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Digital-Currency Craze Fuels Fund Launches

The number of hedge funds investing in digital currencies is exploding.

Law firm **Cole-Frieman & Mallon** has helped set up seven cryptocurrency funds so far this year and has 17 more in the pipeline. Accounting firm **Arthur Bell** is working with about 15 fund managers in the field and expects to take on 20 more in short order. Fund administrator **MG Stover & Co.** counts 12 client funds running digital-currency strategies and has agreements to service another 25.

Industry veterans liken the situation to the investment landscape during the internet-technology boom in the 1990s. “I’ve been in the hedge fund space since 1998, and I’ve never seen anything like it in volume of launches in a particular area,” said Arthur Bell managing member **Corey McLaughlin**. “It’s just crazy.”

It’s been only four years since **Pantera Capital** introduced the first cryptocurrency hedge fund available to U.S. investors — a vehicle that buys and holds bitcoin. And only six months ago, there still were only a handful of such funds.

But a dramatic increase in the value of bitcoin, coupled with a proliferation of new digital currencies, has given rise to what some industry pros describe as a “gold-rush” mentality. Some of the new entrants are simply placing long bets on bitcoin, whose value tripled during the first six months of the year before pulling back. Others are devising hedge fund-like strategies, such as capturing the arbitrage among various currencies.

Take **BlockTower Capital**, a Chicago startup founded by former **Goldman Sachs** executive **Matthew Goetz** and **Ari Paul**, previously a portfolio manager for the **University of Chicago’s** endowment. They aim to begin trading in the next few weeks with perhaps \$100 million, which they’ll deploy via a diversified portfolio of liquid assets. Though there are few opportunities at present to short digital currencies, Goetz and Paul have been talking to other market participants about developing derivatives contracts.

“It’s a wildly inefficient market where alpha potential is abundant — more than anything we’ve seen in our careers,” said Goetz, who previously worked in business development at Goldman Sachs Asset Management. “We think it’s a rare opportunity for investors. It’s not often there’s a new capital market being born in front of you.”

Bitcoin continues to dominate the market, accounting for about half of the \$81 billion market cap for digital currencies as a whole, according to **CoinMarketCap**. But rival currencies such as

Ethereum are gaining ground. More than 800 cryptocurrencies are in some stage of development, with new ones coming online every day.

Though bitcoin and other currencies have been extremely volatile, the opportunity is proving irresistible for increasing numbers of existing and would-be fund managers. Some service providers say they’ve been fielding multiple phone calls per day from currency traders aiming to launch hedge funds.

“This is the first time I can remember where we have had a hard time keeping up with the sales calls,” said MG Stover founder **Matt Stover**. One call, he said, was from an investor looking to launch a cryptocurrency-focused fund of funds.

Hedge fund lawyer **Karl Cole-Frieman** said his San Francisco firm has been able to pick up a lot of fund-formation business in part because most law firms have looked askance at cryptocurrencies. The same is true of many auditors and other service providers. Their skepticism, he added, is misplaced.

“I’ve been really surprised at the institutional quality of the client base for some of these funds,” Cole-Frieman said. “I wasn’t expecting so many institutional players to be interested in the asset class.”

Attitudes about digital currencies seem to be rapidly changing across Wall Street. In May, **Fidelity Investments** chief executive **Abigail Johnson** surprised market watchers with a speech in which she revealed the firm had begun working with bitcoin. “I love this stuff,” she said.

Whether large, established hedge fund managers gravitate to the digital-currency market remains to be seen. **Fortress Investment** is among the few blue-chip fund operators known to have a stake in the market, via a minority interest in Pantera.

Neal Berger, founder of multi-manager shop **Eagle’s View Capital**, said he personally has invested a small amount of money in bitcoin. But he said digital currencies are far too volatile for his client capital.

“I think the majority of these cryptocurrency [funds] are trying to ride the opportunity du jour,” Berger said. “It’s an access point for people who can’t buy it themselves or don’t want to learn how to do it.”

Arthur Bell, Cole-Frieman & Mallon and MG Stover are among the sponsors of a planned cryptocurrency conference scheduled for Sept. 14 in San Francisco. The one-day event, billed as the “CoinAlts Fund Symposium,” is the first such conference aimed at hedge fund managers. ❖