and fall with the performance of Pelosi. If the account value drops by 10% to $900k, then I have to pay a claim of $100k to the customer. The way I would manage the risk of this guarantee is to find a derivative or an ETF that can most closely drop by 10% when the Pelosi fund does. A Pelosi ETF containing the 499 stocks would be terrific, but it doesn't exist, so the next best thing would be the SPX. I would buy a replicating put option on the SPX with $1m of notional, and if that index drops by 10%, it would pay me the $100k to perfectly pay the claim. Everything here is great except for one small problem. I would now own a naked put on a stock that I previously never thought about, except that it came included in my hedge, and it would happen to be one of the best-performing stocks of the modern era. This should raise massive red flags with risk managers, but you would be surprised by the extent to which it doesn't. The incompetent risk manager sees a hedge that is 100% correlated with the risk and doesn't care where it comes from. It's not just statistical correlation; it's a powerful connection to be anchored to 499 of the 500 stocks in your fund. Of course, there is that one stock. I showed in the NDX example how destructive it can be to carry a single naked short, even if it is as low as 0.5% of your index. Nvidia is over 5% of the SPX, so it's clear the potential for damage here. So, what is the company to do if it wants to sell guarantees on Pelosi?

In the absence of a Pelosi ETF, the company can sell back the Nvidia option and claim the premium. This could amount to a surprising amount of money. Nobody is doing this in TradFi because they can't comprehend how they can make money while also removing unwanted risk at the same time. They either can't conceive or admit to their boards that they have been spending substantial sums of money hedging stocks they not only didn't need to, but also likely hurt their performance quite badly.

If you aren't fortunate enough to work on one of these desks, the opportunity then exists to create the product that will prevent the problem to begin with. In our case, we will construct an ETF that contains not the NDX100 but the NDX99. We can call it an enhanced NDX100 because we will sell off the put options on MSTR, which will carry juicy premiums for a long time to come. If I were BlackRock or Invesco, I would be rushing to develop this ETF. I could charge more for it, I could offer back a portion of the MSTR option premiums back to the fund, or I could just pocket them and stay focused on the buy-side funds I mentioned earlier. Generating premiums to remove risk is the future of finance. More and more names in these big indices will become bitcoin proxies, including the proliferation of the buy-side enhanced funds and ETFs mentioned earlier in this section.

11

Treasury / Balance Sheet – Having Optionality

We have covered the story of Strategy solving their existential problem of how to protect their cash savings from government debasement by money printing. That problem was so relatable that many individuals adopted that strategy for themselves to great success. So many people have started their own bitcoin treasuries, but very few companies have followed suit with MSTR, despite how successful it was. For the most part, only bitcoin mining companies (e.g., RIOT, MARA) are holding bitcoin in their treasury, and this is primarily because they mine bitcoin. However, most mining companies eventually sell off their treasury either to pay their employees or to pay off debt.

One of the large barriers for companies was that until 2024, FASB had no guidance for how to account for bitcoin. Intuitively, one would track the mark-to-market value but without explicit guidance to do so, accountants interpreted the existing guidance as more of a goodwill treatment, where the value of the bitcoin treasury is held constant and written down when there's a drawdown, but never written back