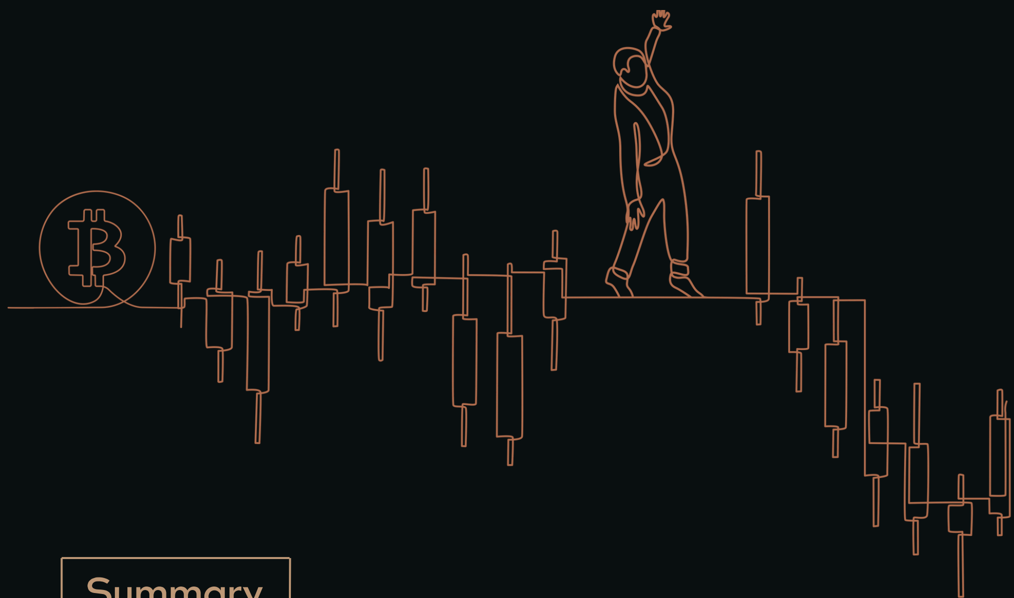
REDEFINING BITCOIN ALPHA



Matt McClintock
Founder & Executive Managing Director

Summary

- In the bitcoin world, chasing yield through “lending” or “staking” has too often led to disastrous outcomes. The collapse of multiple platforms including Celsius, BlockFi, and FTX is a cautionary tale of misplaced trust and misunderstood risk.

- Attempts to generate alpha on bitcoin through active funds or lending strategies frequently come at a steep price: loss of liquidity, title ownership, transparency, control, and increased tax exposure, all of which compromise the core principles of sovereign bitcoin ownership.

- Holding bitcoin for long-term wealth preservation—especially as a hedge against devaluing currencies and counterparty risk—has proven effective in building generational wealth. Speculating with bitcoin through active trading or complex strategies is a fundamentally different game, one that has often destroyed wealth as effectively as it has created it.

- Bespoke advocates for Strategic Alpha, which is measured not in short-term gains, but in privacy, asset protection, tax efficiency, and generational stewardship. This approach respects the asset, preserves sovereignty, and builds lasting, meaningful wealth.

STRATEGIC ALPHA FOR BITCOIN WEALTH

One of the most common questions we get from potential clients and friends in the bitcoin world is, “How can I generate alpha on my bitcoin?”

Let’s take a closer look at alpha, and then let’s consider reframing it.

First, what is “Alpha?”

In the world of traditional investing, “alpha” refers to the *excess return* that an investment generates when compared to a market benchmark. As a simple example, if the S&P 500 grows by 8% in a year and your portfolio grows by 10%, that 2% outperformance is your alpha. It’s designed to measure the special skill, insight, or strategy that enables an investor or manager to beat the market, rather than simply riding its overall movements.

BITCOIN, VOLATILITY, AND THE SEARCH FOR YIELD

Bitcoin presents a special investment challenge. It has become immensely valuable and has demonstrated remarkable long-term appreciation. However, it’s highly volatile and lacks any inherent income-generating feature. For significant holders of bitcoin, this absence of yield creates a temptation to seek “alpha” elsewhere: ways to generate income or additional returns without selling the underlying asset.

History shows that this pursuit has often ended in disaster. Bitcoin’s (and crypto’s) recent past is littered with the corpses of family legacies lost in pursuit of alpha. Many bitcoiners turned to platforms like Celsius, BlockFi, Voyager Digital, and various counterparties linked to the now-infamous FTX. These platforms promised enticing returns for “lending” or “staking” bitcoin and other digital assets, claiming to offer a steady flow of “safe” returns on what would otherwise be a non-yielding asset.

The reality, however, was starkly different. These entities often operated on shaky financial foundations, misrepresented the risks involved, or, worse, engaged in outright fraud. More than a few founders went to prison or fled to non-extradition countries. Instead of generating alpha, many investors faced catastrophic losses:

- **Celsius** collapsed into bankruptcy, wiping out billions in client assets.
- Despite initial signs of stability, **BlockFi** ultimately filed for bankruptcy following cascading failures in the crypto ecosystem.

- **Voyager Digital** offered "high yield" programs for bitcoin and other cryptocurrencies, often advertising returns of 8% or more. After exposure to **Three Arrows Capital** (3AC) and broader market failures, Voyager filed for bankruptcy in 2022, leaving users with significant losses.
- **FTX** was revealed to be a massive fraud, with many counterparties and individuals losing not only their promised yield but their principal investments as well.

With apologies to the nautical community, many of these companies spent money like drunken sailors, raising funds from investors, throwing lavish parties at bitcoin conferences, and buying every corporate sponsorship imaginable. (Remember "FTX Arena" where the Miami Heat used to play? Those naming rights were bought for the princely sum of $135,000,000!)

In addition to the significant financial losses many investors and depositors faced, they were often doxxed by being listed as unsecured creditors in the public bankruptcies of failed platforms and "alpha providers."

ACTIVE FUNDS AND THE HIDDEN COSTS OF CHASING ALPHA

Today, many active investment funds promise "alpha" on bitcoin holdings, often using options strategies, lending, or sophisticated trading tactics to outperform bitcoin's natural market growth. While these strategies can sometimes generate additional returns, it is critical to recognize the trade-offs involved.

Not least among them, participating in these funds typically requires converting sovereignly-owned bitcoin into an illiquid limited partnership interest. One should fully measure the cost of this quest for alpha, which includes:

- **Loss of Liquidity:** Investors often face lockup periods that prevent them from accessing their bitcoin when they might need it most, introducing the risk of becoming a forced seller during adverse market conditions. Liquidity means optionality, and that doesn't exist in a fund.
- **Loss of Title Ownership:** Investors surrender ownership of bitcoin. Instead of holding bitcoin outright, the investor holds a claim against an entity — a fundamentally different and riskier proposition. Moreover, that entity has limited liability from potential claims, including claims by investors.
- **Loss of Transparency:** Investors have very limited visibility into how their assets are being managed, how they are custodied, which counterparties are being engaged, and on what terms. Also, investors only receive speculative and opaque valuation reports—usually quarterly—indicating the value of their position in the fund.

- **Loss of Control:** Decision-making authority shifts to fund managers, leaving the investor reliant on others' judgment and integrity.
- **Heightened Capital Gains Tax Exposure:** Engaging in active strategies may accelerate taxable events, potentially triggering significant capital gains tax consequences.

One of the most important rules in investing is understanding the game you're playing. Holding bitcoin for long-term wealth preservation – in the context of protecting wealth from devaluing currencies or mitigating counterparty risk – has proven to be a successful strategy to build generational wealth. Speculating with a pristine asset like bitcoin in active trading—directly or within funds—is a very different game. Options trading in particular has proven to be as effective in destroying wealth as it has been in building wealth. (Probably more!)

STRATEGIC ALPHA: A BROADER, MORE DURABLE DEFINITION

Against the backdrop of broken promises, forfeited wealth, and outsized risks, we propose a more profound and enduring conception of alpha: **Strategic Alpha**. This is the alpha we generate not through chasing speculative yield, but through comprehensive, intelligent wealth management that respects and preserves our clients' core assets.

In a very real sense, bitcoin's inherent growth has proven to be a more effective source of "alpha" than virtually any other benchmark. Simply holding bitcoin securely in *intelligent and tax-optimized strategies* has proven to be an outstanding strategy to build lasting wealth. Gambling generational wealth in pursuit of higher speculative returns is as likely to provide ***compounding losses*** as it is to provide excess gains.

Our strategic approach to wealth management creates alpha across multiple dimensions:

- **Privacy Alpha:** Structuring wealth in ways that maximize privacy, shielding our clients' financial lives from undue exposure or intrusion.
- **Asset Protection Alpha:** Implementing legal and strategic frameworks to protect assets from litigation risks and other creditor claims, preserving wealth against unexpected adversities.
- **Tax Alpha:** Designing and executing sophisticated, tax-advantaged strategies aligned with each client's goals to maximize after-tax wealth growth and minimize unnecessary friction.
- **Inheritance Alpha:** Preparing the next generation to become capable and responsible stewards of family wealth through intelligent structuring of trusts, entities, and family governance mechanisms, supported by comprehensive educational initiatives and a clear exploration of family purpose.

THIS IS REAL ALPHA

Real alpha isn't found in dubious promises of double-digit "risk-free" returns or in surrendering sovereignty over your most valuable assets. It is achieved through:

- Managing and mitigating risks intelligently.
- Structuring assets to maximize wealth preservation.
- Optimizing wealth for long-term growth with tax and legal efficiency.
- Ensuring the preservation of family values and legacies across generations.
- Enhancing the overall meaning, enjoyment, and stewardship of great wealth.

For those who understand that wealth is not merely about accumulation but about s**ustained prosperity, protection, and purpose**, Bespoke's philosophy of pursuing strategic alpha provides a superior, enduring path.

We measure alpha by what you **keep, protect, and grow**—not what you chase and lose.

For more information, or to speak with a member of the Bespoke Advisory team, please visit us at bespokeadvisory.io.

IMPORTANT INFORMATION:

Disclaimer:
Bespoke Advisory is registered as a registered investment advisor (RIA) with the US Securities and Exchange Commission (SEC). Our registration number is 801-127194.

RIAs have an obligation to comply with the applicable provisions of the Investment Advisers Act of 1940 and the rules that have been adopted by the SEC. Additional information is available at: adviserinfo.sec.gov/firm/summary/323909.

The information provided is for educational and informational purposes only and does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. Bespoke Advisory and its representatives do not provide legal, accounting, or tax advice. Consult your attorney or tax professional. Representatives have general knowledge of the Social Security tenets. For complete details on your situation, contact the Social Security Administration. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment.

All investments include a risk of loss that clients should be prepared to bear. The principal risks of Bespoke Advisory's strategies are disclosed in the publicly available Form ADV Part 2A. Asset Allocation may be used in an effort to manage risk and enhance returns. It does not, however, guarantee a profit or protect against loss. Under Securities Law, a company or private fund may not offer or sell securities unless the transaction has been registered with the SEC or an exemption from registration is available. Certain securities offerings that are exempt from registration may only be offered to, or purchased by, persons who are accredited investors. One principal purpose of the accredited investor concept is to identify persons who can bear the economic risk of investing in these unregistered securities.