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Bitcoin treasury companies: infinite money glitch?

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The more successful they are, the bigger the potential for collapse

The rapid growth of bitcoin treasury companies has created what some observers have dubbed an 'infinite money glitch' in financial markets. These publicly traded companies, most notably Strategy (formerly MicroStrategy), have discovered a seemingly perpetual cycle of raising capital to buy bitcoin, watching their stock prices soar as bitcoin appreciates, then using their elevated valuations to raise even more capital.

Bitcoin treasury companies are fundamentally different from traditional corporations. Rather than generating revenue through operations, they function as leveraged plays on bitcoin's price appreciation. Strategy exemplifies this model, having purchased more than 630,000 bitcoin as of September 2025 (now valued at over $70bn) while its stock price has surged over 1,000% since this time two years ago.

These companies operate by holding substantial bitcoin reserves on their balance sheets, financed through debt and equity issuances that create direct transmission channels between crypto market volatility and traditional financial markets.

The mechanics reveal interesting financial engineering, reliant on circular or even counterintuitive logic. Companies issue stock to purchase bitcoin and, as bitcoin's price rises, their treasury holdings increase in value, driving up their stock price, often at an amplified rate in relation to the underlying dollar-denominated gains in their treasury holdings. This enables them to issue more stock at higher prices, creating a self-reinforcing flywheel effect.

What's behind the demand?

What drives investor appetite for this structure? First, these companies capitalise on expectations of bitcoin's continued appreciation, offering amplified gains through the

flywheel mechanism. Second, despite the proliferation of bitcoin exchange-traded funds and other crypto investment products, unmet demand for crypto exposure means that these companies satisfy in ways direct investment cannot.

However, this raises a fundamental question: if the goal is to provide leveraged crypto returns to investors, surely the proper vehicle would be an investment fund rather than a corporate treasury strategy? Investment funds are designed specifically for this purpose, with appropriate regulatory oversight, fee structures and investor protections. The fact that investors are instead turning to bitcoin treasury companies suggests either a regulatory gap in available investment products or that these companies are exploiting advantages that proper investment vehicles cannot replicate.

Recent analysis suggests the strategy relies heavily on convertible debt structures that exploit volatility mispricing. When these companies issue convertible bonds, institutional investors purchase them and simultaneously short the underlying stock, creating delta-neutral positions that transfer risk to retail investors who may not fully understand the mechanics involved.

Potential for systemic collapse

The scale has grown remarkably quickly. Bitcoin treasury companies collectively hold over 1m bitcoin in reserves, representing more than 4.7% of the total circulating supply with Strategy alone controlling 2.7% of bitcoin's total supply. This creates a feedback loop where these companies' trading activities can influence the very asset they're accumulating, potentially amplifying both upward and downward price movements in bitcoin markets.

As these companies continue their accumulation strategies, shareholders experience increasing exposure to bitcoin's volatility with each round of fundraising. If bitcoin's price falls significantly, the stock prices of these companies can collapse even more dramatically, creating leveraged exposure without traditional leverage. Modelling reveals a counterintuitive paradox: the more successful the strategy appears in the short term, the more severe the potential collapse becomes, because success allows companies to issue larger amounts of debt and purchase more bitcoin, increasing their future obligations.

The potential for systemic impact becomes apparent when considering these operations' scale. Although Strategy was passed over for inclusion in the S&P 500 during the September 2025 rebalance, analysts note that its eventual addition could compel passive investment funds to acquire billions of dollars in bitcoin exposure regardless of their investment mandates. According to estimates, Strategy's inclusion alone could generate over $10bn in inflows from passive index funds, with speculative trading potentially boosting that figure to $15bn-$25bn, representing massive, involuntary crypto exposure for traditional investors who never intended to hold digital assets.

Regulation is lagging

The regulatory response has been notably fragmented, with most organisations avoiding registration as investment companies under the Investment Company Act despite functioning like investment vehicles. The US Securities and Exchange Commission has relied on existing corporate disclosure frameworks, creating a grey area where companies operate with significant crypto exposure without typical investment fund protections.

Legal experts suggest the key question isn't whether these should be treated as crypto entities, but as investment companies, with one noting this is 'probably first and foremost what everyone's monitoring'. Companies face practical challenges traditional frameworks weren't designed for: cybersecurity programmes, auditing difficulties where 'not all auditors are suited for this', and custody arrangements requiring external expertise because 'the accounting is very tricky'.

Perhaps most tellingly, there's nothing inherently 'crypto' about this strategy; one could replace bitcoin with any asset where corporate purchase drives stock price above asset value. Within the wider crypto domain, treasury companies for other currencies like Solana, XRP and Ethereum have already started accumulating significant holdings of their own. BitMine for example has Ethereum holdings that are now valued at over $11bn. This suggests regulatory solutions shouldn't focus on crypto-specific rules but on the underlying corporate finance mechanics enabling these feedback loops.

The path forward most likely requires enhanced disclosure requirements addressing concentration risks and leveraged exposure, treating large crypto holders as investment

companies and international coordination to prevent regulatory arbitrage. Companies should clearly explain to investors they're buying leveraged crypto exposure, not traditional corporate equity.

The regulatory lag may reflect broader limitations in traditional finance's ability to provide access to emerging asset classes. The demand for crypto exposure has outpaced the development of regulated investment products, creating a vacuum that these companies have filled through financial engineering. This suggests the issue may be transitional, potentially resolving as more regulated crypto investment vehicles become available. However, the current situation demonstrates how financial innovation can outpace regulatory frameworks, creating new forms of risk to investors.