

diffusetap
Virtual Event Series

Infrastructure Bets in a Crypto Bear Market

Guest Speaker:



Joe Hoffend

Vice President
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Hosts:



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DiffuseTap: Infrastructure Bets in a Crypto Bear Market

Last time on DiffuseTap, Joe Hoffend, Vice President of Product Development at Foundry, talked to us about the crypto infrastructure needed to support institutional adoption, how current crypto infrastructure is handling the bear market, and why some data centers and banks are banning crypto activity.

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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



JOE HOFFEND is a crypto product innovator and entrepreneur. Joe started as co-founder of an eSports media company, eventually joining Fastly as product manager. He is now Vice President of Product Development at Foundry, a Digital Currency Group company that provides miners and manufacturers the resources to build, maintain, and secure decentralized networks.

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KENNY ESTES: Joe, can you tell us a little bit about your background and what you're up to over at Foundry?

JOE HOFFEND: Absolutely. Thanks, Kenny. I'm Joe. I've worked in tech for about 20 years. I started off many moons ago with an eSports media startup, and built that up over several years with a few of my friends. It was kind of the ESPN of eSports in the early to mid 2000s. At our peak, we were around 10 million page views a month and 1 million registered users.

I successfully exited that startup, at which point I then stayed in tech, working through many different positions in enterprise software services. I found my area in products and product management, and did a stint there for a while, at which point I then transitioned over to a company called Fastly, which is more of a Silicon Valley-centric company that had products and services around edge computing and edge cloud. That's where I learned a whole bunch of cool things about how a company operates.

Meanwhile, I had always been interested in sound money, like gold and silver. I was one of those bugs through the 2000s. When I found Bitcoin in 2012 or 2013, my reaction was, "Whoa, the principles that I believe in and technology are being pushed together." I invested in Bitcoin and got into the whole space then. I also saw Ethereum and saw the trajectory of smart contracts, and the value that can add into the world. I have been investing, tracking, and following that space ever since.

A couple of years ago, I got connected to our CEO at Foundry, Mike Colyer when I was in Rochester. He told me about all the cool things Foundry is up to. And with my crypto background and passion, I decided to take the leap and join. We were 30 employees at that point, and we are now at around 160 to 170. We are a wholly owned subsidiary of Digital Currency Group. Foundry is really trying to decentralize infrastructure, specifically with an institutional customer in mind.

We started off doing a Bitcoin mining pool, which we grew. It is the number one Bitcoin mining pool in the world at this point. We service over 100 Bitcoin miners, some are public, some are private. We have a number of other products and services around Bitcoin mining. We are also building up our products and services on the proof of stake side of the world as well, starting off with staking your tokens for yield, and other products and services to come beyond that.

It's been super fun. I get to do what I love every day. At this point, it's becoming my job, and I was worried that it was going to make me sick of it and hate it. But oh, boy, it's interesting working in the space. It's much different.

AYLA KREMB: I would think so. Maybe we'll kick off with some questions. This conversation is really around infrastructure. What should people be building at a time like this? Frankly, a lot of crypto people should have some real motivation to put infrastructure in place that would make them more institutionalized. How would you define the core infrastructure required for this industry to become more institutional, or for institutions to have more appetite for putting capital in us?



JOE: My experiences from past jobs are really starting to translate into this job because anything that a web 2 or a SaaS enterprise level company would be looking forward to, they're looking for here. And they're only going to be pushing you to do more.

So, what do I mean by that? If we think about just our infrastructure in general, we get asked "how many different cloud providers do you use? Where are they located regionally? How do you think about geographic diversity in terms of decentralizing your own infrastructure and making sure that there is a failover if issues occur?" Just a couple of months ago, we saw AWS experience an outage on the East Coast. Having the ability to move to a different cloud provider or just flip over to the West Coast offering is a big deal. They want to understand how you think about that.

We've even obtained our Soc 2 Type 1 compliance certificate. We were the first Bitcoin mining pool to get that. Access control, security, all these checks and balances, everything that you would be looking and getting asked about in a web 2 or enterprise world, they're all moving over to crypto. And so, we are constantly thinking about how to up our game in terms of going after an institutional type customer and trying to empathize with what their concerns are going to be, and where they might choose somebody else over you for some of those reasons.

KENNY: Makes sense. Institutionalizing in general and getting good infrastructure is a big deal. Crypto has been interesting over the last few months. With your DCG connections, you might have an interesting slant on this from a financial point of view. How has the existing infrastructure handled the meltdown? Do you think people are up to snuff? Or has it caused all sorts of other knock-on issues?

JOE: In general, we saw a lot of the DeFi platforms handle everything pretty well. That was very promising to see. But on the Foundry side, when we were just navigating the day-to-day, everything has been pretty good. From our perspective, what we did see that was concerning, or an opportunity, was that there was a particular provider of data centers called Hetzner. They're based out of Germany, and we use them for a few different things.

They sent out a notice and basically said, "hey, if you're doing any kind of a crypto use case in our data centers, that's not going to happen anymore. So get out, move somewhere else, or stop doing what you're doing." We have seen some concerns coming through like that, and I'm sure a lot of the folks who were impacted just moved over to AWS or one of the other big three cloud providers. So, that's centralized. It's a little bit into that aspect of the world.

But for us, we see it as an opportunity. Because they're getting kicked out, we want to push this narrative of offering products and services to institutions for crypto infrastructure use cases. We're building out a big bare metal offering in our own data centers to an alternative to AWS, or Google Cloud, or Microsoft Azure. We're going to run our own products and services out of those so that we have more control, and so we can control our own destiny.



That's been interesting to see. We're waiting to see who else might go down that path as they start to understand things like, are people mining on our platform? Are people running validators? What are they doing with these different crypto use cases in our platforms? And what's their comfort level or position? That's what we've been monitoring and having plans for. If whoever else kicks us out, where do we go next? That's been interesting to navigate. But other than that, we're just building through the bear market. That's our position right now.

AYLA: Chris has the following question here. Why would a data center kick out customers working on crypto? What is the risk to them? What's their reasoning? And this is not just a few data centers. TransferWise doesn't work with crypto companies anymore. Various banks have also limited crypto activities. Paypal will kick you out if they think that you're doing certain things that are in conflict with their crypto objectives. What do you think about that?

JOE: When we got the notice, there wasn't really a good reason in there. It was just "stop doing what you're doing." I can guess that in places like Europe, they are coming up with their own regulations around crypto compliance and all these different aspects. Maybe they saw something coming.

Maybe they're just not in a position themselves or don't have the staffing, processes, and resources to handle what could come. And so, the safer choice for them is to just kick people out for now. Maybe they'll bring us back at some point or invite us back at some point. It's the same thing in the U.S. It's just about the uncertainty of trying to be as prepared as possible for what may come, and trying to guess how to handle things.

I know Coinbase talks about that a lot. They're basically trying to be as conservative as possible with their policies and procedures so that when regulation day comes and things are more clear, they're already set up to handle 90 plus percent of what it's going to be. I think it's a lot of uncertainty, honestly, and trying to really mitigate risk. Essentially, business continuity planning. All that stuff.

KENNY: Makes sense. Obviously, you guys are taking the more institutional approach and trying to get all the certifications and check every box for institutions. Most people don't have that. So in your opinion, when you're looking at a company's internal infrastructure, what are some of the major red flags that people need to be aware of?

JOE: Again, going back to looking at how companies and products have been successful in the past, we look at things like, do they have checks and balances in place? Do they have certain controls in place? Do they have a security team? Do they have a network engineering team? They have monitoring in place? Do they use multiple infrastructure providers? What's the track record of the team?



All these things are very important to look at because we've got so many young people coming into the space. You have to ask them questions because some of these hacks that we've seen could have been avoided if these folks who develop these products have more engineering experience or engineering backgrounds to look around corners and understand the risks or the vectors of attack.

We need to look for teams who've got a good record, or at least a mix. If the lead engineer is super young, is the security team experienced? Is there good management in place to think about how to manage the balance sheet? There are so many different risks and aspects that you want to be looking at in the company, and ask yourself, "can they withstand a bear market to capture the upside of a bull market?"

That's how we think about things in Foundry, as we know it's extremely cyclical. We've got to capture the upside in the bull to weather the bear, and then to capture the upside in the bull again. That's our position and how we think through everything as a whole. It's not like our product launch next year is a new brand of cereal. No, we're not Kellogg's. We've got to be able to withstand the huge ups and the huge downs, and we're in the huge down right now.

AYLA: Thinking about the next 12 months, where do you think this bear market is headed? People are going to be building some things. Where should investors be peeling their eyes and taking a look at? What kinds of companies should they be focusing on potentially investing in?

If you think about the .com bust and what came out of that, some of the most successful companies were successful until they started laying off a bunch of books this year. But a whole wave came out of that crash. What wave of companies do you think are going to come out of this crash?

JOE: I think there are a couple of factors. One is who can see where there were shortcomings in the last couple of years, and build products and services to solve those problems. And then two, who can build products and services that just solve the problem in general. What we continue to see from our point of view and from the DCG investment point of view is, there is a lot of hype, still, of products that don't actually solve the problem.

You have to think about things like, if it's a new AI company or a new decentralized exchange for example, what's their angle? How are they solving the problem differently? Because everything is open source, you can fork code very easily. But at the end of the day, are they just trying to do a quick value capture? Who's really building for the long term? And trying to think through things like, do I have a customer? Who is my customer? And making sure that they are actually solving problems.

When we talk to other VCs, they're experiencing the same challenge. They go, "it seems like cool tech, but who's the customer? What problem is it solving?" At the end of the day, my personal thesis is that even though a lot of the Twitter threads you'll read about will say "oh, this has a new zero knowledge proof or mechanism, or can scale something differently", I don't think the best tech is actually going to win here. We've got to start to solve some actual problems in the space, and solve some real world problems.



Maybe that means we're not exactly web 3 yet. Maybe we're web 2.5. We're just making web 2 solutions slightly better, in some way, shape, or form through our crypto lens.

I've also seen some tech which is promising in terms of what the token actually does. We're seeing some tokens that are actually thinking through better ways to return yield to customers, whether it's an exchange token or not. There is a decentralized exchange right now called GMX that people are really excited about. But we're still trying to think through what the real model of the token is, what is the problem we're solving, and what is the value capture.

KENNY: I love how you said that because for a long time, and still is, blockchain is the business plan, which doesn't necessarily make any sense. If anything, Blockchain should be the implementation detail of a business plan rather than the other way around. People still have that backwards.

Picking up a question here from Andy. You explained teams and personnel. Most startups can't afford people. How do you look at opportunities where the team doesn't really seem complete? What are the key factors that you're looking for there, when you're analyzing the team overall for a new endeavor?

JOE: I saw some questions related to this in the chat around governance. Governance is, do they have advisors who are experienced in areas that they are not? And do they have the resourcing to point out where there are risks or where there are vectors of attack? You still need to be concerned with those things. That's because a lot of what we're seeing in crypto is, once you get hacked, or once you have a big event, it's very hard, if not impossible, to come back from that. There's just a lack of trust. There's a lack of confidence.

Be okay with iterating as well and being clear about what's been audited or not, and being really transparent in that sense. I know, we're obviously staffed up at Foundry, but we have a product lifecycle distinction that we use, whether it's alpha, beta, limited availability, general availability, or just being very cautious about where we put things out into the world.

I think it's been the "move fast and break things" mentality in crypto for a long time. It's always been just "fork something, make a slight change, and put it out there." But there are issues and concerns with that. You have to be really clear about what you're doing and why, and all those things.

AYLA: I'll pop in with one more question. What we've observed is the big banks, some of them are saying "we won!" But meanwhile on the backend, they're actually going "we love the infrastructure



thing that you guys are building. We like the blockchain that you're using. It's so practical for us. Can we pick up some companies dirt cheap and integrate them into our operations?"

How do you think that is going to shake out? Do you think that the next wave of companies are actually going to be greatly funded by existing incumbent players? How do you anticipate this whole thing evolving? Because now, I think quite a few of the larger banks will have acquired some highly discounted companies.

JOE: Yeah. I think the question is going to be, are they going to be nimble enough to do something with it? We've seen big acquisitions before. I remember when News Corp bought MySpace for \$600 or \$800 million. You'd think they were going to tackle social media and win social media, but it was quite the opposite.

I think it's the same thing here. It's about who has the better product, teams, and innovation built into their culture. When they make the acquisition or the move into crypto, they're really approaching it the right way, and they're thinking through a longer plan. I know people at Foundry who previously worked at Fidelity, and they speak very highly of that team. It's a huge monolithic company, but they've got a really good innovation process down.

I think it will probably be a combination of both, where it's a company like Coinbase who is not new to the space, and who has built up all their accreditations and all their licensing and things like that. And then, it will also be some of the incumbents coming in and building up their custodian offerings and different aspects.

It could be that distribution is really their superpower, where they've got distribution in millions and millions of customers, but they may not have the tack or the experience in crypto. And so, it's going to be a back and forth war on who can build a better product, but also who can get good enough products to the distribution that they might already have.



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Dennis Chookaszian
Corporate Director, CME Group

DiffuseTap: Institutional Grade
Governance

Sharing his decades-long expertise on corporate governance, Dennis talked about 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 described 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](#)

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