

MARKET DOMINATION

Bitcoin continues to be the most dominant cryptocurrency in the market, encompassing 63% of the entire market capitalization; A 10% decline from 2019. Similarly, all major alt-coins lost ground against decentralized finance tokens, (DeFi) whose boom opened the landscape for new technologies and wider adoption in mid august of this year with the creation of Yearn Finance and other protocols mounted on the Ethereum network.

MARKET CAPITALIZATION

The combination of emerging technologies, the launch of long-awaited projects and the economic crisis, caused the capitalization of cryptocurrencies to grow by 203% this year, going from \$186bn to \$564bn at the time of this writing. This increase is also much higher than the growth of 2019, when the capitalization went from \$125bn to \$193bn, but still very low compared to the growth of 2017, when the capitalization went from \$17.6bn to \$830bn, not only confirming that it is a rapid growing market, but also proving that similar growth has not yet been repeated.



Crypto Market Capitalization 2016 - 2020

BITCOIN TECHNICAL ANALYSIS

Bitcoin started the year at \$7,200 and subsequently climbed steadily to \$10,350. It was not until then that the sentiment changed after governments around the world imposed social distancing measures and lockdowns as the beginning of the quarantine to contain the spread of COVID-19. The price plummeted along with the rest of the markets and all asset classes, reaching a price of \$3,998 on March 13. This marked the bottom of the year, and the lowest point for the cryptocurrency since 2019. Despite this, Bitcoin immediately resumed its uptrend with added volatility left by strong downside movements. It wasn't until June that the price returned to \$10,350, consolidating for over two months before breaking out towards \$12,000. It is clear that the range between \$10,000 and \$ 10,300 was one of the most important levels (marked below in blue) because later the price retested this level from the upside twice to then continue it's rally reaching today's levels.



Bitcoin Daily Time Frame 2020

The overall performance for Bitcoin in 2020 was just under 170%, becoming known by the media as the "best performing asset of the year", surpassing gold by 109% and the S&P 500 by 155% at the time of writing.

Nevertheless, it's worth being aware that despite the absence of meaningful high time frame resistance for the major part of this rally, Bitcoin has finally reached one of the most anticipated levels in recent years, where the all time high range of 2017 between \$19,000 and \$20,000 is expected not to go unnoticed and act as resistance for what could possibly be a major 30% - 40% retracement, returning to the nearest weekly support back in \$12,000.

Nevertheless it is also worth being aware of what emerging evidence of strength would look like in this upper area. Namely, weekly close above \$19,900 and the \$19,200 level acting as support on daily time frame would likely suggest a brief period of consolidation before continuation upwards. More aggressively, a weekly breakthrough with no retest of resistance turned to support would also suggest rapid continuation above \$20,000.



Bitcoin Weekly Time Frame 2017 - 2020

In summary, numbers will continue to go up until a shift in behavior is seen. Resistance between \$19,000- \$20,000 will only be confirmed after there are obvious signs of rejection in daily time frame. Conversely, upward continuation can occur despite being much less likely, only if there is clear evidence of breakthrough and if resistance turns to support.

ALT-COINS TECHNICAL ANALYSIS

Regarding the rest of the crypto market, the first 10 Alt-Coins, or alternative coins to Bitcoin, hold more than 90% of the remaining 37% of market capitalization, being Ethereum the most predominant. Ethereum yielded returns of 360% in 2020, almost doubling the growth of Bitcoin. Despite this, and unlike Bitcoin, Ethereum is still far from reaching its all time high of 2017 when it's price was around \$1400, and most of that is also true for the growth of other currencies such as EOS, Litecoin, Neo , Ripple, Zcash, Cardano, Dash, Monero, and IOTA.

Alt-Coins whose purpose is related to decentralized finance or DeFi, strongly outperformed the rest. Using Chainlink as an example, it is seen that its peak this year was on August 15, right in the DeFi boom, but also that its current return of 686% is even more aggressive than Ethereum's.

Alt-Coins normally grow when the price of Bitcoin finds consolidation or when Bitcoin is slowly trending up. Conversely, if Bitcoin goes up or down very fast, attention turns there and Alt-Coins fall. This is known as the alt season and it can happen once or twice a year, when the market considers that Bitcoin is in an optimal position for the rest to rise. For this reason, every cryptocurrency portfolio seeks to include a fraction of alt-coins, as their behavior often counter that of Bitcoin and may act as a hedge.



Comparative growth between the 5 biggest Alt-Coins

CRYPTOCURRENCIES IN 2020: KEY FACTS

This year not only did the market capitalization grow enormously, but the fundamentals also improved to push the price even higher in 2021.

1. Among the main takeaways, the DeFi boom that attracted the eyes of millions of new users with new technologies and methods of distribution such as Yield Farming, helped accelerate adoption and opened the field to new uses of blockchain technology and cryptocurrencies in general. As many of these projects were mounted on the Ethereum network, its capitalization grew +380% parallel to its price. DeFi also prompted the creation of the first Decentralized Exchanges (Dex), whose applications can have a positive impact on all crypto hedge funds, allowing them to stake with little or no restriction on management of foreign capital.
2. The upcoming Ethereum 2.0 release was also announced to launch on December 1st, which would give the network the scalability and security it needs to continue growing through discarding the Proof of Work (POW) to avoid relying on miners and electricity, replacing them with validators through the use of Proof of Stake (POS). ETH's price ran up in anticipation of the upgrade and is currently resting just above \$600 as Bitcoin struggles to break \$20,000 resistance.
3. Also, adoption from big corporations such as PayPal, and the acceptance of hedge funds to incorporate the asset class, brought new awareness and new crypto users to the market, just like in 2016. The sentiment is also influenced by fundamentals that mainly surround 3 central topics. Regulation, security and education. All which need to improve to increase in societal adoption so that the everyday investor feels comfortable enough to invest in cryptocurrencies as well, safely and with the necessary knowledge about them.

CRYPTO HEDGE CAPITAL PERFORMANCE

PERFORMANCE BENCHMARKS

Many funds use indexes like the S&P 500 or the Nasdaq 100 as benchmarks, and Crypto Hedge Capital is no different. **Crypto Hedge Capital seeks to outperform all traditional indexes allowing investors to diversify their investment portfolios into cryptocurrencies, without them undertaking the risk of high volatility that it implies.** That is why the section “*Crypto Hedge Capital Performance 2020*” compares the returns of the S&P 500, the Nasdaq 100 and Crypto Hedge Capital for 2020.

Alternatively, it is important to know the performance of all major hedge funds in a given year, not to mark them as a benchmark for Crypto Hedge Capital, but as to indicate and determine the sentiment of the markets, and capital flow towards alternatives such as Gold, or cryptocurrencies when they fail to outperform. According to EurekaHedge, the world's largest hedge fund and private equity database, Hedge funds returned an average of only 6.96% throughout 2019, despite the S&P 500 rising 28% that same year. Furthermore, the average is expected to drop significantly this year, given the reports from the ten largest hedge funds, which claim to remain -4.61% year-to-date, after the collapse of all major markets back in March.

Hedge funds seem to be in trouble, as many run on heavy operational costs and need large amounts of assets to stay afloat by charging big Management and Incentive fees. This is not only a problem for funds, but also a problem for the retail and the institutional investor, who seek to diversify and achieve constant returns, but encounter the disappointing results of many organizations, specially in tough times when they often need the most financial security.

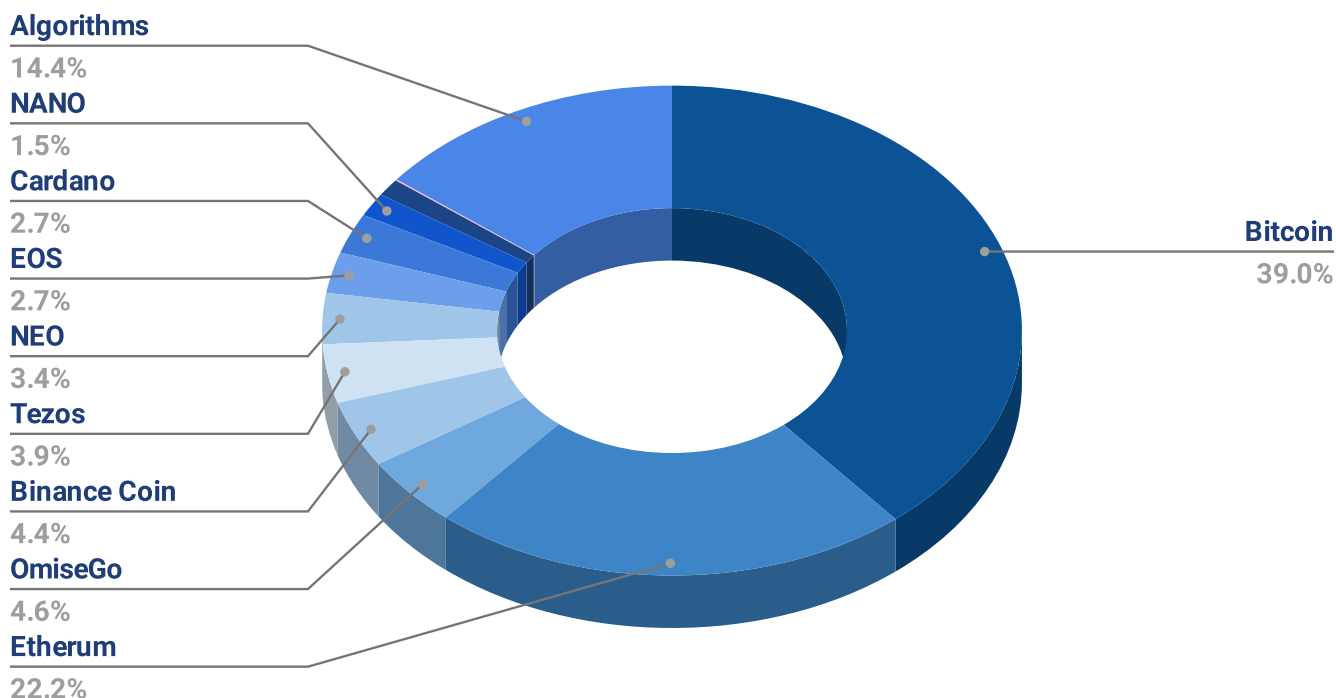
That is why Crypto Hedge Capital does things differently, improving on a multi-strategy approach to mitigate risk, and to heavily outperform the average hedge fund, In a market that most are unable to understand.

CRYPTO HEDGE PERFORMANCE 2020

CAPITAL ALLOCATION

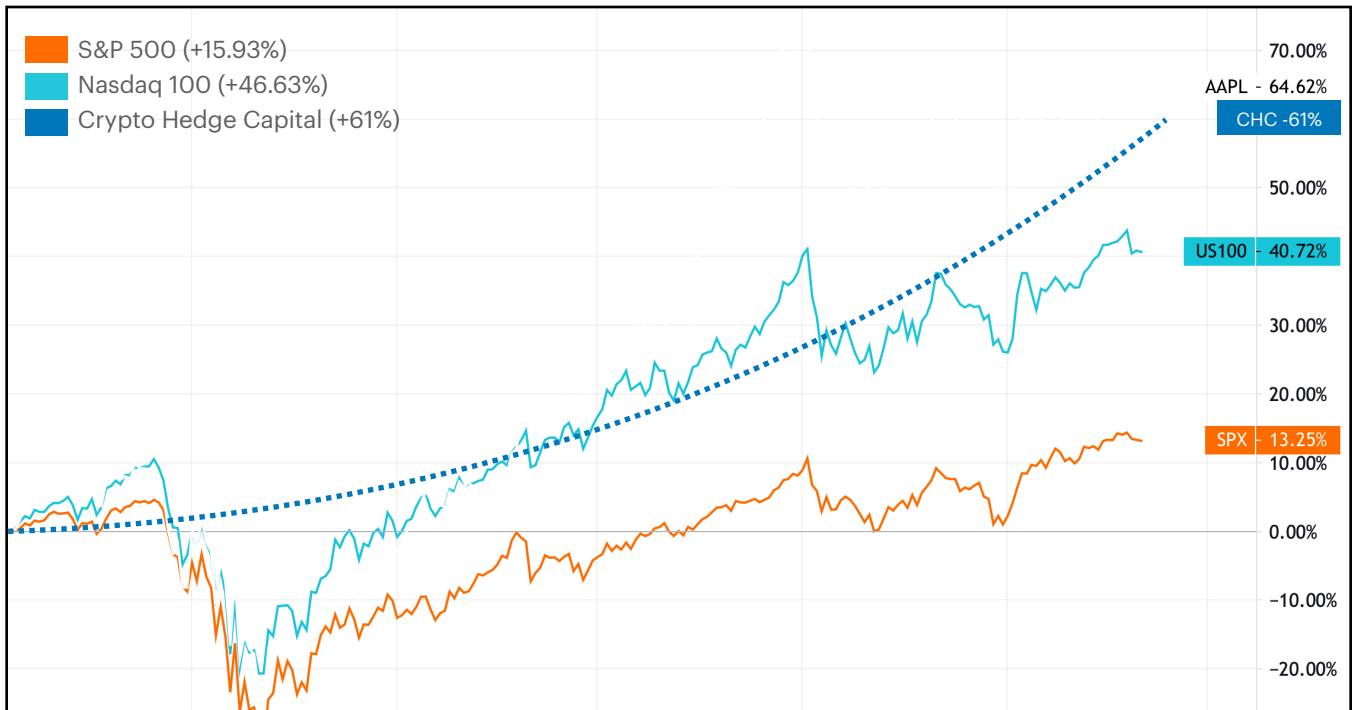
2020 was a great year for Crypto Hedge Capital following the investment plan established in September 2019 which advised diversifying the portfolio in event driven positions, Alt-Coins, Bitcoin and Ethereum, all operating in various time frames and with entries and exits at different moments throughout the year. Bitcoin hedges against Alt-Coins in long and short positions were applied numerous times to maximize returns and reduce risk, with and without leverage depending on market condition, its volatility and trend. A percentage of the portfolio was also allocated to algorithmic trading, which served to decrease volatility, and was the allocation with the best overall performance.

As a discretionary long and short hedge fund, positions opened as others closed. However, a balanced distribution between currencies of all capitalizations was normally conserved, with the exception of event driven positions making the allocation of capital almost constant. This distribution is shown in the following pie chart.



PERFORMANCE

Crypto Hedge Capital returned +61% (gross) for the trailing twelve-month period, while the S&P 500 Index returned + 13.25% and the Nasdaq 100 returned +40.7% over the same time period. This represents an outperform to the S&P 500 of +48% and an outperform of the Nasdaq 100 of +21%.



Comparison of returns for the S&P 500, Nasdaq 100 and Crypto Hedge Capital for the trailing 12 month period.

START CAPITAL		END CAPITAL	
As of December 1st, 2019.		As of December 1st, 2020.	
Initial Capital	100%	Final Percentage	161%
USD/MXN	\$19.46	USD/MXN	US\$20.08

Viewed another way, Crypto Hedge Capital's monthly returns were +4.04% compounded, as seen in the chart below.

Monthly Compound Returns												COMP
JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC	
4.04%	4.04%	4.04%	4.04%	4.04%	4.04%	4.04%	4.04%	4.04%	4.04%	4.04%	4.04%	61%

As most operations are carried out in U.S Dollars, and seed money entered in Mexican Pesos, the return was also positively affected by the U.S Dollar / Mexican Peso exchange rate, which at the time of writing sits +6.77% above its 2019 value, despite being bearish for the most part of the year after a +34.85% rally.



U.S Dollar / Mexican Peso 2020

As a side-note, the U.S Dollar against the Mexican Peso in 2020 had one of the most aggressive increases ever seen, climbing from \$18.55 on February 19th, to \$ 25.77 and then dropping back to \$20.08.

MANAGEMENT FEES

As agreed in the meetings of investors and future plans for Crypto Hedge Capital at the end of 2019, a **Management Fee** of 3.5% will be charged on assets under management (AUM) to cover operating and constitution expenses, advisors and R&D behind the algorithms.

An **Incentive Fee** when the returns exceed the 20% predefined benchmark will also be charged over the gross returns as part of the agreement. Considering that the returns of +61% fall into the tier of 41% to 80% returns, the investor takes 70% of the profits, and Crypto Hedge Capital stays with the remaining 30%.

FEE STRUCTURE		
RETURNS	INVESTOR	FUND
From 0% to 20%	100%	0%
From 21% to 40%	80%	20%
From 41% to 80%	70%	30%
From +81%	60%	40%

This makes a (net) return of 39.2% which for a hypothetical investment of \$100,000 breaks down as follows:

RETURNS AND FEES					
	START CAPITAL	GROSS RETURNS	MANAGEMENT FEE	INCENTIVE FEE	NET RETURNS
PERCENT	100%	61%	3.50%	30%	39.2%
CURRENCY	\$100,000.00	\$61,000.00	\$3,500.00	\$18,300.00	\$39,200.00

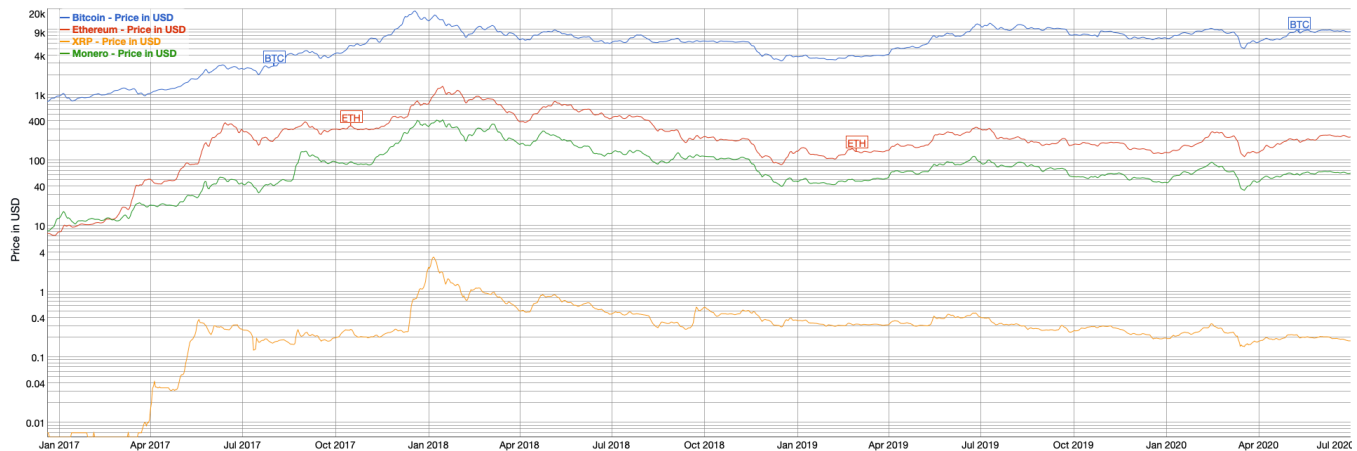
OUTLOOK

CRYPTO HEDGE CAPITAL PROJECTIONS

Cryptocurrencies are recognized for their high volatility and long uptrends that can extend by multiplying the price tens of times in a matter of months; which is why it isn't surprising that its price is subject to big speculation.

Although Bitcoin is not the only currency that Crypto Hedge Capital operates, let alone the only cryptocurrency there is, it is the largest in capitalization, and the one that shows the highest correlation against all others. That is why this analysis will focus mainly on the

movement of Bitcoin, considering that it is and will likely continue to be a great dictator for the rest of the market. In other words, Bitcoin moves and the rest follow.



Price Chart showing strong correlation: BTC, ETH, XMR and XRP.

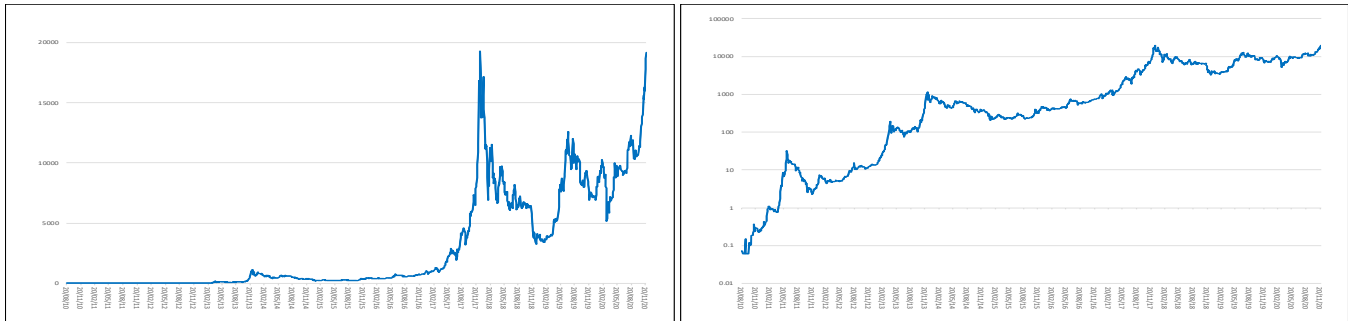
Overall, the price of Bitcoin has grown enormously since its inception in 2009, although it has also been subject to large drops as well. Rapid raises and growth phases seem to encourage maximalists to make very optimistic predictions about future price, while retracements seem to encourage skeptics to predict an outright collapse to zero.

In this analysis, the price of Bitcoin is reviewed over the years to understand that its movement assimilates that of an object bouncing within a Corridor in time. This not only allows to make long-term projections, or to define the predominant trend in a given year, but also to understand the price reaction when certain phenomena are repeated in time. Crypto Hedge Capital is confident that price will develop more or less as showcased here, and in fact, it is more likely that exogenous factors may push the price higher, but not lower. However, for this analysis no exogenous or black swan events will be considered and a normal market behavior will be taken into account.

DIFFERENT PERSPECTIVES

One of the most interesting things around Bitcoin Graphs, is that in just a few years the price rises and falls violently, unlike any other financial instrument. The lowest registered Bitcoin price in an exchange was \$0.05 USD on Mt Gox on July 17, 2010. At the time of this writing, the price of Bitcoin hovers around \$19,000 USD, which is about three hundred and eighty million times more.

That is the first problem, "orders of magnitude". An order of magnitude is "a level in a system used for measuring something in which each level is ten times larger than the one before"¹. These orders of magnitude in a graph allow us to see the movement of price, in a comfortable way with its increases and decreases. The problem arises when the price goes through thousands of orders of magnitude, reaching the point where each of the levels is no longer fairly appreciated, calling for the wrong analysis (if viewed on a linear scale).



BTC/U.S Dollar. Linear Scale (Left) vs Logarithmic Scale (Right)

On the left chart which is represented with a linear scale it seems like the difference in price between 2016 and 2017 is negligible, however, on the right chart, it is seen that the percentage movements between 2016 and 2017 were perhaps the most aggressive there has been. That is why a logarithmic scale can be of great help to obtain a better understanding in these cases.

HIGH TIME FRAME PROJECTIONS

The next graph describes the historical growth of Bitcoin within its ascending channel, and presents two projections based on metrics of time and change in price. Vertical lines in light blue mark the top of the so called "bubbles" or accelerated growth periods since its creation. The first top happens on June 6, 2011 reaching \$24.5 and subsequently falling 90%. The second top occurs on November 30, 2013, when Bitcoin reaches a high of \$ 1,150 and then drops 85%. The third top occurs on December 19, 2017 when Bitcoin reaches \$19,900 in most exchanges, and then again drops to its new lowest point.

¹ORDER OF MAGNITUDE: Definition in the Cambridge English Dictionary. (n.d.). Retrieved November 27, 2020, from <https://dictionary.cambridge.org/us/dictionary/english/order-of-magnitude>



Bitcoin Projections. 2009-2024.

There seems to be a fundamental range of support for Bitcoin’s price which has historically followed a power-law. This range of support is plotted in green, representing the alignment of lows that are formed after each bubble. When the price falls and returns to these levels, it usually keeps oscillating between them for a long period of time before breaking out and beginning the next cycle. The same applies for the three tops achieved in 2011, 2013, and 2017. There seems to be a resistance which is perfectly parallel to the green lines of support, and by displacing those lines and plotting them in red, it can be roughly predicted whether the market is oversold or has more space to run. Furthermore, the number of days that elapse between each bubble top is defined, and plotted in blue at the bottom of the chart. The first period lasted 912 days and the second 1460 days, representing an increase in time of 60%, or 448 days more compared to the previous one. Finally, a second way to verify that things make sense is by measuring growth between the tops or between the points where the price intersects the red line. Growth between the second and the third top is 1700%, which in magnitude represents only 36% of the growth between the first and second top. Based on this trend, the expected growth of the next top is likely to be around 600%, backing the ever reducing volatility concept. This projection of an ascending channel predicts ever increasing prices, although at a

slower and slower rate. It also predicts reduced, but still large volatility in the future, and hints good points in time to enter and exit the market.

Other analysts have proposed similar growth models, many applying logarithmic scale not only to the price axis, but also to the time axis, in order to display time in a different way which doesn't undermine the possibility of lengthening between each bull period. It is important to keep these different growth models in mind, but this report focuses only on logarithmic scale on price, which does not affect the end values, but only the way in which they are seen.

INTERPRETATIONS

This analysis makes two predictions which divide into A and B as plotted in the previous graph with orange and purple.

A. The first is that the price of Bitcoin will reach around \$120,000 by the end of 2021 if growth remains close to the expected growth curve (drawn in orange), indicating that market participants do not give much importance to lengthening between bubble periods, possibly explained by the fact that the price history since 2010 is not widely available, as today's large exchanges only show data registered since 2013.

B. The second possibility, although less likely, would be that the price returns to the green support range, in which case the price would take longer to reach a point on the red line of resistance, agreeing with the expected lengthening of 60% in time, and indicating that the price will reach around \$250,000 at the beginning of 2024.

2021 OUTLOOK FOR CRYPTO HEDGE CAPITAL

Analyzing both projections, it becomes apparent that projected growth for 2021 is quite aggressive, even with respect to the historical growth of Bitcoin itself. This would turn to be great news for Crypto Hedge Capital and its investors, as returns often mirror and in many cases outperform that of the market.

With regard to strategies, and as a discretionary long / short Hedge Fund, Crypto Hedge Capital's trend following algorithms both in high time frames and low time frames can profit from upward and downward trends. This is why returns can be greater in 2021 if this kind of volatility remains, regardless of market direction. In the case of diminished volatility, trend changes and consolidations, risk can be mitigated by using Alt-Coin - Bitcoin hedges, and reducing leverage until a new clear trend is established.

With this in mind, Crypto Hedge Capital seeks to make 2021 an even better year than 2020, further improving systems and reinvesting in research and development, to keep an edge over the market with evolving algorithms and new strategies. The doors are opened for new retail and institutional investors who seek to diversify their portfolios, and generate better than average returns in the fastest growing market.