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Virtual Event Series

The Altcoin Accelerator

Guest Speaker:

Robert Mowry
Venture Partner
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Hosts:

Kenny Estes
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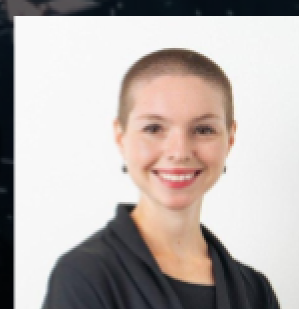

Ayla Kremb
COO & Co-Founder
Diffuse

DiffuseTap: The Altcoin Accelerator

Last time on DiffuseTap, Robert Mowry, Venture Partner at Altcoin Accelerator, talked to us about why some chains grow rapidly while some don't, the trouble with copy-paste coins becoming a common trend, and whether the Ethereum merge signifies judgment day for all altcoins across the market.

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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

Robert Mowry is a Venture Partner at Altcoin Accelerator, a tech-focused AngelList syndicate that invests in and helps build the infrastructure for innovative DeFi platforms and Web3 companies. Robert is also the Founder of Rekt Tech, a blockchain consultant that provides B2B solutions for corporations and DAO treasuries, and also a Blockchain Educator at UCLA Extension.

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KENNY ESTES: With that said, the reason you're all here is to hear from Mr. Robert Mowry. Robert, do you want to introduce yourself?

ROBERT MOWRY: Hi, everyone. I appreciate you inviting me, Kenny and Ayla. I've binged all the podcasts, so I've heard of all the amazing contributions that the previous speakers have introduced to the group. I'm happy and honored to be a part of that. I'll just talk a little about myself. I teach three of the four classes of UCLA Extension's Blockchain Technology Management Certificate course. I also have the consulting company Rekt Tech, which has an investment arm called the Altcoin Accelerator.

I teach technology, am boots-on-the-ground in Los Angeles, go into conferences and meetings with people, and I'm also part of several DAOs. I'm very interested in blockchain architecture, decentralized finance, as well as DAOs. But, first and foremost, I focus the majority of my time on Ethereum virtual machine-compatible sidechains. I think that's interesting because their operation and their scaling is largely a byproduct of community and building key partnerships.

When it comes to angel investing, I'll approach the people that are doing these sidechains and ask them questions related to management consulting, like what their goals are and what are their plans to get there. And very often, these sidechains can be forked fairly easily. The people that are forking these communities like Optimism, Avalanche, and so on have a specific use case in mind.

They certainly want to make it less expensive to transact or deploy smart contracts than the Ethereum Mainnet, which can be quite expensive. It requires thousands of dollars during peak times to launch a smart contract or even do a transaction. So, they're providing layer two solutions that are exceptionally useful and interesting.

There are specific processes for the growth of these EVMs that allow them to scale and allow for some interesting investment opportunities, which I've gleaned some insights from. I learned that a sidechain basically starts from nothing. You can fork over a chain that mimics many of the same functions as the Ethereum Mainnet chain, and operates in Solidity in tandem with the original Ethereum chain.

But when it comes down to what makes one sidechain more in vogue than another, it just comes down to partnerships with decentralized applications and the community building aspect. That involves getting people invested in using a particular chain either because it's inexpensive, accessible, whether it's building networks with developers who are actively going to conferences, and also if it has favorable tokenization standards, if that's the direction the developers want to take it. Not every EMV-compatible sidechain does, but I'd say the majority do.

And then, code audits are a good way of making sure that everything is sound. It's a good way of ensuring that the bridge is sound and you're not going to get rug pulled when you try to interact with another bridge and or another chain, and that any problems are fairly well stamped out.

Today I am happy to take questions, and I'd like to talk a little bit more about why exactly some sidechains scale quickly like Polygon, while some are quieter, like xDai for the Gnosis chain which I was involved in. And also, why some sidechains have had close alignments with some very impactful DAOs like MakerDAO, which I've also been involved with.

But in general, as some of the previous validator speakers have spoken about, being in the validation business is a good business. Being in a place right now where you can short the tokens that you're given as a mission of being a validator allows you to run as close to a neutral environment, where you can hedge your bets, as has ever been the case.

I'm happy to talk further about what it takes for these Ethereum virtual machine-compatible sidechains to grow and the best practices there, or my war stories for being involved with them, or whatever direction Ayla would like to take it.

AYLA KREMB: I love it. This is the most comprehensive introduction. We're all ready to hear the rest of what you have to say, so let's kick off with question one. This type of question always seems to be helpful. Just from a definition perspective, what are altcoins? How do they differ from what some might call the boomer coin?

ROBERT: The simple definition for altcoins is anything that's not Bitcoin. It's an alternative to the original coin, which is Bitcoin, and it can flow under any number of different use cases to solve any number of challenges. When you think of an altcoin, just by definition, it's anything that the symbol for which is not BTC.

KENNY: Easy enough. While we're on definitions, let's double down on that topic. You mentioned a couple of terms that we probably should clarify. What's a sidechain, and what is EVM? What does that even stand for?

ROBERT: A sidechain is an Ethereum-based chain that runs on top of another. Let's say you have a blockchain like Ethereum. A sidechain could essentially run to the side of it. It can work alongside it or it can work in conjunction with it. Very often, it's based on the same technical architecture of that original chain. In almost all the contexts that you hear this word, it's most likely based on the Ethereum network because that's the standard. Most smart contracts are written in Solidity.

The Ethereum virtual machine is just the virtual machine or the operating system that will allow you to deploy smart contracts and that will allow different wallets to talk to each other, either in a read or write mode. If it's read, you're just getting the data in real time from what's available on the different nodes that are validators of Ethereum, or its sidechains, or in the write context, where you're actually interacting with the blockchain and paying a gas fee for the privilege to do so.

AYLA: Very comprehensive. When you zoom out of the whole picture, what are some of the success factors of a new altcoin? When one comes up and you evaluate it, maybe you have a little checklist. What would you say are some of those success factors?

ROBERT: You often hear the narrative that the cryptocurrency space is largely an anonymous space. Certainly, we don't know who Satoshi Nakamoto is. But, first and foremost, I look at the people behind the project. You can almost always find someone who is the lead developer, and people who are active on the project.

And even if the people that are at the foreground are cloaked in anonymity, or aren't operating as transparently as possible because they don't want to dox themselves, or if they're in a jurisdiction where their activity may not be particularly suitable to their employer or the laws involved, there are always members of the community that are quite important and having high-level people associated with a particular project is a bullish signal.

So oftentimes, I look to the venture capitalists who are whales invested in a protocol. They're often prominent on Twitter and transparent about their investments. I look first to these people because that's a good litmus test in terms of quality. You can really tell whether a blockchain has any traction potential based on the company it keeps. That involves asking questions like who's involved, who's talking about it, and who is at the conferences representing a particular blockchain or project.

KENNY: Okay, that makes a lot of sense. We're talking about alternative coins and trying to find the good ones. One criticism commonly thrown at sidechains and altcoins in particular is that they're all just copy paste to one another. Is that fair? Is there a lot of that going on? And similarly, where's the real innovation in altcoins in your opinion?

ROBERT: I think that is the first understanding that needs to be started with when you're looking at these projects. People often fail to appreciate that, in many cases, you can deploy a smart contract for a decentralized application or a cryptocurrency for the cost of dinner. With that in mind, you want to look for the moats and partnerships involved.

I think this is a good segue to talk about why some sidechains have done well and some haven't. It ultimately comes down to what value and what community they are weaving together. One of the examples I'd like to point to is Polygon. I was a validator for Polygon from early on, when it was just three ambitious and technically adroit guys out of India.

They did a sensational job of reaching out to dApps and offered their sidechain to people who were frustrated with the costs associated with decentralized finance on Ethereum Mainnet. And then, as a sweetener, they would give their own tokens as a reward incentive for people that would stake on their blockchain when a project would fork their smart contract onto their EVM sidechain.

They were essentially giving people a de facto validator satellite and a staking percentage just by using the blockchain. Those types of partnerships are a great way of building those bridges, and it was done incredibly well, even for platforms like Polygon that have a high inflation rate.

AYLA: Fascinating. I'm always curious to ask more questions about Polygon because I remember when we started deploying into their protocols, I was curious who was behind it. How did you get in touch with the Polygon guys when they were just a couple of guys from India?

ROBERT: Everyone that I've met and spoken with I've met either from a conference room floor at LA Blockchain Week, or ETH Denver, or most often, over Discord. When you go to Discord, you'll have moderators of a group. And very often, if it's a new project that is trying to do something new and it's not splashed all over CoinGecko or any of the websites. You will only have a few people that are in there. In most cases, the only people that will be active are the core developers.

So, very often I can ask them things like "what are you trying to do?" and get that two way conversation going from there. And then, they'll follow up with me on Twitter or we'll do a Zoom call. They're incredibly accessible. A lot of times people just don't do the legwork to get into Telegram or Discord and then follow up with a call.

Very often, these developers are incredibly savvy at development and doing the forks, but they're not as savvy on the business side or trying to take it to where it needs to go. So, I try to connect them with people to get that part figured out because otherwise, they will have no real awareness of favorable tokenization standards, and their white paper will look more like a marketing type document as opposed to a GitBook that really dives into the different types of their project that they're trying to communicate.

They will not put out any sort of marketing materials, not even a monthly update in terms of what they're doing. They will just splash up an update or an announcement on their Discord or Twitter. So, I'm really just reaching out on Discord most of the time.

KENNY: That's great. Let's go to Scott's question here in the chat. Aside from governance and DAOs, which is a whole can of worms, what are you seeing in the altcoin space that you're really excited about right now?

ROBERT: I think that M&A is coming of age in more of a "behind the scenes" way than people expect. I was a part of xDai before they were acquired by Gnosis. Gnosis is a spin-off of Consensys, and they do Gnosis safes and some important architecture on the blockchain. But in addition, they were trying to get a chain that had already scaled along pretty well.

They acquired xDai, which was launched at ETH Berlin in 2018 by a Russian developer. They brought fees down to incredibly low prices and made launching a smart contract possible for five cents at a time when it was costing a few thousand dollars on the Mainnet. Gnosis essentially did a post on their Discourse. Discourse, by the way, is the standard message board for cryptocurrency projects that are trying to push through a meaningful vote because of the backend and IP addresses and all that.

In that post on Discourse, Gnosis basically said, “We will offer a swap of our tokens for your tokens by doing an inflation for the exact amount.” Igor Barinov, who led the project, had a significant stake in STAKE, which was the name of the token, and he agreed to sell the lion's share of it, which came to about 171 million in the Gnosis chain. From his perspective, Gnosis had that deep liquidity that his underlying sidechain did not. He and his partners were then able to get liquid on their investments with Gnosis' tokens, which had deeper liquidity and volume

It wasn't entirely accepted within the community because we felt like there was a lot more potential there. A lot of the sidechains were 10 billion plus, while ours was just 100 million. But for the principals involved, that was a substantial amount of money that they can use for any number of purposes, such as to diversify or get another sidechain going. For them, it makes complete sense. I'm seeing a lot more of those types of deals not only get proposed but get done nowadays.

AYLA: Fascinating. Another question for you. Based on blockchain.com, there are 19,000 chains in total. How many more chains do you think there will be in five years? Will the velocity of new chains continue at this current pace?

ROBERT: Yes. I think that with the ease of making a new cryptocurrency, the rewards far outsize the investment. You can put together a cryptocurrency project for next to nothing and weave a community around a use case that is potentially only slightly different from what's out there that has the potential to grow aggressively and is properly planned.

But I think that the increasing availability of being able to short these cryptocurrencies could, in many cases, become their undoing, where the coin or token would actively get shorted if there's not a lot of activity on the chain or from the founders or core developers. There are many projects that you can actively short now wherein the developer has left and what's left is just the zombie coin. Many people are going back and forth shorting and going long on those kinds of projects.

I think that the number of cryptocurrency projects will increase, and the ones that actually have an impressive amount of legitimate volume will go down by quite a bit. You will have maybe 5% or less that are actually relevant. Even now, the top 500 is where the $50 million valuation really stops. If you talk about where the actual volume is, that is not incentivized in some way by a market maker program by any of these exchanges, you can aggressively cut down what one might determine to be actual volume.

So while you have 20,000 investable assets, I would say less than 250 are relevant as it stands right now. I would say that you're looking at about the same number going forward with various projects that will fall off. And these projects will fall off when they don't provide updates, when the community gets bored of them, when the staking rewards or farming rewards go down precipitously, or when any number of their partnerships go sour.

KENNY: That's great. And just to share, when we did our top 30 index, we did that because that's where the billion dollar cap was. Below that top 30 was less than a billion market cap. But now, 53 coins all have north of a billion market cap, which is pretty crazy.

Moving on to the last question, this whole Ethereum merge and 2.0 thing I keep hearing about, whatever the case may be, I've also heard people claiming that it's going to be the death of a lot of these altcoins because the gas and all the other fees will go down. Therefore, all of the liquidity will be sucked back and all of these things are going to die out. Do you share that vision? How do you think it's going to play out?

ROBERT: I hear Justin Sun and other people talking about forking when it does go from proof of work to proof of stake. I think a lot of people look to Vitalik to lead a lot of parts of the industry. I do see that wherever he goes, people go too because they see Ethereum as the confident chain that has the best validators. The most secure networks are Bitcoin and Ethereum. People want to first and foremost go there to provide that integrity to their assets that are on-chain.

But I do see the continuation of these types of forks and different platforms that are going out there and trying to profit from the goodwill associated with the original platforms, and the whales that are associated with it. I do think that will shake out over time though.

You do have Ethereum Classic from the original fork way back when. That kind of goes up and down. But then, you also have 51% attacks that this and smaller, more vulnerable chains face there that are problematic, and all sorts of other technical challenges. All of the opportunities for profitability with these forks and different sidechains that aren't really authorized by the big guys have inherent problems. I do see them being a part of the ecosystem, just not a big part of it.

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