

*diffuse* *tap*  
Virtual Event Series

# Digital Asset Allocation Strategies

Guest Speaker

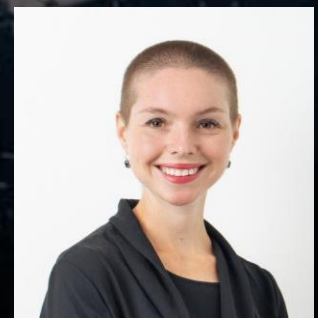


**Dan Simerman**  
Head of Financial Relations  
IOTA Foundation

Hosts



**Kenny Estes**  
CEO and Founder  
Diffuse



**Ayla Kremb**  
Chief of Staff  
Diffuse



## DiffuseTap: Digital Asset Allocation Strategies

Last time on DiffuseTap, Dan Simerman, Head of Financial Relations at IOTA Foundation talked to us about the promise of DeFi staking and lending, how NFTs are transforming the world of art and finance today, and the difference between portfolio allocation in digital assets as opposed to traditional assets, as well as the counterparty risks that come along with all of it.

Want to make friends from the Diffuse Fund Ecosystem? Email [contact@diffusefunds.com](mailto:contact@diffusefunds.com).

### 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 Simerman is a business leader focusing on the DeFi and crypto markets space. Currently, he is the Head of Financial Relations at the [IOTA Foundation](#), a non-profit that is spearheading the great shift towards Internet of Things, Industry 4.0, and an on-demand economy. IOTA developed the open source IOT protocol Tangle, a feeless and scalable distributed ledger without blocks or miners, designed for seamless data and value transfer between humans and machines. LinkedIn: [@dansimerman](#)

### About Diffuse®

We are an alternative fund platform offering differentiated investment products. From digital assets to VC funds and beyond, we identify green field investment opportunities we feel will have market beating returns and turn them into professionally managed funds. For more information, visit [www.diffusefunds.com](http://www.diffusefunds.com).



**AYLA KREMB:** One question that might be good to dig into is, how does DeFi staking and lending actually work? Could we dig into some of the details there, just so that people get a better understanding of the mechanics behind it?

**DAN SIMERMAN:** That is a really broad question, so I will give one example. I think what's really interesting is that there's a traditional mobile bank called [Current](#) based in New York, and what they started doing is that they saw that what people are looking for is yield. It's very hard to find yield in traditional banking accounts.

So what they did is they partnered with [Polkadot](#), and they worked with a DeFi, stable coin project. So, if you are staking Ethereum, or staking your token, you're actually earning a percentage of the transaction fees that are being generated on the network. That's a really good example of this.

I don't know if you're all familiar with decentralized exchanges, but a really cool thing about it is there is no concept of the traditional market maker. Instead, what anyone can do is they can take an asset and put it in one of the pools, for example, an Ethereum-USDC pair. Those are two crypto currencies. I think [Uniswap](#) is the best example of this. By putting your capital in a pool, there's enough liquidity for traders to interact with, and you earn a percentage of the fees that are generated. That's a really good example of DeFi, where you're staking a coin in a market and you're earning a percentage of the activity that's happening.

There's traditional and non-traditional, but there are also other examples like [Compound](#). Compound is more about [lending and borrowing](#). If you put your token in to be borrowed, you will earn a percentage of the transaction activity that's happening.

**KENNY ESTES:** Gotcha, that makes a lot of sense. It's a great way to articulate that too. The way I try to explain it is, take all those things that the financial institutions do, cut out the bureaucracy and the golden parachutes, and do it in a decentralized manner. That's what DeFi is attempting to be, which is exactly what you're talking about.

One question in this (and this might be a little bit specific, but we'll see) is around asset allocation. With digital assets, there's a range of investment opportunities, like you just said. And in DeFi land, if you squint hard enough, it looks like you have revenue, if you use DCF or a similar model. But how is asset allocation different with digital assets, versus — I think we're calling it — TradFi? How do you think it's evolving? Are they the same players?

**DAN:** Is that what we're calling it? I like that. That's new to me. I would say it's really a matter, for me at least, of looking at risk. I think when you look at a traditional portfolio, or traditional finance, you're familiar with certain types of risk. There's operational risk for the firm. And I don't know if there is macro risk, when it comes to the economy. But generally, you're not looking at more fundamental risk, like security risk, or technical risk, or even the risk of the team structures — I don't know if that would fall into operational risk. But to me, that's the biggest question when you're doing your portfolio allocation. The higher up you go, if you're looking at coin market cap, you can make the case that some of those assets have [different risk profiles](#).

If you're holding the top 30 coins in the market, I think there's [less risk](#) there. You could probably do well by having Bitcoin and Ethereum. Most traditional firms feel more comfortable holding Bitcoin and Ethereum right now. They're slowly dipping their toes into other assets, but it's dependent on a number of factors.



But then, for those who are a little more comfortable going into the world of DeFi where it's a complete Wild, Wild West, you're not only dealing with the potential upside, but you're also dealing with, how do you store those assets? What happens if a smart contract suffers a major hack? Or what if DeFi becomes illegal?

If decentralized finance becomes outlawed or non-custodial, which means you don't know who the account holders are, then that becomes problematic. I guess you could even say there's regulatory risk, which I don't think you maybe have to look at too much when you're thinking about the traditional equities markets. I would say that's probably the biggest thing when it comes to the makeup of digital asset risk. I don't know if that's the direction you wanted me to go. I could go in a number of directions.

**AYLA:** No, I think that's a really good direction. We got a question from Ben. In terms of counterparty risk, when you participate in any staking program, how does counterparty risk actually work, because you don't really know who you're speaking to, or who's in the pool? It's often a blind pool. What do you think about counterparty risk in staking?

**DAN:** That's really interesting because yes, there is a risk of pulling the rug from under the project. I was talking with one of the largest market makers a couple days ago, and they said they've been doing traditional market making on the big exchanges like Coinbase and Binance, but they just got the green light to do market making on decentralized exchanges, and to do it on new swaps and to provide pools. However, they can't be the lead market maker.

I think it's interesting that more traditional groups are starting to dip their toes in, but they can't have too much exposure, or their exposure can't be too high relative to the total pool, or relative to the rest of their market making activities. I think that probably goes for the ones that are highly regulated.

There's also a middle ground of groups that are in different regions, different geographies, or maybe they've just got smaller AUM. But they don't have to be too concerned with that.

**KENNY:** Good point. And to that question earlier, counterparty risk is a big deal. People disappear all the time. It is very much like the Wild, Wild West. A question from Dennis Casey, which might be very specific, but are you familiar with Tangle? And is that something you've dug into?

**DAN:** [laughs] Yeah. I do know a little bit about it. I don't want to bore everyone, and this isn't an advertisement for IOTA, but it's really important when you're looking at different protocols to understand the core value proposition. Every protocol is different.

Protocols are now birthing dApps, which now look more like traditional businesses. I think it's really important to understand what the protocol's reasons for existing are. In the case of IOTA, in 2015, as blockchain was being developed, they realized that blockchain doesn't really fit into a lot of enterprises and real world use cases. I'd say that's the case, even today.

So essentially, IOTA is just an architecture that's not based on blockchain. There's no miners, there's no stakers, and there's no fees. All that means is that if I want to send a data transaction, I can do that without being required to send a fee to a miner or a staker. So, what that does is as we're going to start building our own ecosystems, we're going to start releasing a smart contract platform called IOTA Smart Contracts Protocol (or ISCP), we're going to start to have a lot of dApps, and we're going to have a lot of DEXs, launchers, stable coin aggregators, and all these things.

It's kind of fascinating to be one of the only protocols wherein, because there's no base level fee, there can be a lot of flexibility on how these application layer groups want to create their own fee structures.



And even though there's some groups that have only a cent for a fee, or a half a cent, it's not about how cheap you can get it. It's the fact that you have that kind of flexibility that you wouldn't traditionally have otherwise.

Enterprise companies don't care if they have to pay a cent versus 20 cents. The concern is that now, when they talk to a big group, they have to hold custody. They have to check with their legal team. Now they have to see all the stuff around holding a token when it has nothing to do with their use case, and this creates a lot of friction and a lot of questions.

The last thing I'll say on that is, it's really, really important to understand, at the protocol level, the staying power. With IOTA and some of the other groups, we're working towards becoming a global standard. We want to be open source. We want to be open standard. We're working with some of the biggest governments around the world. That's very different when you compare it to a group that's maybe based on the Silicon Valley model, that's positioned themselves as a product. And then, you can get into the community and all that as well.

**AYLA: One of the bits that really resonates with the community is the NFT universe. I know that it had a really hot hype in March and April, and now the number of transactions is falling off the cliff a little bit. But it's still interesting to understand. How do these projects actually generate revenue? Because some of them really do. And you mentioned some really good ones during our prep call. How does an NFT generate revenue if it was set up correctly?**

**DAN:** Yeah. NFTs existed before the term NFT started. There was a decentralized DNS project handshake that I think was using NFT technology before NFTs were a thing, but NFTs really became popular once they merged with art. But then, anything with art could generally be considered highly speculative.

We saw this movement happen, where you could now put a piece of art onto an NFT, and then you could speculate wildly on it, or just the one art piece. They've got these, bored apes, which is just a picture of an ape smoking a cigarette, or in a spacesuit. Those are being speculated on because they think the value is going to go up.

I think that is complete tulip territory. You just hope it's going to go up and does not crash. The same thing applies to DeFi. But I think once you strip away a lot of the components of this industry and really look at the core tech, there's some really interesting things hidden in there. With NFTs, you're basically creating scarcity in a digital world, and you have something that can provide evidence that you own it, and that there's only one version of it. That's really, really powerful.

A couple of days ago, we talked about one of my favorite NFT projects, Zed Run. I'm doing free marketing for them. Zed Run is a digital horse racing sport. It's not really a product, it's a sport. Every horse is an NFT, and you can actually breed them. You can breed NFTs and create a new horse. These horses can be sold, they can be raced, they can be bet on. Their goal is to create a scenario in the future wherein you can go to a casino and you can bet on a digital horse, and this horse is tied to an NFT.

I think we're going to see more things like this, where it's going to be tied to real activities, like sports or things that generate value that you want to be able to trade and bet on. I think we're seeing that with NFTs because it is an asset that goes into your wallet. You can do some very cool things with it.

Like, for instance, unlocking features. Imagine you've got a community that you want to incentivize. This could be in the world of investing, or product development, etc. where you could say, we're selling our NFT for \$1,000. If you acquire this NFT, and it's stored in your wallet, you get a 5% yield from a staking program for this other general token that we have. This way, it becomes an unlocking feature. It's way more than just this speculative asset.



With regards to the speculative bored apes, I'm waiting for things to happen with them. But as a general rule, it's always good to look past the hype, which can be difficult to do because there's always something really valuable hiding in there. In general, I think that is a really important investment thesis to have in this space.



Thank you for downloading this DiffuseTap event transcript.

[Sign up for upcoming sessions](#) and check out [past features and event transcripts](#).



**Dennis Chookaszian**  
Corporate Director, CME Group

**DiffuseTap: Institutional Grade Governance**

Sharing his decades-long expertise on corporate governance, Dennis discussed how to avoid a co-partnership going sour, the problem with overly idealistic CEOs, and the importance of keeping your board in check. [Read on](#)



**Susan Brazer**  
CEO & Founder, LionShare Media

**DiffuseTap: Media Metaverse 2022**

Susan talked about the 2020 digital media landscape; the evolution of media distribution; how converging, emerging technology points to the metaverse; and the prospect of having an open, decentralized, and free Web 3.0 marketplace. [Read on](#)



**Raj Mukherjee J.D.**  
VP/Global Head of Tax, Binance.US

**DiffuseTap: Crypto Taxes Decoded with Binance.US**

Raj explained the complexities of the US crypto tax landscape, how he built a dynamic tax information system for Coinbase and Binance from scratch, and how investors can profit from crypto without getting caught in a taxation mess. [Read on](#)

**JOIN US**