diffuse*tap*
Virtual Event Series

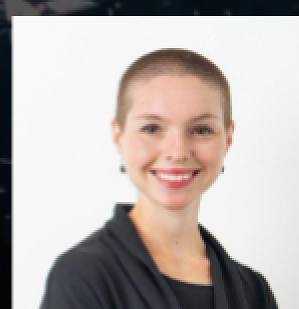
Detecting NFT Hype

Guest Speaker:

Dip Majumder
CEO
Alpha Trend

Hosts:

Kenny Estes
CEO & Founder
Diffuse



Ayla Kremb
COO & Co-Founder
Diffuse

DiffuseTap: Detecting NFT Hype

Last time on DiffuseTap, Dip Majumder, CEO of Alpha Trend, talked to us about the hype cycle of an NFT project from cradle to grave, how token issuers actually profit from soul bound tokens on the secondary market, and how quantitative analysis is slowly replacing (or becoming apart of) the DYOR mantra in Web3.

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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

DIP MAJUMDER is the CEO of Alpha Trend, an investment risk management platform built on data science models that combine social signals, on-chain data, and technical analytics to help traders find investment opportunities and make investment decisions in real time. Dip is also the Founder of Neural Trend, which equips clients with the power to quickly and accurately match product design with market demand. LinkedIn: @dipmajumder

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.

KENNY ESTES: Dip, tell us all about you.

DIP MAJUMDER: I'm Dip, founder and CEO of Alpha Trend. Alpha Trend is a digital asset investment risk management company that uses Web3 tech and actionable blockchain insights to provide corrections against various trades that are happening. We also help creators and businesses to grow their business leveraging blockchain and NFTs.

I spent about 16 years building and commercializing technology solutions in web2. I've been in Chicago since 2011, raised in LA, and I have a six year old daughter. I'm also always learning. Recently, I finished my MBA from University of Chicago and I also have a master's in computer science from USC. By no means am I a degen. I'm not. I come from the traditional finance background, and that's the mindset I bring to the table.

AYLA KREMB: Awesome. I want to talk to you right in the deep end with some questions. We're gonna be talking about NFTs today. What do NFTs mean in your role? Is that art? Is that music? Is that game tokens? What does it mean?

DIP: Unlike fungible tokens like BTC, ETH, and Solana, NFTs are data units that represent unique digital assets that are stored and verified in blockchain, if folks are not clear about NFTs. You see various forms of them, like PFPs or avatars, the monkeys, and the frogs, which you see quite often. And then, there are one-off artworks or generative arts, collectibles, photography, music, gamified items, membership passes, domain names, etc. There are so many things that are coming up with NFTs as tokens.

My favorite ones are usually those with utilities behind-the-scenes. There are quite a few, but I'll mention two utilities that I personally like. One is tokens that give me lifelong, discounted access to gyms, club memberships, or those that give me access to premier events. Once I use them, let's say, at the beginning of the year because I want to go to the gym, and by February if I'm bored and don't want that gym membership anymore, I just sell it by February on the secondary market.

In our business, we have started seeing a lot of entertainment folks like people from music and Broadway show artists who are trying to leverage NFTs to receive and manage their royalties. They're approaching us more. It's very interesting to us, and I love that part of it.

Something new that I'm really excited about and looking forward to is this thing called soul bound tokens. If you don't know what soul bound tokens are, they're ERC 1238. It's a new new token. These are non-transferable tokens. What's going to happen is you will soon see them used as certificates proof on blockchain. Let's say you have a degree or certification on FINRA, and they've associated with you. Basically, that token belongs to you, and you cannot give it away. That's how you associate them. I love that part.

KENNY: Going back just a smidge, we talked about soul bound tokens a little bit a couple of weeks ago. But you were talking about the new NFTs with utilities like gym memberships, for example, where you could have it forever and just sell it whenever you want to.

Doesn't that create a problem for the issuer? They get money when you buy it from them originally, but they don't actually have any additional revenue stream past that point. What does the actual economics look like for these types of utility-driven NFTs?

DIP: After a sale or mint happens and, let's say the value of that token is increasing because there is more demand, for example, that token goes from 1 ETH now to 5 ETH, and you don't want that token anymore or want to make money on it, so you sell it at 5 ETH. Let's say Bally Total Fitness is the actual creator. They're going to get a certain percentage of that sale on the secondary market that is doing that transaction.

AYLA: I'm going to hop in with another question after that. Your team works a lot to identify NFTs that have a potential for appreciating in value, and detecting hype off of that, so how does that work? What are the indicators of hype in an NFT? How do you spot it?

DIP: If I could share my screen real quick here, you can see where those early signs are. This is a good way to explain it. It makes it visually compelling. What's happening is there is a wave that comes in when we talk about hype in the market, and it's not consistent. It starts, it grows, it fades away. We have seen the whole cycle to be around six to seven months, and this is how it starts. The first hype starts even before a project hits the market, and it's centered around the creator.

It's typically someone who is a good artist. Their friends and their followers say "Hey, this person is trying to bring this project up" and hype it up. And then, once the project hits the market, whether it's the primary market or the secondary market, the early investors are coming in and they're buying or minting it cheap.

And then in phase two, they start to hype it up in the market. They start talking about it on Twitter and Discord and how it's growing, how it's so amazing, and how everyone's buying it. The volume goes up. And then at some point, these early investors start selling at a profit, as the interest comes in, and they put their new profits back into buying more tokens. . As the volume continues to increase, they try to double it up. And at some point, you start seeing the demand really slow down.

At this time, investors are trying to sell them more aggressively and the volume soon starts going down. Now you can't sell anything and you start dumping as much as possible. Then, the project goes flat. You hold maybe three, four tokens, and you're just cruising. At that point, it's been six months or so and nothing happens.

After six months, two things can happen. One is that some new announcement comes up, like if Gary Vee talks about the product, and the price goes up again and it takes some traction. The second thing that could happen is that nothing happens to the project, and people move on.

AYLA: I'll pick up a question from the chat. What if there's no utility? Is there anything wrong with having the biggest gamble opportunity, instead of a pure utility? Also, are there any tokens that continue being a gamble opportunity in perpetuity?

DIP: I love that. Here's the thing. If you visit Dune Analytics, you will see that from June '21 to '22, most of the transactions happened here. And now, it's slowing down a bit. NFTs with utilities are something very different and have a different objective altogether.

I love utility projects. They are not typically for trading purposes. But the hype that I showed here is more for projects that are short term such as PFP projects. These are coming from small artists who are trying to make money from this kind of trading. In the long run, you will see that more projects will have utility and this hype wave will act very differently. We already see that it's more of a slow curve coming in, and it takes much longer to fade off.

One of the projects that we are excited about is called OCM, or On Chain Monkey, which is part of Metagood by Bill Tai. We are a big proponent of that project because they have a lot of good utility selections and humanitarian values behind the scene.

KENNY: It feels like you're drawing a distinction between utility, which in traditional finance you'd probably call fundamental value investing, and speculative hype bubble. Picking up on Richie's question, it feels a little like ICOs. There is a lot of excitement, but not much actually behind it. And then, everything collapses. Is that fair?

DIP: Yeah, that's exactly how it works.

KENNY: So then, what are the key drivers when you're looking at utility and trying to understand the economics behind these, let's call them, non-Ponzi NFTs? I don't know what you want to call them properly to represent that, but what are the main drivers of utility and how do you find it?

DIP: I'm going to dive a little bit deeper into how we do it. Everyone might be doing it differently, but we're really good at figuring out what is the Ponzi project , and what is not. We have various projects that come in real time into our platform .

When we look at what the trade looks like, we look into three things. One is momentum in sales, hype on social media, and impact of influencers on the project. With momentum in sales, it’s not just about how many people are buying it, but also whether they're bidding on it and how many, if there's some sort of pump-and-dump going on under the hood or bad actors within that trade, etc.

We track all that and see what that bell curve looks like, and then we position ourselves accordingly. On the social media hype, if someone here is from marketing, you will know that within Web3 and NFTs, there are a lot of bots and fake actors in play.

We categorize who are the genuine posters and are genuinely involved in the project, which ones are bots, who are those that are not very influential in the market, and the top influencers. We look into all of that and put a score on the project based on that.

Third is the impact of influencers. We see how those authentic influences are impacting that project, and how they are bringing in whales or blue chip holders into a project, and how that moves the project forward.

AYLA: A really good question would be, how do you kick bots? I feel like this is an Elon question.

DIP: Before we started this project, we had been building models around Twitter, Facebook, and Discord to detect bots for over five and a half years, and we've gotten really good at it. But there’s no perfect way to say this is a bot or this is not a bot. It takes us a little time to catch on.

Our NLP model that runs behind the scenes can see whether these posters who are talking about the project have any followers. Are they just talking about the same project? Are they using the same tone and the same language and the same comment over and over again? For what duration of time? And also, how long have they been in the space talking about this project? These are some of the basic indicators that we look into.

KENNY: Okay, that's interesting. We'll pick up Stella's question here. DYOR or “Do Your Own Research”. That's something that you hear thrown around in crypto a lot. But with what you're talking about, that's not something you can do casually. You need a whole system.

So, with regards to that DYOR approach where you can go figure out the good stuff on your own, was that just the early days where everything was exciting? Is it now becoming more quantitative and value-based? Or do you think we're going to end up with a hybrid approach in the future?

DIP: We still say do your own research. This is our research. This is our direction. The reason we believe the market went down from being such a big, high energy market to where it is today is because a lot of people lost a lot of money by just taking this approach of "Oh, I love that frog. I love that monkey. Let me go and buy it and it's going to grow in value." There is nothing out there that stops them from their emotions.

That's why we are here as an alpha finder and a risk management company. We give people a lens that says, "Okay, be careful before buying this token or getting into this project, and when you are getting in." The fact is that you can get into a project anytime, but the only time you make money is when you get out of it. Timing and safety is everything.

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Corporate Director, CME Group

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