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trading strategies that funds use to make money





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A man wears a Bitcoin logo t-shirt on the floor of the Consensus 2018 blockchain technology conference in New York City, New York, U.S., May 16, 2018. REUTERS/Mike Segar

- Crypto hedge funds have exploded in popularity over the last year, with over 250 globally.
- Capital Fund Law Group has advised 30 that have been set up.
- Capital's founder John Lore tells Business Insider

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about the four main strategies he's seen funds employing, why most funds are under \$150 million in assets, who is investing in the funds, and why he thinks the boom is over.

LONDON — Cryptocurrency hedge funds favour four main strategies and we are unlikely to see many above \$150 million in assets, according to a leading industry lawyer.

Cryptocurrency focused hedge funds exploded in number last year as bitcoin rallied almost 1,000% against the dollar. Consultancy Autonomous Next estimates that there are over 250 crypto hedge funds globally.

Lawyer John Lore recently spoke to Business Insider about the trends within the subsector. Lore founded Capital Fund Law Group in New York in 2010. The firm specialises in advising hedge funds and asset managers but has advised around 30 cryptocurrency hedge funds over the last two years.

'Fund managers can employ tactics that would be more difficult in a more crowded space'

Lore said crypto hedge funds generally fall into three buckets: index funds, quant funds, fundamental strategies, which are more long-term, and mining funds.

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Index funds are declining in popularity as access to the new asset class gets easier, Lore said. The most popular strategy out of the four is quant, where funds rely on algorithmically programmed trading strategies.

"Those have been particularly popular because of the general tech aspect of cryptocurrency, it tends to draw that crowd," Lore said of quant strategies.

"Also there's so little competition, so fund managers can employ tactics that would be more difficult to do in a more crowded space — things like trading on news APIs and other momentum factors. In stocks or bonds, the market responds a lot quicker because there's a lot more infrastructure built around information flow."

Lore said the majority of funds are very small — between \$5 million and \$15 million. He added that he doesn't expect to see many funds above \$150 million in assets emerge in the US for a while. This level is a regulatory threshold in many states.

"Currently a combination of market solutions and regulation revisions are going to be needed to allow larger funds that meet the SEC's investment advisors act," Lore said. "Right now, under \$150 million, certain funds are exempt from registration so that's where we see most funds operating."

'Over time there'll be fewer players'

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Lore, who was visiting London for an event, said the majority of his crypto clients are based in the US, clustered around New York and California. Capital Fund Law Group has also advised funds in places such as Singapore and Dubai.

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While the group has advised a large number of funds, Lore said he has turned away many more potential clients because they are not ready for fund management.

"The concern is that a lot of these crypto managers have had very high levels of success in a short amount of time, which doesn't necessarily translate into being able to raise capital and operate a fund. We look for a team that has 3-5 managers with a mix of finance experience as well as fund operation and certainly capital raising expertise."

Capital Fund Law Group has developed a programme to try and help develop potential crypto hedge fund managers who don't quite yet meet the mark. Lore estimates he's referred around 100 people to this.

Lore said the majority of investors in these new crypto hedge funds are high net worth individuals and, in some limited cases, family offices.

While Lore has seen a surge of inbound activity over the last year, he doesn't expect the same level of new crypto business as he moves forward.

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"Starting in February, each month thereafter we've had a record number of inquiries and we believe it is because of the current regulatory uncertainty and the pricing that has created," he said.

"But we anticipate that, just like any other asset class, over time there'll be fewer players, more consistent returns, and that we don't anticipate ourselves being a cryptocurrency fund focused law firm forever. We still represent a lot of traditional hedge funds and private equity funds."

Get the latest Bitcoin price here.>>

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