

*diffusetap*  
Virtual Event Series

# Crypto Price Movements Decrypted

*Guest Speaker:*



**Dan Cawrey**

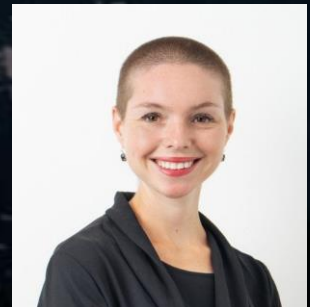
Author  
"Mastering Blockchain"

*Hosts:*



**Kenny Estes**

CEO & Founder  
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COO & Co-Founder  
Diffuse



## DiffuseTap: Crypto Price Movements Decrypted

Last time on DiffuseTap, Dan Cawrey, Author of "Mastering Blockchain: Unlocking the Power of Cryptocurrencies, Smart Contracts, and Decentralized Applications" (O'Reilly Media, 2020), talked to us about some key factors that drive volatility in the market, the interrelationship between stocks and crypto, and the reason why central bank digital currencies may be going against the main goal of DeFi.

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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 Speaker



Dan Cawrey is a writer and blockchain expert with C-level experience in a number of blockchain-based projects, including as CEO of Pactum Capital and COO of [Cypherpunk Holdings](#). Dan first started his career in blockchain technology as editor of [CoinDesk](#), to which he contributed for almost a decade. He is the author of "[Mastering Blockchain](#)," an academically acclaimed resource that dives into the concepts and protocols that power the blockchain industry. LinkedIn: [@daniel-cawrey](#)

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**KENNY ESTES:** Today's speaker is Dan Cawrey. Dan, would you please introduce yourself and give us a little bit of a background?

**DAN CAWREY:** Sure. My name is Dan Cawrey. I've been in the cryptocurrency world since 2013 and have a background in computer science. I was involved in consulting for years, but I got interested in crypto in 2013 around the time when CoinDesk launched. CoinDesk is the biggest resource and news information source in the crypto industry.

In late 2020, I released a book called "Mastering Blockchain" through O'Reilly Media. It's being used by universities for their blockchain one-on-one courses. And then most recently, I joined a company called [Passfolio](#), which is an investing app mostly for users outside of the U.S. If you're in the U.S., it's similar to [Robinhood](#). You can trade stocks. You can trade crypto. It has bank account functionality that's being launched as well as debit card functionality, but it's mainly for investors that don't have access to the U.S. stock market. Right now, we're focused on Brazil, Mexico, and Nigeria.

**AYLA KREMB:** It's a fascinating market to try and enter, and they're probably the ones that need access the most. I'll hop right into the questions. These past three weeks have been fascinating to watch. The market's just getting slapped all over the face. Why is the market so bad? Why is crypto in general so volatile? If you can maybe shed some light on the drivers behind that.

**DAN:** Yeah. Crypto has been volatile ever since I've been in it. It's funny because you hear a lot of people talk about Bitcoin as a store of value. You'll hear people talk about Ether as [programmable money](#). They'll use all these properties that make it seem like it's a payment mechanism. And it can be. But it's not that alone.

I remember when I first got involved in this years ago, I saw cryptocurrencies as a new stock market. And it turns out that cryptocurrencies ended up being more volatile than the stock market. I would say that over the last couple of years, particularly during the pandemic, crypto has almost gone in tandem with the stock market, which has also been volatile. If you look at this measure called the VIX for stock markets, it's pretty high right now.

The reason why crypto is so volatile is because it's really new. I think a lot of the people that get into it are also new. They don't realize how volatile it is, and that actually increases the level of volatility. Because cryptocurrencies aren't mature and are built on platforms that aren't mature, they're also traded by people that [just aren't mature investors](#) like you would see in the stock market.

**AYLA:** Just a quick follow on to that, there's a certain number of whales in the crypto market that also affect this level of volatility. How do you think that has played into the current market movements?

**DAN:** Yeah. Just to be clear, I'm going to describe whales because whales aren't really described in the stock market. Whales are just [large crypto holders](#). And large crypto holders aren't just individuals.



They're exchanges, wallets, or funds. They're people moving money around. But I will say, when you're in a market like this, cryptocurrency whales do have a really big impact because a lot of people are just holding crypto.

So, if somebody comes along and moves millions of dollars for the crypto, that can impact our markets. There are even Whale Watch Twitter accounts that monitor this kind of stuff, which is possible because everything is on the blockchain. You can see when large amounts of crypto are actually being moved.

**KENNY:** How concentrated is this? And do you think having that small number of whales with these massive positions that constitute 1% of the market, or even 20% of the market, contributes to the volatility?

**DAN:** Yeah, it's super concentrated. The majority of crypto doesn't usually move. And so, when these whales move, this causes major movements in the crypto space. Now, I also will say that over the last couple of years, with the pandemic in particular where everybody's sitting at home, the crypto market has actually moved a lot more in tandem with the stock market than it ever did before.

I think this has to do with less about whales, and more about people sitting at home using Robinhood. People have a lot of spare time on their hands without their boss looking over their shoulder. And so, they're investing in things. I think a lot of these investors are looking at crypto like stocks. Whereas it is a little bit different with that concentration, where 1% basically holds the majority of crypto in the market.

**AYLA:** These markets are so intense, and I can definitely see the individual investor thinking that there is a profit opportunity here. But besides the back and forth, what are some of the interesting price arbitrage opportunities that you see in the market today that most might not be aware of, aside from just buying low and selling high? What are some other opportunities, and how did they come up?

**DAN:** It's interesting that you would bring up arbitrage because I would say a couple of years ago, the arbitrage opportunity was really good. There were a lot of different exchanges in crypto. Price discovery was different on a lot of different exchanges. And funnily enough, I was actually running an arbitrage fund. We were running about 6 million, doing a lot of different arbitrage across derivatives versus spot.

One of the things that I think is really interesting now (and this is not an arbitrage play) is that the role that stock markets are now playing in crypto is much larger than it was five years ago. You've got a lot of companies that have crypto on their balance sheets. And this offers a really good opportunity for people who are momentum trading in particular.

An example of this would be a stock called MicroStrategy, or MSTR. MicroStrategy has been around for about 30 years. But a couple of years ago, the CEO decided to not hold so much cash and hold Bitcoin instead. The majority of MicroStrategy's balance sheet is actually in Bitcoin. Why that's really interesting is because it's still very difficult outside of the options markets to short Bitcoin.



So, one thing that you can do is that you can ride Bitcoin when it's going up for momentum, and then you can actually short Bitcoin by one of these stocks like MicroStrategy, or one of these mining stocks like Hut 8 that mimic the crypto market well, or at least the Bitcoin market. So, when Bitcoin is going up, you can buy Bitcoin. And then, when Bitcoin is going down, you can short these companies. It's difficult to short Bitcoin right now because the facility requires you to be an institutional level trader, but you can go to the market, you can just short Hut 8 or MicroStrategy.

You can look at the charts right now, as I've been doing. MicroStrategy has been going down since about the 21st of November, which is around the time that crypto started going down. And then, there was a run down from the 21st. And now, there's a run going back up where you would want to buy Bitcoin. I think it's interesting how in the beginning of all this, when I got involved in 2013, cryptocurrency was like this anti-finance, libertarian thing. But even back then, I thought to myself that this was just going to be another stock market. And that's exactly what's happened.

**KENNY:** Fascinating. To switch topics a bit, a couple of weeks ago we had Esteban as a speaker, who has a burgeoning and very successful company in El Salvador doing payment trails, Bitcoin Lightning, and things like that. He was saying how his customers are big companies like Pizza Hut, and how they have Bitcoin on their balance sheet. To hark back to your earlier point about how it's a very new dynamic in the market now, what are your thoughts on the IMF coming out and trying to urge El Salvador to not have Bitcoin as a legal currency?

**DAN:** It's interesting because I just started this new job with Passfolio. I'm not really advertising because I've only been there for a couple of weeks. But the reason why I'm so interested in Passfolio is when I got into this industry almost a decade ago, I thought that cryptocurrency was going to be able to make a big impact in the developing world. I've even done presentations at conferences talking about the potential of cryptocurrencies in the developing world. And I think the El Salvador experiment is interesting. But we also still need to realize some things.

When I look at myself in a developed world, in the United States, I don't use cryptocurrency for payments. I don't use it to pay my rent. I don't use it to pay my bills. I don't use it to buy anything. It does have payments-like properties in some ways, but we don't use it for payments. And I'm in a developed world.

Now, imagine you're in a developing world, or an undeveloped world. The idea of crypto is so far beyond your day-to-day means, which include paying for basic housing, bills, food, etc. And El Salvador is a nation that has its own economic troubles. I think certain people were convinced that Bitcoin would be a solution to their problems, when in fact, Bitcoin is still a problem in search of a solution in that it doesn't work as a payment mechanism to cover people's basic needs.

It goes back to what I thought when I first started looking into this, which is that it's really a new stock market. Would I love for it to be something that would be able to help areas that are impoverished financially? Of course. But I actually think apps like Passfolio are a better opportunity for that, to give people bank accounts, debit cards, and the ability to invest in the U.S. stock market and crypto as well. But crypto is an investment. I don't really see it solely as a payment mechanism.



**AYLA:** Interesting. A follow up question from Chris here. If the U.S. Treasury got involved in some kind of dollar coin, how would that affect things? Are you in favor of that? Do you think it's a nutty idea that we should shelve for a while?

**DAN:** This kind of stuff has been talked about since 2015, and it's known as CBDC, or central bank digital currencies. I think the U.S.' interest in it has been spurned by other nations getting into it, particularly Mainland China, which is trying to do a blockchain type of currency as well. But we also need to keep in mind that this electronic form of money that's on a blockchain is easily trackable. I mean, there's a reason why the Federal Reserve wants something like that.

They would be able to track things a lot better than they can today. And the treasurer would really like it from a revenue standpoint. It would probably make the IRS' job easier if there's a central bank digital currency that is more easily trackable than what we have today. So, I think it's an interesting paradigm in terms of innovation. However, how are nations going to use it? I don't think what we as individuals want it for, like ease of use, is the same thing as what they want it for, which is probably, unfortunately, for surveillance.

**KENNY:** Another follow-on question for that is, generally speaking, traditional finance and crypto theoretically should move in opposite directions. But lately, that has not been happening. They've been going down together. I don't know if you think it's a new development or an expectation in your framework. How do you view them interrelating?

**DAN:** Just to be clear, are you referring to how stocks and crypto are working in tandem now?

**KENNY:** Yeah, exactly.

**DAN:** This didn't really happen that often. Just for some background, in March of 2020, everything went down except for maybe gold, which was in the green a little bit when we had that bloodbath. The reason for this is because crypto has matured over the last decade. In the Trump years, money was easy. I mean, that has nothing to do with the president, but money just became easy. It had become easy to borrow, interest rates were low, and institutions really started getting into crypto.

But I think what institutions realized was different from the early crypto investors is that crypto was just like a really liquid asset, like the stock market. They realized that if the market starts going down, they could just sell their Bitcoin. And I think there's just a lot more people like that in the market after March 2020 than there ever was before, where it was just a lot of early crypto geeks and libertarians just buying and holding. Now, it's like a tradable asset.



**AYLA:** One thing that's also correlated at the moment are some of the altcoins coming up. They're also majorly correlated as we look at them right now. The same is true for NFTs as well. If somebody wanted to kind of play the counter game, what would it be?

**DAN:** One thing I will say is I don't know if NFTs are actually correlated. I've been looking at this, and there's a very different dynamic going on right now. I think people are trying to sock their money away into NFTs long term. I've noticed that the price of some of the most valuable NFTs have actually gone up since the S&P has been going down all month. But surprisingly, NFTs have held their value.

It may be because NFTs are more like what people thought Bitcoin was going to be, which is a store of value. Not too high frequency trading, and not super liquid. Maybe this is the digital gold that people were looking for in the crypto market. Because that is not Bitcoin, as much as people want to say it is. It doesn't correlate with gold, it's more volatile than gold, and it's a risk-off asset like stocks.

I don't know if that answers your question, but I just wanted to share what I had seen with NFTs recently. The stock market was going down, crypto was going down, but some of these NFTs didn't. I know a lot of them are junk, but there are some that are old and valuable for particular reasons. And they've actually gone up almost like classic cars.

**KENNY:** Here's a leading question. With stocks, the present value of future cash flows theoretically, at least in some way, is tied to the price itself. Bitcoin doesn't really have that. Ethereum arguably does, in the sense that there's actual utility there where you get paid interest for staking, especially in a proof of state, which we're moving towards. Do you view them being more and more divorced over time, where you see these alt chains that do have utility versus Bitcoin? My personal bias is I don't have any interest in having Bitcoin, but that's just me. Where's your head on that?

**DAN:** There's a lot to say there. I'll start with what you just said at the end. I don't think anything interesting is going on in Bitcoin. I would agree with you on that. The reason for that though, is that the core developers behind Bitcoin don't want anything interesting to be happening. They want it to be (and this is what they say) a store of value. They don't make very many upgrades to it. They had a fresh upgrade recently, which was the first upgrade in four years. So that gives you an idea. You're on a half-to-decade cycle for upgrades with Bitcoin, in terms of their community and core engineers.

Ethereum is a different animal in that it offers a lot of functionality. There are a lot of things you can do with it, and there's a lot of experimentation going on. Their ability to regularly provide upgrades is just crazy. I don't even know if you could call it an upgrade. What they're trying to do is switch out the engines of an airplane while it's flying. It just depends on how much Ether you own, and whether you're bullish or bearish on that.

And then, you're going to have a lot of different cryptocurrencies that do different things, but actually offer functionality. I mean, there's a lot of Ether alternatives that are out there now. There's not a lot of growth. There's not a lot of what you want to see, which is user adoption. But I think you'll see it. And



then, you've got stable coins. I don't think that race is finished yet. There's certainly a lot of different ideas floating around in that. A lot of it is really experimentation, and you're not going to get any dividends. You're not going to get any cash flow.

There's yield, if you want to park your asset somewhere. But crypto is not a bond. If you're looking for yield, there are a number of dividend stocks out there that have real cash flow and business opportunities. Crypto is just not there yet. I don't know what it's going to look like. But again, my first premonition when I got into this is that it's going to be a new stock market. I still believe that will be the case over time.





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