

(6) show negative coefficients on the lagged BITO premium with a magnitude exceeding 0.8. These findings indicate that the change in valuation premium corrects over 80% of the premium from the previous trading day for the BITO fund. During the common sample period, a negative coefficient also exists on the lagged premium for GBTC as shown in columns (7), but the magnitude is not significant economically or statistically (-0.01). For GBTC fund, the change in market valuation premium is positively associated with Bitcoin return, which is consistent with the momentum trading behavior explanation. However, the coefficient for BITO is much smaller.

The change in valuation premium of both funds is positively associated with the SPX index return, but the effect is much stronger for GBTC than for BITO (0.27 vs. 0.01) as shown in columns (9) and (6) of Table 7. These findings suggest that when the equity market performs well, the valuation premium tends to increase more for GBTC than for BITO.

Figure 1, Panel A depicts the highly erratic nature of GBTC's valuation premium, which began with a substantial premium of 81% on the initial trading day and surged to 142% by the second trading day. This premium fluctuated over time but continued to be positive until the introduction of the first spot-based Bitcoin ETF in Canada (ticker: BTCC CN Equity) on February 24, 2021. In Panel B, it is evident that after the ETF's launch, GBTC's premium turned negative and remained so thereafter. Table 8 analyzes the time series pattern of the decline in GBTC's valuation premium. Column (1) shows that the premium decreased by 61% after the introduction of the first ETF.⁴ Even after controlling for the decreasing time trend of 0.016% premium per day, column (2) indicates a significant decrease in the valuation premium of 38% after the ETF introduction. This decrease in valuation premium remains significant at 1% even after adding a set of control

⁴ As previously mentioned, the first spot-based Bitcoin ETF was initiated in Canada (Ticker: BTCC CN Equity) on February 24, 2021.

