These bonds enable the companies to gain bitcoin exposure without being penalized for holding additional capital due to the regulators' perception of bitcoin vs. otherwise innocent-looking convertible bonds. These bonds offer zero yield, so the incentive isn't necessarily clear why even a B- bond would lower one's capital requirements. The "yield" comes in the form of a higher expected return due to the option to convert the bonds into MSTR shares that, while diluted by the conversion, are expected to be more valuable due to the appreciation of their bitcoin treasury. An actuary might assume bitcoin's price increases by 30% a year for his own purposes, but for signing off on an insurer's capital, there are no guidelines on what to do, so they would likely treat it like equity, and not consider it at all. The return ultimately gets abstracted through the accretive increase in value of MSTR's earnings.

While it might make sense why laggard companies would subscribe to this debt, the reality is that they'd be better off buying bitcoin. In the absence of being able to buy bitcoin, they would be better off buying the bitcoin ETF. For bitcoin exposure, the MSTR bond is a Rube-Goldberg machine compared to actual bitcoin or the ETF. I will argue that they don't understand at all what they are buying. There is no default data on the type of bond MSTR is selling. Insurance companies are making severe compromises to take advantage of under-specified capital regulations in order to earn a higher yield that lowers their overall capital requirements. This might not sound like a bad thing but anybody who lived through 2008 should raise an eyebrow. Insurance companies were the primary buyers of the now infamous Mortgage Backed Securities (MBS) that were AAA rated despite holding far lower quality paper that lost approximately $3 trillion in writedowns after the risk was all ultimately discovered. However, far more important than the size of that loss was the fact that the MBS problem was the trigger for the overall crisis that was estimated to have destroyed $15-$20 trillion of wealth globally.

It is clear to me that Strategy's solution for individuals was a gateway to wealth creation for the company and those who adopted a similar strategy for themselves. Now that they're in the next phase of accumulation, I worry that their newest solution is more of a pathway to financial destruction, even if they are an overall good actor. Bitcoin is for individuals, though everyone gets to play however they wish. Bitcoin doesn't discriminate.