

MicroStrategy's (MSTR) Bitcoin Investment Strategy: A Comprehensive Overview

Selling Volatility and Recycling into Bitcoin

Michael Saylor, CEO of MicroStrategy, has outlined the company's innovative approach to capitalizing on market dynamics. Their strategy involves "selling volatility" and reinvesting the proceeds into Bitcoin. The company generates a spread—the difference between the equity premium, convertible bond premium, and Bitcoin premium (measured as the Accretive Earnings Rate [AER] versus the USD). This spread allows them to enhance their Bitcoin holdings per share.

Key steps include:

1. Issuing Equity at a Premium:

- MicroStrategy raises capital by issuing shares when their stock price trades at a premium. For example, between November 18-24, the company sold 5.6 million shares at an average price of \$440 per share, raising \$2.46 billion.
- These funds were used to purchase 25,000 Bitcoin at an average price of \$98,000 each.

Results:

- Bitcoin holdings increased by ~10% by the end of Q3, reaching 252,000 BTC.
- Shares outstanding rose by only ~2.3%, from ~245 million shares, including in-the-money convertible notes.
- The Bitcoin per 1,000 shares metric rose from 1.03 BTC to 1.1 BTC, creating accretive value for shareholders.

2. Monetizing Volatility with Convertible Bonds:

- Convertible bonds provide an alternative way to raise capital without immediate dilution. On November 21, MicroStrategy issued a \$3 billion convertible bond maturing in 2029 at a 0% interest rate. These bonds are convertible into shares at a \$672 strike price, a 55% premium over the stock's then-current price of \$434.
- The proceeds were used to acquire ~30,000 Bitcoin at an average price of \$98,000 each.

Risk:

- If Bitcoin's price is below \$98,000 at maturity in 2029, the bonds will not convert, and MicroStrategy must repay the principal, potentially at a loss.

Accretive Value Creation for Shareholders

MicroStrategy's strategy hinges on ensuring that the percentage increase in Bitcoin holdings exceeds the percentage increase in shares outstanding. By doing so, Bitcoin per share rises, creating accretive value for shareholders. Saylor describes this as effectively "selling \$1 bills for \$3."

Key Risks

1. **Bitcoin Price Volatility:**

- Saylor's projection of Bitcoin appreciating at ~29% annually for the next 21 years underpins the strategy. If Bitcoin fails to meet this expectation, the company faces significant risks, particularly with debt repayment.

2. **Stock Price Dependency:**

- The strategy relies on MicroStrategy's stock trading at a premium. If market sentiment shifts, issuing equity becomes less viable, leaving debt as the primary funding option.

3. **Leverage and Debt:**

- The company's high leverage magnifies potential losses during prolonged Bitcoin bear markets, potentially impairing operations.

Why Investors Choose MicroStrategy Over Bitcoin ETFs

MicroStrategy offers leveraged exposure to Bitcoin, unlike ETFs that merely track Bitcoin's price. Investors believe that the company's ability to issue debt and equity to acquire additional Bitcoin could yield higher returns than holding Bitcoin directly or investing in ETFs.

Conclusion

MicroStrategy's financial engineering—issuing equity at a premium and leveraging convertible bonds—creates a unique avenue for Bitcoin investment. While the strategy provides significant upside for Bitcoin maximalists and bullish investors, it comes with substantial risks. The sustainability of this approach is contingent on Bitcoin's continued appreciation and the market's confidence in MicroStrategy's role as a Bitcoin proxy. Investors must weigh these factors carefully, as the duality of high potential returns and significant risks makes this strategy both innovative and polarizing.

Further reading: [Bitcoin's 'Glitch in the Matrix' Has MicroStrategy Stuck in a While Loop](#)