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Virtual Event Series

Crypto Fundamentals in a Market without Fundamentals

Guest Speakers:

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CEO
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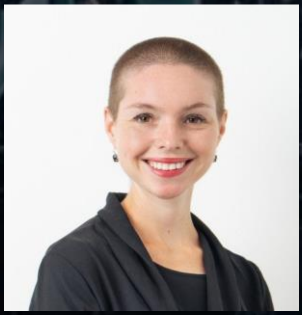

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DiffuseTap: Crypto Fundamentals in a Market without Fundamentals

Last time on DiffuseTap, Mitchell Moos and Anton Tarasov from Crypto Briefing talked to us about what fundamental analysis actually looks like in the crypto universe, quantifying market sentiment, and how the community can be an important indicator for analyzing specific coins.

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DiffuseTap

This networking session is part of our weekly virtual events series. Networking (you'll bump into at least a dozen high caliber fund managers) meets purposeful (you'll tap into brand-new sources of ideas) … straight from your armchair like a boss.

Meet the Speakers

MITCHELL MOOS is the CEO of Crypto Briefing, a prolific crypto research and news media company. As a technology enthusiast and former journalist, Mitchell has held a string of managerial positions in crypto firms such as Gravitichain. In 2017 he founded his first startup, Coinglomerate, which designed algorithms for optimizing cryptocurrency mining. LinkedIn: @mitchellmoos

ANTON TARASOV is the Head of Research at Crypto Briefing and is a strong proponent of the power of intangible resources and decentralized finance. Anton has been serving in the blockchain space since 2016, including sales and content writer positions at crypto research companies such as ICO Drops. LinkedIn: @anton-tarasov

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KENNY ESTES: Our speakers today are Mitchell Moos and Anton Tarasov. Mitchell, do you want to tell us a little bit about your background and Crypto Briefing?

MITCHELL MOOS: Sure. To put it briefly, I've been a crypto degenerate since 2017. I got in as a prolific cryptocurrency miner. I've been working in cryptocurrency startups, and I used to work in software. I then moved over to journalism as the editor in chief at two separate crypto publications, doing technical journalism. Most recently, I've been appointed CEO of Crypto Briefing about 12 or 13 months ago.

KENNY: Thanks for joining us. And Anton, do you want to add a little bit on your background and what your role is there?

ANTON TARASOV: My background is similar to Mitchell. I started in 2017 and got involved with a crypto company brokerage. I worked there for a while, and then I switched to writing. That's how I got with ICO Drops, which you might have heard of if you were around at the time. And after that, I joined Crypto Briefing as a researcher. I've been there ever since.

AYLA KREMB: Beautiful. Well, now that we have you both here, I think it's time to start with the questions. Everyone who has joined, feel free to pop some questions of your own into the chat. We'll start with the question of what does fundamental research actually mean in the crypto world, as opposed to traditional finance? What is different, and what is similar? How should we think about fundamental research in the crypto universe?

MITCHELL: We'll start off nice and easy. When people think of fundamentals, they are typically thinking of discounted cash flows, and aspects of their business like how many customers they have, what's the rate of growth, or what's the overall valuation, either from fully diluted valuation or even just market capitalization. They're using all those factors to try to assess what the real value of a business or an organization is.

For cryptocurrency, that's quite a bit different because it doesn't have a list of fundamentals that you can look at. Most of the time, the cash flows are irregular, or they're going to be highly difficult to model because of the nature of working in most crypto projects or networks. They grow exponentially and quite suddenly when they do take off.

The second part of that is, sometimes there is not even an organization that people can invest in from an equity standpoint. If this is purely a self-organized community like SushiSwap or one of these other defi projects, you can't get equity in a company in the way that you can get exposures through building on top of this protocol, or through getting access exposure through some sort of token that has some buyback or dividend, or some sort of cash flow aspect to it, and have it baked in. And then, you can maybe model the value of that from a fundamental perspective.

At Crypto Briefing, most of what we do is evaluate early-stage crypto projects and help people construct portfolios to generate alpha. It's not just systemic exposure to the crypto market, but it's trying to get market-beating returns, particularly in smaller altcoin projects or through yield farming. When we do fundamental research, usually it involves assessing product market fit, the strength of a community, how experienced the founders are, and things that really lend to whether this project will be able to intelligently take advantage of network effects to build their communities.

We take this from a bottom-up approach, starting from the customers who are stakeholders in the company and who are building a product that they care about, and then being able to monetize that product to give value back to those original stakeholders and investors.

KENNY: That's interesting. I like that approach. It's kind of unique, and it's super hard to quantify, obviously. But then, the flip side to that question is, the pricing doesn't really reflect reality all the time in crypto. There are a lot of sentiment-driven ups and downs. What are your thoughts on that, and how do you factor that into a more fundamental approach? Anton, do you want to take that one?

ANTON: Yeah, definitely. I agree with you on the point that sentiment matters a lot. And the later we are in the cycle, the more it matters. Because when the bear market is in full steam, the community shrinks a lot, and only diehard OGs are left. Diehard OGs understand things. They don't buy stories. They can look through them, and they can look right past the hype and understand the value of the assets they're looking at.

That's why it becomes increasingly difficult for projects to make strategies which won't handle the market. Can they rely on marketing? Do they have solid products underneath that? When that happens, you need to think as the end user. When the bull market is in full steam, the end user generally does not have the capacity to understand the product, or to understand the tech. That's why they buy the stories.

There is a meme in the space that I think actually started in the startup world. When the actual cash flows appear, they kill that dream because you can speculate a lot on what's possible. Once the protocol starts working and starts generating usage, you can look at the numbers and they may not be as good as they were portrayed. That's where it starts to collapse. Again, that's why the later it is in the cycle, the more sentiment matters.

Sometimes it gets to the point where you may rely 90% on the sentiment and choose based on so called "pumpamentals" rather than fundamentals. But then, you should be responsible with the timeframes because once the momentum is gone and it reverses back, that's where you need to be out of those projects which you think do not necessarily have strong teams, or a strong community, etc.

KENNY: Love that. Especially your comments about how when you're pre revenue, anything's possible. It harks back to Silicon Valley, where it's like "Just don't get revenue. What are you doing? That's silly."

MITCHELL: A good example of that is Cardano, where they've been in the honeymoon phase for some two or three years. And now that they've actually started to shift smart contracts, people realize that there are a lot of complications. Now they can't hide and say, "We don't have a product yet." Anything's possible when the product hasn't actually been shipped. Sometimes people could say "man, my expectations are up here, but the product is all the way down here."

KENNY: Mitchell, do you want to add to what Anton said about sentiment and fundamental analysis, and your approach at Crypto Briefing?

MITCHELL: A lot of what we do is assessing the quality of communities. We don't look at it from this perspective that everything's just overvalued in crypto. And yes, in some cases it is, but that's not very helpful in deciding which project of ten is most fundamentally sound, relative to each other. Because if the whole market is overvalued, and you expect this market to remain overvalued for 6 or 12 months, just saying that you're not going to participate at all is not a helpful strategy.

The way that we look at things typically is we dig into Discord channels and Telegrams, and we actually see what the characteristics and norms are of a particular community. That's our version of fundamental analysis. If you go into a community where people are just about pumpamentals, and just talking about prices all the time, then that's probably not a high-quality community. Those people are financially incentivized to stick around. And when the incentive stops, those people are gone. They're mercenaries.

As opposed to if you go into a community, and you see people talking about the technical aspects of a project, and people trying to build on top of it where it's a more developer-related discussion, that usually is a better indicator that this community is salient and will probably be longer lasting than one that is more financially motivated. If people are in a project for intrinsic reasons, or ideological reasons, that's usually what can lead to strength, relative to other projects and long-term price appreciation.

AYLA: We were talking a little bit in our prep call about fundamental analysis versus community analysis. How do you put a value on community? How do you approach that? Mitchell, maybe you could keep going on that same thread that you were on. Do you want to hop on it?

MITCHELL: I think Anton might want to say something.

ANTON: Yeah, I can take that. The value is usually cross referenced. You have different types of products. Let's say you find a competitor to Uniswap early on, which is just a decentralized exchange. If you find such a product early on, and you look at it and see builders in there, you can expect this product to get at least close to the valuation of the original one. And that also depends on usage, and liquidity provision.

There are quantifiable factors that you can look at which you can spot early on. Your task is basically to find a similar product that already has an audience, look at how many users that product has, look at the volume, look at the total value locked, and then cross reference. You need to ask questions like, do you expect this product to reach the same level, or at least 50% of that usage? And why? Why would people go from Uniswap to use that product? Does it provide any incentives?

To Mitchell's comment about the motivation, when he said that people should be incentivized by things other than money, that is true. But sometimes, the game theory works beautifully, and it brings projects to really high valuations, like Olympus DAO. It looked like tokenomics to most, and it still does. But still, with those tokenomics, or the incentive structure they've built, they have essentially created a strong community that is mostly incentivized by the financial aspect in the first place. Right now, I think it became way bigger with different NFTs popping around it, and different activities growing to create projects built on top of OHM.

KENNY: That's great. Appreciate that. We'll start picking up some of the questions from the chat here, like this one, which is talking about the community, or the network effect (as traditional finance might call it). How do you look at the network effect? Mitchell, we'll go to you for this one. Do you look at the network effect as a metric? Do you try to quantify that? And then, another concept that's related to that is Lindy's law. At what point do you find that these things actually become self-sustaining networks in and of themselves?

MITCHELL: To answer your first question of whether we quantify it, yes. Oftentimes, we're using referential valuation. For example, if you take a benchmark like Uniswap, and you get a value per Discord, member, or value per active customer, and you divide that into whatever you want, like revenue or market capitalization, then you can extrapolate that onto a smaller project and try to get a relative valuation, or what you think the true value is. And then, you can apply a calculated growth multiple to say, "here's where we think it's going to be in the future for these reasons."

That is one way you can try to get an evaluation around a project that's community-driven. That just boils down to what the lifetime value of a customer is, or what the lifetime value of a community user is, and how it translates to providing value to this overall ecosystem. When it comes to the Lindy effect, I find that it is pretty fickle in crypto because the narratives are changing all the time. One day, it might be privacy coins. The next day, it could be gaming, and then it's suddenly NFTs. people's attention spans are quite limited.

Until a project reaches a certain ubiquity, like Bitcoin or Ethereum, there's still a risk that it just falls into irrelevance. Look at XRP, for example. It has been out of the spotlight, and if it doesn't figure out these lawsuit issues, it's going to drop down in the rankings until it's no longer pertinent anymore. In 2017, you saw this with the Bitcoin forks. They've been around for many years, like Bitcoin Cash and Bitcoin SV, but nobody talks about them anymore. There are some very dead projects that have been around for a long time, like NEM or Master Coin, that people don't even remember.

I think that it's less about the Lindy effect, and more about how ubiquitous something has become. Because one of the barriers that things like Bitcoin and Ethereum established is how many exchanges it was listed on, and whether it is used as a liquidity pair against a whole bunch of other stuff. If you're acting as some sort of infrastructure or plumbing for the overall market, then that's how you can have staying power beyond just people speculating on your project, or earning revenue, or trying to monetize a user base.

If you're a layer one blockchain, your end goal is to be used as some sort of infrastructure. Otherwise, it doesn't matter if you've been around for 5 or 10 years. You can still fall into irrelevance. If you try to launch a product that underdelivers in terms of people's expectations, then that product eventually will fall out of the market favor.

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