Q&A-Volatility in bitcoin is the "feature, not the bug"; Investors should "buy the dip"; Cryptos sustainable even in ESG environment: Raoul Pal, Real Vision

Bitcoin's volatility is its main attraction and not a bug, as that is what gives the cryptocurrency its exponential rises, ex-Goldman Sachs bitcoin enthusiast Raoul Pal, founder and CEO of Real Vision, told the Reuters Global Markets Forum on Wednesday, April 21.

Pal said he had a diversified crypto assets portfolio to cover exchanges, decentralised finance (DeFi) and community tokens, suggesting in crypto assets to "buy the dip."

"I'm probably right now 50% bitcoin, 30% ethereum and 20% alternative tokens... to try to keep a balance across the whole space, because I don't really know what's going to win in that space and what's not."

Pal wasn't worried about the unsustainability narrative of mining crypto assets, calling it "slightly nonsensical," saying he believed it was going to drive a green revolution. "In the end, the only way to win at scale mining is by green energy."

Following are edited excerpts from the conversation:

Q: You're bullish on bitcoin and have been for a while -- do you feel sharp bouts of volatility like what we saw over the weekend could hinder its broader adoption?

A: The volatility is the feature and not the bug. Without the volatility, you don't get the exponential price rises. So, people have to learn to adapt to an asset that is that volatile, but it has such a big upside risk-reward skew. I commissioned a paper about the benefits of bitcoin within an institutional portfolio and the volatility of bitcoin because it's uncorrelated, dampens the overall volatility of the portfolio that it goes into. So, it actually has accretive portfolio effects.

I think volatility will come down over time as more people invest and the network effect diminishes somewhat. But I don't think it has a negative effect, I think people understand the volatility now.

Q: Are you bullish on only on bitcoin or are you looking at other crypto assets as well?

A: I'm probably right now 50% bitcoin, 30% ethereum and 20% alternative tokens; of where I've tried to cover a broad asset allocation of the space from exchanges to DeFi (decentralised finance) to community tokens. And alternative protocols for interoperability -- is the key word -- to try to keep a balance across the whole space, because I don't really know what's going to win in that space and what's not.

Q: What about dogecoin? Do you own any of that?

A: I actually own some dogecoin. And the reason being is -- I understand that everybody thinks it's a joke, and it was built as a joke. But it's actually getting adoption from investors. And it's like an inside joke, people quite like it -- that everybody hates it. So that's one part of a network is having the investors on the network, the rest is the use cases. The next thing we saw Mark Cuban, accepting dogecoin as payments for merch (merchandise) and tickets at Dallas Mavericks games. And sooner or later, we'll see other people. So, it becomes the in-joke that becomes a network in itself. Will it last forever? Who the hell knows? But I bought some because the crowd is behind that. And so, it's not a big bet. For me it's a small position to also be involved in the fun of it -- anybody can choose the money should they want to these days, that's an amazing thing.

Q: What do you think about the scalability of bitcoin? How do you see the outcome of the Securities and Exchange Commission's (SEC) lawsuit against Ripple?

A: The existing securities laws were written in the 1930s. Everybody knows it doesn't apply to this world. But you have to uphold some elements of the law within this. So, we've seen a standard outcome, which is people are told off, given a slap on the wrist, a big fine and told to sort out their act. And then they're allowed to go freely to build the businesses that they're trying to buy. I think the same will apply to Ripple, the same will apply to Bitmex, the same will apply to Tether and it will apply to pretty much everybody else in this face, who's not purposely being a bad actor.

Q: There seem to have been some important moments in bitcoin's history that have turned the tide in its favor, for example PayPal's and Tesla's acceptance as payment. What is the next big event that may push it even further?

A: I think there's a negative narrative that may happen, which will be some increased regulation and uncertainty. So that could be the opposite, where we see more risk come back into the markets. I'm not concerned by regulation -- the markets might worry about the uncertainty. On the upside, clearly the biggest single thing that can happen to this space is the ETF (exchange-traded fund) in the United States. That alone will completely change the game. Because it broadens the access to people who don't know how to go online and buy it from a digital wallet and stores and all of that. It just becomes just like buying a stock. So, it opens up for the investment advisors.

Q: Is the Coinbase listing a step forward in the right direction? What about regulatory uncertainty with the listing?

A: Yes, it is. It's a marker stone on way. But don't forget Coinbase's listing actually takes liquidity out of market for people who are going to buy bitcoin, because they can buy Coinbase instead. So, it actually doesn't do it that much, and I think there's no surprise, there's been volatility around that Coinbase listing, because some of the big institutions who could have bought more bitcoin probably bought Coinbase as said for the time being.

If there's regulatory uncertainty that's very bad for Coinbase, because bitcoin itself is the asset with a limited supply. Coinbase is just a brokerage house that may or may not win in the end as an exchange. It's a simple way to get broad exposure to the growth of the space overall.

Q: Where do you stand on the argument of bitcoin and crypto assets in general and ESG (environmental, social and corporate governance)? Do you think carbon emissions can brake its progress?

A: The only electricity heavy part of bitcoin is the mining because it takes huge computing power; not the transfer or use or storage; just the mining. The mining is basically concentrated in certain countries that have strategic advantages right now. One being China, because they will misprice electricity, but there's no surprise that the electricity that mines bitcoin is near the Three Gorges Dam. It's where there's cheap hydro power. In Iran, it's because there is cheap gas and oil; In Venezuela for the same reason. So, there's reasons why some countries have it.

But in the end, the only way to win at scale mining is by green energy, because hydro is so much cheaper than everything else once you do it properly. So, what it's actually doing is greening up the industry faster than we'll see in other big users. I mean, we don't talk about the dishwasher industry or the cattle industry. It's the narrative that people have framed this in that's slightly nonsensical. But in the end, a heavy user of electricity will try and find the cheapest electricity. And that is where redundant power is stored in terms of hydro power, gas flare-offs, sun and other things. So, I actually think it's the opposite of being dirty. It's going to drive a green revolution.

Q: Do you think it's going to stay concentrated in China?

A: No, I don't. I think over time (it will move). The Chinese miners have the advantage of this very cheap power. We are seeing, for example, Icelandic mining firms making use of the cold weather, we're seeing Russian mining firms, we are seeing things like Canadian mining firms where they can use gas flare-off from the oil fields which is free electricity essentially, and in cold weather when they can have storage. So no, I think over time, mining becomes less concentrated.

Q: What is your take on bitcoin and Tether in terms of regulatory hurdles?

A: I think Tether has passed the regulatory hurdle that everybody was worried about, and I have no concerns over it. There will be another moment for regulation of tether when the central bank digital currencies launch. People and countries will have to decide whether to allow private stable coins as well as state owned coins. I believe they will, I believe it's not in any state's interest to try and create a payment rail. What they actually want is the digital currency and maybe a wallet with a central bank. That's as far as they need to own it.

Bitcoin regulation – Clearly there has to be more regulation, and we can see in countries like India that are struggling to figure out how to regulate it. It will come and it will be beneficial. I don't think anybody's going to stop this space. Governments need to make sure that they get their share of taxes and that people aren't hiding.

Q: Where do you stand on the non-fungible tokens (NFT) craze?

A: People think it's a craze because they misunderstand what's going on. By turning something into an NFT, or attaching it to an NFT, does not give it value. The asset needs to have value to start with, and then the NFT allows for its storage, its transfer, its ownership rights and other economic benefits to be transferred. So, it's an incredibly powerful technology that we use for many things, whether it's for communities, for major artists, or sports fans, intellectual property rights, music, digital art, rare assets that need provenance and authenticity. There will be more use cases for NFTs than anybody can get their head around right now. So is there a bit of fun being had with silly pieces of art -- and by that, I mean like small memes that may not mean anything in five years' time trading at $5,000 -- sure. But actually, what this is, is kind of proof of concept going on. The piece of art that the Beeples sold was much more serious. And that was 5,000 pieces of art – all digital, made over 14 years. That's a very different thing. But the point being is NFTs allow anything to have that digital value transfer, and that's mind blowing.

Q: Does this mean NFTs will develop into something much bigger?

A: Much bigger than people can understand and it's not going to be about buying means. Yes, it might be buying skins in computer games, it may be all sorts of things that we don't know now, that are rare assets -- a character from a film, or even a film clip. We have no idea. But it will release value that didn't exist before, in ways that we don't yet understand.

Q: You've spoken about Eurozone banks before and they've seen an extraordinary past 12 months given the European recovery fund. What's your outlook now and what are catalysts/factors that could change your view?

A: I think the European banks are zombies. If I look at the price going back 20-30 years, they've barely bounced. So, it looks like a bounce if you look at it from the March low, but really these are below where they were trading over the last 30 years. So, these are zombies. They're zombie banks -- the same as Japan had for many years. The European banking system is dysfunctional. And it's one of the reasons why the Europeans want to get a central bank digital currency going as fast as possible to bypass the banking system which doesn't work.

Q: Do you see these digital currencies coming out from various central banks? And do you have like a timeframe in mind where you think?

A: Several countries will move faster. Obviously, China has already moved. I think India will be pretty quick into this. Europe is trying to go as fast as it can, it's probably three to five years; the U.S. probably three to five years. But we'll see over three to five years, we'll pretty much see every single major central bank on earth will have digital currency.

Q: Do you think India will move into this space considering the ban on bitcoin?

A: India has UPI (unified payments interface), and it has this whole India stack and Aadhaar system that is actually pretty advanced. People like (Dr. Srinivasan) Balaji (former CTO of Coinbase) and others have been writing articles to the Indian government saying 'listen, you should have a central bank digital currency that completes that equation, and then integrate with a broader digital world and India's technological advantage can actually drive growth significantly.' I think it will happen as well. I think India will figure this out eventually.

Q: Do you see digital currencies from central banks themselves denting cryptos and crypto assets?

A: No, you're creating a world where it's even easier. It's like inventing the car and then the government saying you know what, we'll build roads and lighting and traffic lights. What they're building is the infrastructure around all of this (which) works together seamlessly with everything, from paying taxes by getting paid by your employer; everything. That's what's happening here. So, they're basically facilitating a full shift into a digital world.

Q: What are your most asymmetric trades right now?

A: The whole crypto space is the biggest asymmetric trade any of us have ever had in our entire lifetimes. So, everything else is a far distant second to that. The only other great asymmetric upside and trade I even dare to put on instead of crypto is European carbon. The EU ETS (emissions trading system) carbon system is built like a crypto, which is, it forces the price to go up over time by restricting supply and increasing demand to green up the European industry. It's a phenomenal one-sided asymmetric trade. But it's a distant, distant, distant second to crypto.

Q: A few months ago, you had said bonds are expensive. As pension funds deal with very low yields, what do they do to match their returns?

A: Pension funds are a huge problem. There is no ability to generate yields anymore, and what retirees need, particularly the baby boomers, is yield. So, their only choice is to take more risk. And they've already pushed junk bond yields so low that there's no yields there either. So really, they're going to have to find other ways that and we've seen it, they've gone into the VC (venture capital) space, the private equity space and we will see them in the crypto space too. Anywhere else that they can try and find returns to match those liabilities.

Q: What is your opinion on the Archegos debacle? Do you see any ramifications going forward from this whole collapse?

A: No, and the reason being is nothing happened. Banks took like a $12 billion loss and nothing happened. Nobody got liquidated, the markets didn't get stressed, the Fed didn't have to do anything. So, we kind of cleared out. I don't know what it was 50 or 80 billion positions -- and it didn't do anything. So that's a pretty good sign. I took that as a very bullish sign. Now, banks have lost money, that's their problem. They lent too much money to somebody, and they lost money. That's exactly how it is.

Q: What about things like family funds and even banks to a great extent – the way they expose themselves to something like Archegos – do you see more regulation coming in?

A: I don't think it needed to because it's professional banks, lending their biggest client .... So, I don't see what the issue is. This is the old-fashioned way -- that losing money is the way of learning not to over lend. And they didn't lose so much money that the central bank had to step in and help them out. So, this is perfect. It's your fault. You can take the blame, and you can take the loss.

Q: If investors are to hold stocks, which geographies would you find relatively attractive?

A: If you want to hold equities, then the two key areas are technology companies that exhibit network effects, and emerging markets that benefit from rapid technological change. And, again, the market I've been very bullish on for a long time, for example, is India, because we're seeing a steep change in the digitalization of India. It's got a terrible banking system, all of this and DeFi-ing all of these things is a game changer. When Reliance Jio gave data away for free, it was a game changer for Indians. So that changes productivity for the whole country. That's why I'm bullish on places like India, not just for demographics.

Q: Any final thoughts for us?

A: My only parting thought again, because everybody cares about crypto, is how to do crypto well. It is (to) have a core holding that's not your maximum. And then when you get these weekends where everything sells off 20% for no reason, you can add a bit more. And then when it goes up, you can take a bit of that off. So basically, always be ready to buy more. Buy the dip.