



April 2022 Investor Update

ProChain in the News

[Price at the pump will get 'higher'](#); *Fox Business* (Mornings with Maria), May 12

[VanEck Exec: Use Cases of NFTs 'Approaching Unlimited'](#); *Blockworks*, May 2

[Crypto enthusiasts sniff at Buffett, Munger comments on bitcoin](#); *MarketWatch*, May 2

Recently, cryptocurrency, along with other asset-classes, has experienced price damage.

In addition, in the cryptocurrency sector, investor confidence has been rocked, due to volatility and the unfolding of the Terra/Luna/UST story (more below).

Cryptocurrency continues to be at a nascent stage, and in its history, it has come back stronger from much more dire circumstances.

It may take some time to regain investor confidence, but we are certain that cryptocurrency will survive and thrive in the long-term.

Beyond inflation and interest rate-related strains that broadly plagued markets recently, crypto markets were also walloped by the undoing of **Terra/Luna/UST**.

In last month's letter, we covered **Luna's** transitioning of its *algorithmic UST* stablecoin (**Terra**) to include Bitcoin backing.

Luna was backed by a lot less Bitcoin (\$3B, all sold during the downdraft) than the total-value locked in Luna (\$17B in April).

There was a run-on Luna, which crushed Luna, Terra, Bitcoin, DeFi and the rest of crypto (likely in that order of progression, although it all did manifest at once).

Simply, an algorithmic stablecoin achieves its stability not by being "backed" by sufficient assets to cover the total value of stablecoin issued, but by incentivizing traders and speculators to financially benefit from any "instability". If you want to know more, see [this summary](#).

With greater and wider adoption/holding of the stablecoin, the algorithmic approach becomes more insulated from manipulation.

Unfortunately, the recent market upheaval was too much for Luna/Terra to bear. In addition, at points, there may have been a concerted attack on Luna/Terra by particular trader(s).

- **ProChain's view** – As we've previously stated, if algorithmic stablecoins, such as LUNA and DAI, are subjected to a systemic shock at the current early stage of their evolution, they could very well collapse. The further we get on the timeline, the less likely it is that they will be upended. *We don't believe that this is the last that we'll see of algorithmic stablecoins.* For now, it is a four-letter word, however, there is validity to the concept, and we are certain that we will see it again, albeit after some hiatus; and, likely, under a different moniker.

1. **Adoption** Cryptocurrency adoption, as an investment and as a currency, is growing quickly and widely

a. *Investment.*

- **Fidelity** has formally announced its intention to make [Bitcoin an available investment in its 401\(k\) retirement accounts](#) within 2022.
 - Fidelity's head of workplace retirement offerings commented, "There is a need for a diverse set of products and investment solutions for our investors. We fully expect that cryptocurrency is going to shape the way future generations think about investing for the near term and long term."
 - This means that, if we see significant adoption of this option by 401(k) plans, there will be a consistent bi-weekly (or twice monthly) spot bid on BTC coming from long-term, passive acquirers of BTC, which should be supportive of BTC price on a recurring and perpetual basis much the same way we see other asset classes benefit from retirement plan inclusion.
 - Undoubtedly, this initiative may face even more resistance from regulators in the wake of recent events, and may be delayed
- **BlackRock (BLK)**, the world's largest asset manager and behemoth ETF issuer, which has been increasingly warm to cryptocurrency, [has launched its first ETF with crypto and blockchain exposure](#).
- **FTX**, one of the largest crypto exchanges, is [expanding into stock trading](#).
 - In addition, **Sam Bankman-Fried**, personally, recently [purchased 7.6% of the stock of Robinhood \(HOOD\)](#), the retail investing app, which has crypto trading ambitions of its own.
- **Goldman Sachs (GS)** announced that it is [looking into NFTs as a medium for representation of and to enable the trading of financial instruments](#).
 - **ProChain's** view is that the NFT revolution will be more about "boring" assets, such as, securities, real property, and contractual rights, and less about Bored Apes.
 - In other Goldman news, the bank [closed on its first Bitcoin-backed loan](#).
- **Apollo**, the private-equity giant, [has hired a high-ranking JPMorgan Chase executive](#) to head its new digital-asset strategy.
- The pension fund for Fairfax County, **Virginia** municipal retirees has [>8% of its total assets in crypto-focused investments](#).

b. *Currency and Use.*

- **Gucci** will begin to [accept cryptocurrency in a few of its US stores](#).

- Thanks to the venerable Bloomberg reporter, **Matt Levine**, and [his interview of FTX founder, Sam Bankman-Fried](#), who is a crypto wunderkind and has testified before Congress, [DeFi, staking and yield-farming, have been exposed](#). This is worth a *slow listen* or *read*.
 - The discussion is at extremes and concludes that the terminal value of a decentralized finance (DeFi) protocol, like other commodities that don't have utility or intrinsic value, is zero. Without any consensus on value, they're valueless.
 - A natural extension of this line of reasoning could be carried to equity interests in commercial banks, which could be couched in their simplest form as loan and deposit brokers for the government's central bank (which arguably may have no value either).
- **Stripe**, the payment facilitating company, is [allowing customers to pay their users in USDC, Circle's dollar-backed stablecoin](#). Stripe, in 2018, ended support for Bitcoin payments due to the high fees and extreme volatility.
 - With this move by Stripe, Twitter's support for USDC, and similar moves by [FIS](#) and [Visa](#), it can be argued that stablecoins are solidifying as the digital medium-of-exchange (as opposed to Bitcoin). The recent turmoil in stablecoins, including Terra/UST, notwithstanding.
- In update to ProChain's March letter, [Ethereum's "merge"](#) (moving from a Proof-of-Work chain (like Bitcoin) to a Proof-of-Stake chain (PoS)) [has been delayed \(again\)](#), hopefully, to be completed before year-end.
 - **ProChain** continues to be bullish on Ethereum, leading up to the merge. However, longer term, we believe that more effective and efficient protocol have been developed (*e.g.* Solana), which are gaining market share and will serve as formidable competitors to Ethereum.

2. Regulation and Legal

- **Commerzbank**, Germany's second-largest listed bank, which is partly owned by the Government of **Germany**, has applied for [a license to offer cryptocurrency exchange and custody services](#).
 - Developed countries around the world are jockeying to be the leaders in digital assets. The foregoing development is like **Bank of America** doing the same in the US. We believe that the time will come soon.
 - In additional **Germany**-related news, the government has announced that there will be [NO TAX for gains on cryptocurrencies held for more than one year](#).
 - **ProChain's view** – there is robust competition from worldwide economic powers to be leaders in cryptocurrency investment and innovation.
- Relying on environmental concerns, **New York State** is [making progress to outlaw Bitcoin mining](#).
 - **ProChain's view** – we believe that the environmental concerns around Bitcoin mining are overstated, from several perspectives. Furthermore, geographic constraints on Bitcoin mining will increase the value of existing miners.
 - In support of ProChain's view, recently, some of the biggest names in Bitcoin (Novogratz, Dorsey, Scaramucci), [penned a letter to the US Environmental Protection Agency](#) (EPA), vehemently disputing the environmental effects of Bitcoin mining.

3. Public Companies

As a multi-strategy crypto-focused fund, **ProChain Capital**, *invests in securities* (equity and debt) of publicly traded companies that have exposure to cryptoassets and other forms of digital payments.

- [In 2022, crypto stocks have generally performed worse than actual cryptocurrencies.](#)
 - **ProChain's view** – we are constantly looking for the best relative-value investment in the crypto asset-class, and we are agnostic as to form (*e.g.* stocks vs cryptocurrencies).
 - Our flexible portfolio construction allows us to take advantage of dislocations such as these.
 - Incidentally, it is our opinion that private markets for cryptoassets are the most overvalued, therefore, we have not made any seed- or venture-stage allocations in a considerable time.
- Elon Musk's planned purchase of **Twitter (TWTR)** could prove to be the most important crypto-related transaction of the year. [Several issues must be considered before concluding its effect on cryptoassets](#), including:
 - Will Musk make Twitter more crypto-focused, in terms of (i) the transactional use of cryptocurrency on the app, (ii) the “decentralized” nature of the enterprise and (iii) the content of tweets?
 - With respect to tweet content, many from the Right (ironically) are lauding Musk's takeover as [a win for the freedom of speech](#). Could tweets be [decentralized](#), encrypted and “owned” by the creator, only to be viewed by those people that the creator chooses (sounds a lot like an email to us).
 - Twitter has already been funding a decentralized social media project called Bluesky, which is building a “decentralized protocol for public conversations” that will allow users to control their relationships with audiences and let developers innovate on top of the protocol without needing permission. Elsewhere, Web3 developers are working on related concepts. A project called [Entre](#), for example, is focused on connecting working professionals. Each user profile is an NFT, with connections documented on the DeSo blockchain.
- **Coinbase (COIN)** [has entered the NFT marketplace](#) and aims to eventually rival and surpass the behemoth, **OpenSea**.
 - **COIN** is trading at all-time lows and continues to make great strides in business development. It is one of ProChain's top-picks in crypto-related equities.
 - With recent move, COIN could also begin to be a proxy for investment in NFT trading infrastructure, if its infrastructure is widely adopted.

David D. Tawil
 President
 +1-646-479-9387

david@prochaincap.com

