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Virtual Event Series

# Picking Altcoin Winners Using Data

*Guest Speaker:*

Salah Khawaja
CEO
Hypermode

*Hosts:*

Kenny Estes
CEO & Founder
Diffuse

Ayla Kremb
COO & Co-Founder
Diffuse

# DiffuseTap: Picking Altcoin Winners Using Data

Last time on DiffuseTap, Salah Khawaja, CEO of Hypermode, talked to us about how data indicates price movements, why more than 20,000 altcoins are available on the market but only ten coins make up ninety percent of the market cap, and the debate on whether regulation kills the essence of DeFi or secures it.

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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

Salahuddin Khawaja is the CEO of Hypermode, a NY-based crypto consulting firm that helps clients design, build, grow, and transform their Web3 businesses. A tech-focused banking veteran with over 20 years of experience in traditional finance, Salahuddin has served various roles, leading digital transformation initiatives at Deloitte, Bank of America, and JP Morgan.

LinkedIn: @salahk

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KENNY ESTES: Salah Khawaja, would you mind introducing yourself a little and what you're up to?

SALAH KHAWAJA: Alright. Big thanks Kenny for having me here. My name is Salah. I worked on Wall Street for 20 years initially at Deloitte, and then JP Morgan and Bank of America later on. I ran digital projects, including a big project for MasterCard where I figured out their payment system. I spent four years there, and that allowed me to understand how all the transactions happened.

This ended when I came around to Bitcoin in 2013 or 2014. I saw how blockchain was going to take over the MasterCards payment network. I started buying Bitcoin, and then eventually Ethereum. It's been a ride since.

AYLA KREMB: Phenomenal. I will drop you off at the deep end with some questions. We talk a lot about altcoins here, but we'd love to hear your definition. What is actually an altcoin?

SALAH: It's pretty easy. The first original blockchain was Bitcoin. That's the OG cryptocurrency. It's the main one. Everything else is alt. You can bifurcate it and say the top 20 or top 30 aren't alt coins per se, and everything else is. It's up to you and where you want to draw that line.

The interesting thing to understand is that the top 10 cryptocurrencies make up 90% of the market cap. There's a lot of space for that market share to come down and for others to take over.That's what this conversation is all about.

KENNY: Love it. You talked about the top 30, and you talked about how the top 10 makes up 90% of the market cap, which sounds about right. So, how many outside of the top 10 are there? A dozen? Two dozen? How many altcoins are there?

SALAH: There's about 20,000 today.

KENNY: Twenty thousand? All right. How do you go through that? How do you find the winners? What's your strategy? How do you determine potential for the gazillions of altcoins out there?

SALAH: It's all data, data, data, and data. You get data from various market sources like Messari, CoinMarketCap, and CoinGecko. All that data flows into your warehouse, and you use it to test your thesis. So you have a thesis, you deploy that thesis on this data infrastructure, and you backtest it. We test it over I would say 100 different ideas and different models. We backtested them and landed on a couple of really interesting ones.

One is related to Twitter. If your Twitter followers are accelerating over a 90 day period, that could be a leading indicator on price. We're seeing X percentage returns, sometimes with even double digits. You can also look at the fear and greed index. When the fear-greed index is down, everyone is running for the hills. That's the time to buy. We also looked at deceleration and acceleration. You compile all this data and you run the model, backtest it, and you will find a trend. Then, you can start investing.

AYLA: How does your company work around data? What kind of work does your company do, and what kind of data streams do you include specifically in your work?

SALAH: Firstly, I did a ton of data work at Bank of America. I brought all those lessons I learned into crypto. I think this is a very nascent area where everyone has a thesis but can't test it. And so, data infrastructure is key in building this strong, robust cloud environment. We did it for over a year. And now, it has data coming in from the top five news sources. We collect articles and social data. And then, it's just a matter of building your Python scripts, your SQL.

Some of you might be thinking “What the hell is Python? What's SQL?”. Think of it this way. Let’s say I have a thesis. Let’s say I want to know what happens to the price of a coin if Reddit comments increase for 30 days. And so, I code it out. That's where Python comes in. And then you go back and test it for two years. If the trends hold, maybe you can start investing. That's one of the ways we think about it. I drew it up on the board here for you guys to visualize, where you can see that all this data is coming into our data model. We then aggregate the data and go from there.

KENNY: Okay. So, you spend a lot of time on data, Python, and SQL. I love it. Now, what does Hypermode actually do? Are you guys a hedge fund? Are you selling the signals? What’s the actual business model?

SALAH: We have two business models. One, we're a consulting service and we have cool people that help you build apps. For example, this is one of the apps that we've incubated ourselves. It's an app that we want to publish to the world and have people use it.

The idea is that hedge funds and private equity individuals can use this app to test their thesis. We can build the models behind the scenes, create beautiful dashboards, and you can see results in real time. We can further adjust the models as the market goes. We are connected with some design partners, and we're currently designing the last 20% of the solution. If anybody is interested in talking, I’m happy to connect.

AYLA: I'll ask a question. Do we need that many altcoins? What is the purpose? Is this just opportunistic? Is it because everybody thinks they should have an altcoin, and therefore everybody made one?

SALAH: I think 20,000 is nothing. I think it's going to be hundreds of thousands. The way you want to think about this is that altcoins are apps. Is there a limit on the number of apps in the App Store or the Google Play Store? None. This is a brand new asset class, with some properties of equities and some properties of commodities. I have yet to confirm this, but in the early 80s, the gold market cap and equities market cap were the same. Look where equities is today.

To an extent, equities democratized ownership. Tokenization and blockchain is taking it much further. I can issue a token today, and if I create a big enough community around me, I can raise 50,000, 500,000, or even 5 million. This tech is in the hands of the Joes and Janes, and they can do whatever. This number is just the starting point. You're going to see everything get tokenized.

We had a great idea in the breakout room, where we talked about how you could tokenize death and your wealth. The certificate gets issued by an Oracle smart contract that basically says you've signed this will, and therefore your assets will get distributed based on it. All of this is going to get "blockchainified" over the next 5, 10, or 15 years.

KENNY: Interesting. You talked a little bit about the gold equity market cap changing over time, which I think was driven by a lot of index funds and other things that allowed retail people to really get into equities in a meaningful way. In some sense, it feels like it's the opposite here. You've got a lot of retail folks coming in, but the big institutional money is not touching it. Is that true? And also, what are the big impediments from institutional adoption?

SALAH: It's one word. Regulation. I spent years coming out of 2008 with Frank-Dodd on Wall Street. Regulation is actually a great thing, especially smart and responsible regulation. People think that regulation is a bad thing. I think it was actually a great thing. It legitimizes the space. If you're a pension fund or a sovereign wealth fund and you're taking risks with other people's money, it's going to be easier.

I've shifted my thinking. Although I'm a technologist, I used to think it was always business first. But in the last couple of years, it's almost always tech first. If the tech is great, your product is going to be great. You're going to do amazing things. People, especially non techies and even economists, don't understand what's happening here. Central bankers all over the world don't know what's going in. It's crazy sometimes how they're so ignorant of the fact that currency is just one element of hundreds of elements on the blockchain. It's so much more.

I think smart regulation is going to legitimize this space, and it's going to draw institutional money. It's just a matter of time. You're already seeing it in Dubai and Singapore. They're more advanced in terms of

their lean around this, and you're going to see this happening in the U.S. because the U.S. is going to want to take advantage of it too. And then, you're going to see the devs burst

KENNY: This one is more of an abstract follow-up question on the regulatory landscape. I'm with you on that, by the way. I think regulation is good. But one could argue that regulation is anathema for crypto. The whole point is that it's decentralized and non-controlled, certainly for the currency element and Bitcoin, but even for the rest of these dApps. Is a geographically-based regulator the way to go here? Or if the U.S. comes in too hard, should they just ship everything to a different jurisdiction? What is the complexity there?

SALAH: That's a really good question. It's of an abstract nature, so I want to give you an equally abstract answer. The way to think about it is this. Let's say you've got one blockchain, and you've got people on the edges interacting with the blockchain. If there is a currency element, the on-ramps and off-ramps will be regulated, and it makes a lot of sense to regulate that.

But then, once you're inside, guess what? The government can't actually have control. So we've got this whole Chinese issue around whether we're going to bend this. The beauty of decentralization is that when China banned Bitcoin mining, it just shifted to Texas. And guess what, it's gone back to China now because they can't stop it. People are installing these mini turbines and generating their own power in China, and they're still mining.

Having smart regulations on the edges makes a lot of sense, especially when it comes to money and moving from fiat to crypto and back. Inside of the blockchain, you're going to have nefarious activity. You've seen it recently. A lot of that is going to get sorted through with ups and downs. That's how I think it's going to play out.

If you also think about DAOs, I think they're going to transcend geographies. I think we might need a UN-type organization that could govern this in the much longer term, but I don't see the world coming together on that anytime soon.

AYLA: I'm picking up one of the questions from the audience, which I think is quite good. I know you're in the app building business, so let's say crypto needs a killer app. What would that app be? How will it be something that unifies the ecosystem, creates mass adoption, and gets institutions excited? What is the killer app for crypto?

SALAH: That's a really good question. If I knew the answer to that...

AYLA: You'd be building it right now.

SALAH: I think there are two ways to answer it. To give a little context, I coincidentally have a master's in telecom, so I understand how networking works. One way to answer that question is that a lot of the blockchain networking and plumbing is being built today. When you connect different chains, you can go back to the matrix, and you can think about how worlds connect. There are already amazing projects in that space today, like Matic and Polygon.

That's a cross-chain infrastructure, where, for example, one chain is good for DeFi and the other is good for gaming. That's already being built, and it's going to be a killer app behind the scenes. Nobody knows what TCP IP is, or SNMP or SMTP, but that's what underpins the internet, and that's what I work off right now. That killer app is being built there. It's going to scale and version. That's going to happen.

And then on top of it, it felt like NFTs could be a killer app. It makes it very accessible for people to sell an NFT, which could be masquerading as an equity or other things, or it could be bad art even. I think 90% of it is going to be bad art, while 9% is going to be phenomenal digital art that you would want to buy, and 1% is going to be that amazing token to a community, a digital world, or whatever you could dream of.

We're thinking of issuing our own NFT to power our growth. Maybe we'll give a disk-preferred equity in a year. And by issuing an NFT, I'm only selling art. I don't need to register with anyone. It's a stealthy way of doing things. And I know we're in this downturn, so I'm having a tough time saying they're going to come back. I think the NFT will live on, but is it going to be like the Netscape moment when the internet happened, or the iPhone moment when smartphones took off? Perhaps it will.

And by the way, if you track the data like we do, you're going to see the transaction count go up. You're going to see the Twitter count go up. That's where you will be able to realize that these are all horses in a race. You go back to the 2000s and you had Yahoo, HotJobs, Excite, and Google. They're all horses in a race, and only one or two will win and give you that 100x return. You can use that data and monitor it every day to find that hot coin.

KENNY: Okay. So, you like the promise of NFTs. I'll pick up a question here from Nick. Because you're an altcoin expert, what do you think of the metaverse? Is there something to that, or is it just a whole lot of hype? Are people just using Axi Infinity to make money but nobody actually cares about its gaming aspect? Where do you see that whole space evolving and where is it now?

SALAH: First of all, I think it's a fancy word. It's beautiful marketing in many ways. We're in the metaverse right now. All of us are connecting from all over the world, except we're not on the blockchain. The idea is that when we meet in a year, or two or three years, it will be in a virtual environment. I could have my digital art hanging over there. The digital art sits on the blockchain, and I can show you my office. It's virtual, and we can move around it. We could be meeting in my virtual living room, or I could be playing play-to-earn games. All of that is going to happen.

I had this thesis that it could be a pyramid scheme and it wasn't sustainable. But who knows, they might figure it out. This was just the first iteration, and it bombed. Maybe they'll create a play-to-earn model that's more sustainable and responsible. But I definitely think the metaverse is here to stay. And by the way, if we don't believe it, our nephews, nieces, daughters, granddaughters, and grandson will, and they're going to spend a lot more time online than we would like to.

The last point around NFTs is that humans have always collected things. Whether it's cars, baseball cards, art, etc. So why wouldn't humans collect digitally? That's where I made the 180 about a year ago. Before, I thought why would you buy a piece of art that's replicable? Well, you would buy photos that are replicable, right? It's the same thing virtually. I've come a long way to drinking the Kool Aid on it.

AYLA: If you're going to categorize these altcoins that are out there, what buckets would you put them in? Of the 20,000, how many of them have utility? How many of them are dog coins?

SALAH: I dug into the data today and want to touch on my notes. I was expecting this question to come up. The first one is the main point, which I don't necessarily believe in. But hey, if you've got a million followers, maybe it's worth it. You have DeFi, you have the metaverse, and you have layer ones. That's going to be the big one. Which layer one is going to be successful?

When the Ethereum merge happens, it's potentially game over. Solana is high transaction. Avalanche is high transaction and low fees. Cardano has a lot of promise and a lot of hype. And you've also got a bunch of other layer ones. That's a big category.

DAOs, to the point that Kenny was making, they're going to allow us to live cross-geographically. It's going to create organizations that are bigger than nation states. Think of the open source communities that built Linux, or the things that underpin the internet. You're going to have these communities that are going to build the next gen orgs. Those are DAOs.

And then, you also have protocols. These are the categories that we have in our dataset. We have this thesis that ideally, you want to invest into 10 different areas of blockchain and follow that path out over the next few years, and keep adding to the categories as you go along.

KENNY: That's great. I love that bucketing. I'm going to ask Henry's question, and this is a chance for you to plug what you're doing over at Hypermode. So, you're evaluating altcoins. What you do in your company, like sentiment analysis on Twitter, highs, lows, and momentum — they're all very technical. How much of what you do is technical analysis, and how much is more qualitative and judgment driven?

SALAH: We started off all-quant with over 500 data elements across thousands of coins with the new set. But then, we started layering in qualitative research. On the layer ones that I gave as examples, there are 10 objective criteria that you can look at individually. You can look at things like transaction count, TVL, how many developers are working on it, et cetera.

And then, you give that qualitative research criteria its own score and add them up together to create the final score. From a plug perspective, that's an opportunity where if you have a thesis, we can help you build the model. We can do the qualitative research and bring all that together to give you the real time data to test your thesis, implement your thesis, and then obviously, start trading off of that.

 

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