

# Mythbusting Crypto Investing

Disruptive Forces in Investing

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**Anu Rajakumar:** The rise in popularity of cryptocurrencies has been exponential over the last few years. But as the digital asset has grown, so too has the scrutiny, both in the investment community as well as regulators. This month saw a massive sell-off, with Bitcoin losing about half of its value. But despite this, many continue to believe in the asset. Today, there are thousands of different types of virtual currencies, but for those still on a learning curve, accessing cryptocurrencies and understanding the nuances can be intimidating. My name is Anu Rajakumar, and today I brought in two of the experts here at Neuberger Berman, to shed light on this very hot topic. Returning to the show is Derek Devens, Senior Portfolio Manager, and Head of our Options team, and Peter Sterling, Head of our Specialty Finance team. Derek, Peter, thank you very much for joining me on the show.

**Derek Devens:** Good to be back. Thanks for having us.

**Peter Sterling:** Great to be here. Thanks so much, Anu.

**Anu:** Great. So, quick introductions for our listeners. Derek, you are an options investor, who actually harnesses and embraces the volatility of cryptocurrency, and Peter, you are investing and lending to private FinTech companies, including those focused on crypto. So, we'd love to start out just with some basics. What is crypto and what drew you to investing in the space? Derek, maybe handing over to you.

**Derek:** Yeah. Well, it's a big topic to say what crypto is. It's many things to many people these days. But for us, it really started with, you know, in search of volatility. Being in options, we specialize in- knowing where the volatility is, and there's no question or no lack of volatility in crypto markets. So, as you think about the platforms, whether it be Bitcoin, Ethereum, any of the digital NFTs, you know, whether it's the technology side or the asset side, we found ourselves looking around at some of them, Bitcoin in particular. And as they've been more of them, I would say a little bit of the paradox is we didn't really appreciate, you know, the uniqueness of something like Bitcoin until there were thousands of imitations or thousands of improvements, in many people's minds, whether improvements or not, who knows? But that really is then you-you kind of don't know what you have until it's kind of being mimicked or improved upon. So, you know, the volatility attracted us, and then with it growing in popularity, not necessarily in size, but definitely, uh, the di-diversity, um, you really started to be able to pick some elements out that we think are really unique and really attractive for investors.

**Peter:** Yeah, and I think on-on our side, I mean, our-our core business is looking at all sorts of, uh, financial tech companies and in a way all the cryptocurrencies that-that we look at are just another iteration of a-a tech product, and whether you choose to play that from a lending perspective or an equity perspective, I think for us, we saw a lot of use cases that-that didn't exist, uh, pre-blockchain, and we saw a lot of ways that these different currencies could be utilized in the coming economy, whether that's taking old fashioned Web 2 companies and turning them into Web 3 company, or just having ledgers for, you know, simple financial transactions. I think all the different opportunities that are out there for it as a use case got us excited.

**Anu:** Great. Thanks very much. Um, now, I have to acknowledge that 2022 has been extremely challenging for markets. Uh, we've got slowing growth, elevated inflation, geopolitics, supply chain issues, and as I mentioned in the opening, uh, we've seen cryptocurrencies, um, really get hammered, so far this year. Um, how does all of the macro picture that I mentioned, how does that affect cryptocurrencies if at all? Maybe Peter, over to you.

**Peter:** Yeah, I think it depends on what your investment strategy is within the space. Uh, for example, I think there are many different investors out there who are focusing more on a momentum-driven approach, which, you know, in old fashioned investing, you think of like a CTA strategy, and-and volatility can make that a more interesting thing to look at. And I'd say in the world of venture, a lot of the largest companies that are out there have been founded during challenging recessionary times, and this market, hopefully, won't be any different. and there-there's probably a lot of technology that's happening right now, and that will continue to happen regardless of whether, you know, Bitcoin is up or down. So, we generally see what's happening right now as an opportunity for more tech to be built. And I think the entry point really just depends on what sort of strategy you're enacting.

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**Derek:** Yeah. And I would add to that, because I think that's exactly right. I think a lot of times, um, investors mistake, you know, if something's really volatile, you should have a lot of trading. And I think of it kind of the opposite. A lot of private investments are the most volatile, they just last longer; and are able to kind of sidestep that volatility. So, when you have something like crypto, Bitcoin in particular, there is no model for valuing it. So, when you look at it in a global context or a macro context, you know, I think of all the stuff in the late '90s, that they were using the value tech companies that proved to be kind of superfluous valuation models, but they eventually got to the right answers, over the long term, and made a lot of money. Same thing in crypto. Nobody really has a good handle on how to value this stuff. So, in the -macroeconomic backdrop, it looks uncorrelated, but it's still too early to tell -what role it plays or how it's going to behave in markets like this.

**Peter:** Yeah. Derek, that's a good point, that if you think of a technical versus fundamental analyst to some degree, I mean, I think the technical side of it is-is super challenging right now, given the volatility. But a lot of the frothiness that may have existed even, you know, a month ago, is-is definitely going away. And so, um, what we're finding is a lot of the companies that are being back now, or protocols, there's definitely more of a focus on, with-with big air quotes here, fundamental analysis of, is there a real long-term value proposition for what this technology is doing? Whereas we're seeing earlier in the year and-and last year, a lot more discussion around network effects, and if-if we build it, they will come. I think today you're seeing more of a focus back to the basics by investors.

**Anu:** Yeah, sure. I think, you know, on that theme of, is crypto a long-term value proposition? You know, lots of investors are thinking, you know, "Is this something that's going to be part of my strategic asset allocation one day?" Uh, but look, as I mentioned, there's a lot of scrutiny, a lot of skepticism around cryptocurrencies. I'm going to ask a few different myth-buster questions coming up here. And the first one is really about whether or not crypto is just an investment fad. Is crypto a reliable or a secure investment? What do you say to some of those skeptics, Derek?

**Derek:** Well, I try to get them to define crypto-

**Anu:** [laughs]

**Derek:** - because I think again, people use that term fast and loose, and what makes the decentralized world or "DeFi" so challenging, not just valuation-wise, but it-it's just wide open. very seldom if you had a whole industry kind of from the, you know, completely vertically integrated, I guess you might say, all develop at once. So, almost every access point is being developed simultaneously. So, whether you want to call it Web 3, you want to call it, you know, payment systems, you got Ethereum contracts that look like derivatives, you got real estate, you know, collectibles going to NFTs. So, you know, to say crypto doesn't just mean Bitcoin, Solana, Ethereum, you know, it-it means a whole lot. So, I really try, to your point about myth-busters, I'd say, well, what myth are we focusing here on? And so, when I think about it, in our category, we think of it in two big buckets, right? You have assets and you have technology. And I think that the events that have to happen over the next, um, you know, to truly bust this myth, is people have to just categorize them correctly and then approach whether you're talking about the technology that's [00:08:00] being built, and the infrastructure, and all the good things that are going to come versus what's going to shake out as kind of the assets that people view as holding the value or holding the structure and, you know, don't go the way of Luna, if you will.

**Peter:** Yeah, I think it's funny that we-we will talk to a lot of, uh, different people in the ecosystem and-and we definitely hear more that, "I don't believe in crypto, but I do buy into the blockchain concept." So, I think it's a good point about sort of the assets versus tech side of it. And, uh, yeah, I think at the end of the day, it really comes down, again, to what your strategy is. And we're seeing a lot of analogies to Wall Street 1.0, you know, that can be-- One potential perspective would be looking at things from a, you know, alpha versus beta perspective. In that you have a lot of different people, whether it's managers or individual traders, who want to go try to pick the next protocol and figure out what's going to be the next top 10 crypto in the same way that you might be looking at a tech stock and deciding, this stock is better than that one. You know, we're seeing a beta approach, right? That can either be individually just saying, "I want own Bitcoin. I want to be long beta in this space." Or maybe you have a perspective on Ethereum instead of Bitcoin.

There's certainly the venture analogy of early, day one, you know, pre token launches of companies that are building different types of technology. There's venture funds that are dedicated to making those investments, and that's a completely different approach. And then, you know, lastly, it seems funny to say, there are people who are looking more to market neutral type of strategy, which with a very, very loose grain of salt, you could think of it as a traditional fixed income sort of arbitrage. Where you're buying something and selling something and trying to stay market neutral. Or on the lending side, there's a lot of opportunities to lend various sorts of ways in the ecosystem and earn a yield just like you would lend in traditional corporate

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land, or other types of receivables finance. So, for us, we would think of those four different buckets. And I guess the [chuckles] the answer to whether or not it's a fad really depends on what specifically you're doing.

**Derek:** Yeah. And one more thought, as Peter talks is, I think nobody's going to -- it's important on the asset side, when we talk about coins specifically, there may not be thousands of them, but nobody, no corporation or no entity, I think, is going to get to ultimately own or create the single coin. So, I do think you're going to have, you know, the Bitcoins of the world or the Etheumerms that are going to have consortiums or some form of group that is oversight, but nobody, I think, is going to have the privilege of creating the decentralized token, but then getting to stamp their company name on it, you know, and so you are going to have these assets that do trade globally, um, that-that are decentralized. I don't think there'll be a lot of them, but I do think there's a niche for all the payment platforms and everything to have them truly decentralized, but I don't think that that is a long list.

**Anu:** True. Well, Peter, you mentioned something that caught my attention, which was, you know, some people think that we're at the beginning of this journey, you know, kind of we're closer to the Version 1.0. And then there are people who take the other side of that, which leads me to my next myth-buster. Is Bitcoin, which is the largest of the cryptocurrencies, is Bitcoin over? And will meme coins like Dogecoin, will that be the future? Maybe Derek, what are your thoughts there?

**Derek:** Yeah, uh, you know, I think as the biggest, it's easy to be kind of picked on and isolated, and so I think Bitcoin is just grabs the headlines. I think that the idea, you know, the decentralized nature that we've been talking about, I think, lends its-- in the volatility, lends itself to a faster evolution cycle. So, what used to happen over a decade in private markets and on, you know, Wall Street banks, prop desk, now all unfolds in minutes and hours and weeks and months, around the world. And I think that evolution and the volatility that comes with that makes, crypto, and Bitcoin in particular, seem like, oh, they could be here, today and gone tomorrow, when actually, not to speak our own book too much, but we think the opposite is kind of true. I mean, you look at the recent events, it only kind of galvanizes Bitcoin as kind of the cornerstone, as we call it, in the crypto space where, the fringe coins, is a good example of you better have something unique, and you better have it all, buttoned down before you come to market because it's not going to last. It will be temporary. But I think Bitcoin and a few of the stalwarts are going to prove out to be, here well beyond. And the paradox we often refer to is, you're going to need that. For all the infrastructure and everything we talk about on the technology side, you need that decentralized few handful of tokens to really be the backbone and bridge the gap, have cross rates and currency payers. So, to expect it to be a fad, now, I don't like it when any famous person picks a coin of the day or meme stock kind of analogy. I don't think that's good for the space, but you got to have to take that with the nature of being kind of decentralized and out there. That's just kind of an unnecessary evil that I guess happens.

**Peter:** Yeah, so just adding to what Derek said, regardless of whether Bitcoin is over or not, if we think about the future, there's a lot of different directions that this space overall, and the technology, more importantly, can go. Including, you know, new sectors that are coming out of this, like NFTs and other forms of tokenization, for parts of our normal lives. So, things like looking at real estate, titles, and homeownership, uh, fractional homeownership, we're seeing in FinTech 1.0, but there's- there's a lot of things that are happening on the chain. I have two young kids who happen to play Roblox all the time, and for anyone who plays Roblox, you know, there's the ability to-to buy stuff in there, right? There's a lot of logical extensions of-of blockchain and gaming. So, I think it's hard to make the argument that, you know, crypto will be over. It's really more a question of, which areas of our lives is-is blockchain touching, and which elements is it not? I don't think it's a one-size-fits-all, yes or no answer.

**Anu:** Terrific. Thank you very much. Okay, so, onto my-my final myth-buster, and this one has to do about regulation. The question really is, uh, the myth here is that regulation is going to erode the opportunity in cryptocurrencies. Derek, what do you say to that?

**Derek:** Well, again, to play the contrarian, we've been waiting on it. as Peter was saying, you know, all the applications and potential use cases for cryptocurrency in general, at the end of the day, most efficient capital markets need some form of reference rate, right? There's always, you know, oil is priced in US dollars. So, when you think about a consensus building in a decentralized environment, one, I think, you know, crypto has largely solved that with blockchain and ledger technology, uh, but at the end of the day, you're going to need somebody to say, "Okay, how much is it worth in Bitcoin? I can trust Bitcoin, or I know there's some regulation," or there's some general rules that make it okay for this to be used whether we're talking about institutional investors or, you know, your own crypto wallet or, you know, my retirement account, all of that has got to be, um, at least validated by the governments or the central banks or what have you, so that, ambiguity can come out of it, right? Nothing's going to live outside the law. Let's just put that out there. So, if it does, then it would be destined to just kind of bounce around and be really volatile. So, we-we definitely think the next phase is having that evolution or validation from some organizations on how it should evolve.

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**Peter:** Yeah, adding to what Derek said, if you look back at the history of some of the, what we would now call traditional FinTech companies, we're actually seeing a really interesting parallel, as you were talking, that regulation ultimately ended up being a good thing. So, for example, if we look back, you know, a decade ago, there was a lot of noise around whether some of the original FinTechs who were lending were going to be regulated away, and is this business even going to exist? And if you fast forward the clock to today, 10 years later, all of these-- many of these companies exist. Some of them have even turned into banks. A lot of them have partnerships in banks. So, what we saw was less competition, less, um, companies getting regulated away, and more that the ecosystem have figured out ways to define itself. And even today, there's still different regulatory bodies that are trying to decide upon special charters, or what's the right operating model, but you can keep going back in history, look at CLOs, and how long the Volcker rule took to happen. And what you generally find is if it's something that the government, uh, is not opposed to, it may take time, but there is hopefully, productive regulation that's not good for the real companies out there.

**Derek:** Yeah. And I, you know, and to add, I'll throw another myth in there that, you know, Bitcoin is not replacing the US dollar in my lifetime. I think for those who think this is some destabilizing story of global rebellion has watched a few too many movies that we're really just looking to increase people's efficiency and transactions and do it faster, smoother, and globally, and hopefully, bring down the cost. I think everybody could stand to benefit from a more efficient, I know every time I buy a house, I think it's egregiously expensive, even though I've only bought one in my lifetime. I make it sound like I do it a lot, but--

**Anu:** All right, Derek, well, we have you on the record as, uh, as saying that, so thank you very much. Now, as we begin to wrap up here, we've talked about a lot of different myths that you both have successfully busted, I think. Let's leave our listeners with three takeaways that you want them to get out from this session. Peter, what would you say?

**Peter:** Well, I think if you find this to be an interesting space however you're-you're defining the space, you know, I always think that figuring out an interesting way to dip your toe in is a good thing to do and learn more about it. And again, I would come back to -- if you're an investor, what are your core strengths? Are you somebody who's coming at, investments from a long-only angle, from a lending angle, from a venture angle? So, one, I would just encourage people, like for me personally, I-I decided to explore, I took the easiest route and just decided to go long at Bitcoin. And that was a great way to learn something when you have money at risk. I think the second takeaway would just be that if you look at a lot of these companies, or protocols, you know, to some degree, this is really just a technology analysis, and it's not necessarily that different than the analysis that you're doing when you're looking at, different types of companies on the NASDAQ over the last X number of years. So, I think the combination of myth or takeaway would be this is technology investing, and you need to understand the technology, it might be a slightly different framework, but that it doesn't necessarily have to be completely scary and or viewed as something completely different.

**Derek:** Yeah, and for me, the myth would be you have time. Like everything in the decentralized world, it seems like every month Bitcoin's going to double or get cut in half. And the patience in time and investing has always served me pretty well. So, I would say, you know, as you look at the space, and to build on Peter's comments of think about how you want to invest, try to understand it, but I would just not get caught up in, you know, the crypto scene, if you will, of conferences, and everybody, the hype that can go on. I mean, this is the first kind of financial asset that is, at large, can be hyped on the Internet at will overnight by just about anybody who wants to, you know, Snapchat or tweet or do whatever. So, I think it's really important as an investor you just more so than in other things is respect that it's volatile, which means you have time. Like you don't have to think about, you know, investing tomorrow because you're going to miss it. I think it's still evolving, and as long as you do it prudently and in the right size, if you will, I think that that's a really important point, because it doesn't feel like that when-when you've talked to a lot of industry experts.

**Peter:** Oh, I think that sentiment has probably changed the last month. There's less fear of missing out. So, I completely agree with you.

**Anu:** Yeah. I think those are great words of comfort to end the podcast on. Before I let you both go, I have to end with a bonus question. Um, there are a number of different coins and tokens out there. We've talked about Bitcoin and Dogecoin. So, my question for each of you is, if you were to develop your own coin, what would you name that coin and why?

**Derek:** I tell you what, I, you know, it's got to be something that a lot of people relate to, and it's got to sound like it's got a lot of value. So, being a father of two young kids, I'm going to call it the dad coin. And anytime anything happens, it can either be a reward or a penalty. I don't know what it would be, but I-- at least I would get a lot of the population to understand that, you know, being a dad's hard, not as hard as being a mother, I don't think, but being a dad's challenging, particularly when you have two young boys.

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So, I'm going dad coin. It sounds good. It could be DC or DT for dad token, maybe. I don't know. May-maybe, no, it's definitely dad token, because dads are more of a token object.

**Peter:** Is it a volatile coin?

**Derek:** It is very volatile. Very volatile, probably. Um, so, I'm going to go with dad token.

**Peter:** I don't think I can top that, Anu. I'm not sure.

**Anu:** All right. Derek wins. Well, great. Thank you very much, Peter, Derek, it's been wonderful to have you today on the show. You've helped myth-bust a few key aspects of cryptocurrency, important for investors to consider it as they're looking for non-traditional diversifiers, particularly in today's environment. Enjoyed hearing about the new frontier of investing, and hopefully, our listeners have had some new perspective on the space. So, thank you very much for joining me today.

**Peter:** Thanks, Anu. This was great.

**Derek:** Agreed. Thanks again for having us.

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