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INSIDE DIGITAL ASSETS
with RIC EDELMAN

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BITCOIN BACKWARDATION. WAIT, WHAT?

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When bitcoin's price crashed last spring from $58,000 to $30,000, the prices for bitcoin futures contracts fell to a discount versus bitcoin's price.

This phenomenon, called "backwardation," is happening again. On December 13th, the front month bitcoin futures contract slipped to an annualized discount of nearly 14%, the steepest in 18 months. That means you could buy a contract giving you the right to buy bitcoin for 14% less than you'd pay by buying bitcoin directly from an exchange.

Backwardation is the opposite of "contango" – when a futures contract would require you to pay more than the current market price of the underlying asset. Futures contracts are derivatives; a buyer and seller agree to trade an asset for a certain price at a predetermined date in the future.

What it means for investors

The SEC approved the first bitcoin futures ETF In October. There are now four: **Global X Blockchain & Bitcoin Strategy ETF** (BITS); **ProShares Bitcoin Strategy ETF** (BITO); **Valkyrie Bitcoin Strategy ETF** (BTF); and **VanEck Bitcoin Strategy ETF** (XBTF). These ETFs do not own bitcoin; instead, they trade futures contracts in an attempt to match bitcoin's price movements. If the market is in backwardation when their futures contract expires, the funds enjoy a profit.

Is a crypto winter on the horizon?

Backwardation generally reflects bearish sentiment. If bitcoin's price continues to decline, it could represent a buying opportunity for long-term investors.