

Summary

Bitcoin is on the cusp of maturing before our eyes

We have focused on Bitcoin adoption based on a secular S-Curve Model, however, along the curve, there are certain catalysts that either expedite breadth or impede growth. Bitcoin as measured by its steadfast hodl'rs (long-term holders), growing mining fleet (approximately 500 Exahashes), and, yes, price appreciation (best performing asset over any/every time frame) has provided an incredible base for this coming halving cycle. The approval of the spot Bitcoin ETF is one of the biggest events to happen to Bitcoin since its initial launch because a Spot Bitcoin ETF:

Creates a *securities handle* on the world's scarcest asset, bitcoin, thereby, opening it up to the \$800 trillion securities market. Expanding the Total Addressable Market by at least two orders of magnitude (\$8 trillion to \$800 trillion). This securitization of an asset democratizes the asset as it attaches (via an ETF) to the existing financial rail system. We have seen this before with the securitization of mortgage-back securities, junk bonds, real estate, commodities, and gold/silver. In each case the securitization, standardization, and democratization of the asset has created new "asset classes" leading to an increase in market value of at least five-fold ie. gold, with most asset classes expanding over ten-fold.



What about other Cryptos?

Bitcoin is the only *crypto* without an issuer, a true digital commodity and therefore, will most likely, stand-alone as the only *crypto* with a spot etf. Past cycles, investors were confused by all of the other *cryptos*, which diluted the buying power and understanding of Bitcoin. To be clear, Bitcoin is the only *crypto* that is sovereign, all others have a third

party. This feature insures the built-in incentive to maintain the fixed supply of 21 million, undilutable. It also insures that Bitcoin is uncensorable, and as the network has grown, Bitcoin itself is immutable as it is secured by 500 EH of hashing power. For perspective, no nation-state or combined technology computing power can overwhelm the network. Bitcoin is the world's first *infinetly scarce resource*. The world has never seen anything like this. There is no altering the supply. All other commodities increase supply as the price increases to meet demand.

On August 27, 2010, the creator of Bitcoin, Satoshi Nakamoto, posted:

“As a thought experiment, imagine there was a base metal as scarce as gold but with the following properties: boring grey in colour, not a good conductor of electricity, not particularly strong, but not ductile or easily malleable either, not useful for any practical or ornamental purpose and one special, magical property; can be transported over a communications channel.”¹

Digital Gold; Explained

The best metaphor for bitcoin is **digital gold, only infinately better**. Better over TIME; Bitcoin has a fixed supply with no dilution. Even gold, one of the scarcest commodities grows its supply by 1.5% each year. Over one hundred years this dilutes the value by 90% while storage costs extract the remaining value. Better over SPACE; Bitcoin trades 24/7/365 in all currencies simultaneously and is programmable. Just think, one billion dollars of bitcoin can circle the globe trading on each continent across both geographic and political jurisdictions at the speed of light with minimal costs. This is why at LedgerStat Capital, our 3-5 target price for bitcoin is the total addressable market of gold (\$13 trillion), which would bring price to around \$600k per bitcoin.²

Maturation in Technology Leads to More Access

The approval of the Spot Bitcoin ETFs is akin to the introduction of the web browser to the internet. While technically saavy users were able to use the internet through the use of command lines, the introduction of the web browser expanded it's the network to the every day user who was unwilling or unable to go through the process of learning the mechanisms. We predict the same will occur to investing in Bitcoin once the ETFs are approved since investors will not need to learn the intricacies around self-custody, models, risks...etc. Individuals looking to gain exposure within their investment accounts will simply be able to work with their advisors and/or purchase directly within their brokerage accounts.

¹ <https://satoshi.nakamotoinstitute.org/quotes/economics/?order=desc>

² <https://saifedean.com/>

What is Expected to Occur in 2024

- Spot Bitcoin ETF Approval
- Bitcoin Halving Event
- FASB Accounting

Spot Bitcoin ETF

A decade after the Gemini founders filed on July 1, 2013 to launch the Winklevoss Bitcoin Trust, the SEC is set to approve its first ever US Based Spot Bitcoin ETF by January 10, 2024. Ark Invest’s 21Shares Bitcoin ETF (ARKB) is the first on the list but there are more than 10 other applicants who expect approval within the first quarter for their products.

What is exciting is that with a push of a button, the financial advisor can include bitcoin, the asset, into its client portfolio thereby improving the overall risk reward of the portfolio. Studies consistently demonstrate the advantages of adding a percentage of bitcoin and rebalancing over time for higher return with a lower risk profile. The Nakamoto portfolio³ is a useful tool, which can easily demonstrate this concept.

Typical 60/40 Stock-Bond Portfolio since January 1, 2020 with a quarterly rebalancer

ticker	name	initial weight	return (period)	return (annualized)	volatility (daily)	volatility (annualized)	sharpe ratio rf = 1.97%
SPY	SPDR S&P 500	60.00%	56%	11.58%	1.18%	22.50%	0.43
VBTLX	Vanguard Total Bond Market Inde	40.00%	-6%	-1.60%	0.32%	6.14%	-0.58
BTC	Bitcoin ß		509%	56.35%	3.48%	66.45%	0.82
	Original Portfolio		30%	6.75%	0.71%	13.48%	0.35
	Original Portfolio + ß (1.00%)	1.00%	34%	7.60%	0.71%	13.57%	0.41
	Original Portfolio + ß (5.00%)	5.00%	52%	10.94%	0.75%	14.26%	0.63
	Original Portfolio + ß (10.00%)	10.00%	76%	14.97%	0.83%	15.78%	0.82

Bitcoin Halving Event

The next halving, which occurs every 210,000 blocks, is expected to take place in April 2024. At that time, the block reward for miners will reduce from 6.25 BTC to 3.125 BTC. This corresponds to the new supply reducing from 900 bitcoin per day to 450 per day for the next four years. This reduction in supply, coupled with a steady or increasing demand leads to a supply crunch. As a result, there may not be enough bitcoin available for both new entrants and long-term holders to accumulate, driving price

³ <https://nakamotoportfolio.com/nakamoto/start>

higher. Historically, bitcoin's price has risen after each halving event, although not immediately.⁴ Any additional demand created by institutional or corporate interest should have a positive impact on price and adoption in the long-term.

FASB Accounting

On December 13, 2023, FASB issued its first direct accounting and disclosure standard on crypto assets in an effort to provide guidance that more accurately reflects the economics of Bitcoin in financial reports. The rules require crypto assets that meet six characteristics to be measured at fair value each reporting period with changes in fair value recognized in net income—enabling upswings of tokens to be captured. The assets must be separately presented on the balance sheet from other intangible assets as well as separately shown in the income statement when remeasured. While the rule is not set to go into effect until 2025 for fiscal years beginning after December 15, 2024, however, companies can adopt the changes early.

End of the Year Thoughts

As we wrap up the year, we wanted to share a note explaining Bitcoin's network at a high level to assist our readers in navigating conversations that we expect to become more mainstream around Bitcoin and the cryptocurrency market.

What Makes Cryptocurrencies and their Technologies Important in the Modern World?

The most crucial breakthrough within the nascent crypto industry arose from Bitcoin's main attributes, one of which is that Bitcoin solved what is referred to as the "Byzantine Generals' Dilemma," allowing a network of computers in an open and hostile environment, such as the internet, to come to a consensus without a 3rd party interceding.

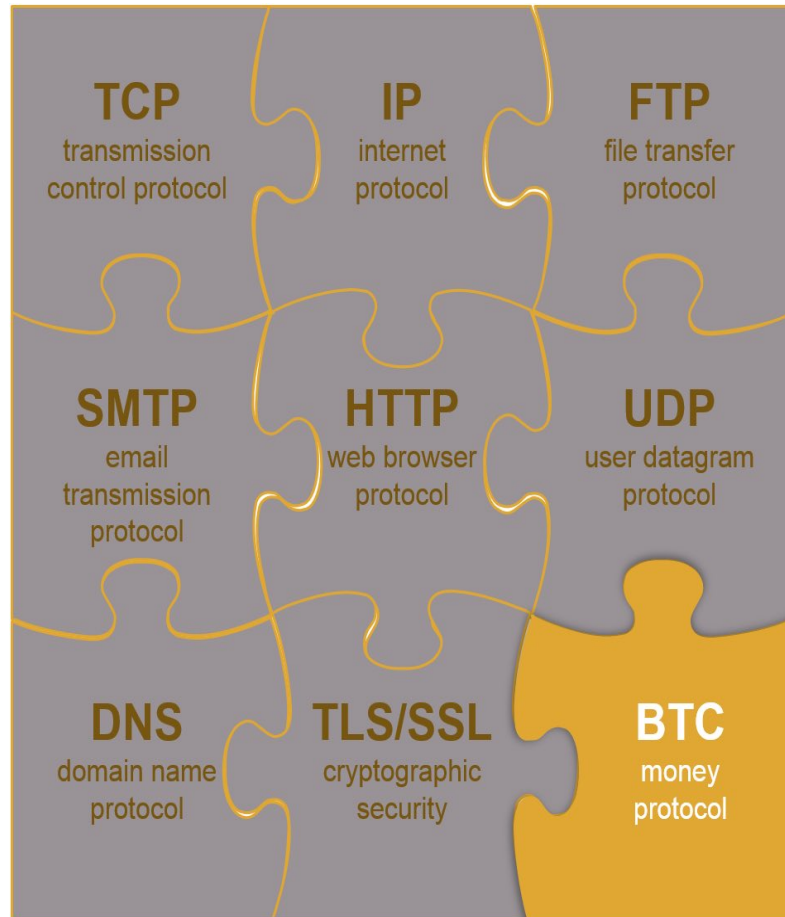
Satoshi, achieved that by combining existing tools:

- SHAH 256 Public/Private key cryptography
- Bit-Torrent peer-to-peer ledger
- Blockchain database technology
- Proof of work mining to secure the network
- Strict monetary policy of 21 million total bitcoin

⁴ <https://www.forbes.com/sites/digital-assets/2024/01/01/what-is-bitcoins-price-prediction-for-2024/?sh=17ddf9533081>

These tools allowed for an open-source, internet protocol layer to enhance the internet by allowing value to be transferred between parties without the need of a third-party. For comparison, the internet facilitated the exchange of words without the need for a third-party. This innovation completely disrupted industries and business models over the past twenty-five years and has completely changed the world as we know it. However, one feature the internet lacked was the ability to transfer value without the need for a 3rd party validator- Enter Bitcoin.

Over the past decades enormous wealth has been created building businesses on top of the original TCP/IP internet protocol. In fact, the internet design itself is an evolution of protocol layers to service the demands of the users on top. For example, email resides on the SMPT protocol layer while the emergence of Amazon and commerce applications would not be possible without the TLS/SSL layer, which allows for safe and secure credit card payments.



Since Bitcoin has set rules that all participants must consent and adhere through consensus, the asset itself is scarce and its supply is known. By creating the means of Bitcoin created the first digitally scarce element and while the other 20,000 or so altcoins in the cryptocurrency market attempt to serve a role in the modern world, there is already one winner that is the following:

The attributes of good money

When money competes, it is the specific attributes that make a good store of value that allows one to out-compete another at the margin and increase demand for it over time. While many goods have been used as stores of value, the attributes of money were recognized and written about by Aristotle.

Scarce: As Nick Szabo termed it, a monetary good must have “unforgeable costliness”.⁵ In other words, the good must not be abundant or easy to either obtain or produce in

⁵ <https://nakamotoinstitute.org/shelling-out/>

quantity. Scarcity is the most important attribute as it taps into the innate human desire to collect that which is rare.

Portable: the good must be easy to transport and store, making it possible to secure it against loss or theft and allowing it to facilitate long-distance trade.

Divisible: the good must be easy to subdivide. While this attribute was less important in early societies where trade was infrequent, it became more important as trade flourished and the quantities exchanged became smaller and more precise.

Durable: the good must not be perishable or easily destroyed.

Verifiable: the good must be easy to quickly identify and verify as authentic. Easy verification increases the confidence of its recipient in trade and increases the likelihood a trade will be consummated.

Recognizable: the longer the good is perceived to have been valuable by society, the greater its appeal as a store of value.

Fungible: one specimen of the good should be interchangeable with another of equal quantity. Without fungibility, the coincidence of wants problem remains unsolved.

Censorship-resistant: a new attribute, which has become increasingly important in our modern, digital society with pervasive surveillance, is censorship-resistance. That is, how difficult is it for an external party such as a corporation or state to prevent the owner of the good from keeping and using it. Goods that are censorship-resistant are ideal to those living under regimes that are trying to enforce capital controls or to outlaw various forms of peaceful trade.

Humans always gravitate towards the hardest money

Gresham's Law is a monetary principle; "bad money drives out good". In a monetary network, more possible connections mean more salability and a broader scope of trade. Participants in a monetary network are connected by their use of a common form of money to express and store value. Network effects, defined as the incremental benefit attained by adding a new member to a network for all existing members in that same network, encourage people to adopt a single form of money. Intuitively, a monetary good that holds value across time (hard money) is always preferable to one that loses value (soft money). This causes people to naturally gravitate to the hardest form of money available to them.

How Does LedgerStat Navigate the Industry

LedgerStat Capital owns Bitcoin as its primary asset and is actively involved in all aspects of the Bitcoin eco system:

- Buy & Sell
- Secure
- Mine
- Borrow/Lend
- Transact

These will continue to be early businesses that evolve as investment opportunities within the Bitcoin ecosystem, which is why LedgerStat Capital were early adopters and shareholder of companies such as River Financial, a highly reliable and critical Bitcoin-only exchange. Additionally, LedgerStat owns and is an advisor to Blockware Mining, which has 30 MW capacity with an additional 70 MW to go in the next expansion phase. We are advisors to Custodia Bank, which is dedicated to upgrading the banking system by offering over 100% reserved deposits, a top-tier Bitcoin custody solution and a digital dollar stable coin. We work closely with Unchained Capital, which offers a collaborative custody model that reduces the complexity of multi-signature with all of the safeguards of a collaborative custodial solution.

The market misunderstands Bitcoin's network and while it has been the best performing asset, investors do not understand that its volatility is a feature, not a bug. The volatility creates opportunities, especially with a long-term outlook.

We are also a General Partner in Off The Chain Capital, which is a \$200 million hedge fund with the objective of outperforming bitcoin and taking less risk by buying Bitcoin at a discount. It identifies value opportunities in the digital assets ecosystem and has 160 limited partners. Through this relationship we have been able to share different valuation models and approaches to Bitcoin cycles, such as:

- Stock-to-flow (Scarcity and flow)⁶
- Metcalf's Law (Network effect)
- S-Curve Adoption (Technology Adoption)
- Break-Up Value (Use cases)

We are extremely excited about the advantage that our technical models can show as Blockchain transactions can reveal some enormously valuable insights with regards to the identity of the buyers and sellers. Technical models include:

⁶ <https://planbtc.com/>

- The Mayer Multiple assists us in determining when to buy or sell in an attempt to maximize total bitcoin holdings over time. For example, we don't add to our Bitcoin holdings when the Mayer Multiple exceeds 2X.
- Hodl wave analysis using Glassnode help determine precise characteristics of buyers and sellers⁷
- Near-term measure of OI (open interest) and Bitcoin futures price helps us see near term speculative interest.
- Sentiment indicators also confirm cycle tops and bottoms.

LedgerStat Capital has devoted 100% of its mental capital to Bitcoin. We have been writing a quarterly update to our SoundMoney Strategy, which is designed to help onboard novice investors into the crypto markets in the most efficient and profitable way possible. After 5 years, the returns of this strategy of buying bitcoin and using cash and/or gold with, at times, modest leverage has been better than Bitcoin itself (net of fees). Additionally, we offered an additional strategy called **Special Opportunities Strategy**, which invests in publicly traded stocks that are trading at a deep discount to Bitcoin. That strategy is up 248% compared to BTC's return of 156% YTD.

LedgerStat Capital Services:

Sound Money Strategy:

On November 1, 2018, Bitcoin was trading at \$6,300, down from its 2017 peak of \$20,000. LedgerStat Capital launched **The Sound Money Strategy**⁸ with partner capital and this strategy has compounded at 51% per year (net of 1.5%/10% fees). Meanwhile, Bitcoin is up 156% year to date and has compounded at around 46% since November 1, 2018.

Special Opportunities Strategy

Fast forward to January 1, 2023 when Bitcoin was trading at \$16,500, LedgerStat Capital launched **The Special Opportunities Strategy**⁹ and this strategy is up 248% (net of 1%/10% fees).

	4 th QTR	YTD	Since Inception	Investment	Value today
Sound Money Strategy	78.69%	174%	684%	\$1,000,000	\$7,840,000
Special Ops Strategy	75.00%	248%	248%	\$1,000,000	\$3,480,000
Bitcoin	56.48%	156%	571%	\$1,000,000	\$6,710,000
Gold	9.80%	13%	72%	\$1,000,000	\$1,720,000
Gold Miners (GDJ)	17.69%	4%	35%	\$1,000,000	\$1,350,000
S&P 500	11.24%	25%	70%	\$1,000,000	\$1,700,000
Berkshire Hathaway	2.01%	15%	64%	\$1,000,000	\$1,640,000

⁷ <https://glassnode.com/>

⁸ The Sound Money Strategy inception was November 1, 2018

⁹ Special Opportunities Fund inception was Jan 1, 2023

Set up a time to talk about the opportunities that we are investing in today:

While we continue to advise our clients to learn about Bitcoin, we are also recommending setting up a time to talk about:

- Buying Bitcoin directly through River
- Buying Bitcoin through Unchained Capital and holding your own private keys
- Allocate a portion of your portfolio to LedgerStat Capital in our Special Opportunities Strategy, which focuses on the best ways to invest in Bitcoin.

Best Regards,
Tim Keefe

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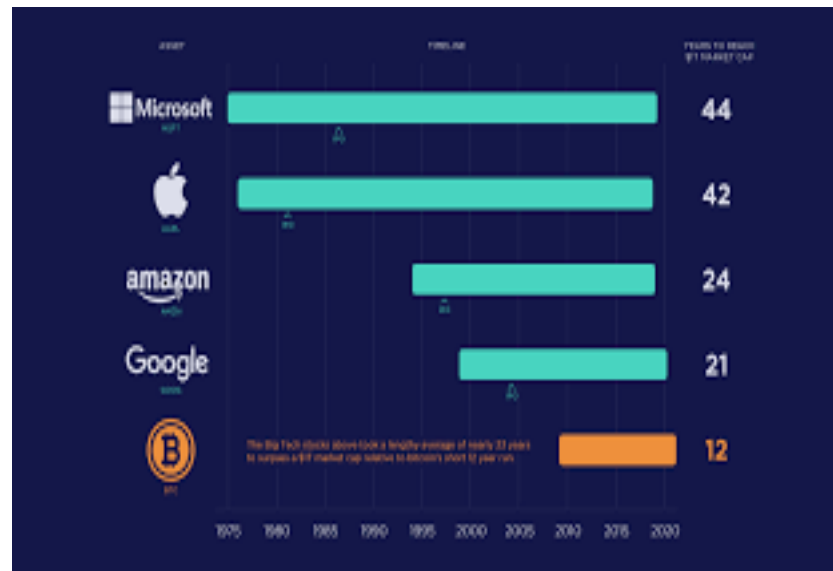
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Appendix

The Cryptocurrency Market Explained

One way to analyze the various cryptocurrencies would be to break them into separate categories, based on their objectives. Some tokens aim to provide a payment function, while others are technology enhancements for the internet, such as research and development projects from traditional companies. At their core, altcoins have a third-party governing its rules, meaning there is a foundation or founder’s circle dictating the rules, the supply, the objectives, and the distribution. Additionally, since there are known parties responsible for the direction these tokens take, political pressure can be more easily applied if necessary.

Bitcoin, on the other hand, is governed by its users, both its miners and its node operators. With this structure, it has been the fastest growing network ever in terms of growth as measured by market cap. It has taken a mere twelve years for the Bitcoin network protocol to reach a \$1 trillion dollar market cap. As a way of comparison, it has taken Microsoft, Apple, Google, Amazon at least twice as long to achieve that same milestone.¹⁰ Today, Bitcoin is the dominant *crypto* in terms of market cap and network effect by several orders of magnitude.

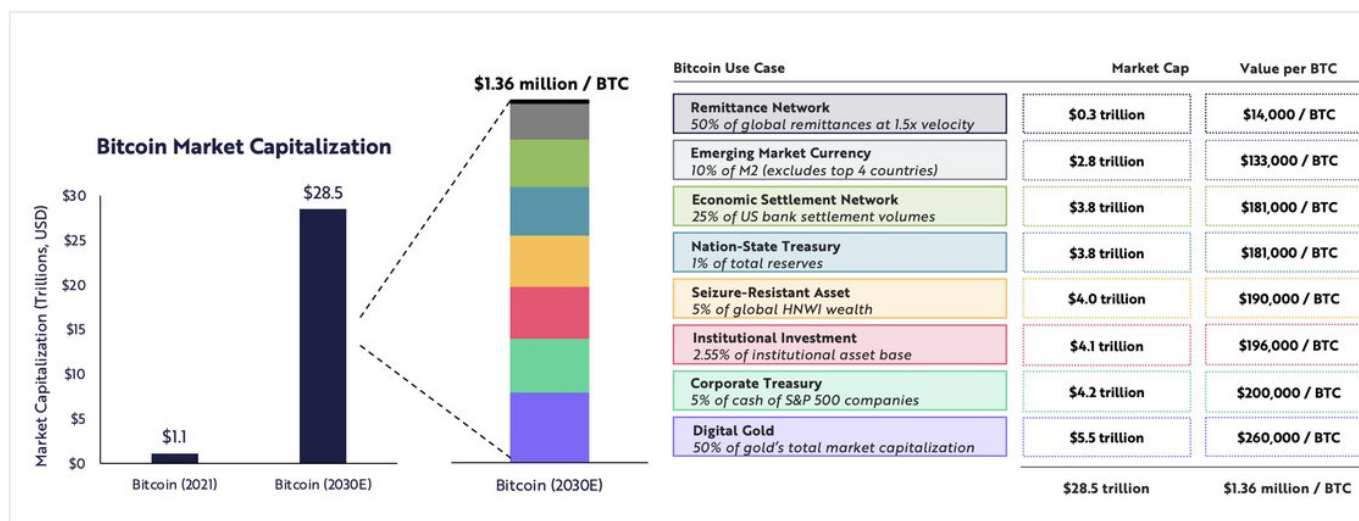


Imagine the new businesses, disruptions and opportunities that will create value over the next two decades. Bitcoin has many applications that appear easy to forecast and attempt at placing an addressable market on. Based on a breakdown by Ark Invest, the following use cases are within Bitcoin’s grasp:

¹⁰ Michael Saylor speech in 2022



The Price Of One Bitcoin Could Exceed \$1 Million by 2030



Forecasts are inherently limited and cannot be relied upon. For informational purposes only and should not be considered investment advice, or a recommendation to buy, sell or hold any particular security or cryptocurrency. Source: ARK Investment Management LLC, 2021. | Corporate Treasury Data Source: Capital IQ, Seizure Resistant Asset Data Source: <https://worldwealthreport.com/wp-content/uploads/sites/7/2021/07/World-Wealth-Report-2021.pdf>, Remittance Market Data Source: <https://thefinancetimes.com/global-remittance-market-is-expected-to-grow-by-200-billion-by-2026/>, Nation State Treasury Data Source: <https://data.worldbank.org/indicator/FI.RES.TOTL.CD?end=2020&start=2002> Note: a price multiplier was applied to Nation-state treasury and corporate treasury opportunities. The price multiplier is the upper bound estimate made by Chris Burniske (Co-author of Cryptoassets: The Innovative Investor's Guide to Bitcoin and Beyond and Partner at VC firm Placeholder), which roughly equates to the average between the estimated lower bound made by Burniske and the estimated upper bound made by Citi Bank <https://medium.com/@cburniske/cryptoassets-flow-amplification-reflexivity-7e306815dd8c>

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The Capitalist's Perspective

There is one important distinction you should note, the capitalist needed to build an application on top of an internet protocol, such as email or video messaging protocols for simple terms. The economic value created by these capitalists went to the individual companies, such as Microsoft or Zoom, while the *internet continued to expand its network and become even more important and valuable*. However, since Bitcoin is also a protocol, any economic value created by a capitalist also increases the value of Bitcoin. Investors can buy the fixed supply and reap the rewards of all companies that operate with it.

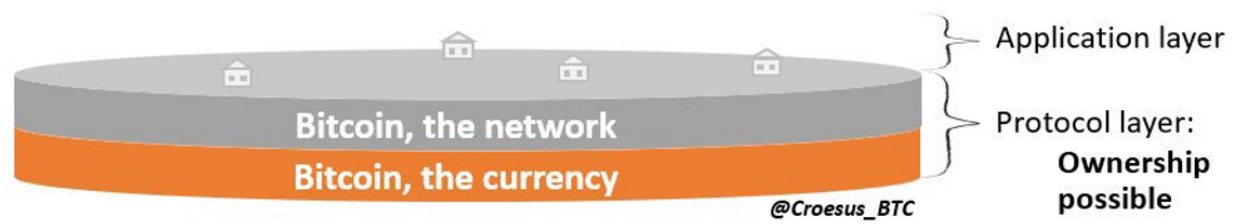
For example, if a company like Apple decides to integrate Bitcoin within its Apple Pay structure, the use of Bitcoin should rise exponentially. In the traditional finance world, an investor would decide to invest in Apple stock assuming it will rise in price due to the new feature. However, any investor of Bitcoin will reap the benefits by default, because in order for Apple to offer the feature, it will need to accumulate Bitcoin, which would in turn raise its price due to its fixed supply. Therefore, on a risk/reward basis, at least in the early days, the economic value will accrue to the owners of the protocol.

¹¹ Ark Invest Research, Big Ideas 2022

The internet of information today...



The internet of value today...



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¹²Croesus research