

MARKETS

Peter Thiel's Founders Fund Makes Monster Bet on Bitcoin

Few mainstream investors have bought large sums of bitcoin, scared off by concerns about cybersecurity and liquidity



Peter Thiel exits an elevator after a meeting at Trump Tower in New York. PHOTO: EDUARDO MUNOZ/REUTERS

By Rob Copeland

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One of the biggest names in Silicon Valley is placing a moonshot bet on bitcoin.

Founders Fund, the venture-capital firm co-founded by Peter Thiel, has amassed hundreds of millions of dollars of the volatile cryptocurrency, people familiar with the matter said. The bet has been spread across several of the firm's most recent funds, the people said, including one that began investing in mid-2017 and made bitcoin one of its first investments.

Founders and Mr. Thiel, 50 years old, are well-known for early investments in companies like Facebook Inc. that sometimes take years to come to fruition. The bitcoin bet is quickly showing promise. Founders bought around \$15 million to \$20 million in bitcoin, and it has told investors the firm's haul is now worth hundreds of millions of dollars after the digital currency's ripping rise in the past year.

It isn't clear if Founders has sold any of its holdings yet. The bet hasn't been previously reported.

Bitcoin vaulted last year from a fringe area of Wall Street interest to the most talked-about asset in the financial world. The currency, essentially a digital form of money with no government or central bank behind it, started 2017 trading around \$1,000, then shot to near \$20,000 as individual and institutional investors alike ramped up speculating on its rise. From its all-time high reached in mid-December, the price chopped almost in half over the rest of the month.

Prices as of late Tuesday afternoon were up 10% to \$14,783, after ending 2017 at about \$14,000, according to research site CoinDesk. Bitcoin spiked after The Wall Street Journal reported Founders' investment.

Relatively few mainstream investors have bought large sums of bitcoin, scared off by concerns about cybersecurity and liquidity, as well as more mundane fears of investment losses. JPMorgan Chase & Co. Chief Executive James Dimon famously called the digital currency a "fraud," while Bridgewater Associates founder Raymond Dalio said it was a bubble. Even some of those who do own it are cautious about speaking too publicly, lest they draw the attention of hackers.

The late-year price plunge has also spooked some. On Dec. 22, the prominent investor Michael Novogratz said he was delaying launching a crypto-focused hedge fund for outside investors, stating "we didn't like market conditions for new investors." South Korea announced last week it would crack down on cryptocurrency trading, an ominous sign given that the country at one point accounted for as much as one-fourth of global bitcoin trading activity.

Founders began buying in for its investors before the recent volatility, the people familiar with the matter said.

The billionaire Mr. Thiel is an outspoken libertarian who co-founded digital payments service PayPal Holdings Inc. and made headlines as a prominent booster of President Donald Trump. He serves on the president's technology advisory council. Mr. Thiel previously ran a multibillion-dollar hedge fund focused on global macroeconomic trends, and had some success navigating the financial crisis before racking up investment losses by investing in havens and missing out on the subsequent rebound.

As a venture capitalist, Mr. Thiel and Founders fund are among the most successful in Silicon Valley. Founders has more than \$3 billion under management and has taken stakes in more-than 100 companies, including Facebook, Airbnb Inc., SpaceX and Lyft. More recent investments include the crypto-focused hedge funds Metastable Capital and Polychain Capital, which puts money into blockchain companies.

Mr. Thiel made the decision to buy up bitcoin together with Founders' other investment partners, a person familiar with the matter said.

In an October onstage interview at an investment conference in Saudi Arabia, Mr. Thiel described cryptocurrencies as "charismatic."

"While I'm skeptical of most of them, I do think people are a little bit underestimating bitcoin, specifically, because it is like a reserve form of money," Mr. Thiel said. "If bitcoin ends up being the cyber equivalent of gold, it has great potential."

By buying bitcoin outright, as opposed to backing other companies doing business in the space, Founders would seem to be breaking with its investing tradition, an investor said. But in communications with investors, Founders representatives have sought to cast the investment as a high-risk, high-reward wager similar to its other venture bets, the people familiar with the matter said.

The representatives have told firm backers that a cascade of cash into technology companies has stretched their valuations to historic highs, making stakes in startups as dangerous a risk as ever. Bitcoin, on the other hand, could multiply several times over in the coming years.

Thanks to its rise, the bitcoin investment is already estimated as the most valuable in the Founders' most recent, \$1.3 billion venture fund. People close to the firm said that the fund hasn't made many investments yet.

Founders has also warned investors that bitcoin does share one potentially perilous similarity with more traditional venture capital investments: The digital currency could be worth nothing, or close to it, in the end.

Corrections & Amplifications

Bitcoin reached its all-time high in mid-December. An earlier version of this article incorrectly stated that it reached the level in November.

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