



# EARLY-STAGE CRYPTO INVESTING

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# AN EXCITING TIME TO INVEST IN CRYPTO!

- The world undergoes a timeless Hegelian dialectic of centralization vs. decentralization. Computer technology, as a tool to express human will, is being used to augment both.
- AI and Big Data is the leading architecture for centralization while blockchain is the best blueprint for decentralization.
- Crypto has begotten blockchain and remains to be the best use case. Therefore, crypto is a long-term social movement that rhymes with the long cycles of history
- Centralized crypto exchanges have broken out as the best business model, which has been challenged by DeFi lately.
- While decentralization fosters greater innovation, the centralized model offers stability, efficiency, and ease of use. The Holy Grail of crypto adoption is perhaps finding the balance.
- NFT and GameFi are promising new waves to broaden mainstream crypto adoption.
- The strategy for early-stage crypto investing is to invest as early as possible in teams with great founder / product / market fit using a new “80 / 20 rule”.
- Paul’s crypto investing DD cuts through the noise with a track record of achieving a return of 36x
- Beyond investing, Paul can help with portfolio companies with BD, strategy, Corp Dev and government relations

# OUTLINE

- General observations on crypto and blockchain
- Paul can contribute both as an investor and portfolio manager



# GENERAL OBSERVATIONS ON CRYPTO AND BLOCKCHAIN

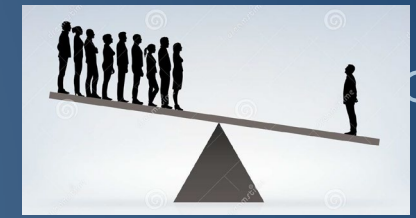
# TWO DIFFERENT TIMELESS PHILOSOPHIES DRIVE TODAY'S TECHNOLOGIES



# AI, BIG DATA & BLOCKCHAIN DRIVE MOST THINGS IN TECH

- The world undergoes a timeless Hegelian dialectic of centralization vs. decentralization
- Decentralization fosters greater innovation, reduces single point of failure, removes “the middleman”
- Centralization offers speed, stability, and ease of use.
- Computer technology, as a tool to express human will, is being used to augment both decentralization and centralization.
- **AI and Big Data** is the leading architecture for centralization while **blockchain** is the best blueprint for decentralization.

# HOW TO INVEST IN EARLY-STAGE CRYPTO PROJECTS



1. Typical seed deals give investors equity and tokens pro rata via a safe + token warrant structure.
2. Within this typical arrangement, the optimal investment strategy is to buy both the token and equity using the 80/20 rule (described on the next page) in crypto project teams with strong founder / product / market fit.
3. Not all good deals will have demonstrated product market fit. In the absence of PMF, evaluate targets based on TAM and assess if teams are building products that users want
4. At the early stage, targets have no / little data for investors to conduct rigorous quantitative analysis on their financial returns. Investors who only make decisions based on rich company data probably are not well suited to invest in early-stage
5. The best teams tend to have abundant (if no unlimited) supply of capital. Money is therefore “commoditized.” The negotiating balance tilts in favor of founders over investors. Investors have to offer value add services or “signal” to founders to get on cap tables including research, marketing, BD intros, recruiting, etc
  1. For example, a crypto OG friend of mine is receiving investment commitments from investors without even being asked of the nature of the project...
6. Liquidity in tokens can be a curse for less disciplined investors who treat prices as a guidance on company fundamentals rather than options to buy/sell because they end up over trading
7. In the past few years, government stimuli have created lots of “hot money”. Valuations are at a historical high. There are many early-stage funds with \$100-\$1bn in AUM. It’s hard to differentiate on check sizes.
8. After Softbank entered venture in 2017, many funds are forced to invest at earlier stages, intensifying investor competition, which is evidenced by a wave of dedicated crypto funds launched by Sand Hill Road VCs
9. Valuations do not matter as much at the seed stage because the potential return for the right target is 1000x. Just “get on the Rocketship”.



# THE NEW 80/20 RULE FOR A TALE OF TWO PRICES

- For a given crypto company, its liquid token is priced 3-5x higher than its illiquid equity.
- Tokens and equity can be conceptualized as two distinct asset classes. The primary reasons are:
  - Investors in crypto assign a huge liquidity premium for token prices vs. the equity of the same protocol. For reference, A 2018 study by Vanguard indicates that the liquidity premium of US stocks ranges from 2-5%, not 3-5x.
  - Retail investors tend to price any given asset higher than institutional investors. Since retail investors have significant influence on token prices, it's probable that part of the valuation premium of token vs. equity is due to the presence of retail investors.
- Many protocols that have issued tokens have little incentive to go IPO due to the token price premium.
- Traditional equity fundraising including an IPO is becoming more a tool to earn regulatory trust and create allies from traditional investors, who are more comfortable investing in traditional equity vs. tokens
- A winning strategy is either buying liquid tokens super early or investing in discounted equity at a later stage, or a combo
- I propose the following **80 / 20 rule** on investing to maximize risk-adjusted returns
  - Early-stage: allocate 80% of the investment to buy tokens while reserve 20% for the equity. Institutional investors need to ask for a board seat in order to have a say on when the company goes IPO. Otherwise, the equity becomes "dead". The 80% exposure to tokens will benefit from the short term price pop and liquidity while 20% in equity captures the big discount to token when the equity becomes liquid.
  - Growth-Stage: allocate 80% of the investment in equity while reserve 20% for the token. As the company matures, the path to IPO is much less uncertain, so allocate more investment into discounted equity.

# CRYPTO IS A LONG-TERM SOCIAL MOVEMENT

- [The Bitcoin paper](#) was written during the 2008 financial crisis as a response to the abuse of incumbent Wall Street financial institutions.
- Decentralization, as advocated by the crypto community, was a reaction to the lack of trustworthiness of centralized financial institutions.
- Therefore, crypto, beyond being a speculative phenomenon, is a long-term social movement that rhymes with the long cycles of history
- The blockchain architecture is conceived with the motivation of sending money among peers without “going through a financial institution”
- As of now, crypto is still the best use case for blockchain in terms of product market fit.
- But blockchain has more potential applications beyond crypto because it creates transparency, minimizes monopolies, and reduces risk of single point of failure
- Emerging blockchain applications include secure sharing of medical data, personal identity security, voting, real estate processing

# FINANCIAL HISTORY HAS CYCLED THROUGH CEFI AND DEFI



- The crypto community has been debating about the merits of centralization vs. decentralization.
- However, framing the debate as “either or” ignores the lessons of history. There was a time when centralization was needed and even necessary.
- In the early 19<sup>th</sup> Century, the Rothschilds’ tightly controlled banking network in Europe helped Britain finance the fight against Napoleon.
- Since the rise of the Rothschilds, many powerful banking houses emerged like J.P. Morgan, Lehman Brothers, and Goldman Sachs.
- Once again, these centralized financial institutions played important roles during war times. Goldman Sachs’ Sidney Weinberg helped FDR centralize America’s factories for WWII industrialization.
- **We are in a historic period of decentralization. But there might be a time for centralization one day.**
- In fact, we might see centralization and decentralization coexist in our world today as different regions are on different stages of this repetitive historic cycle.

# THE HOLY GRAIL OF MAINSTREAM ADOPTION

- Coinbase has established market leadership in the U.S. by being around the longest. It is analogous to “Yahoo!” in the early 2000s of the search market. Coinbase is known for the fiat gateway, brand awareness, and emphasis on compliance.
- Outside of the US, Binance.com and its ecosystem has risen to the top through focus on serving users with evermore diversified crypto products and community building as well as regulatory arbitrage. FTX is the latest contender in the global race for the lucrative crypto exchange business
- DeFi is challenging the centralized exchange model by sticking to Bitcoin’s original vision of a P2P network. With its improving usability of smart contracts, DeFi has the potential to be the disruptor of traditional finance.
- While decentralization fosters greater innovation, the centralized finance model offers stability, efficiency, and ease of use. The Holy Grail of crypto adoption is perhaps finding the right balance between decentralization and centralization.
- In the long run, the lucrative exchange business model might disappear, giving rise to companies with attractive alternative business models like Anchorage Digital and Ripple
- NFT has exploded as crypto is resurrecting the “patron direct to creators” model known during the Italian Renaissance. The promise of NFT to bring more users into the crypto ecosystem is exciting.
- GameFi (Play to Earn) is on the cusp of explosive growth since it combines two favorite pastimes of crypto native people – video games and crypto trading. Similar to NFT, GameFi has the promise to bring many of the 3 billion global gamers into the crypto ecosystem.

# RULE OF LAW IS GOOD FOR CRYPTO

- While there are short term tensions between regulators and crypto innovators, in the long run, countries with strong rule of law will likely become the biggest crypto markets.
- Throughout history, investors have preferred their hard-earned money to be protected from confiscation, which happens more frequently in countries that are ruled by men instead of law. As a result, the world's most active non-crypto financial markets are in countries that have strong rule of law. Examples include London, New York, Singapore, Zurich, Chicago, Tokyo, Frankfurt.
  - Hong Kong is a great example of how degrading rule of law is leading to a flight of capital.
- Crypto investors might want the same level of protection of their private property guaranteed by rule of law.

# WORLDWIDE CUSTOMER PROBLEM



Region	Customer Problems	Corresponding Solutions	Opportunities for Crypto Companies
North America	<ol style="list-style-type: none"> <li>1. People do not trust Wall Street</li> <li>2. Many are concerned about inflation</li> <li>3. Traditional investment channels are too opaque to young people</li> </ol>	<ol style="list-style-type: none"> <li>1. Crypto; Robin Hood</li> <li>2. Crypto; gold; houses</li> <li>3. Crypto; Robin Hood</li> </ol>	<ul style="list-style-type: none"> <li>• Offer differentiated products like GameFi, derivatives, staking, IEO and NFT</li> <li>• Leverage liquidity depth to facilitate payment</li> <li>• Faster execution</li> <li>• Build digital currency for the Fed</li> </ul>
Europe	<ol style="list-style-type: none"> <li>1. Low interest rates result in few attractive investments</li> <li>2. Smaller EU countries have little control over monetary and fiscal policies.</li> <li>3. Traditional investment channels are too opaque to young people</li> </ol>	<ol style="list-style-type: none"> <li>1. Crypto</li> <li>2. Crypto</li> <li>3. Crypto; eToro</li> </ol>	<ul style="list-style-type: none"> <li>• Offer differentiated products like GameFi, derivatives, staking, IEO and NFT</li> <li>• Build digital currencies for central banks</li> <li>• Leverage liquidity depth to create payment systems</li> </ul>
China	<ol style="list-style-type: none"> <li>1. Consumers lack investment options.</li> <li>2. Investors can't move money out of China easily.</li> <li>3. There is no strong protection of private property.</li> </ol>	<ol style="list-style-type: none"> <li>1. N/A</li> <li>2. N/A</li> <li>3. N/A</li> </ol>	<ul style="list-style-type: none"> <li>• Not much to do in China now except for keeping a casual dialogue with regulators.</li> <li>• When crypto becomes "inevitable", CCP might want help on building its closed ecosystem.</li> </ul>

# WORLDWIDE CUSTOMER PROBLEM

Region	Customer Problems	Corresponding Solutions	Opportunities for Crypto Companies
Developing Asia, Africa, LatAm, and Middle East	<ol style="list-style-type: none"> <li>1. Consumers lack investment options.</li> <li>2. There is no strong protection of private property.</li> <li>3. Political instabilities lead to economic volatility.</li> <li>4. Citizens distrust governments.</li> <li>5. There is no reliable financial services including payment and value storage.</li> </ol>	<ol style="list-style-type: none"> <li>1. Crypto;</li> <li>2. Crypto;</li> <li>3. Crypto; USD/EUR assets; Gold</li> <li>4. Revolutions; protest; immigration;</li> <li>5. Mobile wallet; Crypto; Rappi in LatAm; Paypal</li> </ol>	<ul style="list-style-type: none"> <li>• Offer differentiated products like GameFi, derivatives, staking, IEO and NFT</li> <li>• Leverage liquidity depth to create payment systems</li> <li>• Faster execution</li> <li>• Build digital currencies for central banks</li> </ul>
Developed Asia including Korea, Japan, SG	<ol style="list-style-type: none"> <li>1. Social economic immobility leads to few opportunities for young people</li> <li>2. There are limited options to gamble or create wealth</li> </ol>	<ol style="list-style-type: none"> <li>1. Crypto</li> <li>2. Crypto</li> </ol>	<ul style="list-style-type: none"> <li>• Offer differentiated products like GameFi, derivatives, staking, IEO and NFT</li> <li>• Faster execution</li> <li>• Build digital currency for central banks</li> </ul>

# EXCHANGES ARE MAKING MOST OF THE MONEY

- Both the new entry of users into crypto and the high frequency of trading among existing users make exchanges the best business model in crypto today.
- Coinbase's Q2 2021 revenue is \$2bn, it is not even the largest exchange. The world's largest, Binance, handles >4x as much trading volume as Coinbase.
- The top exchanges make \$3 – 20mm per day in revenue, translating to **\$1 – 8bn in annual revenue!**
- Exchanges make money in 4 ways
  - Deposit fees: users pay when they deposit fiat money to buy crypto
  - Withdrawal fees: users pay when they withdraw crypto into their own wallet
  - Trading commissions: users pay when they trade crypto such as exchanging BTC with ETH
  - Listing fees: like IPO fees that Wall Street charges, exchanges collect a fee when a project undergoes an Initial Exchange Offering (IEO)
- The handsome profits have drawn competitors into the exchange business model. In the long run, revenues are likely going to decline
- But for now, exchanges are enjoying the party

Name	Exchange Score <sup>1</sup>	Volume(24h)
 Binance	9.9	\$31,756,847,304 ▲ 6.91%
 Coinbase Exchange	9.1	\$7,278,991,843 ▲ 16.38%



# COMPARISON OF EXCHANGE PRODUCT OFFERINGS

Best selling product offering	Coinbase	Binance.US	Binance.com	FTX
Derivatives	Seeking liscence in US	N/A	No.1 in Market Share globally	Growing in market share fast; acquired LedgerX
Staking	Supports ETH 2.0, ALGO and XTZ, ATOM, Dai, USDC	Supports 7 coins including ALGO	In addition to ETH 2.0, accommodates a diversity of coins including DAI, Tether, BUSD, BTC and BNB	Lots of innovations around increased referral rates, maker fee rebates, bonus votes.
IEO	Hinted at offering it	N/A	No.1 in market share outside of U.S	Fast growing outside of U.S
NFT	N/A; can connect to other crypto wallets with NFT	N/A	Launched NFT marketplace in June	free swag NFTs, non-US marketplace





# COMPARISON OF EXCHANGE PRODUCT OFFERINGS

Best selling product offering	Coinbase	Binance.US	Binance.com	FTX
CryptoCard	Visa Debit Card	N/A	Visa Debt Card	Visa Card (US only)
Payment	Coinbase Commerce	N/A	Binance Pay that supports >30 currencies	Receive payments to an FTX account or external wallet
Custody	Supports 90% of crypto by market cap; fiduciary under NY State Banking Law	Partners with third party banks	Partnership with Etana Custody	Provided by Coinbase Custody
Wealth Management	N/A	N/A	N/A	N/A

# COMPARISON OF EXCHANGE PRODUCT OFFERINGS

Best selling product offering	Coinbase	Binance.US	Binance.com	FTX
DeFi Connector	N/A	N/A	PancakeSwap on Binance Smart Chain (BSC)	Serum built on Solana
Fiat Channel	No. 1 market share in U.S.	No. 2 market share in the U.S.	No. 1 market share outside of the U.S. and China	Fast growing

# EARLY-STAGE INVESTMENT IDEAS

Target	Token	Rationale	Sector	Valuation	Risks
	YGG	Meta bet on all GameFi (play to earn) as YGG is a DAO investing in NFTs in games; Crypto gaming has grown in popularity largely due to its ability to allow players to collect and trade virtual assets that can be exchanged and traded anywhere in the world. Axie Infinity, a game, generated \$220mm in one month this summer, surpassing all other DeFi protocols.	GameFi / DAO	\$6bn	Price is likely to be volatile; market participants might switch from one hot toy to another
	AGLD	Loot is a major innovation on leveraging the power of community to generate valuable NFTs. AGLD is the governance token of Loot and enable holders to vote on future in-game credits or future mints. AGLD is founded by Will Papper, who is a crypto OG and co-founder of Syndicate DAO, a decentralized investing protocol; listed by FTX 30 hours after launch	GameFi	\$214mm	Loot might be a fad; price will be volatile.
	BURNT (not yet live)	It's a decentralized auction protocol built on Solana; the explosive community growth of Solana can help BURNT to take off; the diversity of auction types and asset types including NFTs and synthetics could make it the most innovative NFT platform, beyond a marketplace. Processes 50k TPS and charges only \$0.01 in avg. gas fees (vs. OpenSea's 9k TPS and ~\$100). Founder Burnt Banksy is a legendary NFT OG. 50k users on waitlist before launch.	NFT / Auction	Unknown	Unknown product market fit; NFT might get into a bear market in the near future.
	N/A	A Solana spinoff, Metaplex offers NFT storefront as a service to creators; empowers creators and brands to build a direct relationship with their audiences; ultra-fast NFTs with low minting fees on Solana.	NFT	Unknown	Unknown product market fit; NFT might get into a bear market in the near future.



# PAUL CAN CONTRIBUTE BOTH AS AN INVESTOR AND PORTFOLIO MANAGER

# PAUL'S DD CUTS THROUGH THE NOISE

1. My past [sample investment memo on Tableau](#)
2. My early-stage investing style relies much less on quantitative analysis because there is not much data whereas my growth stage analysis is data heavy
3. Conduct original research including
  1. Personally use the product
  2. Extensive conversations with end users and procurement decision makers (B2B)
  3. Conversations with managers and employees of target company
  4. Conversations with competitors
4. Conversations with other investors who know the company and space well
5. Compose industry and product overviews including competitive landscape

# PAUL CAN HELP WITH PORTFOLIO COMPANIES IN:

- Business and Product Development

- Leads strategy and execution of the first NFT campaign for one of the world's bestselling artists on Binance's DeFi NFT platform
- Completed 3 Partnership Agreements with companies in AI, Big Data, semiconductor and healthcare as part of Alibaba's investments
- Co-led the business agreement with data Artisans to create Realtime Compute for Apache Flink, a major product feature for Alibaba Cloud's \$10bn business



- Corporate Development and Finance

- Extensive skills in finance, M&A and investments. Selected transactions include:
  - At Alibaba, completed several investments and one acquisition in AI, Big Data, healthcare, robotics, autonomous cars, and other deep tech. Led Alibaba's acquisition of the open-source big data company data Artisans in Berlin, Alibaba's first acquisition in Europe.
  - At Goldman, completed \$20bn of transactions across North America, Europe, South America, and Asia



- Government Relations

- Worked with American and European regulators pertaining to Alibaba's investments
- Received Masters of Public Administration from Harvard's Kennedy School of Government
- A member of Council on Foreign Relations, the premier policy think tank in the US. My membership was nominated by ex-US Secretary of State Dr. Condi Rice

