

- Mike:**                00:00:00                All right everyone, here we are. ReSolve is riffing with Fred Pye, the founder of 3iQ, one of the progenitors of transitioning or transforming digital assets into assets that can be traded via traditional accounts right on the tip of the spear when it comes to early adoption in Canada, navigating countless regulatory bodies in order to provide I think what is potentially pretty massive value to traditional investing portfolios and to investors who take an early adoption type of tack to their portfolios. Welcome Fred, how you doing?
- Fred:**                00:00:45                Great Mike. It's great to be here and I'm joining you from sunny Spain today.
- Rodrigo:**            00:00:54                Very nice. He's in a bunker somewhere, who are you hiding from?
- Fred:**                00:00:59                Actually, if you take a look at the book, *Bitcoin Billionaires*, which was written about the Winklevoss brothers, they actually discovered Bitcoin at a club in Ibiza. So I'm in marina not far from there, and on Friday night we're going to go disco dancing in Ibiza and relive the crypto discovery of the...
- Rodrigo:**            00:01:27                So, it's Bitcoin hollow ground, going back to Mecca.
- Fred:**                00:01:33                That's it.
- Mike:**                00:01:35                The veritable Wailing Wall.
- Fred:**                00:01:38                We'll see if between July 1 and July 4 that we've got the Americans, we've got both the Canadians and American crypto people celebrating at the club, we'll see.
- Mike:**                00:01:50                Tell us about your journey a little bit. You've had this dream of sailing the seas. Give us a little bit of where did you start? What do you do? How are you liking it?

### Backgrounder

- Fred:**                00:02:00                Yeah, well, my father is English and both my father and grandfather were in the British Navy. I was very fortunate at a young age, my father in his, you know the Brits, they all get in little boats, and they're all narrow wooden boats, and make you varnish them every year, and do all the hard work. And, I learned the hard way on how to be a good sailor and enjoy sailing and how important it is to pay attention to detail. And sailing is like being a pilot. People have these passions on how to let the wind take you where it is you want to go. And I always had this dream of sailing around the world and there's always 100 reasons to find excuses not to fulfill those dreams. And Mike, I've had my health issues, I've had a bypass, I've had cancer, I've had a stroke.

So it's not necessarily a long time for me to start living this dream. And you know what COVID did Mike, is it really taught us that we can run our businesses and we can work from anywhere in the world right now. I haven't got the blurred screen, I haven't got the fake office behind me. This is my office. As I said, the office moves around a lot. And it was funny because we bought the boat in England and in England when you go there, you have to quarantine for 12 days and they call you every single day to make sure you're quarantining. They say, well, where are you today? We said, Falmouth, and the next day, well, where are you quarantining today? Well, we're in Dartmouth and where are you today? We're in Portsmouth. He said, well, you supposed to be quarantining in the same place. I said, I am, it's a boat. And they said, Oh, I have to talk to my supervisor because they couldn't figure that out.

**Mike:**                    00:03:54                    Yeah. I love it. Having a mobile home is a lovely thing.

**Fred:**                    00:04:01                    It is.

**Mike:**                    00:04:02                    So you're downstairs in the berth of the boat right now as you're connecting with us to talk a little bit about the journey you've had? Take us through that. Go right back to the beginning. When in your mind did you realize that this is going to be potentially an extremely disruptive technology that has the opportunity to change the world, that it may evolve into an asset class for traditional investors? Because I know you like us, we're more of a quant investor in traditional markets for decades. So when did the light go on and how did you make that transition?

**Rodrigo:**                00:04:38                    Before you answer that Fred, can I just ask you to go really back, as I remember reading somewhere about how long you've been in the business and that you have trailblazed a couple of times in the past with unique asset classes. So just start from the very beginning because I think it's a fascinating story.

**Mike:**                    00:04:57                    Start at beginning and tell us everything.

### Being a Trailblazer

**Fred:**                    00:04:58                    Well, I'm going to start in the middle and then go back to the beginning, because I'm going to tell you when Mike and I first met each other, and Rod, you probably do too, because we were all together in Florida at an ETF conference. You had put your ETF with Horizons. Horizons had accepted my multi asset momentum portfolio and that's when we met Cathie Wood for the first time, Chris Bernisky, all the group from ARK, and a great team of people. And I'm sitting there running this multi asset momentum portfolio, and you were explaining to me your theories and your philosophies and I just said, you know what the problem with my model is, is so simple, the correlation

between the asset classes was just ridiculous. Even though we're looking at 16 asset classes, the correlation was ridiculous. So I was always looking as a hedge fund manager, we all are, looking for that perfect non correlated asset class. And that's when I met this guy, Chris Bernisky and Kathy Wood, they said, yeah, we've got \$60 million under management and we own a little bit of Bitcoin in our first ETF. Sixty million, six years ago. There is 60 billion today.

So it was an extraordinary encounter. They're clearly great friends, and good shareholders of our company and everything else like that. But you're right, even if I wanted to buy Bitcoin, the problem is they got a really early exemption to put GBTC into their portfolio. Really early. Nobody ever got that exemption. And so I said, you know what, we can get this done in Canada, get a regulated product done in Canada faster than you're going to get a regulated product done in the United States. And that brings me to the beginning of my career. At 23 years old I was a Forex and precious metal trader. And my mentor, Howard Kelly at Guardian Trust goes, hey, we just finished this gold boom, the gold, platinum, silver boom from late 70s, inflation driven 70s and 80s. And he said, we've got these gold certificates and stockbrokers have no way, investment advisors have no way to buy gold for their clients in their portfolios, none whatsoever. So he says, why don't you see if you can get these certificates listed on the Montreal Stock Exchange so then advisors, if they want to buy gold they just buy a certificate of gold under any denomination.

So we went to the Quebec Securities Commission and the first thing they said is they said, hang on a second. Gold, it's speculative. It has nontraditional custodians, it's volatile, and it's used for criminal purposes. Why would we ever work with that?

- Mike:**                00:07:43                It's a bearer asset, oh my God.
- Fred:**                00:07:47                Yeah. So anyways, in three years the Quebec Securities finally approved us listing gold, silver and platinum on the Montreal Stock Exchange. Then fast forward 34 years later, I go to the OSC in 2015 and go, hey, we'd like to list Bitcoin. They go, hang on a second. Nontraditional custodians. Volatile, speculative and it's used for criminal purposes. I looked at the lawyers and I said, we can win this. And they looked at me as if I was crazy. They said, what do you mean you think you can win this? I said ,I've been there before, trust me. We're right.
- Mike:**                00:08:20                This is a literal goldmine.
- Fred:**                00:08:23                It is.
- Rodrigo:**            00:08:26                You needed that original experience to give you the fortitude to push through.

- Fred:** 00:08:34 It did. And the story at the OSC is both wonderful and tragic, and a pain in the ass for some reasons. As you know we launched our first global crypto asset fund as an exempt market product. And the OSC comes up to us and they say, you have to pull that out as an exempt market product. I said, well, the reason that it's called an exempt market, it's because it's outside the purview of the OS. They say, yeah, your fund is outside the purview of the OSC, but you're not, as an asset manager. I went, ouch, and I go, well, what do you mean? They said, we don't know if Bitcoin as a commodity, a security, or a currency. And I said, I'm pretty sure I'm licensed to manage commodities, currencies and securities.
- Rodrigo:** 00:09:29 Pick your poison, you're good.
- Fred:** 00:09:31 Yeah, I don't care what you call it, it's a horse of a different color. But anyways, and as you know we had the brilliant Shawn Cumby working with us doing our commodity work, as he did with you and he helps with all of that, but it took them a year to give 3iQ the regulated status to be able to manage digital assets. Meanwhile, all the US competitors have launched and are selling their products into Canada. It drove us absolutely bonkers. But anyways, we got all that done and we refiled our preliminary prospectus. But now you've got the 2017 rush, and you're now into crypto winter but by June 2018, we believe we're really good to go. John Mountain, the wonderful man at the OSC who we've known, and a good friend, is about to put pen to paper and say, we're good to go on this. And then he gets pancreatic cancer, and in a three-week period he dies, he passes away, which was tragic and very sad obviously for him, for us, for everybody. But we went back to the new people and they said, you know what? We're not sure we have the authority to make this big decision because it kept getting rejected in the US.
- So what we know is, if they reject a fund, if you request it, they have to document the reasons for their rejection. We read the reasons for their rejection and we said we can win this. And sure enough, a year and a few million dollars later, 10,000 pages of testimony. On October 31, we won the right to have that first major exchange listed regulated Bitcoin Fund in the world, and it is a very special day, and thinking nothing could stop us. Nothing could stop us now. We planned to launch on March 20<sup>th</sup>, 2020. Somehow we forgot to check the box of global pandemic is going to be around the corner, is going to wipe out your order book. So, our order book got wiped out and went to zero. We had 12 million dollars of Bitcoin. we seeded it with another fund and then sure enough within 12 months we were just shy of \$4 billion.
- Rodrigo:** 00:12:08 Isn't that's crazy?

**Fred:** 00:12:10

What a story.

**Mike:** 00:12:11

What an amazing story of innovation and persistence, to come to a place where you've helped so many people access this truly unique asset class. Now we can argue about its future and I don't want to get into that. But there has been an opportunity for investors to harness a new differentiated asset class that runs in a totally different economic dynamic, in a totally different ecosystem. And we had Eric Balchunas on, chatting about when the Winklevoss twins originally suggested, hey, we should have a Bitcoin ETF, at Bitcoin \$400. So the regulators are charged with making sure products are safe and the opportunity to invest is covered off by all of the fiduciary and regulatory responsibilities. At the same time, if they're too conservative in their viewpoints, they do restrict the opportunity for investors to invest in things that help them achieve their long term financial goals. And I just think it's amazing what you were able to accomplish and as you say, hats off to the OG Shawn Cumby for helping you navigate that, and being part of your team as you went through that. I'm sure there was lots of legal bills and lots of legal staff on that too.

**Fred:** 00:13:34

There was and obviously we had to keep going to the well. Half this company's financed on Bitcoin. Mostly mine. But, the reality is that hard work means we got it right. I do obviously have an opinion on the ETFs in the United States, the 15 of them that are up there. I do believe the Ontario Securities Commission got it right by approving a closed end fund first. I do think they prematurely approved the ETFs for a couple of reasons. And, the ETFs that came out of the gate first suffered some serious underperformance. But a closed-end fund means you buy a billion dollars of Bitcoin and that net asset value tracks the price of Bitcoin perfectly. The minute you open it up, the buying and selling increases internal redemptions on a given day, the leak is massive. It really is extraordinary.

**Mike:** 00:14:40

I definitely want to dig into this with you Fred, because you and I have had several conversations along the way on the advantages of the closed-end fund. How that in such a volatile asset can provide pretty significant advantages to the unit holders. And I think you were able to own a OM product, or take us through, you were able to buy it, but then you had to hold it for the four month seasoning period, and you got a much closer to NAV purchase price, and then as it dipped below the NAV there are things that the company 3iQ can do, and the fund can do in order to enhance the returns to investors. So, can you walk through that with us to really highlight the opportunity that exists in the closed-end world?

### The Advantages of Closed-end Funds

- Fred:** 00:15:31 Yeah, there's a couple of things, and they don't happen fast. And the fact that once we listed our closed end fund, three competitors came out with closed hedge funds and yes, with a lot of marketing prowess and everything else, they attracted a lot of assets. The best day was when they all said they're automatically converting to an ETF. Because I'm sitting there going, they've got it wrong, they really have it wrong. So with a closed end fund, as I said, you buy a pool of Bitcoin and that net asset value tracks the Bitcoin. Now people buying this stock, you're either going to pay if net asset value is 40, they're either paying 40 or they're paying 42 or they're paying 38.
- So they're either paying a premium or paying a discount. With the market mechanisms of a listed security such as this, at a premium, this fund itself can do what's called an *at the market offering*, meaning it can satisfy any demand for that fund at the market. And that 2% profit goes to the current unit holders of the fund. Conversely, when it trades to the two or three or sometimes a 5% discount, the fund can use the normal course issuer bid which everybody's familiar with, to buy back its own shares, and that 5% premium, it's not going to market makers, it's not going to hedge fund traders, is not going to arbitrageurs, it's going to the unit holders of the fund. So the net asset value of the 3iQ closed end fund year to date, has outperformed Bitcoin by 300 basis points after expenses. So you're being paid to carry your Bitcoin in a closed end fund. And in fact, if you're really good, you get to buy it at a 4% discount and outperform Bitcoin. So the choices of a closed end fund versus the ETF doesn't make any sense.
- Mike:** 00:17:35 This is a bit unique to the Canadian structure. Because the grayscale products don't quite have that same opportunity or haven't chosen to...
- Rodrigo:** 00:17:49 The discount seems to be much wider, with this kind of premium, much wider and longer and there doesn't seem to be any equilibrium in that.
- Fred:** 00:17:57 Yeah. So the really important part is, as you know Canadian closed end funds, to be considered a mutual fund, trusts have to have monthly and/or annual redemption features to them. So you can redeem my fund once a year at net asset value, whether you got 100 million or a billion dollars in May, once a year you can pull it out at the net asset value and get Bitcoin for that. Or conversely, once a month you can do it at a 5% discount. So if it trades at a 6% discount, the hedge funds are going to buy it up and lever that trade and take 1% a month levered five to one, to make 50% a year right? That's what they do. That's their job. But they know they can get out once a month even an NAV minus five. Greyscale is permanent capital, you can't get the heck out of it no matter what. Yes, Barry Silver can step up and say I'm going to buy \$50 million of the fund for myself, on 40 billion. Yeah, good luck with that. But it's not

taking out any unitholders. He's buying it up for himself at a 15% discount.

- Mike:**            00:19:12            Just to be clear, I want to make this clear for people who are listening. So you have the hedge funds that are out there, let's say it's trading in Canada, this is a regulatory arbitrage opportunity that exists for the 3iQ closed end products where, okay, it's trading at a 7% discount, hedge funds go in, they buy it up to the five and a half percent discount and then they say, hey, Fred, here's your units back at this 5% discount. He says, sure, I'll buy that from you at 95 cents on the dollar. The other five cents accrues to the unit holders in the fund, it doesn't go anywhere else.
- Fred:**            00:19:53            Exactly.
- Mike:**            00:19:54            And this is why the 300 basis points premium is there. So if you're a patient holder of these assets for the long term, you literally can have your whole management expense ratio and some, paid for in this way. And it also happens when it's trading at a huge premium. They're issuing those shares and selling them at a premium. It costs less, you're buying it at 100 and selling it at 105. And I think it's critical because that loop is not often connected, that those profits accrue to the unit holders who are patient. The ones that are hodding actually have a bit of a carry, trade wind in these, tailwind in these circumstances.
- Rodrigo:**        00:20:44            Bitcoin with a dividend.
- Mike:**            00:20:46            Kind of, and then you've got all the security that goes on, they're holding a bearer asset, like this is not a small feat to hold your own keys. People will often say, *not your keys, not your coin* and I'm like, yeah, there's a whole bunch of laptops in dumps, there's a whole bunch of lost money in that sense too. So personal security with respect to one's bearer assets is a challenge. And we've seen circumstances where that hasn't worked out. But in a traditional sense of this is on your brokerage statement, that the chain of command down to the cold storage for 3iQ is pretty solid.
- Fred:**            00:21:24            Yeah, and it was when we were launching on the NASDAQ in Dubai, the NASDAQ group put together a video with us and one of the parts it said, the simplicity of getting secured, regulated, audited, loss of keys, never. In Canada, people are concerned about loss of keys, because when Quadriga CX went down, 110,000 Canadians lost \$250 million. So it says buying a QBTC is easy as 123 IQ which I thought was a great new tagline for us. Just remember, *Easy as 1,2,3iQ*.
- Mike:**            00:22:09            You heard it here second.

- Rodrigo:** 00:22:11 I would, on that note on the Quadriga guy, I just listened to a podcast I'm looking it up here. *Death in Crypto Land* by the CBC. I think it's, how many episodes here?
- Mike:** 00:22:23 Great podcast.
- Rodrigo:** 00:22:24 Really worth listening to. It's fascinating what happened in that scenario. So certainly security is important.
- Mike:** 00:22:33 My daughter brought that to my attention actually, that particular podcast, but it does highlight how important it is in a frontier asset class to have the opportunity to have honest, good, regulated access points in order to get a frontier asset class into your portfolio. That podcast demonstrates that very clearly because it's really hard.
- Fred:** 00:22:59 We testified on that right? The Ontario Securities Commission, the fifth out of all five reasons. So we won on audit, yes, it's auditable. Yes, our pricing is not manipulated pricing. Yes, its custody is regulated. Yes, we only invest through AML/KYC compliant. There's no money laundering possible. And what we do in the fifth one, the OSC has, it's not in the public interest. And the judge said, even though the public interest law is very broad, meaning they've got a lot of leeway. He said it's not infinite. And we argued that it was definitely in the public interest when 110,000 Canadians lose \$250 million. It's time for the regulators to step up, do their job and regulate. And he agreed and the OSC agreed. And again, this was the OSC challenging us to the...it's a 10,000-page due diligence session. And that's what we say. It was four years and 10,000 pages of testimony and due diligence, so I can take that judgment around the world and there's a little bit of schooling for regulatory overreach which all regulators are terrified of.
- But yeah, of course, 3iQ we're going to discuss this with the SEC, the FCA in London, the Hong Kong authority. We're going to challenge everybody. I want this fund to trade 24 hours a day, six days a week. And a lot of people don't know that the Dubai stock market is open on Sundays. Sunday is actually the beginning of the week and it's the Monday. Their weekend is Friday-Saturday. So you can literally trade this on Sunday. And if you watch all the big market moves in Bitcoin, it always happens Saturday-Sunday morning.
- Rodrigo:** 00:24:57 Yeah, lately especially. So what do you mean? If I go to my Interactive Brokers account I can have that security and trade it on both exchanges if I want to? In the NASDAQ Dubai Exchange?
- Fred:** 00:25:10 You can.

- Rodrigo:** 00:25:11 While keeping that secure. Again, I want to clarify one thing that the regulator said. They presented the case that it's not in the best interest, you presented the case that Canadians are already buying Bitcoin and they're going to find a way to get access to it. And your counter argument was, if they're going to do it anyway, make it safe for them. **That's what got them across the board.**
- Fred:** 00:25:35 100%, and that's it. And the FCA in England, they're very vocal about not wanting to support Bitcoin, their study came up saying 25% of Britons own some kind of cryptocurrency or something rather, 25%. We argue that it was 5% in Canada and that's because that's what the OSC survey said is 5% of Canadians. 5% of Canadians are pretty important.
- Mike:** 00:26:05 It's huge. There's a 110 million Bitcoin Wallets out there in the world. Think about that from the, how many investment accounts are there? There might not even be, there's probably a few more investment accounts than that. But still, that's a huge swath of the population that is very interested and holds some of this frontier asset class. This is not a small thing anymore.
- Fred:** 00:26:30 No, it's not. And let me tell you, when you come to a region like the MENA region and the UAE there was no shortage of getting meetings. Every serious sovereign wealth fund, every serious pension fund, every serious high net worth individual, every serious family office are saying, do we have to start taking a look at this? And I did a TV show, the morning show, *Good Morning Dubai* or whatever it was called, and the breakfast show, and the first thing that guy says, oh, we announced this in April and Bitcoin was at 60,000. and today it's at 30,000. What do you say to the people that bought it at 60 when you said you were launching it, and now it's at 30? I actually said I hope it falls to 30 so we can launch in Dubai at 30 so when it gets back to 60 everybody doubles their money. And we all saw that Mike, we went from 10,000 to 60,000. We've been in this business a long time; a 50% retracement is **absolutely normal. And in fact, if it's 75% retracement, again, we're not going to worry about that.** We've seen that four or five times in Bitcoin, all we know is the supply growth rate of Bitcoin gets cut in half, in two and a half years. And that usually precedes a 10x movement in the price of Bitcoin.
- Mike:** 00:27:57 Full disclosure, I'd better fully disclose that I own a number of the 3iQ products. The five ETFs, the closed-end fund. So it's been a blessing for us to be able to allocate to people we know, like and trust. Shawn Cumby worked for us and went to work for you and we've known you Fred for a long time. So I can tell you that was one of the reasons that I was very comfortable in investing some assets in some of the products as they've come along because I knew the competence of your shop and the people there. And that's something that I think was a little bit serendipitous, but resulted in pretty awesome parts of the portfolio that have done pretty well. So thank you.

- Fred:** 00:28:49 You were very early, both you and Rod were very early. And kudos to you for understanding it, as my diversification includes investments in ReSolve portfolios because what you're accomplishing and the models that you've built is extraordinary. And again, everybody goes, how much do I put in Bitcoin? Like, do I put the whole thing? A guy asked me, one seminar, he goes, should I sell my house and put it into Bitcoin and I go, well, is your house 1% of your portfolio or is it 99% of the portfolio? He goes, I can't answer these questions. The guy on the TV, sorry, he goes, I bought two Bitcoin, one for each of my daughters a week ago. He says, in my first three days I lost the entire monthly paycheck and he says in the next three days I doubled my monthly paycheck. What can I expect from my daughters? Can we expect them to pay for their university and I said, well, I gave my son his allowance in Bitcoin when he was at prep school in the United States, and today he can buy a house? So I said, hopefully for all intents and purposes it works out for you and your daughters. But I wouldn't be betting my kids' education. I wouldn't be betting my house on any asset class. Clearly, diversification is the tool. There's a lot of great things that are out there. But, I think the one thing the three of us all agree on is you got to look for something different, standard 60-40 bond portfolio is not going to cut it in the next decade at all. I just don't see it.
- Rodrigo:** 00:30:50 I always joke that in this globalized economy we need Elon Musk to get us to Mars so that that economy is non correlated to the Earth's economy. So that asset managers can provide some diversification. And we didn't have to do that. I think things like Bitcoin. And also, what we do is we get access to the whole commodity complex, and it's amazing to see how non correlated all those individual commodity buckets are. And even within those buckets you see periods of low correlation within the more similar asset classes. So traditional investing is domestic bonds and equities, and we need to help individuals think outside of that in order to help them maximize the chance of success.
- Mike:** 00:31:34 I think it's even bigger than that. So if we went back three, four years ago, if you mentioned Bitcoin in a conversation with an investor, that was a risk that you took. That they may think you are a bit out there, that maybe this guy's too risk seeking for me or this gal's to risk seeking for me. I think that's flipping and it's flipping to the point where if you are not having the conversation with your clients about this frontier asset class, you are at risk of losing those clients to someone who is. I think we had Shawn on with Tyrone Ross back like six or eight months ago talking about this, and he's since gone and created, what is it, Onramp? Where they're helping advisors have these thoughtful discussions with their clients about how much Bitcoin is it? How can we do financial planning around that for you? Do we have a huge win where now this asset class represents such a large part of your portfolio? You should think about rebalancing in some way, shape or form, or are you okay riding it out. But in

*advice land* whether you're an allocator or an advisor, to ignore this asset class out of hand, I would suggest is grave danger. It is certainly taking up a great deal of the gray matter bandwidth as the asset class expands beyond a trillion in AUM, it becomes an institutional asset class, it is drawing attention from Paul Tudor Jones who said, hey, let's go from 1% to 5%. You've got Michael Saylor at MicroStrategy has a plan for this, all of this catalyzed by COVID and the massive money printing that's going on, and all that's happening. And in Canada and in Dubai now obviously, you have a listed product that is prospectus based, well thought out, and you can own in your portfolio. There isn't really an excuse to be aware and to have a discussion with potential clients as allocators or advisors really.

**Rodrigo:** 00:34:01

Not to mention sovereign nations taking it up now. So you got the first sovereign nation, isn't it El Salvador that has made it legal tender?

**Mike:** 00:34:08

Yeah.

**Rodrigo:** 00:34:10

You also have in the beyond Bitcoin crypto, native blockchain is being used for domestic currency. I think Barbados is using a cryptocurrency for their use.

**Rodrigo:** 00:34:25

This idea of fad investing and whether this is what, zero, I'd love to throw it back to you guys. Have you ever seen anything in our industry that has gotten the attention globally of individuals, institutions, sovereign nations, in the same way that crypto and Bitcoin has, and for it not to have succeeded in getting the network effect mass adoption? I think gold is a good example of something that is like that. I've been in the business for 15 years. So maybe you guys have seen something that got to that level and then crashed and went to zero. Any clue?

### Tulips, Gold and Mass Adoption

**Fred:** 00:35:11

Tulips apparently. But obviously I've spent five-six years educating the masses on what this is. And it boils down to my last iteration of how I explain it. And basically, when we talk about the evolution of the internet it's really simple. TCP IP, Internet Protocol, 7182, SMTP, Simple Mail Transfer Protocol, then voice over internet protocol and HTTP- hypertext transfer protocol. Then it was text messaging protocol, then BitTorrent live streaming protocol. The evolution of the internet is nothing more than a series of protocols. None of those protocols that started in 1971 are zero. Your Internet Protocol doesn't go to zero. So in 2008 when the Secure Value Transfer Protocol, SVTP, secure value transfer protocol was created in 2008, it's not going away, it's not going to zero, the secure value transfer protocol is also known as the *Bitcoin Blockchain*. The Bitcoin Blockchain is nothing more than the powerful secure internet. It's the most powerful secure thing you've ever created in the world. You can

create money, you can create insurance contracts, real estate contracts, automobile licenses, health records, you can create anything securely now on the internet. But you have to pay to put that transaction on the internet, you pay in Bitcoin.

People don't get it yet. I always said, if you owned email in 1982 and it costs you one 10th thousand of a penny to send an email, would it have changed the way the world sends emails? No, at one 10th thousandth of a penny, people are sending 10,000 emails and paying one penny. But how rich are you today if you were collecting that stamp on email? Well, that's all it is to put something on the blockchain, you have to pay one 10th thousandth the value of your transaction in Bitcoin to put it on the Bitcoin Blockchain. So how rich are the guys that are going to be that pioneer all of this? And you know what? Maybe we're 99% wrong. But there's a 1% chance that we're right because we're not 100% wrong. That's a good old Greg Fost...

**Rodrigo:**            00:37:41

That's a 1% allocation?

**Fred:**                00:37:43

Take the 1% allocation because if we right, as you know, we went from a hundred to a thousand, A thousand to 10,000, we're on our way to 100, then we'll go from 100 on our way to a million theoretically potentially, that is not an investment prediction.

**Rodrigo:**            00:38:00

It's called a random walk.

**Mike:**                00:38:03

Not investment advice folks.

**Rodrigo:**            00:38:08

What you just described is a piece of software, is a technology not TCP IP, HTTP and the like. What is Bitcoin that has that isn't already available to us from looking at a software development company, that can give us all those use cases, creating contracts, being able to transact in a decentralized way, just by hiring a software company and creating that for you internally, that has nothing to do with Bitcoin or the blockchain. It doesn't seem to many, for this whole blockchain Bitcoin thing to be anything novel. It's been around for years. So what do you say to that?

### Blockchain vs the Internet

**Fred:**                00:38:52

That's a great question. First of all, obviously, the internet is not secure where the blockchain is secure. There's never been, people get mistaken of software sitting on top of the blockchain, the software gets hacked. It's not the blockchain getting hacked. A fake transaction has never been put on the blockchain. And that's completely secure. But having said that, five years ago Bitcoin was created. Then this thing called Ethereum pops up in Toronto.

Apparently Switzerland's claiming all the rights to Ethereum by the way, and Zuken in Crypto Valley, and so pretty sure the two guys lived in Toronto. But forget about that part. I had five university students five years ago in my basement saying, we need to know what will be the best blockchain out of these? They became like 1000 of them. He said, I need to know what the best one is. And Francis Pouliot said to me, he says it'll always be the next one that's created, because of blockchains are created on open source coding as you know, therefore everybody knows how to make it one step better. So you can make it a little faster, you can make a little deeper, you can always do one different thing.

But in 1986, there's a picture of me in the Montreal Gazette and when we listed gold, silver and platinum, I made the bold prediction that platinum would overtake gold as the store of value because platinum has more industrial resources, it's more scarce and it's mined in different geographical places in the world, more geographical places in the world, the deposits aren't as big.

**Rodrigo:**            00:40:44

Is platinum around the planet more broadly distributed than gold?

**Fred:**              00:40:49

It is and it's more scarce than gold and has greater industrial uses. What I didn't realize at 26 years old was there was already \$6 trillion of gold invested in central banks and wallets and jewelry around the world. That to amass \$6 trillion dollars of any, it's going to be impossible. And Bitcoin at its peak today is 700 billion, but at its peak at 1.4 trillion. Bitcoin when it's 3 trillion, 5 trillion, you're not going to put a \$5 trillion market cap on Polkadot, and you're not going to put it on, and I apologize to the people Polkadot because they're really good people. It's an amazing platform.

**Mike:**              00:41:38

We have to be so careful.

**Fred:**              00:41:42

That definitely wasn't a slight. You've got NEO and everybody goes, the NEO blockchain is great, and I'm going, fine. NEO stands for *new economic order* and it's centralized out of China. How many American businesses are going to put their shit on a blockchain of new economic order centralized in China? That's what I was told and I'm pretty sure that...but there's a lot of great ones, Cardano, NEM, Tezos, Algorand is when we're working with. But yeah, the biggest shift for me in this entire industry was when I realized Bitcoin is not money, and it's not meant to be money, it was originally designed to be a peer to peer payment system. But money is going digital in our lifetime guys, it's going digital US dollar, digital Canadian dollars, digital Japanese yen, euros, moving money around is absolutely horrible around the world, just horrible and expensive and lethargic and your credit cards. I come back to Spain from Dubai, the credit cards are all halted again because, how did you get from

Dubai to Spain? Well, I flew here. Apparently, we can do that. Then Visa cuts everything off now. Whereas my Bitcoin Wallet works anywhere.

So the problem was, in the early days I tried to explain to everybody that Bitcoin was a currency, and I started spending and buying everything in absolute sight. I've got the most expensive t-shirts, running shoes. We were in Dubai. I've got my Bitcoin running shoes on that I paid one bitcoin for when it was like 200 bucks. And for all fairness, I got the running shoes but I got two t-shirts, a sweatshirt and a pair of socks. So for one bitcoin, I said, Dubai's a pretty rich place, the room's full of billionaires, that's a pretty rich place, but I'm pretty sure I've got the most expensive shoes in the room. And everybody started, you know what? Who was there, the famous Mark Mobius was there.

**Rodrigo:**            00:43:47

Really, real estate right?

**Fred:**             00:43:50

Yeah. Franklin Templeton. He was one of my heroes in the 90s. We were actually competing with him at Fidelity Investments. But, he came to our session at the Art Center to hear me explain Bitcoin. So to have Mark Mobius there and they said, you know, when we start trading on the Dubai exchange, the first \$5,000 ticket, I want it to come from you personally. That's what I said, I wanted to say it. So it was good fun.

**Mike:**             00:44:24

Yeah, the rate of adoption has been staggering to go, in 12 years to go to at one point, to more than a trillion-dollar asset class. It's the fastest that's occurred. It has the broadest adoption. There is no other case where it goes to zero Rod. That's coming from Michael Saylor. So I'll credit Michael Saylor.

### Bitcoin and the Sovereigns

**Rodrigo:**        00:44:45

Yeah, I don't know if you can see. By the way, I'm fully on board. I think we need to think about all the possibilities and I think, I'm still a little bit of a skeptic. I think it could go to zero in a very small chance, but there's a lot going for it right now and one of the biggest concerns that is often brought up with regards to Bitcoin is the sovereign nations feeling like it might exacerbate the use for undue purposes. So untoward purposes.

**Mike:**            00:45:27

The US dollar is processing way more transactions in that regard. I have data back to you.

**Rodrigo:**        00:45:33

Sure. By the way, I'm with you, but you're seeing action against, like UK just came out against Binance, in collaboration with Canada and some others. So at which point is this change in the eyes of the sovereign nations? And are we conflating a single exchange, Binance being affected versus the adoption of Bitcoin broadly for the sovereign nations?

**Fred:**                    **00:46:01**                    I'm going to touch on two points because one really cool point, but the first point is, regulation is good for Bitcoin. Bitcoin has nothing to be scared of. It's traceable. It screws up the criminal activity movement, no good for them, you can go to Monero. Monero will tell you how much drug dealing is being done on a daily basis, just by looking at the volumes of these are called *privacy coins*. Sure, privacy coins. If you're really concerned of hiding who you are, you go to Zcash, Stash or Monero or Dogecoin. Whoever wants to do, move that around. But the reality is, think about what happened and this caused like latest correction. China bans Bitcoin every year, and it just keeps going. But this time, not only did they ban it, they made the electric power companies cut off supply to the mining farms. Mining farms are being shipped out of that country by the tons. And then they froze the fiat bank accounts of the Bitcoin, anybody related to Bitcoin mining or Bitcoin companies? That's the reason why Bitcoin was created in the first place. So a government can't seize your bank account. And all of their money is in Bitcoin anyways, you don't sieze our fiat currency account, maybe it's got a few \$100,000 of our cash flow of Yuan and RMBs. But, they moved Bitcoin, they got it out, it doesn't matter. And that's why Bitcoin was created.

So I just thought that they're providing us the best use case ever by trying to ban it. So you can't ban it. And then we did a webinar I guess, last Thursday night, which is a week after the ban. And if you go to *bitnodes.io* you get to see the live map of all the computers around the world that are recording Bitcoin transaction. China's still lighting up like a Christmas tree. It's been banned but it's as I said, still lighting up like a Christmas tree and its cell is active as ever in China.

**Rodrigo:**                    **00:48:21**                    It's unbannable. It's like a cockroach currency, just because of the many use cases, brought adoption, nonphysical nature of it. It'll always exist for one purpose or another and likely end up winning the attrition war. They will eventually push through.

**Fred:**                    **00:48:43**                    But think about all our friends in Lebanon. This is as close to three weeks ago, they end up with a fiat currency crisis, they do a 70% devaluation or whatever the number is, and somebody can fact check this or whatever it is. But the Lebanese community in Montreal is very strong. We have lots of dear friends whose families in Lebanon lost 70% of their entire net worth. And all they would have had to do is have a little bit of Bitcoin and Bitcoin trades at three times the price in Lebanon as it does here in North America, as it does in Argentina, as it does in Venezuela. We want to stay Colombia and Brazil until...

**Rodrigo:**                    **00:49:27**                    Peru just elected a communist president. So you're seeing it in Peru as well, there's Bitcoin ATMs, there's OTC Markets, places you can go and exchange, meet somebody physically, because the banks are still not adopting and are

letting it happen. But that money is being accumulated there and allowing them to launch them.

**Mike:**                    **00:49:48**

Brazil launched an ETF last June, June 23. It's based on futures. Interestingly enough Nubank was the issuer, as Warren Buffett would like to rail against the Bitcoin world, the Berkshire Hathaway entities have invested \$1.2 billion into, 500 million in Nubank and other crypto related businesses that exist in South America. So as much as he rails against Bitcoin, parts of his business are actively involved in building infrastructure and buying businesses, Nubank is a new bank, and it's designed to offer electronic onboarding and on ramping into the crypto world and out of the crypto world. So to me, I look at Bitcoin, you have a critical mass of owners who are also voters, and in the democracy, you're starting to see that movement in the US where Bitcoin actually has representation within government. And I think as these large developed nations contemplate fighting Bitcoin or somehow banning Bitcoin, to me it's incredibly disingenuous when you have 1.7 billion people on the planet who are totally unbanked, have no opportunity to have any kind of financing or transaction, they're transacting in cell phone minutes, and you have the opportunity to provide for them either on first layer of Bitcoin or some subsequent layer with the Lightning Network, to have them have transactable currencies from a cell phone.

And we're quibbling over this in the first world as we've gotta ban it, or it can't be done, all the while, you have the huge swaths of emerging and developing markets that need this. And what's your number one concern when you're running a business in Argentina or Peru? You're an owner and operator of a grocery store? Oh, my returns on my grocery store is 10%. What are the returns on your grocery store in Lebanon right now? Minus 70%. It's not your business that matters in Lebanon, it's getting your currency into a currency that can't be confiscated and it has some sturdiness to it, of value. And so we can say, well, Bitcoin went down by 50% and it's going to go up. But at the same time, ask somebody in Lebanon, how's their currency doing? Peru, you've told the story a number of times Rod with your family, and the devastating effects of hyperinflation and confiscation. Now, often governments don't confiscate because it's against the rules. What they do is they take your US dollars and they give you currency of the day and then they devalue that currency. And they say, well, we didn't take your money, we just said that US dollar was no longer legal tender, you have to use our soles, or pesos or whatever they are. And then they tripled the size of the money supply.

So if you're a business operator in one of these emerging countries that has a history of debasing its currency dramatically, your number one concern is how do I preserve the wealth I have and you have this opportunity to do so and

then you have stable coins on top of that. If this isn't the empowering global process to me, I don't know what it is.

- Rodrigo:**        00:53:29        Yeah, there's some hairs in that approach because of the fact that Bitcoin can go down 70%. Again, it comes down to diversification and being able to diversify your wealth across.
- Mike:**            00:53:42        Let me ask you this. Bitcoin goes down by 70% What are the chances that that recovers versus the Lebanese currency?
- Rodrigo:**        00:53:54        I don't know man; I think what are the chances...
- Mike:**            00:53:57        You can assign the probability and then you can make the...
- Rodrigo:**        00:54:01        Let me let me take that back. Having lived through it, it never comes back. You have to kill it and start a new currency as we've done many times in Brazil, many times in Peru and then try to hold that peg against the US dollar. So the real issue I think is as you are, as a Peruvian historically, used to be any third world nation, your store of value is a US dollar for your purchasing power. The problem now of course is this fear of inflation across all of the sovereign currencies. And if you're in Lebanon, and you have some wealth that you can, if you're lucky enough to have some wealth that you can try to preserve, then diversifying into asset classes beyond the US dollar which is all that anybody wants. I've tried to garner private wealth clients in South America. All they want is short term bonds because all they want is US currency. And where I see the value of diversifying into the crypto space is that ability to possibly offset that if indeed we go through a high inflation environment where there's a currency war across the world, everybody's printing money, and it's just a massive devaluation of currencies and massive appreciation of other assets that many South American people can have access to. So access to a variety of sources that may appreciate in the face of global currency devaluation, I see it as a use case for sure
- .
- Mike:**            00:55:32        We got him Fred, one more down.
- Fred:**            00:55:33        I got myself baby. But it's still fraught with volatility and the like, is just again talking about diversification and not just putting all your money in your dollar. I think another thing that I've seen in South America firsthand is, you just can't go to your bank and ask for a credit card as a small business owner, as a third world small business owner. You need a credit report, you'll get denied. In crypto land you are now able to participate in the fiat world while holding crypto. And these like Visa's, Crypto.com I think has them, I think BlockFi is

going to issue one soon. So the ability to put those two worlds together even for a poor person in South America that has been able to accumulate some wealth in the crypto land, is another positive use case that I see that the traditional banking system just doesn't feel right now. Anyway, there's no question, I'm just making up a statement.

**Fred:** 00:56:33 It's still not easy because Vodafone won't take my CIBC Visa card.

**Mike:** 00:56:44 Really?

**Fred:** 00:56:45 Yeah. They won't take a Canadian Visa card, has to be a British bank Visa card. You gotta be kidding. My kid had to go onto the internet and buy some tokens of some sort to sign up there anyways.

**Rodrigo:** 00:57:01 Maybe PayPal? I don't know.

**Mike:** 00:57:04 So Fred, what else do you see going on. So you've launched the closed end funds, you've launched the ETFs as well in Canada with Bitcoin and Ethereum being the largest point, you've got the multi asset fund that is an exempt product which has a little bit of Litecoin in it. Can you talk about any developments that you've got going on? Are they all hush hush, I'm not sure how much you can share that are evolving in your mind right now? Because you're certainly on the thin edge of the knife.

### The Thin Edge of the Knife

**Fred:** 00:57:40 Yeah. I'm happy to say we don't have anything filed right now. But obviously, we're interested in broadening out the spectrum. The other blockchain, it's starting to become clear who the next top 10 are going to be, whether it's as I said, the Algorands, the Tezos, the Polkadot's, the Cardano's of the world, these are starting to develop use cases that are very interesting and the NFT world has brought a lot of that in. So expect that global crypto asset fund to be broadened and be more of an institutional product, very low Fiat institutionally, it's like point 7%. And get management, we do have to maintain passiveness because they're looked on as commodities and if you actively trade turns it into income as opposed to capital gain, if it's passive, so we're very sensitive on that.

Having said that, the digital yield space, the Defi and connect space is huge. We've had to go through very complicated issues. For example, if Ontario Teachers' Pension Plan lends USDC to Zach Prince at Blockfi, it's between the Ontario Teachers' Pension Plan and Blockfi. Blockfi defaults, then the Teachers' Pension Plan does that. When you put a fund in the middle of that, the pension plan comes to you for money. So we're trying to navigate around the room...

**Mike:** 00:59:27 Maybe just step back a minute and talk a little bit about the yield space itself, just so people have some context, I'm not sure everyone is going to really understand what you mean by that.

**Rodrigo:** 00:59:37 A lot of people still don't know what DeFi stands for even.

### DeFi in the Mix

**Fred:** 00:59:40 Well, decentralized finance means that you're taking...and the biggest thing about decentralized finance is obviously stable coins. The reason why Ether is where it is today is because to create a digital Canadian currency or digital US currency, you have to put it in a smart contract that sits on an ERC 20 token on the Ethereum blockchain. So, people may not necessarily understand it. But 3iQ owns a company called Canada Stable Corp that does have digital Canadian dollars. We do have all those sorts of things. So there's people that want to borrow those digital currencies whether it's Canadian dollars, US dollars, and they're willing to pay you 4, 5, 6, 7 percent to borrow your digital currencies so they can do transactions with them and then you can do that as well. So, there are a lot of funds, there is a lot of ITOs, and for disclosure I'm part of *tokens.com*. I sit on the board of *tokens.com* and I'm a shareholder. So we do a lot of lending and staking and different things. So it's a way to take these digital markets and these digital currencies, make them mainstream and create yields. But nobody has a risk model of a digital asset bank yet. So, we're really starting at square one on trying to determine what are our risk tolerances, whether it's tolerances or our customers, but yeah, we have an early access product that's turning into and will become an OM DeFi fund and I know people would be very interested. They're very interested in these sorts of things in the Middle East where they like to do those sorts of things.

Second though, the main stuff we're going to be doing is bringing the Bitcoin Fund and the Ether Fund around the world. As I said, our big challenge is, I won't be ready to leave this until my Bitcoin Fund's listed in New York, London and Hong Kong. And when I've got this thing trading 24 hours a day, hopefully Bitcoin's at 400,000, we got 40 billion. I can afford to take some retirement before I expire. But we're not going to try and be everything to everybody. What we're going to try and do is focus on what we do best which is creating these products and bringing them out.

**Rodrigo:** 01:02:20 So on that being everything to everybody, I always find it curious that you have been both a champion of the Bitcoin community and for many maximalists an enemy, because of the fact that you go against the ethos of not your Bitcoin, not your money or whatever.

**Mike:** 01:02:40 Not your keys, not your coins.

- Rodrigo:**        **01:02:41**        Not your keys, not your coins. And what you're saying is that that's risky, we're going to provide this service and its part of mainstream. How do you feel about that divide?
- Fred:**        **01:02:55**        Well, (a) I love the Bitcoin maximalists and they're all, most of them very dear friends of mine. And, I'm considered one, but I have embraced Ethereum and I do embrace other blockchains, but those are in professional capacity in terms of we're providing what the market wants and what they need, because the line that drives me the most batty out of every line. Oh, I like blockchain but I don't like Bitcoin.
- Rodrigo:**        **01:03:27**        God, that's when you know you're starting with a newbie.
- Fred:**        **01:03:31**        I can't even start that conversation again because you're right. With Lightning and Liquid, whatever, Ethereum or anybody can do, a Bitcoin maximalist can claim they can do a better. I think it's easier and on potentially other blockchains but the reality is 90% of the world's wealth is controlled by investment advisors, and investment advisor isn't going to open up 600 wallets at Quadriga here for 600 clients, because that guy has already not only lost his job, lost all his clients' money, he's gone to jail and he's paying some massive amounts of fine. So he wants to put that into a Canadian trust that sits in the guy's TFSA and minds its own business. It's not one or the other. Of course, I have my own wallet, I have my own Bitcoin, I have my keys, and I'm pretty sure I'm going to forget what the password is at some point in time. I remember I used to take off my phone, I was terrified to go into the US with over \$10,000 of Bitcoin in my phone, because I was convinced the one guy is going to stop me because I'm wearing a Bitcoin touque,. He's going to say, hey let me see your Wallet. You haven't declared your \$11,000 of Bitcoin and we'll steal it. So I always used to dump out my Bitcoin Wallet into my ledger before I would cross the border. Anyways, I've given up on doing that all the time now, but I'm not spending any more Bitcoin. **That's the dumbest thing I ever did.**
- Mike:**        **01:04:59**        You can spend but you just got to replace it.
- Rodrigo:**        **01:05:04**        Is it more of like the maximalists would never buy a fund but they recognize the value of democratizing that and they're always going to stay in that...
- Fred:**        **01:05:17**        I can tell you every maximalist I know has maxed out their TFSA or RSP.
- Rodrigo:**        **01:05:25**        This is what's fascinating, right? I remember when I started in the business and people would have a couple \$100,000 in savings, I dealt with white collar professionals and they're like, I don't care about my portfolio, do whatever you want. Nobody really cares about security, diversification, future growth until they reach a certain level of wealth. It's 250,000 or 500,000. At that point, they

become as paranoid as it gets. And I feel like the more conversations I have with bitcoiners that have all of a sudden, they're looking at their portfolio and saying, Oh, my God, I have all of this and 12 words, a single wallet, so I got to diversify my custody of this thing. So all the not giving your money away to anybody that's not you, goes away. You really become paranoid enough, where you're building moats around all of that wealth, and I've seen them go into main street, I've seen them look for custody solutions that are better than their own. So it's that maximum risk, on your own, until it isn't, until it's so much that you're like, I might as well diversify.

- Fred:**                    **01:06:33**                    Well, they might move to Puerto Rico and so you don't have to pay any taxes. It's frightening the wealth shift, the wealth that was created in Bitcoin, in dollars or 700 billion. It's split amongst a very unique group of individuals. And yeah, they're very sensitive. Now they're turning very private. They've gone from very public, you don't see them on Twitter anymore, you don't see a lot of bragging going on, you don't see pictures of the yachts. This cyber terrorism, I get so mad at Bell Canada, because we're coming up to a long weekend. I can almost guarantee you I'm going to get some spam 20 times on the long weekend on my original phone, because whenever you get to a long weekend, these hackers who know my cell number, they start to call and Bell Canada texts me. We'd like you to confirm that you're changing your SIM card to another phone. And I'm going no, you're not allowed to even entertain this, there should be a big red flag that pops up on your screen and says this guy is not trying to, and it happened like 20 times. Certainly after the 21st time some guy goes yes, offer a SIM card and you notice two o'clock in the morning your phone's gone dead and you go, it happened again. So yeah, I've got my regular phone, my super-secret hooker phone, that nobody knows the number.
- Rodrigo:**                    **01:08:11**                    Nobody owns all, very few people own all their gold bars in their own safe. You go from owning your little bit of gold bars in your own safe to some bars, to Scotia, to some GLD, ETF if you want the asset class exposure. That's the way it's gone from when, it comes to custody.
- Fred:**                    **01:08:32**                    I see people doing due diligence for the protocols that we use with Gemini for Oracle Storage. They say, if I told you the protocol for security it wouldn't be secure. So no, I will not tell you, whether it's my dental records. Anyways, it's really been an exciting ride. I've enjoyed being on it and I appreciate the fact that you guys joined us earlier and supported us. And, I know Rod and Mike our relationship will continue for years to come and I hope when we get to the Caribbean, you can come and visit us.
- Mike:**                    **01:09:14**                    Absolutely.
- Rodrigo:**                    **01:09:14**                    Fred, you missed the memo.

- Fred:**                **01:09:16**                I'm going to take a right turn until I get to Cayman.
- Rodrigo:**            **01:09:21**                Fred, you missed the memo though, when you make it in Bitcoin you're supposed to buy Ferrari not a boat. What's wrong with you?
- Fred:**                **01:09:28**                Yeah, well, I don't have any of those kind of fancy things. But to end on the last funny story, the three most expensive things I bought in my life, my house, my boat, and dinner for a bunch of Bitcoiners. In Italy, when Bitcoin was \$200 that I was showing them, I can buy dinner for like seven Bitcoiners, so third most expensive thing. ... my daughter's wedding was more expensive than any present I could ever get my way. It's the most expensive thing in my life. So anyways...
- Rodrigo:**            **01:10:10**                Yeah man. Keep that in your pocket. It's not currency, store wealth.
- Fred:**                **01:10:17**                It is a store of wealth. Don't spend your Bitcoin. Just buy my phone and huddle.
- Mike:**                **01:10:21**                There you go. Good plug.
- Rodrigo:**            **01:10:23**                Not investment advice.
- Mike:**                **01:10:24**                Yeah, it's fine. I don't know. You could probably say. Fred, thank you so much. Been too long and we'll have you back again for sure. Maybe when we're in the Caribbean, we'll do a call from there when we can all gather physically. But I want to thank you for your contributions today and your contributions over the last three to five years in bringing this asset class to so many people and bring them the opportunity to participate. So thank you for that.
- Fred:**                **01:10:57**                Great, thank you for having me. Again, Mike and Rod it was great to see you both.