The Future of Capital Markets: Securitizing Bitcoin to Monetize Its Volatility

MSTR's Bundling Wall Street's Old Game with Bitcoin's New Rules

Abstract: This paper examines how Strategy (formerly Microstrategy - MSTR) and Michael Saylor are leveraging traditional financial mechanisms to recreate a fully Bitcoin-collateralized banking system outside the purview of existing Bitcoin focused regulatory frameworks.

MSTR strategically uses equity issuance, convertible bonds, and implied volatility arbitrage to build a hybrid capital stack. That is, it layers multiple types of funding: debt, equity, and derivatives, on top of Bitcoin. In effect, Strategy is securitizing Bitcoin using the tools of traditional finance. It mimics central bank mechanics by creating (printing) funding sources through equity and debt issuance. These instruments support fixed-income and derivative structures; all anchored to the Bitcoin network. New valuation metrics such as mNAV are technically no different than the classical approach in traditional markets, Book Value. Like Tangible Common Equity (TCE) and Tier 1 Capital (CET1), mNAV is just a fancy term to describe Book Value of a company for a specific situation or a new financial structure/special situation. The overarching goal of these metrics is to provide a simple way to cut through the noise of price and provide a foundation for valuing a company's assets and liabilities.

The Bitcoin bottleneck isn't belief, it is need for modernizing regulations, compliance, covenants, and back-office friction. Strategy with MSTR is solving for this without waiting on approval for Bitcoin rails. This paper explores the implications for traditional finance (TradFi), Bitcoin maximalism, and a new monetary architecture.

In short, Strategy is attempting to reengineer the credit stack from first principles, with Bitcoin as the base layer.

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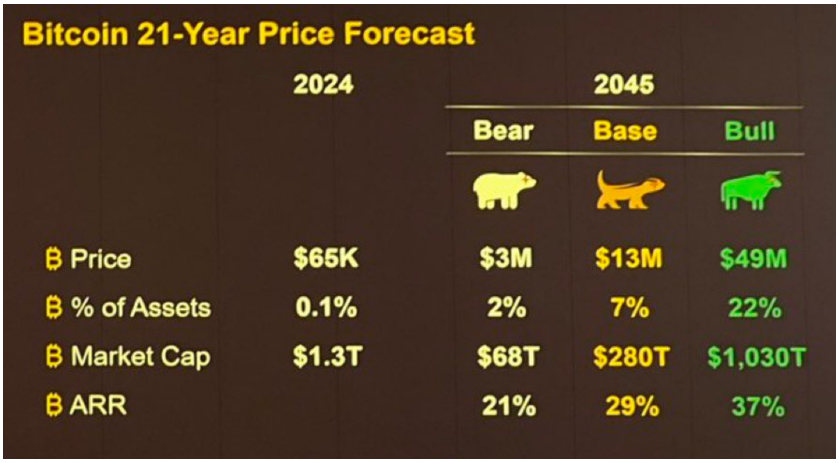
1. Introduction: The Collapse of the Interest Rate Paradigm

Modern financial systems have been built on a 40-year trend of falling interest rates. Fueling growth through cheap leverage and the financialization of all assets. Interest rate spreads are the primary source supporting mechanism of a complex web of global derivatives, supported by a relatively small and scarce pile of assets. In the last decade, a gradual but sudden reversal of interest rates has rendered most financial models unworkable. The anomaly is not that rates have risen but that the common expectation was for rates to remain uncharacteristically close to zero bound.

While most participants remain in a short vol mindset. Strategy and Michael Saylor have adeptly shifted to a long vol mindset. Understanding, that with little room for rates to fall, the value in the system is capturing the volatility of long vol assets, like Bitcoin.

Rather than try and time the market MSTR takes advantage of interest in bull markets by implementing an aggressive dollar cost average program. Selling securities to then buy underlying Bitcoin; the long vol asset. This underscores that Strategy is operating a long vol balance sheet in a short vol world. One that offers no yield. Acquiring convex upside (BTC) over a long period of time (10+ years) is the bet, regardless of market timing.

This capital strategy doesn't rely on entry precision but on net stack accumulation over time. In his words, the time horizon is roughly 10 years, if not 20. While exciting, investors must also consider the associated risks if their holding period does not align or if the strategy breaks. Time, as is the case in derivatives and options trading, creates the fragility in the model: in a prolonged bear market, how does MSTR and hold up when institutional capital dries up and premiums disappear? That is the $13 million dollar question.



*Bitcoin Conference 2024

We have seen how quickly risk changes and leverage unwinds many times throughout the history of banking. More recently we've seen how risk plays out these environments during the GBTC arbitrage trade, Silvergate's targeting by regulators and First Republics misallocation to an undesired capital base (fixed income at very low yields). See risk factor section at the end of this paper for more on these topics.

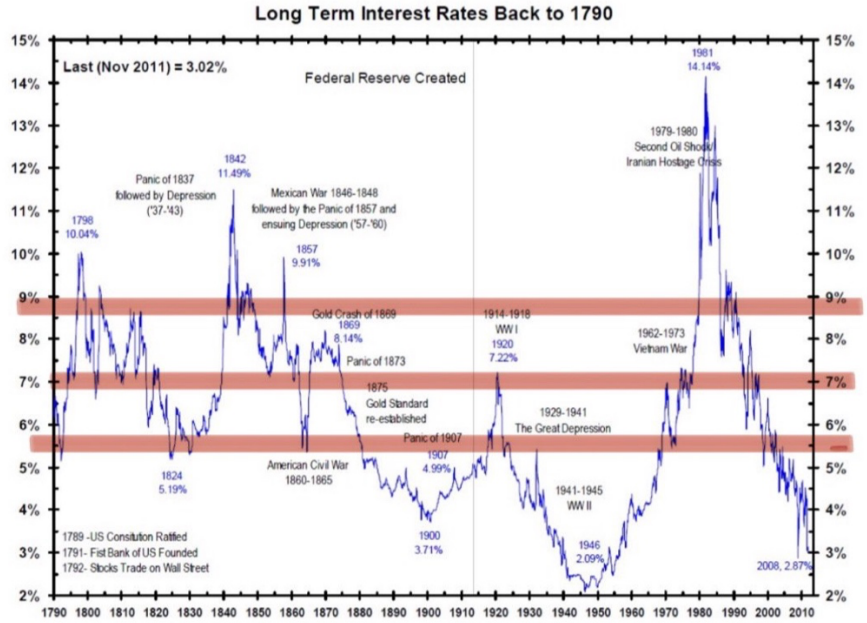
In a social media driven world where communication happens at the speed of light bank protections change on a dime.

The 40 Year Interest Rate Decline

This change in interest rate regime from a 40-year downtrend exposed the perverse incentive structures underpinning many modern but unprofitable business models and entities.

The unwind, the "Great Reset", has been nothing short of chaotic with financial markets forcing participants to choose sound financial decisions or die. The conundrum most TradFi participants face, is only understanding capital formation in the context of "risk free" arbitrage and FED backstops in a falling rate environment. Leading a decade of mockery and little relevance being placed on Bitcoin, one of the few assets primed for a long rate, long volatility environment. An atmosphere built for limited or fixed-supply assets to thrive. Under a rising rate regime, Bitcoin offers the opportunity to reset rates at a higher and more normal levels. That is what Saylor and the Strategy team are effectively building out. A banking risk and credit curve for Bitcoin and digital assets using traditional equity, option and fixed income structures (securitized Bitcoin).

A 220 Year History of Interest Rates

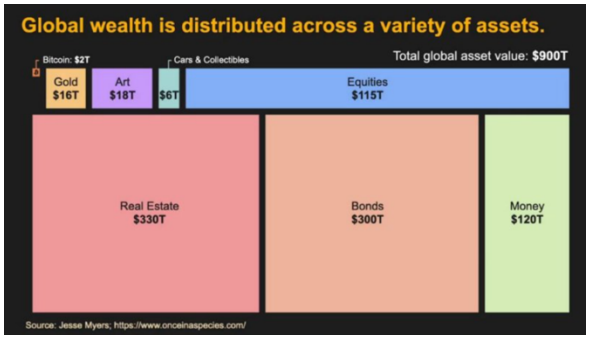


As shown above, one can see interest rates below 5 to 9% are in fact more abnormal than normal. Over the last 90 to 100 years, we've been conditioned to believe the opposite. This simple fact has incentivized bad business decisions over quality self-sustaining business models.

One would have to assume that Michael Saylor's realization was the bureaucratic and regulatory drag on Bitcoin innovation would prevent fixed income, derivative, and yield-bearing products from organically emerging in a fast enough window. With a strong understanding of capital flows, traditional yield bearing products, and the desire for lending, Saylor didn't wait. He built the bank of the future. One collateralized by Bitcoin and engineered through legacy financial tools.

Rather than waiting for the Bitbond legislation, the Genius Act, or stablecoin bills to pass, he re-engineered the structure using publicly traded instruments within the legacy system and placed them on top of his Bitcoin Stack. In short, he provided traditional institutional investors what they wanted but could not have, Bitcoin exposure and leverage. Keynes now has a way to play in Bitcoin markets.

Instead of Bitcoin eating the financial world. Saylor's securitization of Bitcoin puts Jesse Myers chart of Bitcoin as a global asset into motion.



Strategy's traditional financial products collateralized by Bitcoin allow institutional investors who have been locked out of Bitcoin to participate sooner. These tools provide an

opportunity to invest in capital structures they understand, that don't violate covenants or compliance, and that don't require the rebuilding of back offices to participate. These are the primary reasons fixed income, and traditional investors have ignored Bitcoin. Not exactly out of lack of desire but due to the complexities of getting capital from one financial rail to another at a cheap cost and in a timely manner.

2. Reengineering Yield: MSTR Equity ATMs are a Covered Call Option in Disguise

Saylor describes Strategy's At The Market (ATM) equity issuance in a similar manner to a call option with Bitcoin acting as the underlying security. In this analogy, MSTR stock behaves like an option contract—its value moves with Bitcoin, the underlying asset. When selling premium, the primary needs are time decay (Theta) and implied volatility (IV).

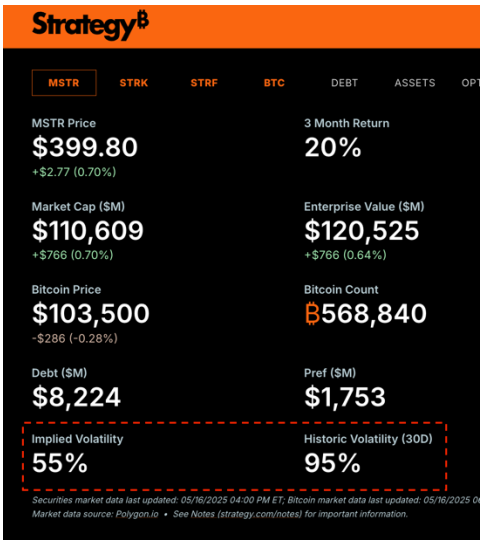
In falling rate environments, option values decay. It is what traders call 'Theta decay.' At the same time, high implied volatility (IV) boosts premiums. This combination creates an ideal setup for selling options. In the case of MSTR, Strategy sells its equity on the high implied vol of MSTR's stock. They do so in the exact same manner one would sell a stock option against common stock (equity).

"We don't fear volatility—we monetize it." — Saylor Q1 2025 Earnings Call

Volatility is a feature, not a bug. It provides a source of cash flow or income that can then be used to fund other business-related activities.

In Strategy's case it's used to increase their Bitcoin holdings, providing "Bitcoin Yield", "Bitcoin per share value", or increasing MSTR mNAV. mNAV will be discussed in further detail later.

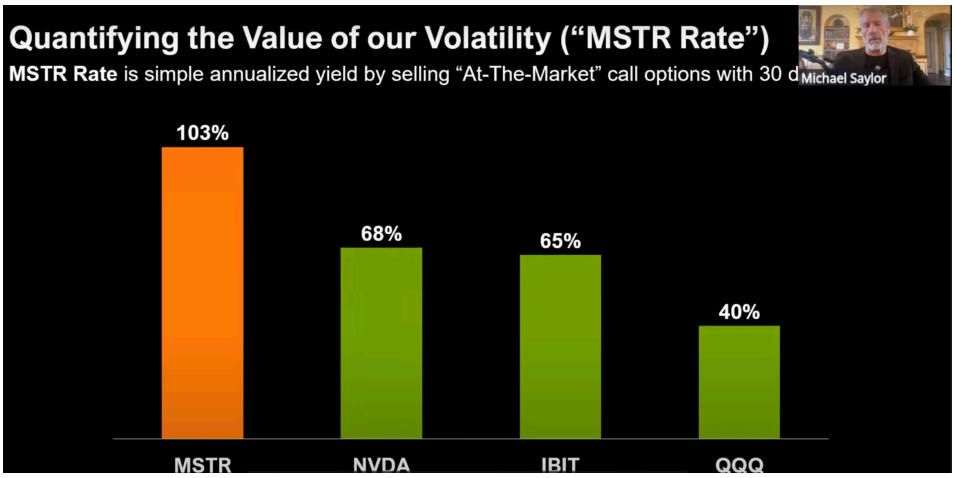
Selling new shares into the market during times of high volatility (high MSTR rate) mimics traditional covered call strategies. The underlying is the Bitcoin capital stack, the option is MSTR equity.



*Implied Vol captured from www.strategy.com between 5/15 and 5/18/2025.

The implied yield from these equity ATM issuances was calculated to be over 100% annualized, vastly outpacing NVDA, IBIT, and QQQ (see Figure 1).

Figure 1: Quantifying the Value of Our Volatility ("MSTR Rate") – MSTR Vol relative to traditional equity peers



In traditional finance, covered calls generate yield by capping upside gains in exchange for receiving premium up front. The cash flow generated (premium sold) is redirected to create leverage. Strategy uses these proceeds to accumulate more Bitcoin and pay dividends on preferreds. In doing so, Strategy transforms trapped crypto volatility (MSTR Rate) and channels it from Bitcoin holdings through to its equity shares.

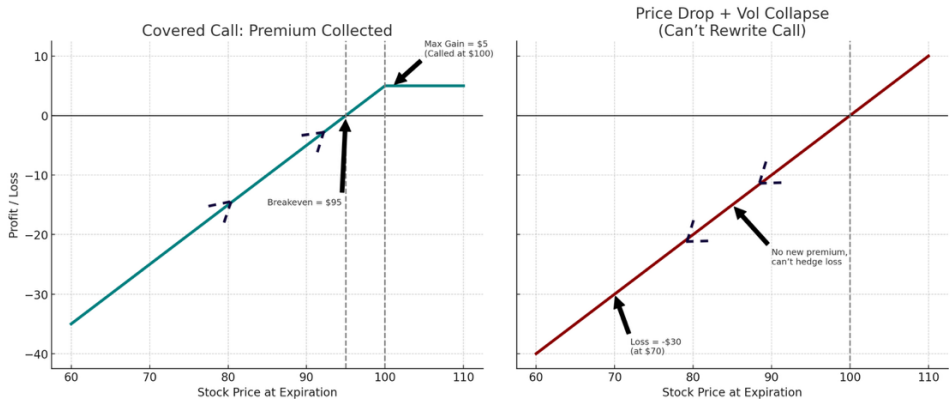
As MSTR equity becomes more volatile, Strategy sells shares At The Market (ATM) to capture that premium. A portion of capital raised is used to buy more Bitcoin and some to pay interest on preferreds. This feedback loop reinforces the equity’s volatility, keeping the flywheel turning, though the strategy is not risk free. It’s just that potential negative consequences are muted during Bitcoin bull markets. During bears the ability to sell premium becomes a lot more difficult due to lack of demand and vols shrinking vol as the underlying (Bitcoin) price falls. By utilizing a very common financial tactic, selling calls (issuing shares), Strategy is effectively monetizing Bitcoin volatility. They have arbitraged (linked) two disjointed markets – equity common stock and spot Bitcoin into one traditional security – MSTR.

In essence Strategy has created a new structured financial instrument that securitizes Bitcoin, capturing its monetary energy.

- **In this manner, Strategy is monetizing Bitcoin.**
- **Monetization of Volatility = Financial Energy Recycling**

This act is very similar to how solar power is stored. Saylor is capturing trapped Bitcoin volatility (sunlight) from MSTR equity (the sun) and converting it into long-duration BTC holdings (cheaper energy cost). Over time, this captures decaying vol and reallocates it into a deflationary capital source.

Traditional Covered Call: Equity Option & Equity Stock

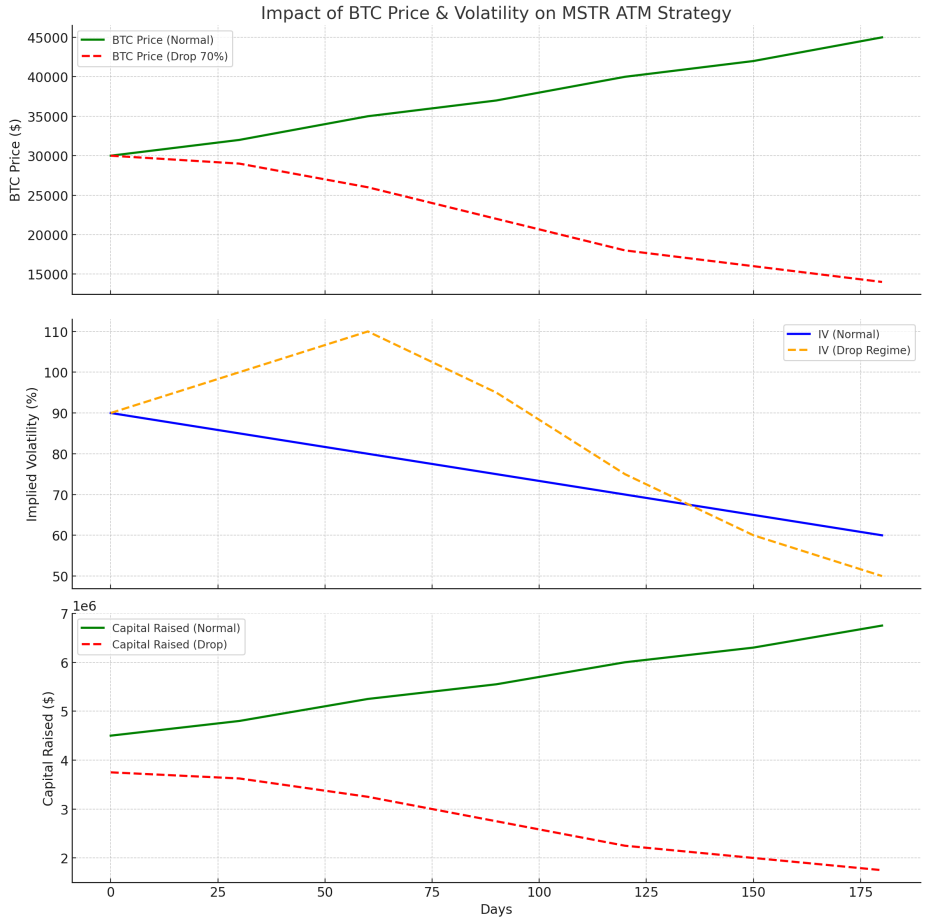


As the stock rises, so does the premium collected. When the stock is above the strike it is called away and the investor receives proceeds of stock + premium sold (premium paid at position open). If the stock falls the investor only collects the option premium sold and has a loss in the underlying every $0.01 below the stock purchase price – premium received. In falling markets, the premiums collected act as a hedge up to a breakeven price.

In this scenario if IV falls and the stock is too far underwater; an investor cannot write calls without potentially creating a loss if the underlying moves back up. This would be similar to Bitcoin falling drastically, causing MSTR to fall drastically which likely creates little investor appetite for ATM sells. Most likely, this is why Strategy tried to ensure they filled their ATM bucket first, in the Bitcoin Bull market from 2023-2025.

You don't wait to fill your ammo bucket during a bear. You do it when vol is high and your equity is rich. In this case when investor demand is high. That's what Strategy is doing.

Synthetic Covered Call: MSTR Equity (acting as call option), Spot Bitcoin (underlying)



Normal Scenario: (Steady BTC Growth + Volatility Decay)

- **BTC Price**: Grows from $30K → $100K
- **Volatility Over Time:** Expands but also declines gradually over time similar to 40-year interest rate decline (Vol: 415% → 77%)

Total Volatility (EPOCH Trough to Trough)			
Date	**Std Dev Volatilit**	**Trading Days**	**Period Volatility**
11/17/2011 - 1/14/2015	12.22%	1155	415.34%
1/14/2015 - 12/15/2018	3.96%	1432	149.71%
12/15/2018 - 11/22/2022	3.86%	1439	146.33%
11/21/22 - Current	2.55%	909	76.86%

Bull Volatility			
Date	**Std Dev Volatilit**	**Trading Days**	**Period Volatility**
11/17/2011 - 11/29/2013	5.64%	744	153.92%
1/14/2015 - 12/17/2017	3.76%	1069	123.06%
12/15/2018 - 11/20/2021	3.97%	1072	129.83%
11/21/22 - Current	2.55%	909	76.86%

*as of 5/18/2025

Bear Volatility			
Date	**Std Dev Volatilit**	**Trading Days**	**Period Volatility**
11/29/13 - 1/14/2015	19.02%	412	386.06%
12/17/17 - 12/15/2018	4.41%	364	84.14%
11/10/2021 - 11/21/2022	3.47%	377	67.36%

Consolidation Volatility (primary consolidation phases)			
Date	**Std Dev Volatilit**	**Trading Days**	**Period Volatility**
1/14/2015 - 5/23/2016	3.24%	496	72.25%
06/29/18 - 10/21/2020	3.72%	846	108.27%
06/18/2022 - 10/23/2023	2.63%	493	58.40%
01/20/2025 - Current	2.71%	118	29.44%

- **Capital Raised**: ATM and other synthetic issuance grow consistently to capture vol in rising markets when demand exists from institutions due to rising MSTR price.

- **Result:** ATM strategy is highly effective — equity is sold at a premium, and proceeds are recycled into more BTC, increasing long term holdings value by growing capital stack of an appreciating asset (higher future value than present value).

Drawdown Scenario: (BTC Drops 50 to 80%)

- **BTC Price**: Crashes from highs
- **IV**: remains elevated in bulls and parts of bears but compresses significantly as adoption happens.
- **Capital Raise:** Over time, being first or brand begin to matter more as volatility dampens, reducing the ability to securitize at higher premiums / BTC accretion.

Consolidation Volatility (primary consolidation phases)			
Date	**Std Dev Volatilit**	**Trading Days**	**Period Volatility**
1/14/2015 - 5/23/2016	3.24%	496	72.25%
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06/18/2022 - 10/23/2023	2.63%	493	58.40%
01/20/2025 - Current	2.71%	118	29.44%

Result: MSTR's ATM strategy breaks down. MSTR share price compresses as demand tails in public markets and IV doesn't provide the same protection to price drops. Raising meaningful capital becomes nearly impossible — all while Bitcoin is cheapest.

3. Yield Curve and BTC Capital Stack: mNAV as a Monetary Tool

Saylor has introduced a new financial term: mNAV (market NAV), which measures the ratio of Strategy's BTC holdings to its equity capitalization. mNAV is Book Value for Bitcoin.

mNAV = (BTC Holdings - Debt) / Shares Outstanding

Book Value is the traditional way to simplify valuing a company's balance sheet, cash flows, and holding of tangible assets. It tells you in simple terms, the floor value of a company if everything were liquidated. Book Value is total assets – total liabilities. Bitcoin is the key strategic asset that Strategy is building on.

mNAV is just the simplest way to value the spot Bitcoin backing MSTR equity. One note about mNAV is that at this stage it appears that MSTR's price is more impacted by bull markets of underlying Bitcoin than it is by mNAV (**Figure 2**).

Figure 2: BTC Holdings, mNAV & Debt

Date	BTC Holdings	BTC Price ($)	BTC Value ($)	Debt	Shares Outstanding	Est. Diluted Shares Outstanding	mNAV ($) Net of Debt	mNAV/share Net of Debt	Assumed Diluted mNav Net of Debt	Share Price	mNAV Ratio	Diluted mNAV Ratio	Stock Gain	
12/31/2021	70,469	46,214	$3,256,654,366	$16,330,000	95,870,000	124,510,000	$3,240,324,366	33.80	26.02	54.45	1.61	2.09	40%	
12/31/2022	124,391	16,528	$2,055,934,448	$23,660,000	112,855,000	149,234,000	$2,032,274,448	18.01	13.62	14.16	0.79	1.04	-74%	
12/31/2023	132,500	42,258	$5,599,185,000	$23,660,000	115,488,000	156,113,000	$5,575,525,000	48.28	35.71	63.16	1.31	1.77	346%	
12/31/2024	189,150	93,381	$17,663,016,150	$23,660,000	168,681,000	207,636,000	$17,639,356,150	104.57	84.95	289.62	2.77	3.41	359%	
3/31/2025	447,470	82,538	$36,933,278,860	$29,156,000	245,778,000	281,735,000	$36,904,122,860	150.15	130.99	288.27	1.92	2.20	-0.47%	*from YE 2024
5/18/2025	528,185	106,520	$56,262,266,200	$27,205,000	266,178,000	299,653,000	$56,235,061,200	211.27	187.67	399.80	1.89	2.13	38.04%	*from YE 2024
	576,230	**106,968**	**$61,638,170,640**	**$27,405,000**	**278,400,000**	**311,846,000**	**$61,610,765,640**	**221.30**	**197.57**	**416.92**	**1.88**	**2.11**	**43.95%**	***from YE 2024**

*data source: https://www.strategy.com/purchases

As discussed in the introduction, mNAV is just a fancy term to describe book value of Strategy. Bitcoin is the primary collateral asset and foundation for the company and the entire cryptocurrency ecosystem. Like land and gold of centuries past, Bitcoin is the base pricing mechanism of the entire new financial rails we are watching being built. In the case Strategy's plan, Bitcoin is in the process of being securitized. Just as gold, land, residential and commercial real estate and other commodities have done in the past.

In this light, mNAV is not necessarily unique but rather a repurposing of a term that traditional market players are accustomed to basing valuations of off. mNAV along with Power Law, disproves the narrative that there is no way to value Bitcoin, at least not when bitcoin is held as collateral on a balance sheet and is used to back loans and other financial products.

MSTR's BTC Spread Curve (**Figure 3**) shows how this dynamic is used to model yield capture across instruments with different convexity levels.

Effectively, this curve is exactly like traditional market credit curves that explain the relationship between credit spreads and maturity of different fixed income instruments issued by companies, municipalities, and sovereign countries. Credit curves in traditional finance are the foundation of global capital markets. Digital assets do not yet have a credit curve.

In TradFi, these curves are Investment Grade (IG), High Yield (HY), Credit Default Swap (CDS), Option-Adjusted Spread (OAS), and Sovereign Curves. What this curve tells investors is the different mNAVs where Strategy can safely execute various financial product issuance that is accretive to shareholder value, MSTR equity holders.

Figure 3: BTC Spread Curve at Different mNAVs

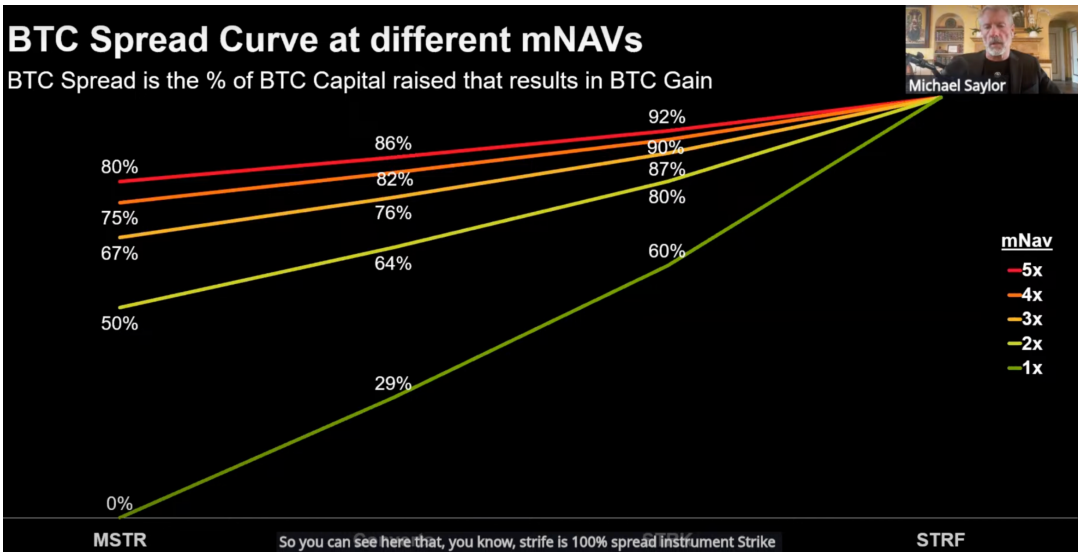
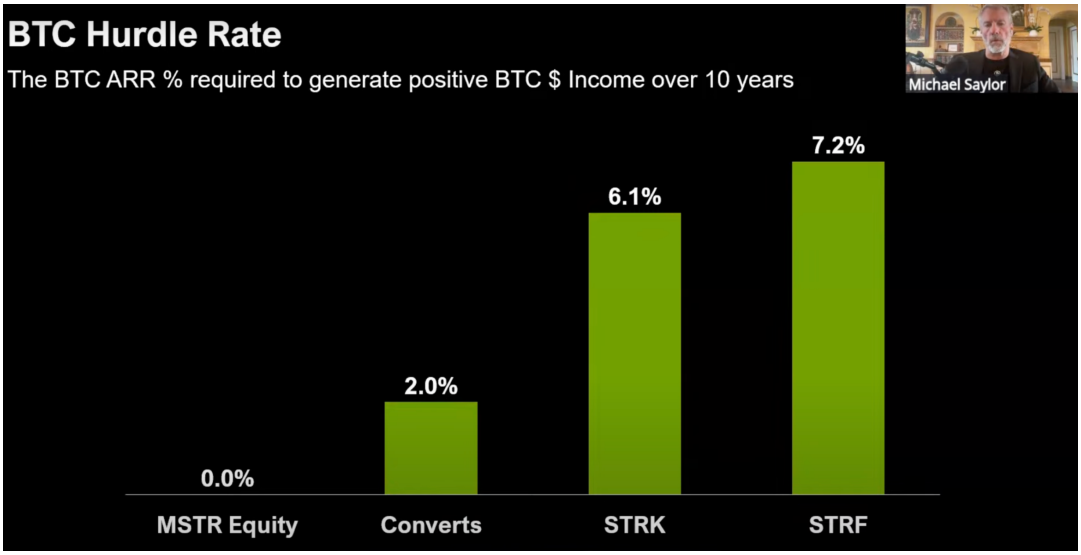


Figure 4: BTC Hurdle Rates Similar to Traditional Internal Rate of Return (IRR)



- MSTR Equity 0% hurdle rate: pure upside, no yield cost due to high supply of equity issuance
- Converts 2.0% hurdle rate: Cost of capital as investors need to be paid a low rate and have the potential to convert to stock in the future. Potentially dilutes equity holders in certain conversions scenarios.
- STRK & STRF preferred instruments 6.1% and 7.2% hurdle rates: Cost of capital due to dividend obligations. Dilutive if conversion takes place otherwise non-dilutive unless

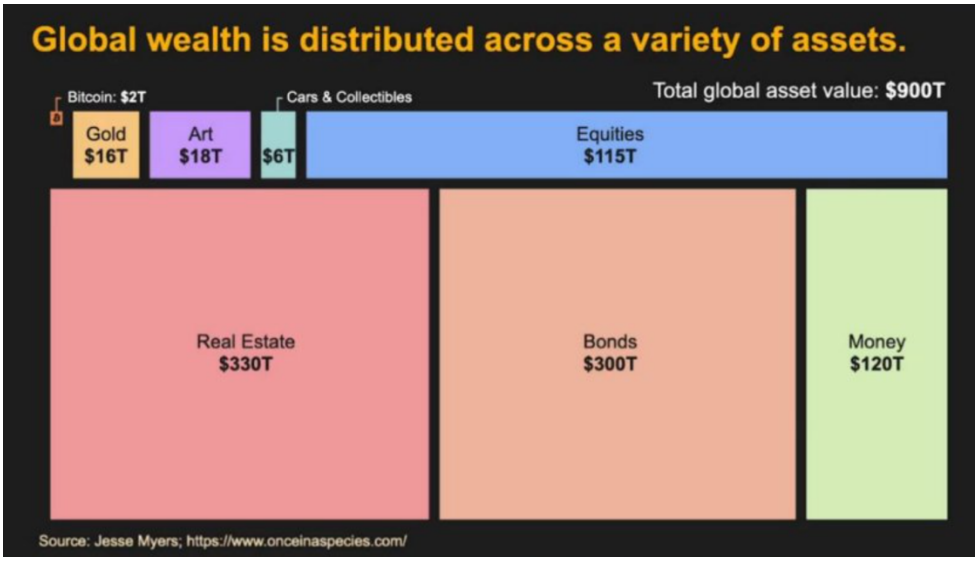
force liquidation or company liquidity crisis. Potentially dilutive, depending upon how the securities are structured.

4. Securitized Bitcoin: The Genius and Irony of the BTC Financial Stack

MSTR is not just mimicking TradFi tools. It is creating a yield curve atop Bitcoin. This is a creative way to put to action and speed up the timing of Jesse Myers' hypothesis that Bitcoin would absorb capital from traditional asset classes. MSTR enables this shift by:

- Offering fixed income BTC proxies to credit-constrained TradFi participants who are unable to hold digital assets in portfolios.
- Operating entirely within SEC-compliant structures, skirting the delay taking place in base-layer innovation (Bitcoin).

Figure 5: Capital Market Assets Relative to Bitcoin



5. Risk Vectors: MSTR – BTC's Shadow Bank

Strategy, by way of creative financial engineering, has created Eurodollar-style, offshore Bitcoin liquidity inside the traditional financial system. Similar to how international (Eurodollar) banks held US dollar collateral and offered synthetic dollars at a different rate than in US markets while sidestepping dollar regulations, Saylor is holding Bitcoin as collateral and offering it at different rates to a different market than the underlying – traditional markets. Capital never has to touch the Bitcoin base layer. It accesses synthetic yield and appreciation via levered equity or fixed income securities.

There are existential risks:

- **Liquidity Crunch:** If equity issuance is cut off (e.g. regulatory change, loss of confidence), capital becomes scarce as demand for public market liquidity tools become ineffective.
    - **GBTC Example:** Greyscale was doing a different trade but a similar arbitrage. Taking in mainly hedge fund capital, locking accredited investor's bitcoin up for 6 months and then issuing shares that could be sold at a premium. In other markets, these players also appeared to be selling bitcoin futures and/or options against their locked Bitcoin to capture the premium while they waited. While the capital in the trade was small or Bitcoin was in a bull market, this was a great trade. Then things changed leading to steep discounts to NAV for GBTC.

      Retail piled in and Bitcoin entered a bear. Early investors exited, interest in the security waned and allowing financial stress to set in. Only to be compounded by Bitcoin's bear which led to a leverage unwind and collapse of Three Arrows, BlockFi, Celsius, and FTX among others. The aftermath left GBTC at a 40-50% discount for much longer than market participants assumed was possible. This in itself offered another arb to the upside, though it came with the real risk of GBTC collapse as regulators began asking more serious questions. Over a two-year period from 2021 to 2023, shares of GBTC fell roughly 84%+ while Bitcoin fell around 76%.

    - **VNQ and Bitwise (BITW):** The Vanguard Real Estate ETF (VNQ) and Bitwise 10 Index (BITW) are examples of wrapped assets trading in public markets but the underlying trades in a completely different market. In both cases, neither have performed as investors would expect.

      Physical real estate for example has been booming since 2020 in many cases residential properties have increased by 50 to hundreds of percents and land tract per acre prices have doubled. Meanwhile, over the same period the public market (exchange traded) proxy for real estate has fallen about -7% in price from 2020 to 2025. Even considering the current 4% yield it has still underperformed physical land.

      Likewise, BITW holds the top 10 crypto tokens but is largely invested in Bitcoin. As of today, 5/23/2025, BITW trades at 63.39 and its intraday NAV is 72.78 a discount of roughly -13%.

      Mixing illiquid assets of one market in wrappers for another market with different behaviors, demand profiles, and intermarket wrinkles can create challenges. Doing so, does provide greater access to illiquid or difficult markets but it also comes with unintended consequences at times.

- **Convexity Reversal:** In a BTC bear market, leverage typically begins to show and compound losses. While it appears that MSTR depends on mNAV staying elevated, data suggest it requires Bitcoin to remain elevated (see Figure 2).
    - **First Republic:** while owning bonds is a primary mechanism for banks to capture yield and keep the lights on through lending services. It primarily works with little thought when yields are always falling (40-year interest rate decline – see introduction). However, when regime changes happen for prolonged periods of time, your capital base quickly becomes impaired. Additionally, leverage and any masked over, bad decisions show up.

      In the First Republic case and the case of many other regional banks, they learned they had made bond market 101 and expected value mistakes. These firms bought long bonds at historically low rates without considering the probability that rates would rise in the near future. Such is life when you rely on FED backstops to function as a business. When rates rose aggressively, they lost money exponentially on what had been expected to be a safe or "risk free" pile of capital. It turned out the bonds they held were "all risk" with "no free" components.

      Compounding this problem was the fact that investors began to dump the stock at the same time depositors lose interest in First Republic's low-rate savings offer. As depositors pulled capital and moved to other institutions paying a higher yield, the investing mistake became apparent and catastrophic. Because of these factors, as rates rose, they were unable to reprice loans fast enough to capture more favorable spreads. Soon after, First Republic was shut down and merged with JP Morgan Chase. Going down as the second-largest bank failure in US history.

- **FED-like Dynamics:** Requires ongoing capital raises to maintain positive BTC yield and service future obligations. For Bitcoin's expected long term (10 year) appreciation this should not be a major concern, if however, that time window changes it would create issues across the capital stack.

  This in some ways is corollary to how Luna created and burned shares of two sides of its token to maintain a dollar peg. This works, and is innovative, until NAV of the underlying changes to the point where new capital no longer flows in, i.e. investor demand begins to wane. Long term the structure is fine. If, however, it becomes impaired in the short-term it tends to lead to failure as the leverage, rehypothecation and Keynesian features create a negative feedback loop that brings demise as it is all unwound. Even if the overall strategy works in theory. The market has to maintain belief.

  The way MSTR securitizes Bitcoin resembles both Eurodollars and Terra/Luna's structure:

  Eurodollars, in that BTC yield and the BTC yield curve stem from Bitcoin that is technically trapped in the cryptocurrency ecosystem (new financial rails) and not easily accessible in the traditional financial system. MSTR effectively ports that crypto

volatility over to traditional financial rails through securitizing traditional products that capture the vol compression (recreating the advantage of a 40-year interest rate decline).

Eurodollars were created for a similar reason. To earn yield on dollars that were held outside of the dollar system. Like so, Strategy's BTC does not earn a yield just being held in cold storage. Much like dollars held in Eurodollar institutions. Borrowing and lending against those assets does create a yield out of the securitization process much like Eurodollar intuitions created yield off lending dollar stacks they held but had little use for (or were required to be held as bank reserves). Furthermore, MSTR held as traditional equity can allow margin (lending) in traditional brokerage accounts. Base margin rates on US Equities are around 9% annually. Effectively, if done, this creates a creative way to "borrow" on Bitcoin which is difficult to non-existent in the US. Though it is being worked on and there are some institutional capabilities.

Strategy's printing mechanism, MSTR ATMs, in a roundabout way is similar to Terra/Luna's liquidity and pegging mechanism. In all intents and purposes, MSTR is an issuer of synthetic bitcoin exposure, with ATM equity sales and debt issuance acting as a manual "mint-and-burn" mechanism. It's centrally managed and relies on sentiment. While drastically different, it also isn't all that different than the Luna premise. As a sidenote, ATM is an interesting acronym choice for a process that is more traditionally called, secondary stock offering. The irony is that ATMs are the places we go to get magically pull money out of thin air (really our bank accounts).

> *According to Terra's white paper, its underlying protocol relied on a two-coin system, which was not fully backed by traditional collaterals (e.g. fiat currency or gold) (Kereiakes et al., 2019). On the one hand, Terra was the algorithmic stablecoin whose value was pegged to different fiat currencies, giving rise to fiat-based stablecoins, such as TerraUSD, TerraEUR and TerraKRW. On the other hand, Luna token1 (LUNA) was the counterweight used to delete (or, at least, reduce) the volatility from UST. Being more specific, LUNA-UST protocol was based on two main concepts. First, the protocol stabilised UST prices by ensuring that its supply and demand were in equilibrium through arbitrage, that is, contracting (or expanding) UST pool by using LUNA pool as counterweigth. Second, through the Terra protocol's algorithmic market module, arbitrageurs were allowed to trade $1 worth of LUNA for 1 UST, and vice versa, regardless of LUNA and UST prices (Shapovalov et al., 2022) 2.* <*link*>

While BTC yield is pegged to mNAV and not a burn process, according to Saylor mNAV needs to stay elevated to allow equity issuance to funding purchases underlying Bitcoin. Ultimately, MSTR is also reliant on reflexive capital flows, high volatility, and short bear markets. The main difference? MSTR uses manual discretion and TradFi compliance rather than algorithmic expansion which ended up being the demise of Terra/Luna once crafty hedge

> funds figured out a way to deconstruct the Terra/Luna peg. Luna's last-ditch effort was to – add Bitcoin to the balance sheet.

So far, each cycle we have learned new financial engineering feats. In a number of cases, the working components of failed experiments have become common place in future cycles. Are we watching the first real BTC-native TradFi balance sheet experiment or have we successfully pulled the working components that will drive Bitcoin securitization into the future?

6. Implications and Conclusion

Strategy is not just "Stacking Bitcoin". They're attempting to architect a parallel financial system on top of Bitcoin in the form of the first true Bitcoin-native bank and yield curve.

By fusing legacy capital tools (equity issuance, convertible debt, preferreds) with Bitcoin's long-vol nature, Saylor has built a synthetic Bitcoin yield curve—without needing to touch the base layer. The strategy effectively securitizes volatility, monetizes Bitcoin's convexity, and delivers TradFi-compatible access to sound money.

But this new system is not without fragility. If liquidity freezes, volatility compresses, or market sentiment turns, the feedback loop that fuels MSTR's capital engine could seize up. The model thrives on bull markets and long-duration conviction, not dissimilar to the Eurodollar system's reflexive liquidity, or Terra/Luna's self-reinforcing mechanism, albeit with manual controls and real collateral.

Strategy's balance sheet and market behavior now resemble past shadow banks as it has constructed a yield curve atop Bitcoin. The irony, of course, is using fiat-era tools to reintroduce the very Keynesian ideals Bitcoin sought to abolish: leverage, arbitrage, and money printing (via ATM equity).

It is a genius act of monetary alchemy: turning speculative volatility into structured capital that can easily be sold across our existing financial markets.

Saylor is building the monetary scaffolding of a parallel financial system in a manner quite different than Satoshi's vision or that of your traditional Toxic Maximalist. The core difference is Bitcoin is the collateral asset rather than focusing on the network underneath. Unlike stablecoins, U.S. Treasuries are not used to create the yield for these synthetics, rather the equity and spot Bitcoin are. In effect, these tools are first derivatives of spot Bitcoin but traded on traditional exchanges rather than OTC desks or derivatives exchanges. On the one hand, a superior collateral asset is being used. On the other, it's still leverage and issuance driving the bus. Both of which rely on investor psychology.

Whether this is Satoshi's vision realized or reversed will depend on one thing: does the system empower users with sovereign access to sound money — or recreate old dependencies in new wrappers?

Either way, MSTR is no longer just a company. It's a prototype for 21st Century capital structures.

References:

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