



STYLUS CAPITAL

Is Bitcoin the Ultimate Momentum Asset?

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This piece was co-written by our co-founder, Burak Yenigun, and research advisor Rob Carver. We knew well in advance that they would not agree on the subject, so we present it as a debate between the two authors.

Burak:

I have long maintained that Bitcoin is the ultimate momentum asset. Eight years have now passed since I first [articulated this view](#), long enough perhaps to revisit it and see whether there's any empirical evidence supporting the claim.

But first, let me explain why I believe this to be the case.

In short: Bitcoin is the only liquid asset with absolutely no fundamentals — nothing to act as a center of gravity to stabilize the price. All other liquid assets we can think of have *something* that can act as an anchor around price.

To see why, consider equities, bonds, commodities, and currencies.

For equities, you have earnings. Business prospects and expectations about future earnings may fluctuate over time, but the fundamentals ultimately matter, often with a vengeance. AMC Entertainment, a meme stock favorite, surged 10x within weeks. It has since fallen more than 99% from its peak¹. The fundamentals killed the party, once and for all. Even meme stocks must eventually face the cold hard business realities.

For bonds, it's even easier to see the price anchor: bonds promise a stream of payments, subject to credit risk. Investors can calculate a fair value depending on their view on interest rates and default probability, which anchors the price.

For commodities, there are the extraction costs. What it takes to mine an ounce of gold or pull a barrel of oil out of the ground matters — when fracking transformed supply, oil prices collapsed despite rising demand. Speculative manias cannot last too long when physical reality can “cap” prices or drag them around.

For currencies, you have central banks actively trying to stabilize the price of the currency against a basket of goods and services, using a variety of policy tools like interest rates. Sometimes they fail, but more often than not, especially in developed countries, they are successful in keeping the currency stable. When central banks do fail — usually by signaling that they

¹ GameStop, however, has fared surprisingly well. Down “just” 74% from its peak, perhaps because the company took advantage of the bubble to improve its financial position. An interesting case that shows how price can sometimes influence fundamentals! A similar story applies to Tesla.

no longer care about price stability — their currencies present speculative opportunities, not unlike cryptocurrencies.

So, looking at our typical menu of liquid assets, each one of them has *some* anchor, *some* center of gravity around price.

Now, to be fair, there are some assets as devoid of fundamentals as bitcoin. The problem is they are *illiquid*, so you cannot easily trade them.

Take collectibles: an Honus Wagner baseball card sold for \$2.8 million in 2007, more than 100 times its price 30 years prior. Then, in 2022, another (apparently lower quality) Honus Wagner sold for \$7.5 million.

What's the fundamental value of a baseball card? Impossible to calculate. Its utility is limited: you could hold it, admire it, maybe brag about it, and hopefully sell it later at a higher price. As Ken Goldin colorfully noted, "No Wagner card has ever sold for less than it was previously purchased for." Note how "number go up" appears to be a core appeal of baseball cards, which should sound familiar.

A common objection to this line of reasoning is that bitcoin has "mining", like gold. You need specialized chips and a lot of electricity to mine bitcoin. On the surface, this seems conceptually similar to commodities, but there is a critical difference people often miss: unlike commodities, bitcoin's supply is totally inelastic to price. Annual gold production went up from 2,299 tonnes in 1995 to 3,556 tonnes in 2018, responding to higher prices. Bitcoin is up two-hundred-fold in the past ten years, yet the "mining" reward has fallen from 25 to 3.125 coins every ten minutes — an eight-fold reduction, exactly as scheduled by the network's algorithm. Higher prices cannot, and did not, unlock more supply². Therefore, thinking of bitcoin in mining terms is a distraction. What matters is: there will only ever be 21 million bitcoins³, just as there will only ever be fewer than 200 Honus Wagner baseball cards (some of which have been lost — again, not unlike bitcoin).

The combination of these factors means bitcoin is the first asset that completely lacks fundamentals, like art and collectibles, but is liquid, unlike art and collectibles. It is also just different enough from every other asset to generate seemingly endless waves of narratives. It started out as a peer-to-peer, permissionless payments tool, then became a store of value, then an inflation hedge, then digital gold. It is a confusing enough asset that many people are fooled by these narratives. My favorite example is Nassim Taleb first hailing bitcoin as insurance against central banks' mistakes, and then

² Similarly, no amount of money in the world can create a new original Da Vinci painting, beyond the ones that are already out there. Perhaps this is why many artworks get more valuable after the artist passes away.

³ Assuming, of course, the network's design stands the test of time. That's a separate discussion, but it is a reasonable assumption both generally and for the purposes of this piece.

dismissing it as “worth exactly zero” a few years later. He was wrong in both cases. That someone with so much experience in financial markets can be so wrong about bitcoin — not once but twice — illustrates how easily bitcoin confuses people.

The constant flicker of a volatile price ticker, perfect scarcity, susceptibility to false narratives, internet-scale access... If someone had asked me to design the perfect momentum asset, I wouldn't have been imaginative enough to come up with Bitcoin — not in a hundred years.

So, the question is: am I right? Now that eight years have passed since my original claim, let's check if we can find statistical evidence that bitcoin is, indeed, the ultimate momentum asset. Over to Rob.

Rob:

Burak makes an interesting case. But what makes a good momentum asset more generally? We want something that will go up, and carry on going up; and for which a reversal in price will be followed by further bad news for those with long positions. The attributes that would make assets more or less suited to momentum trading strategies are not obvious. Explanations from the world of academia mostly focus on delayed reaction to news, or investor preferences to sell assets at a small profit and hang on to losers; a phenomenon dressed up by economists as a “risk premia”. It is unclear why certain assets would be more susceptible to purchase by people who are particularly slow to react, or who are vulnerable to the cognitive biases that create behavioural risk premia.

Instead it is easier to think about what would make a good mean reverting asset, and hence a terrible momentum asset. Let's imagine an asset where there is a fundamental value; an equilibrium price. We shall also pretend that there is widespread agreement on the precise level of this equilibrium. Furthermore, we imagine there are no “limits to arbitrage”; no significant costs or restrictions which would prevent us from buying or selling if the price wandered too far from its fundamentals.

Such assets are rare in the world of outright prices, but are common in cross asset relationships. For example, the value of the calendar spread between two adjacent delivery months in the gold futures contract is driven by numbers that are fairly easy to estimate, and can be plugged into a well-known formula. There are occasionally limits to arbitrage, due to the complexities of deliverability and warehouses, but the calendar spread price will usually revert to its fundamental value. Trading momentum here is unlikely to be a profitable exercise, except perhaps for extremely short time frames.

Reversing this argument, what are the likely characteristics of a good momentum asset? Clearly it must be something where there is no fundamental value, or where that value is not generally agreed, or where there are substantial limits to arbitrage.

Burak's argument that bitcoin ticks all of these boxes is compelling. But is it borne out by the data? A cursory look at the evidence seems to support his case. Here are the returns from trading bitcoin and ethereum using a particular momentum signal⁴:



Figure 1: Cumulative returns from trading Bitcoin and Ethereum with a momentum strategy

It looks⁵ fantastic. We see the classic “up the escalator, down the stairs” positive skew of a momentum account curve, with infrequent big profits interspersed by longer periods of modest losses whilst waiting for trends to occur. The Sharpe Ratios come in at 0.98 and 0.90 for BTC and ETH respectively.

Case closed? Well, no, Burak's thesis is about *relative* performance. I could claim to be the ultimate chess player, but nobody would believe me until I'd played a few matches against Magnus Carlsen. We need to look at the performance of other assets before we can decide who the winner is.

The easiest way to trade momentum across different asset classes, as any CTA will tell you, is via the futures market. In my futures data set I have the

⁴ An equal blend of exponentially weighted moving average crossovers on daily prices, with look backs of 2,8 days; 4,16 days; 8,32 days; 16,64 days; 32,128 days; and 64,256 days, on the fast and slow crossover respectively. Positions are adjusted each day for the strength of the trend and the volatility of the price.

⁵ A few important notes about this and subsequent graphs; the y-axis is for an arbitrary amount of capital, but the returns shown are cumulative summed daily percentage returns. This means they are not compounded, and are equivalent to plotting the log of the account value. Returns are shown before costs, but these will be minimal at the speed we are trading at.

following asset classes, where the number in brackets is the quantity of instruments⁶:

- Equity indices e.g. S&P 500 (25)
- Bonds and interest rate futures, e.g. US 10 year (18)
- Energies e.g. WTI Crude oil (6)
- Agricultural products e.g. Corn (13)
- Metals e.g. Gold (9)
- FX, e.g. USD/EUR (17)

If my maths is correct that is 88 instruments. We can also trade a couple of crypto coins in the traditional futures market, but I can get data for a wider range of instruments by using the spot market. If I also include the 40 most liquid crypto coins in my database of spot prices, I get a total universe of 128 instruments.

If I run a momentum strategy on each of the instruments in this universe I get the following, where the y-axis is the Sharpe Ratio⁷ of each:

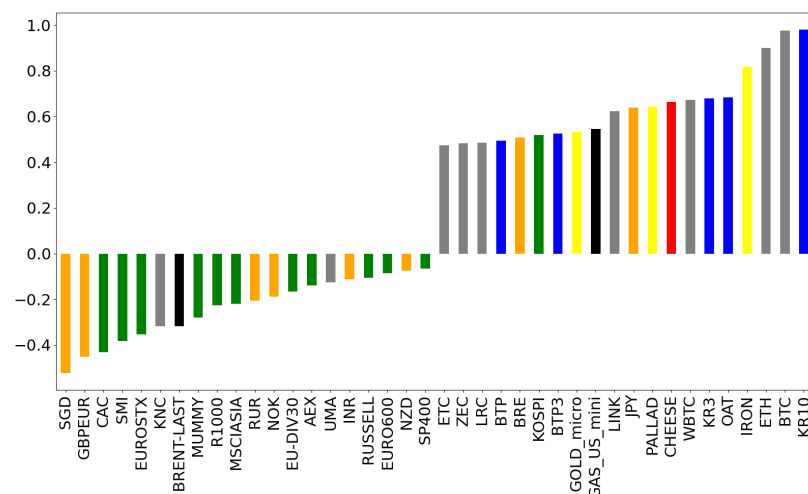


Figure 2: Sharpe Ratio of momentum performance since 1972 across instruments

To avoid creating a plot with an unreadably small font I'm only showing the top and bottom 20 instruments. I've also highlighted each asset class in a different colour; grey is crypto. On the extreme right hand side we have seven crypto coins in grey which are amongst the most profitable including

⁶ This does not represent all the possible instruments we could trade, but is a selection of those that are both liquid and have substantial trading history.

⁷ For simplicity I haven't deducted a risk free rate from these figures, as is the norm for Sharpe Ratios. For futures contracts the risk free rate is already implicit in the price. But this will slightly favour the results for crypto, which will be a few basis points lower once the risk free rate is deducted.

bitcoin and ether; though they cede the top spot to Korean 10 year bond futures. But there are also a couple of cryptocurrencies with far worse performance; as you can see from the hint of grey on the left.

What happens if we take the average of the Sharpe Ratios in the plot above for each asset class?

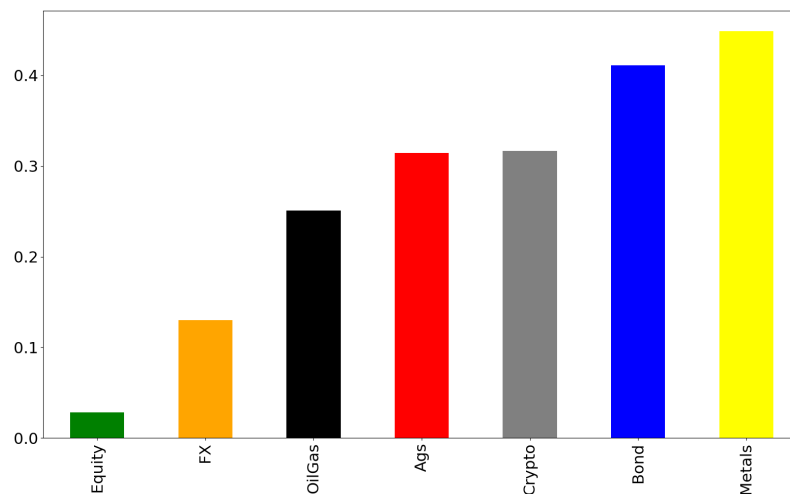


Figure 3: Average Sharpe Ratio per asset class of momentum performance since 1972

The average performance for crypto isn't the crème de la crème with the top spot held by Metals; actual Gold seems to have done better than digital gold.

But at Stylus we've only been trading bitcoin since 2018, whereas I have price data going back much further for most futures contracts. It's a well-known phenomenon that the performance of trend following in most asset classes hasn't been as good recently as it was in the past. So, we're comparing bitcoin for the last ten years, where trend following hasn't done so well overall, with the likes of Corn with over 50 years of performance; of which the first few decades were pretty good. To get a fairer comparison then, let's exclude the period before 2018 from our results:

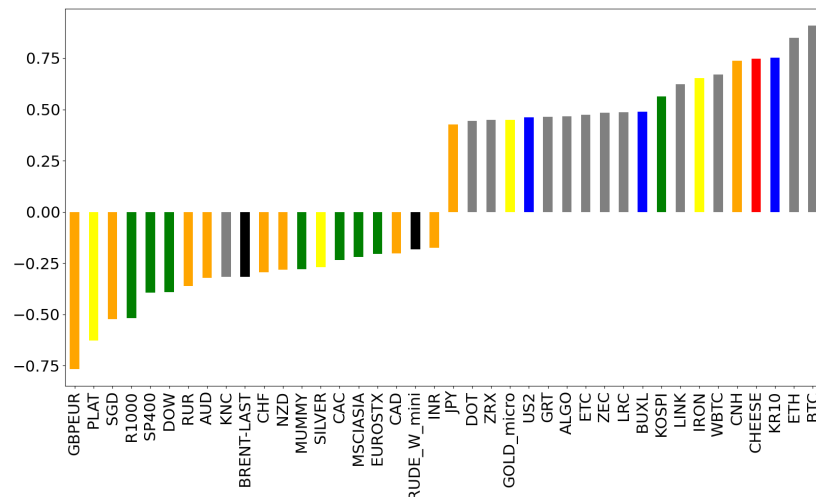


Figure 4: Sharpe Ratio of momentum performance since 2018 across instruments

Well the good news is with everyone else pushed down, bitcoin and ethereum have slid neatly into the top two places. What about the sector averages?

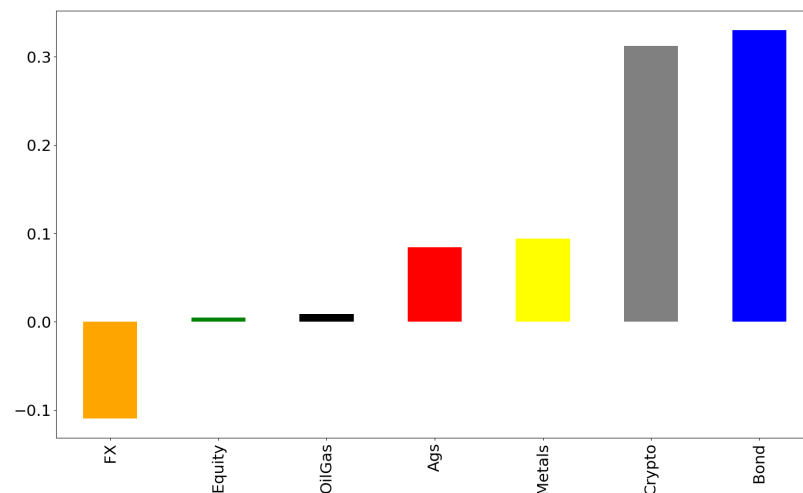


Figure 5: Average Sharpe Ratio per asset class of momentum performance since 2018

Overall, this makes for a more depressing picture than the full sample, but crypto is now flying high and running a close second to Bonds.

However, by restricting ourselves to post 2018 data we have also made it harder to draw firm statistically grounded conclusions. In particular, it's much easier to look like a genius if you're trend following an asset that has gone upwards in a straight line for several years. We need to measure the *alpha* from our raw momentum performance; the extra juice that isn't attributable to just being long the market. We can do this with the standard CAPM regression, where the returns of our momentum strategy are on the

left hand side, and the market returns on the right. For “the market” I use a long only strategy on the relevant instrument, but with the same volatility scaled position sizing rule as for trend following.

Here are the average alphas by asset class, focusing on the period since 2018:

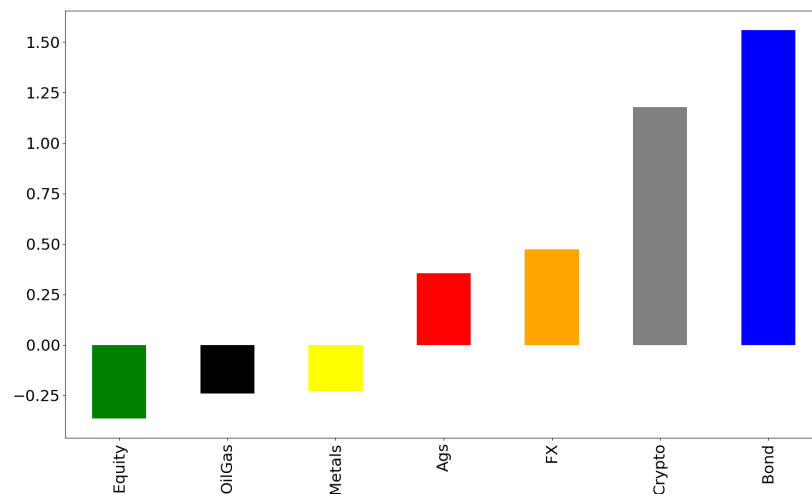


Figure 6: Average alpha per asset class of momentum performance since 2018

The relative ranking hasn’t changed much from when we just used Sharpe Ratios: bonds and crypto are still in first and second place, and we can see that their relative performance hasn’t been harmed after we factor out its excellent long only performance. Incidentally, were I to plot the instrument by instrument figures, you’d see ethereum in 6th place and bitcoin just above it in 5th. Those are respectable numbers in a field of 128 contenders, but they are not what you would expect from the “ultimate” momentum assets.

This result may not bother you too much; if you think that crypto will continue to be in a secular bull market of the same magnitude as that seen post 2018, then you can ignore the alphas and just look at the Sharpe Ratios. And you may also believe that there is something special about bitcoin (and maybe ethereum) — the results in figure 4 do look pretty compelling. But is this result statistically significant? Or could it be just down to luck? After all, just over eight years of data isn’t very long to evaluate the performance of a relatively low Sharpe Ratio strategy like momentum.

To find out, we need to look at the *distribution* of return statistics. I construct these in the following way. As I’m going to focus on the post 2018 period, which is just about eight years, I’m going to create a series of synthetic eight year returns for trend following in each instrument. I do this

by resampling with replacement eight years' worth of return history, drawn from the actual performance achieved by momentum in the available time period. For each eight year price history I measure the Sharpe Ratio. We can then look at the distribution of these Sharpe Ratios, rather than just the average.

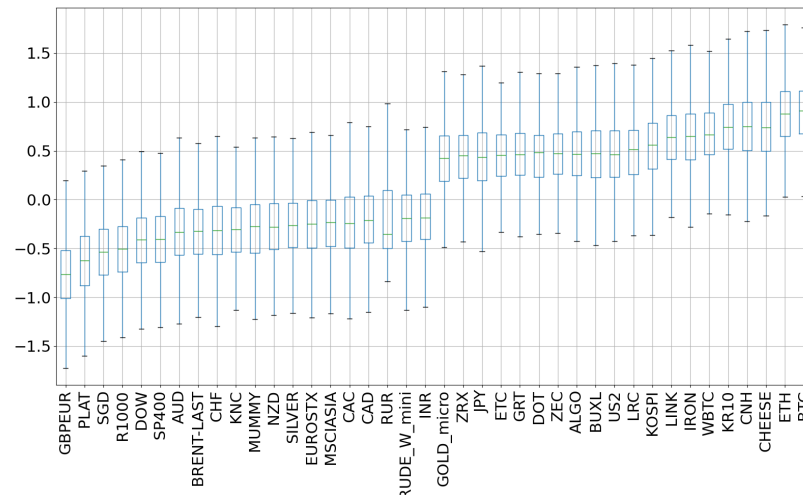


Figure 7: Box plot with distribution of Sharpe Ratio estimates for each instrument, data since 2018

The resulting chart is very similar to figure 4 but instead of just a bar chart showing the Sharpe Ratio (SR) for each instrument, we have a box plot with the *distribution* of SR. Whilst bitcoin, ethereum are still top of the tree, we can see that the uncertainty of historic SR estimates, illustrated by the relatively wide width of each bar, means they're not necessarily *significantly* better.

We can check this result by running a type of statistical test known as a T-test. This compares the return series for two instruments and calculates a *p-value*. The p-value is the probability that the results are just a fluke. A p-value below a predetermined critical value, often 1% or 5%, implies that it's very likely that one set of returns really is better than the other; and not just a statistical coincidence.

Back in 2018, having declared bitcoin the “ultimate momentum asset”, we chose to trend-follow the top ten coins by market value, with half the risk going towards bitcoin and ethereum. The idea was simple: trend-following is known to work better on indices like the S&P 500 than on single stocks, so we figured the largest coins would behave more like an index and trend better — and they did⁸. It also helped that most major coins back then were broadly bitcoin-like — supply completely inelastic to price — so we didn’t have to worry about coins with a potential “fair value” slipping into the trading universe⁹.

But none of the decisions above were driven by explicit reasoning about Rob’s question. So let’s do that now: why stop at the top ten coins and not the top hundred, or even the top thousand? Is there *really* a difference between Bitcoin and Dogecoin? How about Dogecoin and “Baby Doge Coin”?

I think there is, for two reasons.

The first is *liquidity*. When a coin trades thinly, a single large order can knock the price around, causing short-lived dislocations that quickly mean-revert and hurt trend-following. This argument is compelling, and research *does* suggest a strong effect in crypto, but annoyingly (for me) it barely shows up as an effect in the major futures markets (maybe illiquidity begins to hurt trend only beyond a certain threshold?). Still, I would argue the strength of this effect in crypto alone justifies leaving the less liquid coins out of the evaluation. Plus, deeper research in traditional finance might yet reveal similar phenomena — maybe we just have to look further along the illiquidity curve.

The second reason is *legitimacy*. If a few friends come together, mint a random coin, and get it listed on a decentralized exchange, does it automatically deserve a spot in our evaluation universe? Again, I would argue not. We should demand, for lack of a better word, some *legitimacy*. Traditional assets do not quite have this problem since their legitimacy is established through other means long before they have liquid futures markets to trade — more on this later.

The problem, of course, is that bitcoin started out as an obscure project among a few online friends too, so where do we draw the line on legitimacy?

⁸ Years later, both internal and external research showed that larger coins indeed trend better in a statistically meaningful way.

⁹ Increasingly, some coins are acquiring “revenue models” or “token buyback mechanisms”. I don’t think these are the slam-dunk valuation bases many believe they are, but they do threaten the “no valuation basis” claim for the coins in question, so I’d exclude them in future analysis just in case.

Vitalik Buterin, Ethereum’s creator, has an [excellent essay](#) on this. His argument is that legitimacy is fundamentally a social process: something becomes legitimate when enough people believe that enough other people will treat it as legitimate¹⁰. This belief is reinforced and sustained through signals like continuity and track record.

Bitcoin was launched with serious objectives and got adopted, becoming increasingly legitimate over time as its central claims — digital scarcity above all — held up over the years. Dogecoin did the opposite: it started out as a joke with no serious premise at all, but got increasingly legitimate over time through little more than the mindshare it built with memes. Despite its “unserious” origins¹¹, I’d have no qualms about including Dogecoin in our evaluation universe.

Conversely, hundreds of cryptocurrencies were launched with perfectly “serious” grand objectives and narratives (appeals to legitimacy? One is reminded of the art market again), and yet most were forgotten within months. Some continue to trade thinly, but I’d vote against including them in our universe.

Interesting to note how we never have to pose these legitimacy questions about commodities. “Is oil legitimate?” is self-answering in a way that makes the question amusing. “Is gold legitimate?” is perhaps a bit less self-answering, which hints at some social machinery at work there as well, but we’ll leave that aside — that discussion has been had many times elsewhere.

In short, I’d argue we should only consider coins that are both *legitimate* and *liquid*. Conveniently, there’s a single metric that captures both: market capitalization. A coin with a larger valuation is, almost by definition, both more liquid and more widely perceived as legitimate — people have revealed a preference for holding it over the alternatives.

So here’s how I’d extend my original “Bitcoin is the ultimate momentum asset” claim to the whole asset class, to future-proof things:

Crypto is the ultimate momentum asset class — where “crypto” means a market cap weighted index of coins that share Bitcoin’s defining trait: there’s no way to calculate a fundamental value for them.

For now, for the 2018-to-date period, sticking to Bitcoin (or Bitcoin plus Ethereum) as a proxy for a market cap weighted index of cryptocurrencies

¹⁰ The similarities to the art market just keep piling up.

¹¹ Importantly, the underlying technology ensures that both Bitcoin and Dogecoin remain scarce. None of these serious or unserious claims would have mattered if this key feature, digital scarcity, had failed to hold up.

would suffice. Considering their dominant market cap over the period, expanding the list further would barely change the results¹².

In either case, I would call this a mildly encouraging start for the “ultimate momentum asset” thesis, but as we saw from Rob’s analysis we need years, if not decades, to get meaningful results. Such is life when dealing with financial data.

Still, if I'm right, the statistical evidence should get stronger over time. So let's revisit this idea in another five years.

¹² If anything, it would strengthen the results in favor of the thesis. Other large-cap coins like Solana have also trended well.

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