

Fixed-Incomization of Bitcoin

From Exter's Pyramid to Bitcoin-Based Credit System

S e b a s t i e n G u g l i e t t a

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Money and Interest Rate

The Böhm-Bawerk Perspective

Firstly, money is created and accepted — through an adoption process —, then interest rate as **price of time** is engineered. Quoting Ludwig Von Mises in *Human Action, A Treatise on Economics*, *'The time preference is a category inherent in every human action. Time preference manifests itself in the phenomenon of originary interest.'*

Following the Böhm-Bawer perspective and his Theory of Roundaboutness, it can be argued that **production is roundabout** as it takes time and uses capital to transform factors into output. Thence, the net physical productivity of capital would lead to positive interest rate. **The most productive capital is the most roundabout capital.**

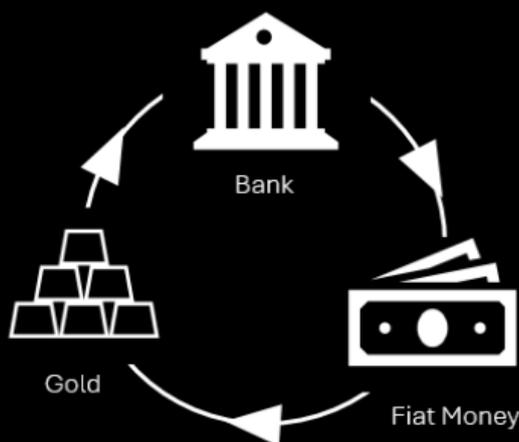
So, why does it matter and what happens? The adoption phase of Bitcoin belongs to the past, as in many ways the belief that robust crypto-currencies define an autonomous asset class disconnected from both liquidity and business cycles belongs to the past. The new phase — which is then, following the Böhm-Bawer perspective, a consequence of the construction of a decentralized peer-to-peer payment system — is an attempt **to create a broader system that captures poorly productive money and monetary time preferences.**

As Bitcoin integrates into the broader macro financial system, the next phase is to convert yield-seeking capital into permanent, structural long positions in Bitcoin.

BTC - Based Balance - Sheet

A Gold Analogy

A bank — perceived as a protocol sat at the core of financial systems — schematically works as follows: it lends money, against a collateral, and collects interest rate. Consequently, the aim of a traditional bank is to expand its liabilities. Yet, on the 27 July 1694, a new protocol appeared: The Governor and Company of the Bank of England. This bank began acting as a central repository for gold, accumulating scarce high-quality asset to enhance its credit notation, so that this protocol could issue fiat money to buy gold.



Gold-Based Credit System

Bitcoin ETFs are passive instruments, and in this cycle, they only reflect an investment demand they cannot create. Conversely — as it is illustrated by Bitcoin treasury companies such as Strategy $\text{\$}$ issuing $\text{\$MSTR}$ or Bitcoin yield funds — new engineered investment solutions that seek to produce a yield from capturing Bitcoin finite supply rely upon one principle: **Bitcoin as collateral**.

These solutions are all structured from a Bitcoin-asset based balance sheet.

Credit System

Necessary Evolution

Quoting Hal Finney — first recipient of a Bitcoin transaction — on the 30 December 2010:

'I see Bitcoin as ultimately becoming a reserve currency for banks, playing much the same role as gold did in the early days of banking. Banks could issue digital cash with greater anonymity and lighter weight, more efficient transactions.'

'I believe this will be the ultimate fate of Bitcoin to be high-powered money.'

The conflation of reserve currency and reserve asset made here, points nonetheless toward the fact that **Bitcoin's path to reserve status** is likely structurally inevitable.

The future of Bitcoin is to redesign a part of the foundations of the credit system.



The Exter's Pyramid

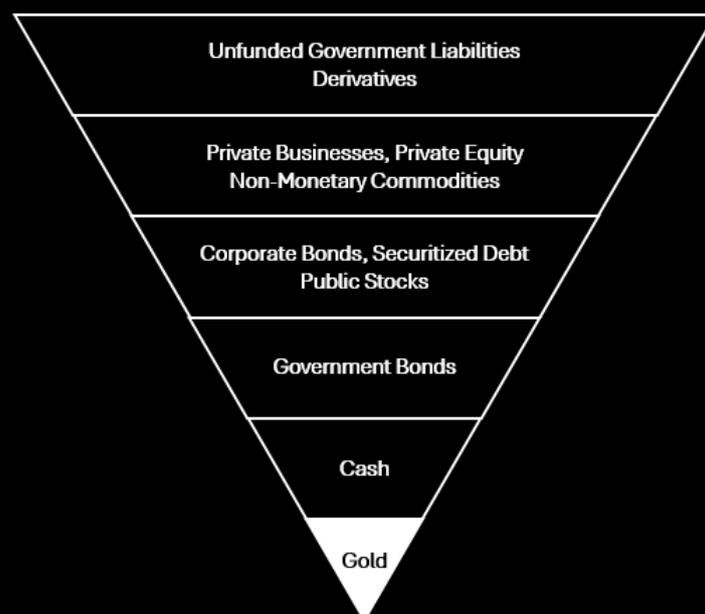
The Gold Standard

Following the Finney's insight that cut against Bitcoin orthodoxy, a functioning monetary architecture requires the **coexistence of cold money** — Bitcoin as reserve — and **hot money** in the form of stablecoins for everyday circulation.

'Actually, there is a very good reason for Bitcoin-backed banks to exist, issuing their own digital cash currency, redeemable for bitcoins. Bitcoin itself cannot scale to have every single financial transaction in the world be broadcast to everyone and included in the block chain.'

'There needs to be a secondary level of payment systems which is lighter weight and more efficient. Likewise, the time needed for Bitcoin transactions to finalize will be impractical for medium to large value purchases.'

As becoming a **reserve asset**, Central Banks will be likely incentivized to acquire Bitcoin, and a technical reasons why is given by the Exter's pyramid. Indeed, according to the economist John Exter, credit system works like an **inverted pyramid of assets**, at the base of which gold is sat:



Exter's Inverted Pyramid of Assets

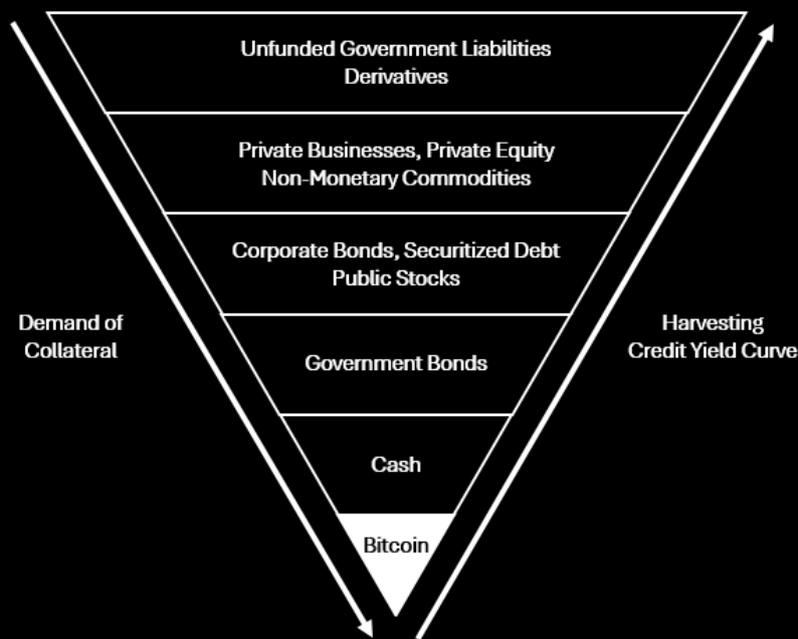
The Bitcoin Pyramid

The Birth of Bitcoin Credit System

The Exter's pyramid represents the different categories of financial assets according to their liquidity and level of risk. This inverted pyramid places the most liquid and safest assets at the base and the riskiest and least liquid assets at the top. Gold is at the base of Exter's pyramid because of its historical role as a store of value.

Under Keynesian monetary policy, however, the pyramid's foundation became fiat currency — **making debasement not a risk but a feature.**

The banking system builds financial products derived from this pyramid. When gold is substituted by fiat currency, money is mostly invested in short-term fixed income products anchored to central bank key interest rate.



Bitcoin Inverted Pyramid of Assets

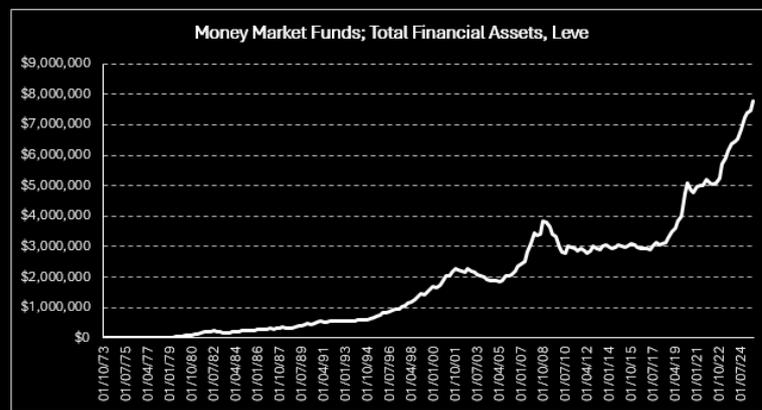
Placing Bitcoin at the base of Exter's pyramid enables an entirely new credit system.

Fixed-Incomization of Bitcoin

Finite Supply Consequence

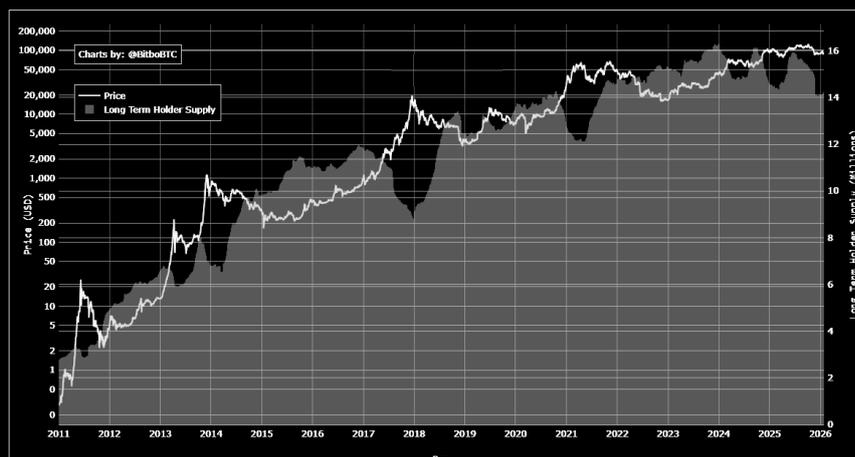
As it has been argued, the **fixed-incomization phase of Bitcoin naturally succeeds to the adoption phase** enabled by a Bitcoin-based credit system.

The implications of this **fixed-incomization phase that seeks to capture existing Bitcoin to produce yield** to satisfy an investment demand ranged from money managers to Bitcoin hodlers might be underestimated. At the time we speak, the overall market size of money market funds is \$7.80 trillion, while the asset management industry is reaching a total global AUM of \$147 trillion (June 2025):



US Money Market Funds 'TVL'

However, Bitcoin — with a programmatic finite supply — is a **reflexive asset particularly sensitive to liquidity shocks**, with price quite inelastic to demand. Besides, this inelasticity is magnified by the market micro-structure as long-term investors perceive Bitcoin as a **reserve asset** so that the residual available 'floating' is ranged between 25% to 30%. The Bitcoin-multiplier, measuring how Bitcoin price responds to each dollar, is **greater than 1**.



Bitcoin Limited Floating Supply

- **Fixed-Incomization of Bitcoin**
- **Scarce Asset Multiplier**

Fixed income investors operate with a fundamentally different time preference than Bitcoin holders. Rather than chase price appreciation, they seek **steady income streams** — either **stable long-term yields** or a **spectrum of credit yields** with different risk profiles. For these investors, Bitcoin's volatility becomes far less punishing and **carry-like returns depend much less on Bitcoin's velocity**.

Inspired by the Fisher Quantity Equation $M \cdot V = P \cdot T$ — that states that the total value of all payments made with a certain currency within a period (the left-hand-side) must equal to the amount of that currency that changed hands during payments (the right-hand-side) — it can be argued that the **crypto multiplier** of Bitcoin — defined as the dollar change in the equilibrium market capitalization of a cryptocurrency in response to a single dollar of aggregate inflows or outflows of investors' funds — is ranged from 5 to 10.

For example, a multiplier equal to 5 means that each 1\$ injected produces a \$5 increase of overall market capitalization. As fixed income investments are slow in nature — focusing on revenue and not on the momentum of the price process — the fixed-incomization of Bitcoin tends to remove each Bitcoin from the market for a long time. Let's consider a very simple heuristic pricing model that writes:

$$\Delta P \approx m \times \gamma \times M / 21,000,000$$

where ΔP is the variation of Bitcoin price, m is the Bitcoin multiplier, γ represents the penetration rate that measures the percentage of AUM captured from fixed income asset management and money market funds with total addressable market M . Assuming a modest $\gamma = 0.50\%$, $m = 5$, $M = \$154.80tr$, the fixed-incomization of Bitcoin would add \$3.87 trillion of market capitalization. And we see why — assuming a null credit expansion and $m \approx 10$ — the price of Bitcoin could reach then $P \approx \$460,000$, without considering other asset classes.

The fixed-incomization of Bitcoin induces a positive feedback-loop on the reflexive price of Bitcoin itself.

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