



Bitcoin – A New Asset Class? - Part 2 of a 2 Part Series

In part one of the series, we examined the evolution of Bitcoin and its historical performance. This week, as promised, we will explore how portfolio managers and investors can use Bitcoin in a portfolio context. Before we look at scenarios, let us look at how the crypto currency performed over the last two weeks. At the time when published our last article, February 12, 2021, the crypto traded at US\$47,251.90. Since that time the price of the coin went all the way up to US\$57,355 and back down to US\$47,230 yesterday, March 1, 2021, almost where it was two weeks ago. Not quite a roller coaster, but you get the point.

Now back to the matter at hand. For investors who are comfortable taking on a bit more risk, an investment in Bitcoin might be appropriate. However, with that said, those who view Bitcoin as the 'Redeemer' in a time of high uncertainty and low interest rates, should remain careful.

Given Bitcoin's great surge over the last three years, it should come as no surprise to find that the inclusion of Bitcoin in a traditional 60:40 (equity/bond) portfolio would have increased the overall portfolio returns. However, a complete assessment can only be done if its impact on the overall risk of the portfolio is evaluated, in addition to its return enhancement properties. Therefore, to evaluate the impact of Bitcoin on a diversified portfolio, factored on a risk and return basis, we consider the impact of adding various allocations of Bitcoin to a portfolio. This demo portfolio consists of a 60% allocation to the Vanguard Total World Stock ETF (VT) and a 40% allocation to the Vanguard Total Bond Market ETF (BND). The VT holds 98% of the world's market capitalisation and BND holds a market-value-weighted portfolio representing all investment grade US bonds. The review period starts on January 1, 2014, as it would have been very difficult for portfolio managers to allocate to Bitcoin before that period. The end date of the review is September 30, 2020.

The analysis shows that adding Bitcoin to a portfolio has historically had a significant positive impact on long-term portfolio returns on both an absolute and a risk-adjusted basis. For example, during the entire period under consideration, a quarterly rebalanced portfolio with a 2.5% allocation to Bitcoin would have improved the traditional portfolio's cumulative returns by 23.9 percentage points. Importantly, over the same period volatility would have remained almost constant at 10.53% by adding Bitcoins to the portfolio versus 10.32% without. As a result, the Sharpe ratio improved from 0.54 to 0.75. The Sharpe ratio is defined as the measure of the risk-adjusted return of a financial portfolio and is used to help investors understand the return of an investment compared to its risk. Therefore, the higher Sharpe ratio, in our example, suggests that the portfolio would have improved with the inclusion of the crypto currency.

TABLE 1. PORTFOLIO PERFORMANCE METRICS (January 1, 2014 - September 30, 2020)

Portfolio	Cumulative Return	Annualized Return	Volatility	Sharpe Ratio	Maximum Drawdown
			(Annualized Standard Deviation)		
Traditional Portfolio	50.61%	6.26%	10.32%	0.54	21.07%
Traditional Portfolio + 1.0% Bitcoin	59.89%	7.21%	10.33%	0.63	21.32%
Traditional Portfolio + 2.5% Bitcoin	74.47%	8.61%	10.53%	0.75	21.80%
Traditional Portfolio + 5.0% Bitcoin	100.51%	10.87%	11.26%	0.90	22.76%

Source: Bitwise Asset Management

TABLE 2. CONTRIBUTION OF A 2.5% BITCOIN ALLOCATION TO A TRADITIONAL PORTFOLIO USING QUARTERLY REBALANCING, January 1, 2014 – September 30, 2020

Holding Period	Rolling Cumulative Return Contribution					Rolling Sharpe Ratio Contribution				
	Maximum	Median	Minimum	Win Rate	Loss Rate	Maximum	Median	Minimum	Win Rate	Loss Rate
1 Year	16.70%	2.80%	-3.00%	74.37%	25.63%	2.03	0.29	-0.45	73.61%	26.39%
2 Years	20.27%	7.81%	-0.65%	96.89%	3.11%	1.1	0.41	-0.04	96.89	3.11%
3 Years	22.39%	14.65%	1.83%	100%	0.00%	0.74	0.48	0.07	100%	0.00%

Source: Bitwise Asset Management

The positive impact of Bitcoin's addition over the period is notable and unsurprising since it captures a period during which Bitcoin's price appreciated substantially. Part one would have highlighted this. To evaluate Bitcoin's contribution to a portfolio over variable performances, a rolling-period analysis to simulate different holding periods over all possible time frames instead of point-in-time analysis was used. Using a quarterly rebalancing frequency and allocating to Bitcoin proportionally from the stock and bond side of the portfolios, we found that a 2.5% allocation to Bitcoin has a win rate or likelihood of positive returns in a diversified portfolio of 100% for holding periods of three-years, 97% for two-years periods, and 74% for one-year periods since 2014.

Over each of the three durations, the portfolio impact has been both significant and skewed on the positive side. For example, the median impact of a 2.5% allocation to Bitcoin on a 60/40 portfolio over a three-year period has been to increase total returns by 14.65%. Negative impacts, when and where they have occurred, have been limited. Again, similar to the point-in-time analysis, this positive impact came without a significant rise in portfolio volatility. So, we see again that although Bitcoin in and of itself is very volatile, its positive impact on returns has outweighed its negative contribution to risk, leading to significant increases in risk adjusted returns as measured by the Sharpe ratio. This is also evident in the 41% on average boost in the portfolio's Sharpe ratio when there was a 2.5% allocation to Bitcoin over a three-year holding period.

To conclude, we understand that crypto currency is a highly volatile asset class, but when compared to other traditional asset classes, the risk-reward ratio makes it more digestible. The asset's scarcity, growing popularity, and demand continues to drive the price higher, raising the asset's medium to long-term return outlook. Even if this comparison appears to be as optimistic as it appears, there is no guarantee that Bitcoin will boost a portfolio's risk-adjusted returns in the future to the same extent it did in the past.

Another risk associated with Bitcoin investment is increased competition from other crypto currencies, which may result in lower Bitcoin demand and a price decline, wiping out all previous gains. However, unlike most other crypto currencies, Bitcoin is now accepted through a range of payment channels, but its exchange for real goods or services is restricted. Bitcoin is also unregulated by central banks or governments, and some countries have outright banned it, especially given the security concerns surrounding cybercrime and other illegal activities.

Is it worthwhile to invest in Bitcoin? Yes, indeed. When compared to traditional strategies, investors can be much more effective when investing in this asset class, but it is important that they fully understand the risks and develop a portfolio that suits their risk appetite and desired return.



Local Market Indices



Local Equity Market

Stock Index	Today's close	DoD Δ	DoD% Δ	YTD % Δ	YoY% Δ
JSE Combined Index	396,082.77	-1,612.46	-0.41%	1.34%	-16.29%
JSE Index	397,180.49	-1,189.08	-0.30%	0.70%	-17.40%
All Jamaican Composite Index	435,612.37	-1,342.33	-0.31%	0.79%	-17.51%
JSE Select Index	9,858.86	-8.86	-0.09%	1.28%	-19.70%
Junior Market Index	2,853.20	-47.41	-1.63%	9.73%	-0.39%

BEST AND WORST PERFORMERS

ADVANCERS		DECLINERS	
DCOVE	12.50%	PJX	-16.47%
MEEG	11.48%	CBNY	-14.75%
PAL	9.70%	SSLVC	-13.43%

Today's combined market activity (excluding preference and deferred shares) resulted in trading of **86** stocks, of which **30** advanced, **49** declined and **7** traded firm.

International Markets

International Equity Markets				
Index	2-Mar	DoD % Δ	YTD% Δ	YoY% Δ
S&P 500	3,870.34	-0.81%	3.04%	31.01%
Dow Jones	31,391.52	-0.46%	2.56%	23.54%
FTSE All Share	3,771.68	0.27%	2.67%	2.67%
Euro Stoxx 50	3,707.72	0.03%	4.37%	11.36%
Nikkei 225	29,408.17	-0.86%	7.16%	39.09%
MSCI World Index	668.94	-0.24%	3.51%	30.46%

International Currency Market				
Currency	2-Mar	DoD % Δ	YTD% Δ	YoY% Δ
EUR: USD	1.2086	0.31%	-1.06%	9.61%
GBP: USD	1.40	0.27%	2.14%	8.88%
USD: CAD	1.26	-0.16%	-0.78%	-5.83%
USD: JPY	106.76	0.00%	3.40%	-1.05%

Global Interest Rates				
Rates	2-Mar	DoD Δ bps	YTD Δ bps	YoY Δ bps
10-Year US Treasury Bond	1.41%	-1.00	50.00	26.00
10-Year UK Gilt	0.69%	-7.00	49.00	25.00
GOJ 2025 Global Bond	3.59%	-2.00	14.00	-40.00

Commodities				
Commodity	2-Mar	DoD % Δ	YTD% Δ	YoY% Δ
Crude Oil	59.62	-1.68%	22.88%	33.20%
Gold	1,734.31	0.54%	-8.64%	9.37%
Silver	26.74	0.62%	1.26%	60.43%
Aluminium	2,211.50	3.85%	11.72%	30.51%

Foreign Exchange Market

Currency	2-Mar	1-Mar	DoD % Δ	YTD% Δ
USD:JMD	151.29	151.56	-0.18%	14.12%
GBP:JMD	209.39	210.94	-0.74%	8.1%
CAD:JMD	119.52	119.99	-0.39%	19.3%

Caribbean & Latam

- Brazil's real sank to a four-month low on Tuesday after government action to curb fuel prices raised concerns over a shift to populist policies, while other Latin American currencies remained on edge over high bond yields

USA & Canada

- Wall Street's major averages dipped on Tuesday after a strong start to March as investors closely monitored the bond market as well as progress on the next round of fiscal stimulus.

Europe

- Europe's benchmark stock index edged higher on Tuesday as stability in the bond market gave stocks some breathing room, with major commodity-linked stocks reversing losses on a turnaround in oil and metal prices.

Asia

- Asia stocks dropped on Tuesday and European equity futures fell as a senior Chinese official expressed wariness about the risk of asset bubbles in foreign markets and a recent bond market sell-off still weighed on investor sentiment.



Mutual Funds

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JN MUTUAL FUNDS

March 1, 2021

JN Mutual Funds	NAV Price	12 Months Growth Rate	YTD Growth Rate	Yield (Estimated Yearly Income)
Global Diversified Income	J\$13.9378	-1.53%	0.70%	2.07%
Global Equity	J\$15.2306	-9.22%	1.16%	0.00%
Global Fixed Income	J\$12.8464	5.71%	1.50%	5.32%
Global Money Market (US\$)	US\$10.6707	3.56%	0.49%	3.55%
Global Fixed Income (US\$)	US\$10.9331	5.55%	-0.73%	4.67%
Local Money Market	J\$11.1777	4.66%	1.33%	4.28%

	Global Money Market Fund	Local Money Market Fund	Global Fixed Income Funds	Global Diversified Income Fund	Global Equity Fund
Objective	To preserve capital whilst providing US dollar (US\$) money market returns	To preserve capital whilst providing Jamaican Dollar (J\$) money market returns	To achieve an attractive total return through capital injection and income growth. This is offered through two separate Funds: (i) A Jamaican dollar (J\$) and (ii) A US dollar (US\$) fund.	To provide long-term investment growth through exposure to a diversified range of asset classes.	To provide long-term capital growth and risk diversification.
Strategy	To invest in local and global money market instruments for safety, liquidity and yield.	To invest in local and global money market instruments for safety and liquidity and yield	To invest in regional, sovereign debt securities, local and international corporate bonds.	To invest in fixed income, high dividend yielding stocks, REITs and structured products	To invest in the shares of local and international companies which offer strong growth possibilities and consistent income

With a suite of six investment portfolios, each with a distinct financial profile, JN Mutual Funds offers a premium opportunity for investors to align their personal financial strategy with their goals, time horizons and risk profile.

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