

Crypto Hedge Funds Pop Up Like Mushrooms

Stockholm (HedgeNordic) – Given the multitude of new crypto-millionaires that emerged like wild mushrooms in recent years, it is not surprising that money managers are also rushing in to capitalize on the insatiable appetite for digital currencies by launching new cryptocurrency funds. According to fintech analytics firm Autonomous NEXT, there are 110 hedge funds that trade cryptocurrencies as of October 18, with 84 of them launched in 2017 alone.

Numerous cryptocurrencies and initial coin offerings (ICOs) have rewarded early adopters handsomely in recent years. Bitcoin, the most popular cryptocurrency that broke through the \$6,000 barrier to reach a new all-time high earlier this month, has outperformed all traditional currencies each year since 2011, save for 2014. The value of all cryptocurrencies is estimated to have ballooned tenfold thus far in 2017 to more than \$170 billion, which, presumably, has caught the attention of money managers.

Of the 110 crypto hedge funds, 84 funds were launched this year, 11 were launched in 2016, and the remainder were started prior to 2016. These funds collectively manage an estimated \$2.2 billion. Most of the 110 funds can be mainly categorized into three types. First, funds employing a typical hedge fund structure that trade cryptocurrencies. Second, funds resembling seed-stage venture capital firms that make pre-ICO investments and generate returns once the tokens, known as cryptocurrency coins, start trading. Third, funds that use the ICO structure on their own to create decentralized investment management products such as indexes.

While most of the existing crypto hedge funds are simply trying to ride the trend by taking long bets on bitcoin and other cryptocurrencies, some managers employ hedge fund-like strategies to capitalize on arbitrage opportunities created by inefficiencies in the still-young cryptocurrency markets. Unsurprisingly, most pension funds, insurance companies, mutual funds and traditional hedge funds are likely to stay away from this space for now given the wild price swings in cryptocurrencies.