diffusetap
Virtual Event Series

Liquid Collectibles by Rally

Guest Speaker:

Christopher Bruno
Co-Founder & President
Rally

Hosts:

Kenny Estes
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DiffuseTap: Liquid Collectibles by Rally

Last time on DiffuseTap, Christopher Bruno, Co-Founder and President of Rally, talked about democratizing the alternative asset space with Rally, which asset classes people are passionate about and have emerged most popular on the platform, and how the company custodies and prices assets like the Declaration of Independence.

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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

Christopher Bruno is Co-Founder and President of Rally, an investment platform that allows members to invest in blue-chip collector assets, thus democratizing alternative asset investing and providing access, liquidity, and transparency to exclusive markets. A serial entrepreneur, Chris has founded, managed, and scaled several venture-backed companies.

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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.

KENNY ESTES: With that, you're all here today to hear from Mr. Christopher Bruno. Chris, do you want to introduce yourself?

CHRISTOPHER BRUNO: Hi, everyone. I'm Chris. I am the co-founder and president here at Rally. We are a fractional investing platform where we take high end collectibles and turn them into equities that people can trade like stocks.

AYLA KREMB: Amazing. I will now start peppering you with questions. When you talk about collectibles being liquid, what does that actually mean? Could you give us an overview of one of those collectibles you're talking about?

CHRISTOPHER: Sure. Just to start off with what we're talking about, when we say collectibles, it's a pretty broad collection and a pretty broad term. We initially started with tangible collectibles, like classic cars, sports memorabilia, trading cards, Pokemon cards, comic books, etc. That word has expanded over time. More recently, we're also talking about intangible collectibles like NFTs.

We've created cash flow producing collectibles like domain names and dot ETH domains. More recently, we've also done specialty real estate. And I'm not talking about just some track homes in the Midwest. I'm talking about the home that Mickey Mantle grew up in. There is a broad group of assets out there that have been traditionally illiquid, in the sense that they're available only to a very small set of investors. At the same time, illiquid in the traditional sense in that you have to hold them for long periods of time to realize returns.

These assets were once annoying to deal with and hard to maintain. As a result, they have never been financialized in the way that other asset classes have. So, when we created Rally, we set out to do two things. The first was to make those types of assets available to everyone. That means if you're a retail investor and you have shares in the stock market, or traditional fixed income products, you can now diversify your portfolio with really high quality, collectible alternative assets.

The second part was, if you're selling equities to a retail investor base, you need to give them solid price discovery and solid liquidity. That means that this isn't equity crowdfunding, where if you invest today, maybe you get more money back 10 years later. Rather, this is a true marketplace. Every single asset that we put on Rally is an individual equity, issued under Reg A, that trades on an ATS, which has daily liquidity and daily price discovery based on hundreds of thousands of people trading against those securities backed by individual collectibles. That's a high level explanation on how it works.

KENNY: That makes a lot of sense. So, all securities are all above board with the SEC. Who are your investors? I mean, I don't know why I would want to own 1% of Mickey Mantle's childhood home.

I just don't know what to do with that piece of paper, whatever the case may be. So, what type of investors gravitate towards these types of opportunities?

CHRISTOPHER: Well, I don't know why you *wouldn't* want to own one fraction in Mickey Mantle's home, to be perfectly honest with you. It's a good investment, first of all, and it's one that resonates with people who are fans of it. But more than that, it drives great yields. We manage that property and people come visit it. It's on route 66 going across the country. It's something that is both relatable and creates good, diversified returns.

That's a property that we acquired in the range of $150,000, and it will likely print $15,000 in dividends this year just from sponsorship and advertising, and other sorts of revenue streams. So, I guess if you don't like money or Mickey Mantle, then you shouldn't invest in it (kidding). Our investor base is a combination of people who have an emotional connection to the underlying asset, combined with an investor mentality that believes in diversification and believes in uncorrelated returns. That's what our investor base typically looks like.

There are certainly people who are more on the side of thinking that this particular thing was a really meaningful piece of nostalgia, and they grew up around it, understand it, and need to own a piece of it to fill that emotional need. And then, there is another group of people that believe in hard assets and have seen the historical returns that these types of asset classes have produced. It's generally challenging to access the highest ends of the market because of the illiquidity and the price tag to get into it.

If you're a collector with 10 or 20 million bucks who is able to build a beautiful classic car or Ferrari portfolio, that's something that will drive great returns for you, and a great pride for you over a long period of time. However, most of us can't do that. I think that's what our investor base looks like. I would say it's often a bit younger. These are investors who are not at the stage where they can build that kind of collection themselves, but they understand that wealth is created in different ways outside of just the traditional markets and the traditional products that have been made available to the retail investor.

This is a way to do that younger, and to get involved in something that they understand and have a passion for learning about anyway. And at the same time, build wealth in a way that is responsible. That's typically what we see.

AYLA: We have some phenomenal questions coming in for you. Number one, who custodies the physical collectibles? If I have a classic car, can I drive it up to your house, park it there, and get you to sell shares of it?

CHRISTOPHER: One of the main things we wanted to build from the outset with Rally was trust. Our starting point for this was that absolutely every single asset on the platform comes into professional custody that we manage on behalf of all the investors. So, the cars live with a dedicated car specialist who takes care of them. And we operate at scale, so we do this very efficiently.

The baseball cards, comic books, artwork, and all that live in a specialized faciity down in Delaware, where they take care of art professionally. The dinosaur fossils, meteorites, and things of that nature live in a really cool facility out in Arizona. The NFTs live in institutional-grade MetaMask wallets behind Qredo.

There is a professional level of custody and care that goes into the entire collection that is specialized for what the underlying asset is. And beyond that, we have a specialized insurance product that we've created that also allows us to efficiently make sure that everything has another layer of protection behind it. That was important to us and that's what we've done from the start.

So, how do we pay for all that? Honestly, it's not as expensive as it sounds. Baseball cards are really inexpensive to take care of. Cars are a bit more, but when you blend that across the collection, and we monetize the collection through selling second order collectibles like deal toys, sweatshirts, and experiences, to our community, it makes plenty of money to get to the point where it pays for itself. In the future, we believe it will start to pay actual dividends to the investors in those collectibles based on our monetization of the collection in general. I hope that answers the question enough without getting too deep in the weeds.

KENNY: That's great. Let's go to one of the questions from the chat. This one is from Henry, and he's basically pushing back on liquidity. You say it's a liquid marketplace. Obviously, if you don't have enough buyers and sellers, you can’t get good price discovery. Do you have any metrics around that, like how often these things trade? Or do you have a liquidity metric number you like to use?

CHRISTOPHER: I think that's a fair and valid question. Some of our less popular assets on the platform trade less frequently and do get a bit displaced from what is the current market value. In some ways, that's an opportunity for people to come in. If you take the market maker perspective on it and buy things which are a little bit down, sell them a little bit high, it tends to work its way back to good price discovery over time. On the other hand, our more popular assets are turning over incredibly rapidly and have really strong price discovery.

There is a range depending on what we're talking about. For instance, we have a copy of the Declaration of Independence, which is a broadside copy from 1776 of the original Declaration of Independence. That's a really special asset that a lot of people trade frequently. It was ballpark market cap of $2 million at IPO, and it’s currently trading north of $3 million on the platform. You can see the full order book in it, and we're talking about hundreds of investors on a daily basis participating in trading that kind of security.

There definitely is a range to that. We also have more esoteric items like Yoko Ono's Grapefruit for example. It’s a really cool asset and I think an appreciating one, but at the same time, it doesn't quite attract the same level of liquidity as the Declaration of Independence.

So, that's definitely a fair question. I'd say, net net, we're turning over our float on average about one time per year. That means 100% of the shares on the platform turnover at least once every year, and that's comparative to NASDAQ. I think NASDAQ turns over 2.75 times or something like that. Crypto is sort of an order of magnitude more than that. With regards to where we should be, I think that remains to be seen. But on the liquidity side, it's still early innings, and I think we've done a good job with it. I think it's starting to really develop into an active marketplace.

AYLA: The chat is raising some really good questions, I might ask another one. Somebody asked, can you give any DeFi activity on the platform? Can I borrow against any of the assets that I have submitted? For instance, I gave you my car and I want some liquidity there. How can you help me?

CHRISTOPHER: I think that's a great idea. To keep it simple, and again, to make the SEC and all the regulators comfortable with this in the beginning, there is no debt on any of the assets. They are purely held by the equity holders. But with that being said, providing liquidity for assets is what we do.

If you've got a fantastic collection of wine, art, or something else, the products that are available to you right now to get liquidity for them aren't great. You can take them to Sotheby's and they'll charge you 20% to 30% to liquidate them entirely. Sometimes it works well. Sometimes it doesn't. You can go and borrow against them from certain specialized banks, and they'll lend you 50 cents on the dollar for 16 points, which is also not great.

In our situation, we're actually providing partial liquidity through equity in your assets. So yes, you can bring something to us. Yes, we can directly list it on the platform. Yes, you don't have to sell 100% of it. And yes, if you're a person that we could build trust with and that our insurance company will accept, you may even be able to retain possession of it.

We've done that with museum collections and other corporate collections on a pretty regular basis at this point. We're seeing more and more high-end collectors who have appropriate storage and appropriate protections in place pulling liquidity out of an existing collection in a really effective way.

KENNY: That's a nice use case I haven't thought about. We've got a bit of a technical question. We have some traders in the audience and they're wondering about how the actual matching engine works. Is this algorithmic pricing on your end? Do you partner with some of the bigger market makers out there? Who's providing liquidity and how is that managed?

CHRISTOPHER: Right now, it's full retail and there are no market makers in the space. We've partnered with an ATS that runs the matching engine for us. It has limit orders only on the bid side and the ask side. There are no market orders at this point, just limit orders on both sides of the book. The book is fully transparent, cleared during regular market hours on weekdays, same as the New York Stock Exchange. After hours, it takes post-only trades and builds the book. All of those are cleared from lowest ask, highest bid first thing in the morning. They also clear in real-time throughout the day.

AYLA: There is another question that's related to third party collectors. Have you ever thought about the no proprietary or agency model for the Rally business? Is Rally acquiring any or all some assets in a proprietary sense? Do you take ownership of all the assets? Or do you, for example, work with a third party collector?

CHRISTOPHER: The short answer is we do both. The majority of what we're doing now are direct listings, as I call them. The right way to think about this platform is that it's equity capital markets in a box. We productize equity capital markets for these collectible asset classes that are illiquid, hard to access, and all the things we discussed before.

For us, we typically don't underwrite deals unless it's something like the Declaration of Independence, where we have incredibly high conviction, and where it's impossible to get the asset without writing the check. In that case, we will take it into our books and we will become the lister on the platform because it's the right way to get something really special for our community of investors.

In most cases, we're acting as a platform where the collector wants to bring something to market. We're doing all the vetting, and we're making sure it is what they say it is. We're making sure that it's of a caliber that meets our underwriting standards. We're helping them determine the right market value to come to market with it, and then we'll list it on the platform directly from the collector at that point in time. We employ several different models for acquiring assets, in different percentages at different points in times and in different categories. But net net, we're more of a platform than I'd say a principal in most situations.

KENNY: You mentioned your underwriting standards, and we've got a few questions about what qualifies. When you're looking at something, do you go just pick the most cache? Obviously, everyone knows who Mickey Mantle is. But one of the audience members here would like to fractionalize a pre-1899 Colt revolver. Does that qualify? What are the most important things that you're looking for?

CHRISTOPHER: That's a question we could spend an entire two hours getting into if we really wanted to go across categories. The way we've approached it is we've got an incredible group of advisors around us and people who are operating in our categories, whether it's auction houses, premium collectors, or other people who are incentivized to act in the best interest of the platform, to help us evaluate all these assets. And then, we employ strict rigor and really strict underwriting standards in each of the different asset classes we're in.

If we're talking about classic cars, for example, if it's not matching numbers, original colors, if it's restored and we don't know by whom, if it doesn't have the proper maintenance records and provenance, and all the above, then it doesn't meet our qualifications and it wouldn't be accepted onto the platform. If you go through each of the different asset classes we're in, like sports cars, or comic books, etc. we have a limited number of graders that we're willing to work with.

It's a combination of data, rigorous underwriting standards, and understanding and communicating with our community on a regular basis to understand what they're interested in and where we think assets will perform well on the platform and beyond. That's a high level approach to what we do.

Beyond that, it’s worth noting we invest our own capital in every one of the offerings on Rally, and we hold until exit, so we always have alignment with our community.

AYLA: That's fascinating. We're getting so many good questions from the audience. Someone asks, how does the platform itself make money?

CHRISTOPHER: How do we make money? Sure, absolutely. Right now we make money in two ways. The easiest way to think about us is like an investment bank. That's kind of the model today where we identify market value for the asset. If we're providing liquidity to a collector, we will take a percentage of that liquidity.

Basically, people are able to buy into the offerings and our percentage tends to be much more reasonable than what you would pay to a traditional liquidity provider like an auction house, dealer, or somebody else who is brokering a transaction and collectibles. That's the primary way that we make money today.

And like I said, we also operate a pretty successful merchandise business that goes along with this. Selling merchandise, NFT projects, experiences etc, around the collection has been a great revenue driver for the company. It’s something that our community really enjoys participating in once they become an investor in the securities and assets on the platform.

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VP/Global Head of Tax, Binance.US

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