

Capital Markets & Investments

Sessions 11: Portfolio Choice (2) – Portfolio Optimization

**Spring 2025
Professor Simon Oh**

A Rather Eventful Weekend

1. Trump may exclude government spending from GDP.
2. Trump imposes 25% tariff on Canada and Mexico.
3. **Trump calls for creation of a "crypto strategic reserve."**



A U.S. Crypto Reserve



Donald J. Trump ✓

@realDonaldTrump

And, obviously, BTC and ETH, as other valuable Cryptocurrencies, will be the heart of the Reserve. I also love Bitcoin and Ethereum!



Donald J. Trump ✓

@realDonaldTrump · 2d

A U.S. Crypto Reserve will elevate this critical industry after years of corrupt attacks by the Biden Administration, which is why my Executive Order on Digital Assets directed the Presidential Working Group to move forward on a Crypto Strategic Reserve that includes XRP, SOL, and ADA. I will make sure the U.S. is the Crypto Capital of the World. We are MAKING AMERICA GREAT AGAIN!

The US economy would benefit substantially by borrowing money to form a strategic crypto asset reserve fund.

0

Strongly Agree

Agree

Uncertain

Disagree

Strongly Disagree

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The US economy would benefit substantially by borrowing money to form a strategic crypto asset reserve fund.

0

Strongly Agree

0

Agree

0

Uncertain

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Disagree

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Strongly Disagree

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The US economy would benefit substantially by borrowing money to form a strategic crypto asset reserve fund.

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Uncertain

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Disagree

0

Strongly Disagree

0

What is the goal of a reserve?

- **Goal:** Stabilize supply and act as a backstop in crises
 - Strategic Petroleum Reserve (SPR) – in underground TX and LA
 - Federal Reserve Gold Reserves – at Fort Knox and NY Fed
 - Strategic National Stockpile (SNS) – vaccines, ventilators, etc
 - Defense National Stockpile – rare earth, titanium, cobalt
 - Helium Stockpile – in Amarillo, Texas (sold in June 2024)
- In general, the goal is to provide economic stability.
 - Reduce, not increase, risk in the economy

Some Practical Considerations

- **Which assets?**
 - Assets with clear economic or strategic value that can be reliably used in an emergency
 - Oil, Gold, Medical supplies have a good store of value
 - Fed holds U.S. treasuries (essentially risk-free, deeply liquid)
- **How do we finance it?**
 - Usually funded through tax revenue, debt issuance, or surpluses

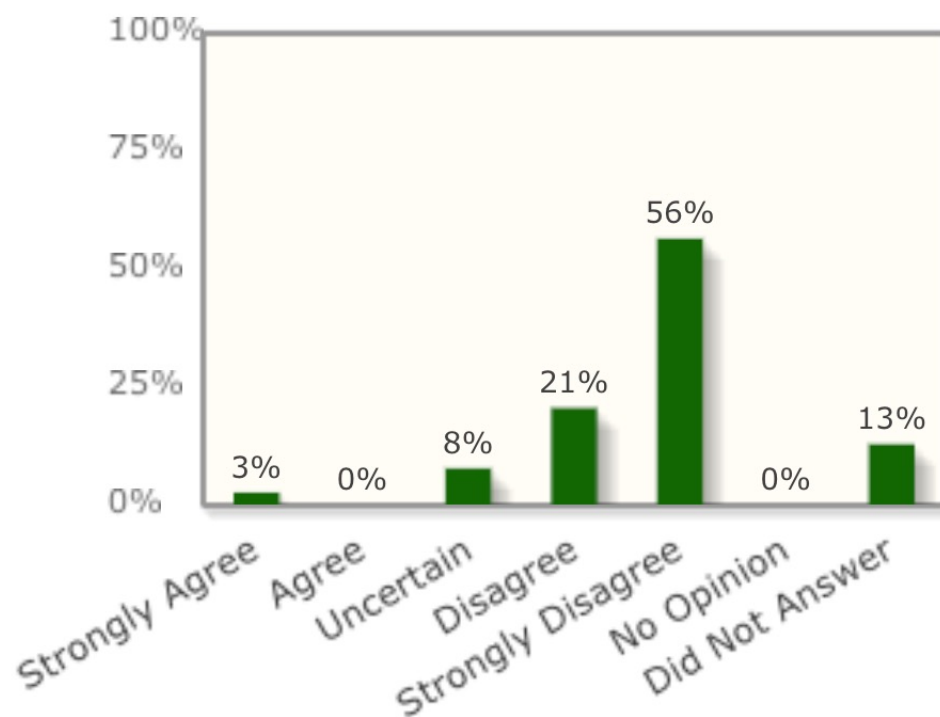
Crypto Strategic Reserve?

- Diversification of Reserve Assets
- Hedge Against U.S. Dollar Instability
- Strategic Geopolitical Leverage
- Parallel financial system for emergency funding
- Extreme Volatility and Lack of Stability
- No intrinsic or economic value
- Opportunity cost (can we do something better with taxpayer money?)

Survey of Financial Economists

CHICAGO BOOTH 

Kent A. Clark Center
for Global Markets



Survey of Financial Economists



Darrell Duffie

Stanford



Strongly Disagree



10

Bio/Vote

History

Adding to the national debt is costly. I don't see a sufficiently offsetting benefit to stockpiling crypto assets, which have limited strategic or real-economy applications.



Andrew Lo

MIT Sloan



Strongly Disagree



10

Bio/Vote

History

This can't possibly be a serious question.

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Matteo
Maggiori

Stanford GSB



Strongly Disagree



10

Bio/Vote
History

This would strike me as one of the worst policy ideas ever.



Jonathan
Parker

MIT Sloan



Strongly Disagree



10

Bio/Vote
History

The United States has a debt of over 100% of GDP. If it has extra money to invest, it should buy Treasury debt and reduce our national debt, not invest is a non-interest bearing, costly to transfer, public ledger entries.

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Stefan Nagel

Chicago Booth



Strongly Disagree



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Bio/Vote

History

There is no reason why economic benefits should be generated if the government were to, effectively, run a crypto hedge fund



Stijn Van

Nieuwerburgh

Columbia Business School



Strongly Disagree



6

Bio/Vote

History

Sprin

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John Cochrane

Hoover Institution Stanford



Strongly Agree

10

Again, pretty vague. If US borrows to invest in a treasury backed dollar stablecoin, what's the point? Borrowing more to "invest" in bitcoin is about the worst idea I've heard. And it will end up in Trump coin or similar. Supply of unbacked money is elastic.

NOTE: Respondent meant to answer "Strongly Disagree" to this question.

Bio/Vote

History