

Thinking Man 110: Bitcoin's Institutional Era Arrives

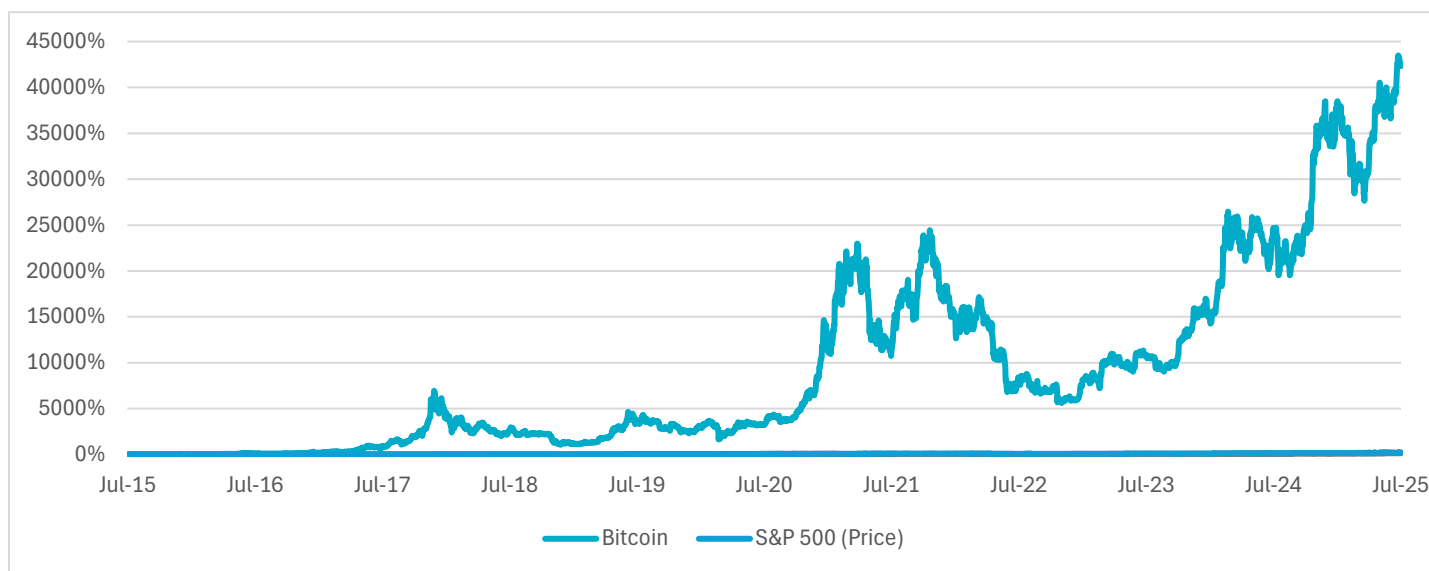
July 2025

In this edition of our Thinking Man we will discuss the institutionalization of Bitcoin, and the reasons why we believe that Bitcoin has evolved from a once speculative asset to a next-generation store of value, worthy of a permanent allocation in client portfolios. Before diving in, let's lay out the main options that investors have for achieving Bitcoin exposure:

1. **Direct ownership:** BTC itself via a bitcoin wallet on a crypto exchange/broker which can be custodied by an exchange, institution, or self-custodied with hardware wallets
 - a. Pros: true ownership, full control, no issuer risk
 - b. Cons: security, wallet management, potential tax complexity
2. **Spot Bitcoin ETFs:** BlackRock iShares (IBIT) *preferred by BigSur Partners*, spot Bitcoin ETF's with embedded options overlays like *Amplify's Bitcoin 2% Monthly Option Income ETF* (BITY)
 - a. Pros: trades like a stock but physical Bitcoin is held in "cold storage", simplicity, regulated, IRA/401(k) eligible, can provide access to liquid options market for hedging / overwriting, potential tax-advantages
 - b. Cons: tracking error, management fees
3. **Bitcoin-related Public Companies:** MicroStrategy (MSTR) both MSTR equity + dividend-bearing convertible preferred stock like STRK/STRF/STRD, Coinbase (COIN), Marathon (MARA), Riot Platform (RIOT), Block (SQ)
 - a. Pros: investor can arbitrage valuation differences between BTC and company value, liquid options
 - b. Cons: subject to market and idiosyncratic risks related to strategic execution, potential for overvaluation and "meme" style investing

From Fad to Fundamental

Once dismissed as a speculative fad, Bitcoin has undergone a dramatic transformation into a legitimate institutional asset class. In 2017, JPMorgan Chase CEO Jamie Dimon famously criticized Bitcoin, declaring it "worse than the tulip bulbs" and predicting, "It won't end well. It will blow up". At the time, Bitcoin was trading around \$2,500 and was portrayed as an unregulated bubble with no intrinsic value. Fast forward to 2025, and the narrative has significantly shifted with JPM allowing private banking clients to own Bitcoin in portfolios (though JPM will not yet custody crypto assets within the bank, and Dimon, though more tempered in his approach, remains a skeptic).



As trade wars and fiscal excesses have increased investor concerns about the fate of the US dollar, Bitcoin's role as a tech-enabled inflationary/devaluation hedge has only increased. Former critics like Larry Fink, Ray Dalio, and Bill Miller have gone from using terms like "money laundering" and "bubble" to using terms like "digital gold" and "portfolio hedge"—reflecting Bitcoin's broadening institutional reception. In a world where global central banks are continuously willing to print more money, the fixed supply of Bitcoins that are likely to ever exist (21 million in all) has only become increasingly appealing.

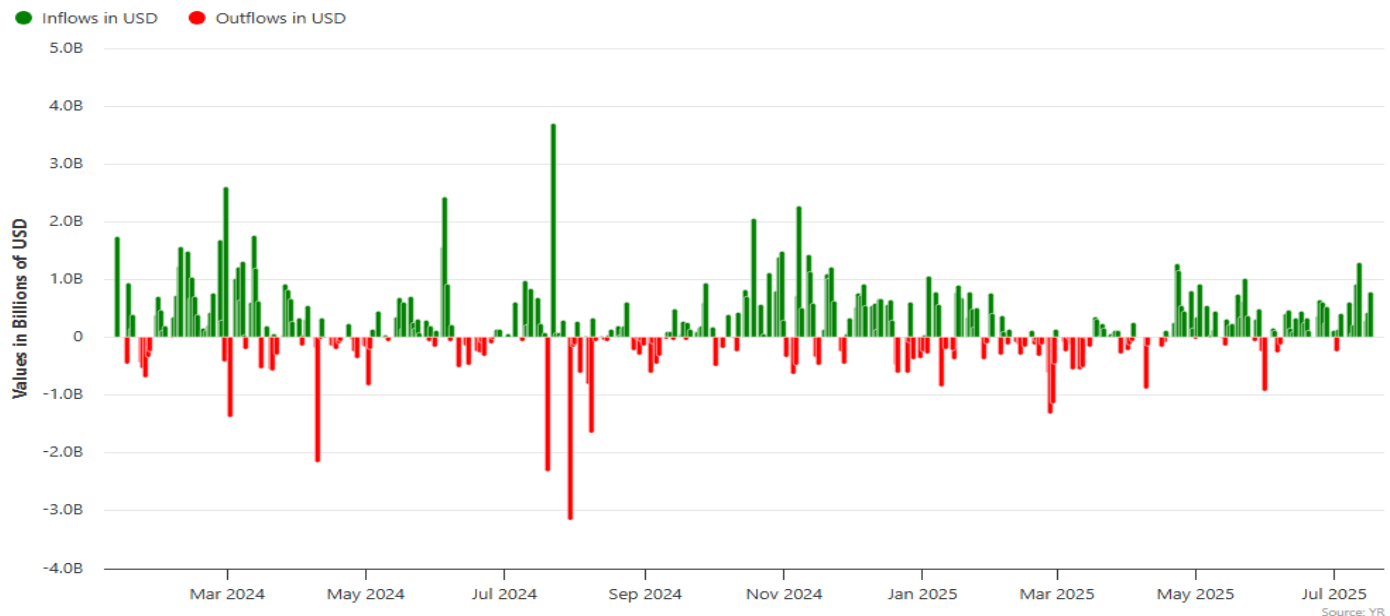
The Institutional Surge: Why Belief in Bitcoin Has Changed

After surpassing \$70,000 in 2024, and suffering a ~20% correction in the first quarter of 2025, Bitcoin has touched new highs over the summer, having reached nearly \$121,000 in late July. Bitcoin also demonstrated surprising resilience through the Liberation Day equity volatility in April, when many overextended tech stocks suffered severe losses. This dampened volatility is no doubt attributable to the fact that a larger share of Bitcoin's ownership base is made up of people & organizations with less speculative, slower-moving investment philosophies.

A recent Coinbase-EY Parthenon survey shows that 59% of institutional investors plan to allocate over 5% of their assets to crypto, with Bitcoin being the primary exposure. A key driver of this institutional adoption has been the rapid growth of spot Bitcoin ETFs (as well as thematic ETF's which provide exposure to companies operating in the crypto space.) Over \$68 billion from pensions, endowments, family offices, and asset managers, has flowed into U.S. spot bitcoin ETFs in 2025 alone. In turn, this surge in ETF demand has fueled the development of a liquid Bitcoin options market, allowing investors to layer more sophisticated volatility strategies over core Bitcoin exposure (i.e. hedging and current income generation through covered-call writing).



Total Bitcoin Spot ETF Net Inflow (USD)



Global Adoption: Sovereigns, Pensions and Corporations Embrace Bitcoin

Another important pillar in the broadening institutional appetite for Bitcoin is sovereign buyers. In March 2025 the Trump Administration established a Strategic Bitcoin Reserve with 200,000 bitcoins, making it the largest known state holder of Bitcoin. Texas has established a publicly funded Bitcoin reserve, allocating \$10 million to purchase Bitcoin, while New Hampshire and Arizona have passed legislation enabling them to create cryptocurrency reserves. El Salvador, Bhutan, Pakistan, Switzerland, Norway, South Korea, and Abu Dhabi have integrated Bitcoin and/or BTC proxies into their sovereign investment allocations.

In pension land, Wisconsin's State Investment Board, Michigan's State Retirement System, Ohio Public Employees Retirement System, and California Public Employees' Retirement System (CalPERS) have all made multi-million dollar investments into Bitcoin and its proxies. This trend extends internationally, with an undisclosed, but large UK pension scheme allocating 3% of its portfolio to Bitcoin.

On the corporate side, Tesla, Block, Coinbase, GameStop, and others have added Bitcoin to their balance sheets. Most notably, MicroStrategy has effectively transformed into a levered Bitcoin investment firm, issuing securities across its capital structure (senior debt, convertible, debt, and equity) and taking the proceeds to purchase Bitcoin. From CEO, Michael Saylor, "We view Bitcoin as superior to cash and are expanding our digital asset strategy to maximize shareholder value." MSTR currently owns 607,770 Bitcoins with a market value of ~\$72 billion. One of its convertible preferred stock issue, STRK, is convertible into MSTR at \$1,000 share price, bears an 8% coupon, and a YTW of 6.6% which is taxed as a qualified dividend income (QDI).

Corporate adoption of Bitcoin offers strategic upside but comes with meaningful risks. Firms holding BTC face price volatility, regulatory uncertainty, and potential earnings distortions, as market swings can impact reported results. Still, Bitcoin provides a compelling hedge against inflation and fiat debasement, prompting companies



to treat it as a long-term treasury asset. We believe that the trend of more companies diversifying their dollar reserves out of cash, and into Bitcoin is likely to continue, particularly in a time where currency, interest rate, and trade regimes are being upended. We would note however that, though corporate treasury allocations are a net asset, many of the businesses that have decided to go this route are doing so precisely because their core businesses are failing, or would have already failed were it not for BTC's appreciation. It will be important for us to see more operationally successful firms (like more Mag7 names) deploy capital into Bitcoin, something that we are hopeful will happen on the back of greater regulatory clarity.

| Rank | Company | Ticker | Country | Bitcoin | % of All Bitcoin |
|--------------|---|---------|---------|------------------|------------------|
| 1 | All U.S. Spot ETF's | -- | US | 1,104,534 | 5.3% |
| 2 | Microstrategy, Inc. | MSTR | US | 601,550 | 2.9% |
| 3 | MARA Holdings, Inc. | MARA | US | 50,000 | 0.2% |
| 4 | XXI | CEP | US | 37,230 | 0.2% |
| 5 | Riot Platforms, Inc. | RIOT | US | 19,225 | 0.1% |
| 6 | Metaplanet Inc. | 3350.T | JP | 16,352 | 0.1% |
| 7 | Galaxy Digital Holdings Ltd | GLXY | US | 12,830 | 0.1% |
| 8 | CleanSpark, Inc. | CLSK | US | 12,608 | 0.1% |
| 9 | Tesla, Inc. | TSLA | US | 11,509 | 0.1% |
| 10 | Hut 8 Mining Corp | HUT | CA | 10,273 | 0.0% |
| 11 | Coinbase Global, Inc. | COIN | US | 9,267 | 0.0% |
| 12 | Block, Inc. | XYZ | US | 8,584 | 0.0% |
| 13 | Next Technology Holding Inc. | NXTT | CN | 5,833 | 0.0% |
| 14 | ProCap BTC | CCCM | US | 4,932 | 0.0% |
| 15 | Semler Scientific | SMLR | US | 4,846 | 0.0% |
| 16 | GameStop Corp. | GME | US | 4,710 | 0.0% |
| 17 | Cango Inc | CANG | CN | 4,000 | 0.0% |
| 18 | Bitcoin Group SE | ADE.DE | DE | 3,605 | 0.0% |
| 19 | Boyya Interactive International Limited | 0434.HK | HK | 3,350 | 0.0% |
| 20 | Microcloud Hologram | HOLO | KY | 2,353 | 0.0% |
| Total | | | | 1,927,591 | 9.2% |

Source: *BitcoinTreasury.net*

Regulation, Stablecoins, and the Erosion of Bitcoin's Original Vision

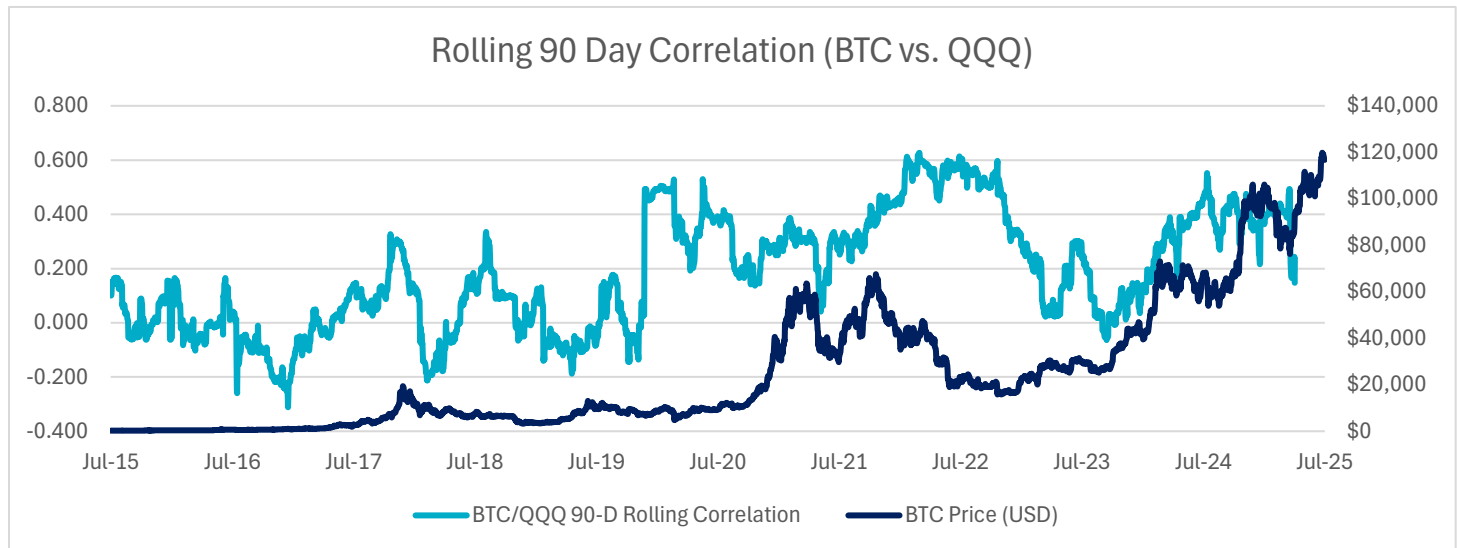
As Bitcoin becomes more integrated into the global financial system, new legislation is reshaping how it's regulated and accessed. The FIT21 / CLARITY Acts aim to clarify registration requirements and regulatory structures for bitcoin market participants, including digital commodity exchanges, brokers and dealers. Importantly, it also seeks to end the multi-year turf war between the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC).

Additionally, the recently signed GENIUS Act establishes a federal framework for stable coins, requiring 1:1-dollar reserves, monthly audits, and compliance with identity verification and anti-money laundering rules. Stablecoins like USDC and USDT are digital currencies pegged to the U.S. dollar, designed to maintain a stable value. They offer fast, low-cost transactions, making them especially useful for cross-border payments, trading, and in



regions with unstable currencies. The evolution of regulatory frameworks marks a critical turning point in Bitcoin's maturation. By providing regulatory clarity for spot ETFs and stablecoins, these reforms have laid the legal foundation for institutional participation at scale.

Correlations and TradFi / DeFi Interconnectedness



A common objection to strategic Bitcoin portfolio allocations is that Bitcoin is highly correlated with growth/tech stocks such that it has minimal value as a diversifier. We make two observations from the above chart showing the rolling 90-day correlation between BTC and Nasdaq 100 (QQQ) daily returns: (1) BTC and growth stock correlations were lowest in the earlier days of BTC, and have since increased in tandem with institutional adoption. A January 2025 study by Di Wu of Schonfeld Strategic Advisors titled *Institutional Adoption and Correlation Dynamics: Bitcoin's Evolving Role in Financial Markets*, validates this point. (2) In recent bouts of market volatility (Liberation Day, Japan carry unwind) BTC has held up well and has been more effective as a portfolio diversifier. The current 90-day correlation between BTC and QQQ stands at a mere 0.15. What is unique about this period is that stocks have rallied alongside a period of a weakening dollar, while BTC/ correlations have meaningfully decreased. We interpret this as further evidence that BTC is increasingly being seen as a store of value, and not a speculative asset.

It is difficult to say conclusively if institutional adoption and an increasing share of institutional ownership will continue to decrease correlations with traditional assets (increasing value as a diversifier) or if institutional ownership will eventually cause Bitcoin to again move in tandem with risk-off moves in risk assets. With the exception of high frequency quant funds and levered players, institutions are generally slower to move in their strategic allocations, such that at least for now, we believe that institutional ownership is a net asset to the stability and direction of BTC.



Bitcoins Unknown Creator and the Question of Absolute Scarcity

Since its inception, Bitcoin has been shrouded in mystery – starting with its anonymous creator, Satoshi Nakamoto, who launched the network in 2009 and vanished a year later. Wallets linked to Nakamoto hold over 1.1 million untouched Bitcoins, representing one of the largest personal fortunes in history.

Another key pillar for Bitcoin is its fixed supply, capped at 21 million coins often compared to digital gold. While this limit is central to Bitcoin's value proposition, it's not enforced by law or physical constraint. Instead, it relies on network consensus. In theory, miners and node operators could alter the supply rules, though doing so would undermine Bitcoin's credibility. Its scarcity is therefore strong but not immutable, sustained by collective trust in its core principles. Like any store of value, and in contrast to goods which are consumed, Bitcoin has value because people agree that it has value. This value comes from being a decentralized, democratic platform for validation, but also from the fact that its supply does not depend on increasingly activist central banks.

A New Age for Bitcoin

Bitcoin was created to operate outside traditional finance—resistant to censorship and central control. Today, it exists in a system dominated by custodians, compliance frameworks, and regulated products. Bitcoin has evolved from a decentralized experiment into a globally recognized financial asset, now shaped by the very institutions it once aimed to bypass. With regulatory clarity, institutional inflows, and sovereign adoption accelerating, its integration into the financial system is undeniable. Yet this progress raises a deeper question: Can an asset born to resist centralization remain true to its purpose when managed by custodians, traded through ETFs, and governed by legal frameworks?

We are believers that the institutional momentum backing Bitcoin will continue to drive flows and more meaningful allocations. Bitcoin above all, is a technology, and like all technologies what truly matters is adoption. As more and more people and organizations concern themselves with “owning” Bitcoin instead of “trading” Bitcoin we believe volatility will become more subdued, feeding a virtuous cycle where allocators look to Bitcoin as an important portfolio diversifier, and all-weather hedge for moments of deep policy uncertainty.



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