Bitcoin or Gold for a Diversifier? Tales of Pre- and During the COVID-19 Crisis

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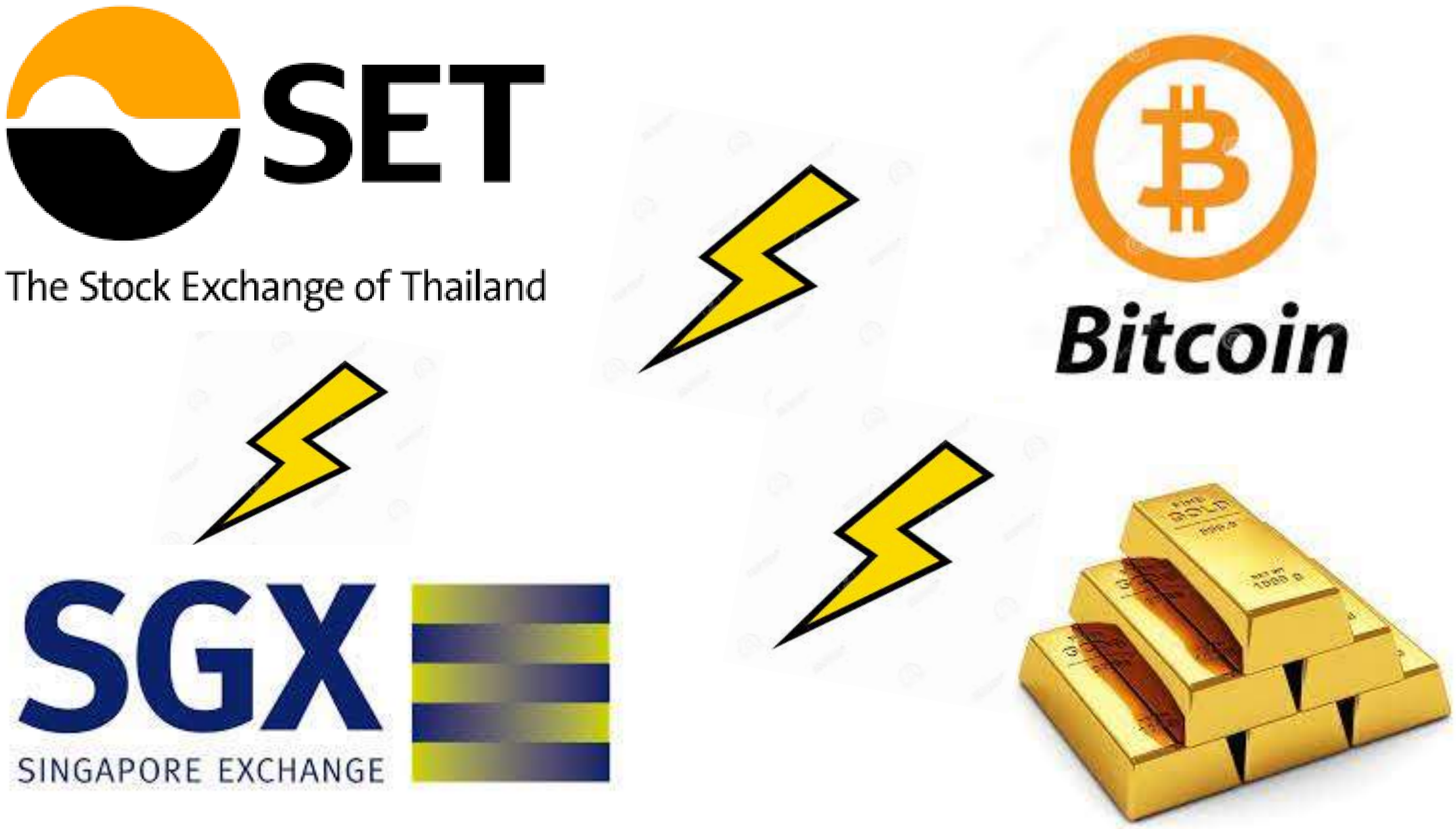
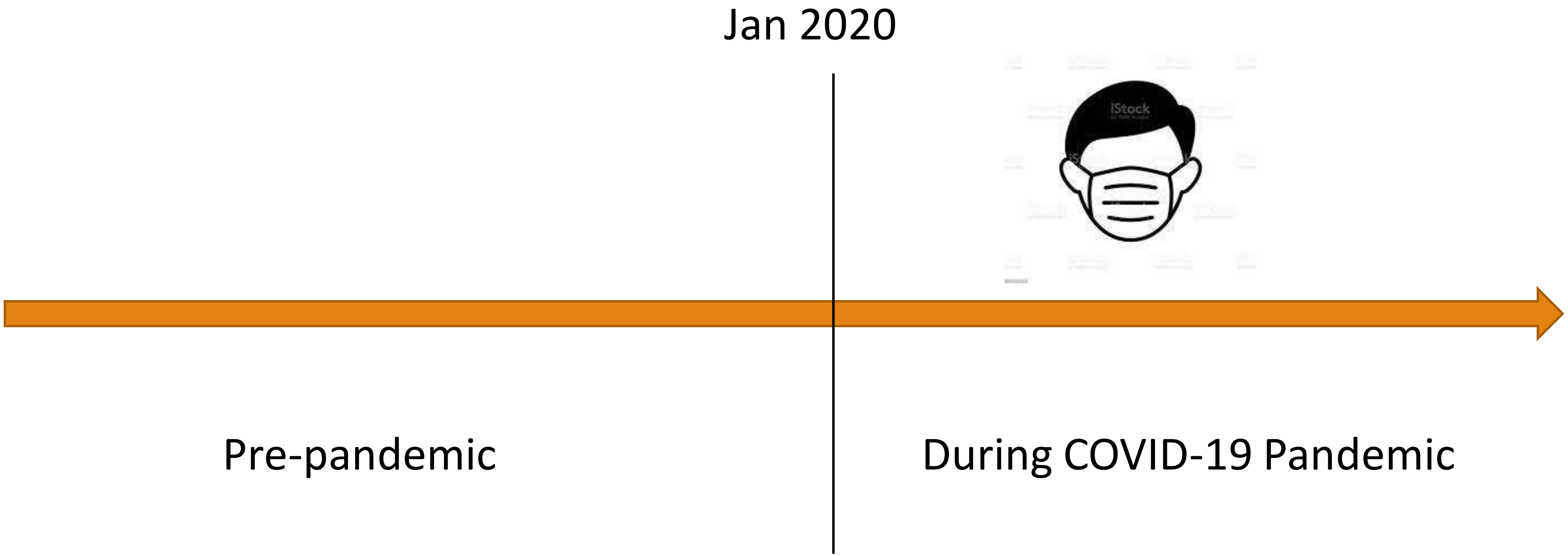
What is this research about?



The Effect of the Pandemic on the interaction on asset returns



Conclusion

1 More interconnected during Covid pandemic

2 Bitcoin fails to provide protection

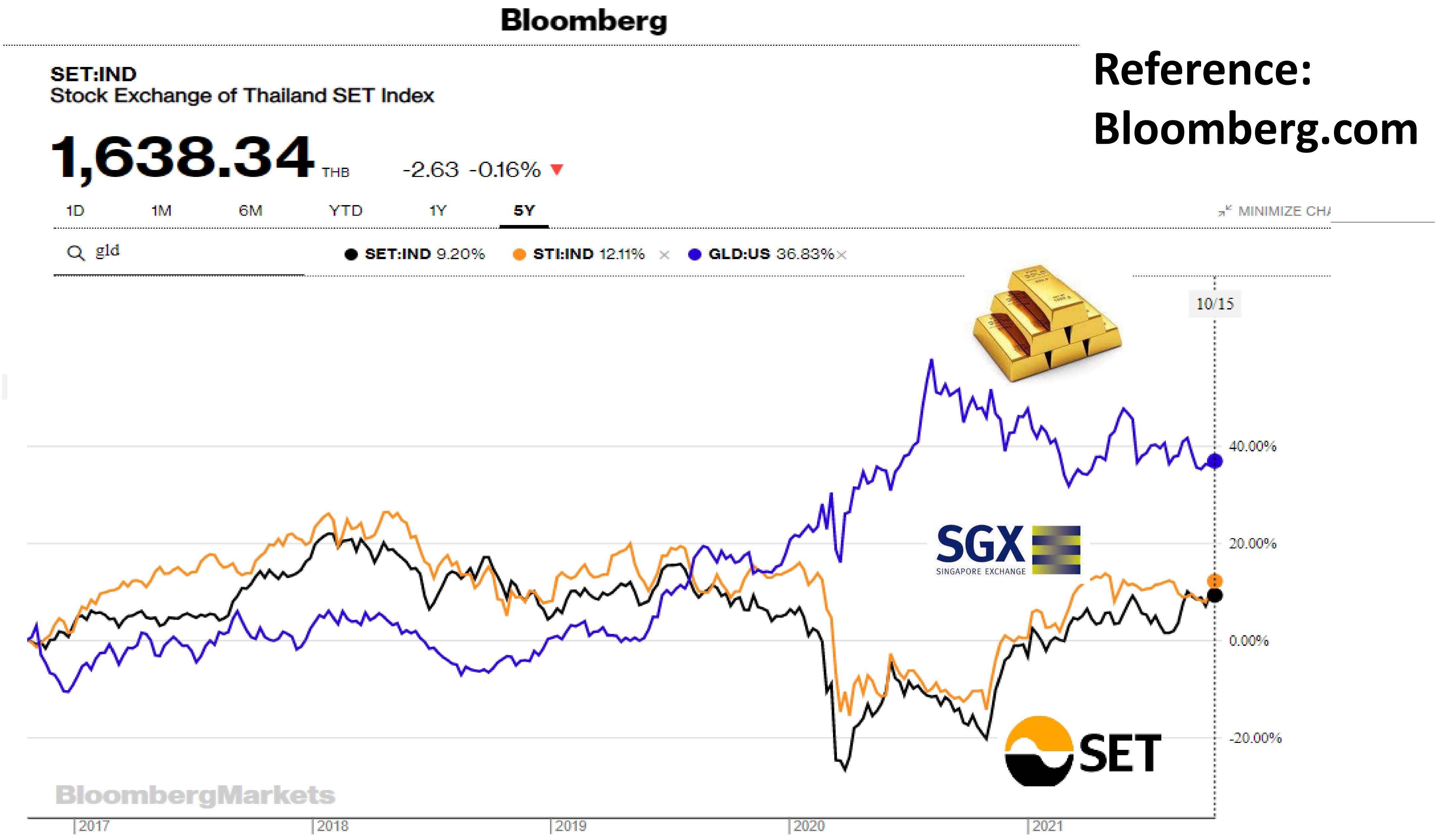
3 Risk-averse investors should allocate 40-55% of the portfolio to gold

Why bitcoin?

- "Digital Gold"
- Pricing mechanism-interest in cryptocurrency/block chain/anonymity
- Wang *et al*. (2019)-diversification in China

Gold-Traditional safe haven

- Low or negative correlation with stocks
- Hedge against inflation
- Store of value
- Baur and McDermott (2010)-Safe haven only for developed markets



Reference: Bloomberg.com

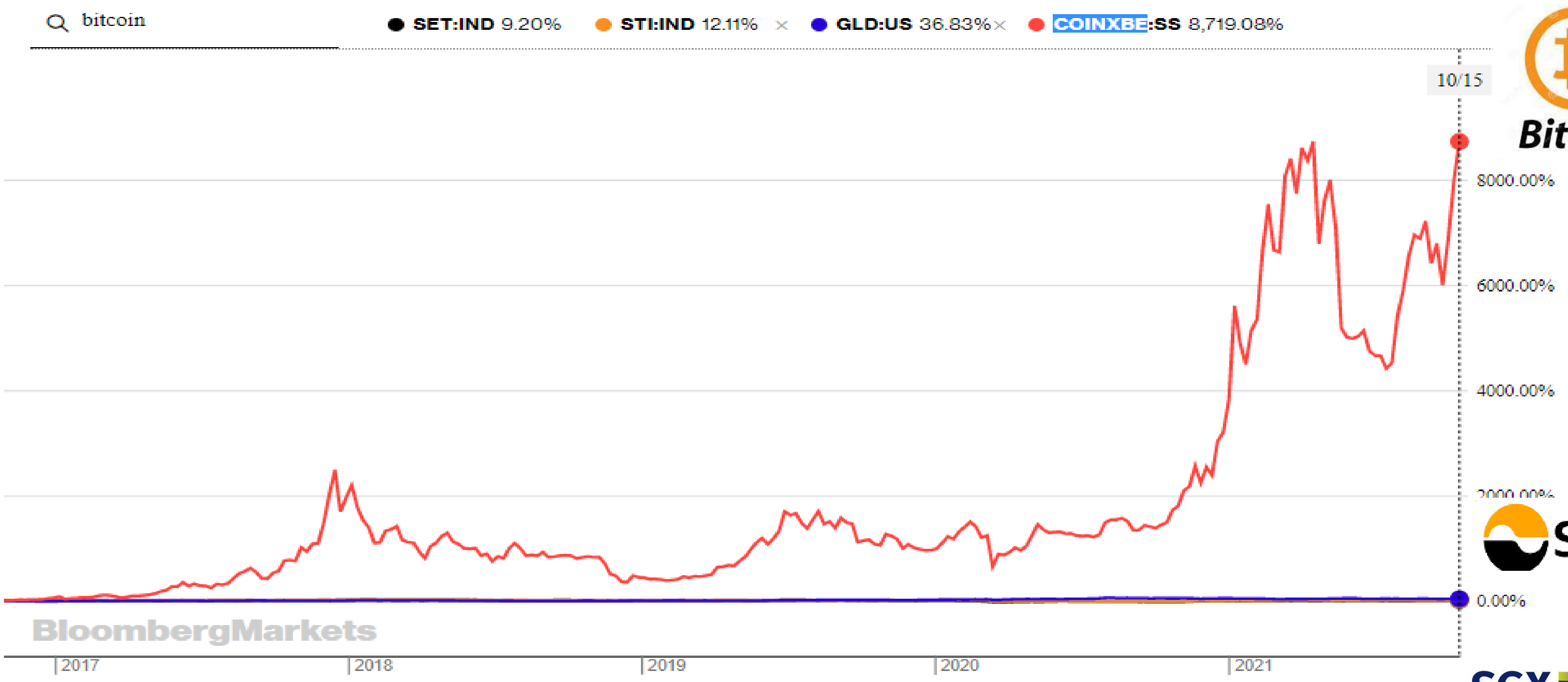
Bloomberg

SET:IND
Stock Exchange of Thailand SET Index

1,638.34 THB -2.63 -0.16%

1D 1M 6M YTD 1Y **5Y** MINIMIZE CHART

Reference: Bloomberg.com



Bitcoin

Bitcoin & Gold

- ✓Limitation of scarcity of supply
- ✓No cash flows
- ✓Asymmetric reaction to positive and negative news (Shahzad *et al.*, 2019)

Data & Methodology

- Daily returns of SET, Singapore market, Bitcoin, Gold ETF
- Pre-pandemic: Oct 2013-Dec 2019
- During-pandemic: Jan 2020-May 2021
- VAR-BEKK-GARCH model

Results-SET

	SET The Stock Exchange of Thailand		SET The Stock Exchange of Thailand		SET The Stock Exchange of Thailand	SGX
Spill Over	Pre	During	Pre	During	Pre	During
Return	—	→	—	—	→	→
Short-term Volatility	—	↔	—	→	←	→
Long-term Volatility	→	←	—	→	→	↔

Results-Singapore Market (SGX)

	SGX	₿	SGX	
Spill Over	Pre	During	Pre	During
Return	←	—	—	←
Short-term Volatility	→	↔	↔	↔ *
Long-term Volatility	←	↔	↔	→ *

Minimum Variance Portfolio

			SET The Stock Exchange of Thailand	SGX	**Return**	**Standard Deviation**
Full Sample	0.4	44.2	17.7	37.7	1.7	0.6
Pre-pandemic	0.7	38.8	24.0	36.5	1.6	0.5
During-pandemic	0.0	54.4	7.6	38.0	3.1	0.8

Conclusions/Key Take-away

1) Different asset classes (equities in ASEAN, gold, and bitcoin) get <u>more interconnected</u> during the pandemic.
2) Bitcoin <u>fails</u> to provide protection for investors in Southeast Asia.
3) Risk-averse investors should hold <u>gold</u> for significant portion in their portfolio (40-55%).

Implications

1

Bitcoin & stocks : High correlation
=> Being recognized as an investment asset rather than speculation

Implications

2

Herding: Join the crowd
=> Investors rushed to sell their assets due to the shock from COVID-19

Implications

3

Certainty effect: Prefer certainty more than probable
=> Investors have more trust in gold (tangible, physical shops) than bitcoin (invisible, new technology, cybercrime)

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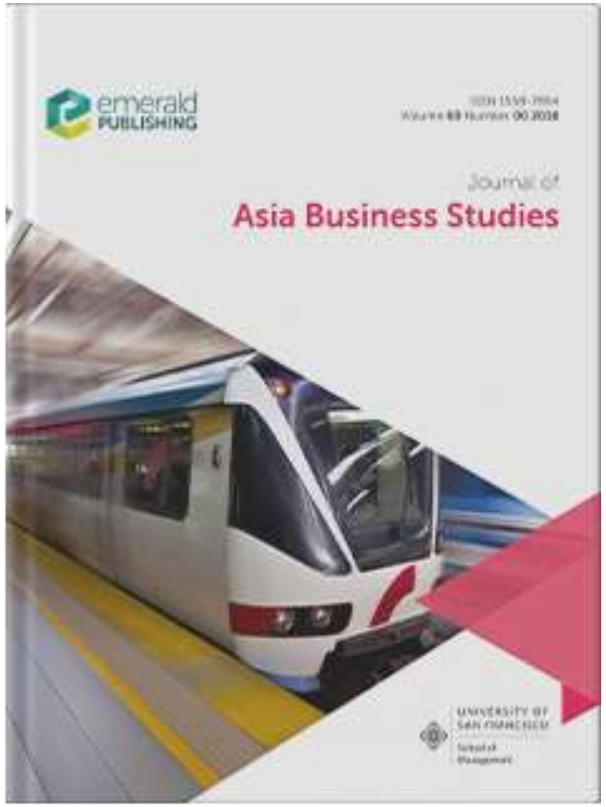

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Thank you

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