

“Get Rich or Get Wiped Out”

Perspectives: September 25th, 2025

Yesterday, the Wall Street Journal published an article headlined “*Get Rich or Get Wiped Out: Bitcoin’s Hottest New Trade*”. The gist is that the latest fashionable way to place highly leveraged bets on markets is to use something called ‘perpetual futures’.

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Get Rich or Get Wiped Out: Bitcoin’s Hottest New Trade

Perpetual futures offer traders
extreme leverage to bet on
cryptocurrencies.

Source: The Wall Street Journal website, September 24th, 2025

The logic and math behind this is astonishing. A so-named ‘futures contract’ is an agreement to buy or sell an asset at a pre-agreed volume, price, and by a certain future date. Futures contracts are already highly leveraged financial instruments, and suffice to say that these contracts can become particularly onerous for anyone that gets it wrong. This inherent leverage was apparently not enough, so people invented something new called ‘perpetual futures’.

The idea behind it is to remove the pre-defined limited term, thereby creating a futures contract that will never expire. It gets technical, but all I

needed to figure out is that this has the effect of massively boosting an already high amount of leverage.

However, now we have the perfect trifecta – the mother and father of all speculation. Some market participants are busy (1) short-term trading (2) Billions of US Dollars, (3) using spectacularly leveraged perpetual futures contracts, (4) on cryptocurrencies that generate no identifiable free cash flows.

In the red-hot emerging markets of 1996 and 1997, as a young stockbroker I gained first-hand exposure to some market participants on the JSE short-term trading in ‘nil-paid letters’. These are stock-exchange traded rights over a limited and short period of time – just a month or so – that entitles its owner to partake in a future capital raising of a listed company. They were not invented or ever intended for use as speculative instruments. But people quickly figured out that these instruments offered highly leveraged outcomes. An example to illustrate:

A listed company trading at R100 announces a rights issue to raise new capital from existing shareholders at R90. Every current shareholder receives rights to partake therein, and then those rights transact on an exchange for about a month. The reason they trade on an exchange is to offer existing shareholders who do not want to follow their rights an opportunity to sell their rights to other shareholders who want to follow their rights (this means they will pay in the R90 on top of buying the rights themselves).

Typically, the day the rights start trading, the company’s share price falls quite close to the R90 level – rights issues are dilutive, because there will be more shares in issue afterwards. So how this works in practice is that if the stock trades at R90,50, then the rights will trade at R0,50. If the next day the stock trades up to R91 (up just 0.6%), then the rights will trade at R1 (up 100%).

So, what people quickly figured out is that they could speculate like crazy on these instruments, without actually having the money nor any intention of

actually paying the R90 per share to invest in the company. Fortunately for them, a nil-paid letter is only a *right* to partake, not an *obligation*.

Unfortunately for them, leverage always works in both directions. If the very next day the company share price declined to R90,10 (just 1% down), then the rights will trade at R0,10 (a whopping 90% decline).

In Canada's formerly red-hot property markets, stories are breaking about people who have lost their entire life savings on deposits they put down on pre-construction condo developments. They were told about a quick&easy way to make money by flipping a pre-built condo before it even got built. Here is a bit of math again: They sign a future purchase agreement with a developer and put down a deposit of say \$100,000 on a \$1,5mn condo that is to be built in say a year's time. If the real estate market kept rising and the condo's price increased by just 7% to \$1,6mn, they flip it to another buyer, pocket the \$100,000 difference, while also getting their \$100,000 deposit back, for a quick 100% gain. Sounds so deceptively easy and simple.

But again, leverage always works in both directions. Higher interest rates and lower immigration have reduced demand, while the Canadian property market has simultaneously been flooded with literally tens of thousands of newbuilt condo's. As property prices adjust and start declining, it does not take much at all for their entire \$100,000 deposit to get wiped out - a benign 6% decline in that condo's price gets the job done.

Also, and unfortunately, in comparison to those nil-paid letters, which are rights but *not* obligations, people are now seemingly surprised to learn that those condo purchase contracts they signed are legally enforceable obligations to pay in the capital required to the developers to build their condo. Stories are now coming out about people getting *sued* by the developers, and for millions.

Ozzy said it best, back in 1980: '*All aboard the crazy train*'.

Our work continues...

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