

## January 2022 Investor Update

### ProChain in the News

[Unicus Research & ProChain Capital](#), *Episode 2*; **Coherra**; Jan 15

[Time to Buy the Facebook DIP?](#), **Bloomberg**; Feb 3

[Global recession concerns are on the horizon, Russian-Ukraine tensions grow](#); **yahoo! Finance**; Feb 15

[Block \(Square\) to Enter Crypto Mining](#); **RT America**, *Boom Bust*; Jan 14

[Russia Proposes Crypto Crackdown. Bitcoin's Reaction? No Problem](#); **Bloomberg**; Jan 20

[Does the IMF have a hidden script for El Salvador's Bitcoin play?](#); **Cointelegraph**; Jan 25

1. **Adoption** Cryptocurrency adoption, as an investment and as a currency, is growing quickly and widely
  - a. *Investment.*
    - It's clear that [financial assets \(equities, bonds, loans, derivatives\) should be digitally listed and traded](#). The computers and software are already capable; the humans need to get comfortable to implement.
      - See the story below on **BSTX**.
    - Even without the ability to trade cryptocurrencies, [Wall Street banks are building out research teams to focus on the crypto sector](#).
      - 50% of **Coinbase's (COIN)** customer base is now comprised of [institutional investors](#).
    - **Wells Fargo** believes that [cryptoassets are nearing a point of hyper-adoption](#), like the internet in the 1990s.
      - We, at ProChain, agree
    - **BlackRock**, through its Aladdin trading system (similar to Bloomberg), which is largely used by institutional investors, is [planning to offer crypto trading](#), and to offer leverage on the pledging of crypto assets.
    - **Goldman Sachs** has opined that [cryptocurrency will become more correlated with traditional investment market variables](#), like the Fed's tightening monetary policy.
      - We disagree. New macro circumstances initially jar all asset classes; once those circumstances are digested and investors look more deeply at the actual effects of the variable, asset performance decouples.
    - **Fidelity** released a report, ["Bitcoin First"](#), arguing for Bitcoin's absolute uniqueness. It is a great read.

- The paper characterizes Bitcoin as a “superior form of money” and stating that it is the most “secure, decentralized form of asset and any “improvement” will necessarily face tradeoffs.”
- It is our strong opinion that valuation in private investments in cryptoassets enterprises is [much more aggressive/inflated](#) in contrast to public equities and cryptocurrencies.
  - Venture capital firms are flush with dry-powder and competition among investors is fierce. Eventually, valuations in private and public markets will converge. Our portfolio is balanced accordingly.
- Crypto-focused venture-capital firms are throwing [exorbitant amounts of capital at start-ups](#) and sky-high valuation multiples.
  - Due to the supply-demand imbalance in VC investing, ProChain is currently focused on the “public” side of the portfolio.
- Legendary hedge-fund, **Tiger Global**, founded by Chase Coleman, is [commencing active crypto investing and trading](#).
- **KPMG Canada** has [purchased Bitcoin and Ether for its balance sheet](#).
  - For some time, we haven’t heard a high-profile corporation adding crypto investments to its treasury holdings. Maybe the pause is over.
- **Michael Saylor**, the CEO of **MicroStrategy (MSTR)**, the heavily Bitcoin-invested (\$5B) technology company, said that [he will never sell](#).
  - The company [bought 660 more Bitcoin](#) recently for ~\$25mm.

*b. Currency and Use.*

- Sometimes we in the US forget that crypto innovation could be more dramatic and quicker elsewhere in the world
  - **BitMEX**, the Germany-based crypto exchange, has announced a deal [to acquire a German bank](#). According to BitMEX, the purpose of the acquisition is “establish a one-stop-shop for regulated crypto products in Germany, Austria, and Switzerland.”
- According to a Visa survey, [25% of small businesses \(< 100 employees\) worldwide intend to start accepting crypto in 2022](#).
- The **Federal Reserve** released its long-awaited [report on a US Dollar CBDC](#).
  - The report [does not come out with a definitive conclusion](#), leading us to conclude that **a US CBDC is at least several years away**.
  - The unsolvable quandary is that a US CBDC would provide, unavoidably, the US Government with detailed, private information on every person’s spending
- No area of cryptocurrency has been as resilient as **NFTs**, which can be framed as a “luxury” (certainly, discretionary) corner of the market.
  - **OpenSea**, the largest NFT marketplace, [recorded \\$5B in transactional volume in January](#).
  - Even the **NYSE** (New York Stock Exchange) has admitted to the potential opportunity through its [trademark filing for plans to be an NFT exchange](#).

**2. Regulation and Legal**

- Increasingly, ex-legislators and ex-regulators are [boldly supportive of cryptocurrency](#).
  - It’s notable that, in contrast, current legislators and regulators are so hesitant and paralyzed from laying down a workable legal and regulatory framework.
  - **Goldman Sachs** ex-CEO, **Lloyd Blankfein**, [is also a supporter](#).
- [The SEC approved a blockchain-based securities exchange](#), the **Boston Security Token Exchange (BSTX)**.

- To be clear, **BSTX** will be trading traditional securities, like ETFs.
- By using blockchain technology, BSTX will offer more efficient trading, with faster settlement of trades and a more secure system.
  - This is BIG. People continuously ask, “How is blockchain being monetized?” BSTX is an excellent example.
  - Due to the blockchain, BSTX can offer a superior product and use software to reduce staffing.
  - ProChain would value the opportunity to invest in BSTX.
- At a recent hearing of the Senate Agriculture Committee, which oversees the derivatives markets, the head of the **CFTC**, **Rostin Behnam**, argued for [authority to regulate certain cryptocurrencies](#).
- Unlike China, **Russia’s** stance on crypto is unclear, but seemingly leaning in a positive direction.
  - On the one hand, [Russia’s Central Bank proposed a ban on crypto mining](#). Shortly after, the head of the financial policy department at Russia's Ministry of Finance, [publicly opposed the central bank's consideration to ban cryptocurrencies](#), stating "We need to regulate, not ban." And **President Vladimir Putin** [backed a proposal to tax and regulate mining of cryptocurrencies](#), rejecting the central bank’s proposal to ban it completely.
- **India** is moving to [develop crypto regulation and tax regime](#).
- The Biden administration is planning to issue an [executive order in February tasking federal agencies with assessing and opining on the opportunities and risks of digital assets](#).
  - Until now, administrative agencies have been providing soundbites and launching individual regulatory enforcement actions without any concrete opinions, and certainly without clear regulation, embarrassing and frustrating the Presidential administration.
  - In our opinion, this exercise will bring the differences of opinion and power among the **SEC**, **CFTC**, and the **Federal Reserve** to the forefront.
- Crypto lender, **Celsius**, continues to come under scrutiny for [guaranteeing double-digit returns on customers’ crypto](#).
  - In our opinion, there is a limited window for these yields. Either competition or regulation, or both, will shrink these margins.
  - Case in point, **BlockFi** just [settled its case with the SEC for related allegations, for \\$100mm](#); the largest-ever penalty against a cryptocurrency firm and the first in which a crypto company was charged with violating the registration provisions of the Investment Company Act of 1940

### 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.

- Major social-media companies, including, [Twitter \(TWTR\)](#), [Meta \(FB\)](#), [YouTube \(GOOGL\)](#) are increasingly focusing resources on NFTs. Also, attendees at the **NFL Super Bowl** received [commemorative NFTs of their tickets](#) and crypto-related TV commercials were abundant during the game.
  - On the topic of NFTs, [the biggest players are warring on the parameters of “ownership”](#); **Nike (NKE)** vs StockX
  - **Meta (FB)** has [given up its efforts to create its own digital currency](#) (Libra/Diem). From the start, the initiative was highly criticized by legislators and regulators worldwide, due the size of Facebook’s user-base.

- In the course of its year-end earnings report, **Alphabet (GOOGL)** highlighted its [focus on Web3 and blockchain technology](#).
  - **Morgan Stanley** speculates that the [Metaverse market in China could be valued at \\$8T](#).
  - **JPMorgan** is a bit more conservative, estimating a [total value of \\$1T](#).
- **Coinbase (COIN)**, the US-based crypto exchange, has [partnered with Mastercard \(MA\) to make creating, investing in, buying and selling NFTs easier for consumers](#).
- **Salesforce (CRM)** announced that it is working on [an NFT cloud service](#).
  - No details were given, but if Salesforce is focused on NFTs and the Metaverse, we are sure that other technology service companies are focused too.
- Just as **Jack Dorsey** and **Block (SQ)** announced plans to make Bitcoin mining as easy as plugging a PC into an electric outlet, **Intel (INTC)** has announced that it will reveal of [a new Bitcoin mining “Bonanza Mine” chip](#), an “ultra-low-voltage energy-efficient Bitcoin mining ASIC.”
- **Mastercard (MA)** is [rapidly expanding its crypto-focused workforce](#).
- **MoneyGram (MGI)**, which was already focused on using stablecoins to make instant cross-border payment transfers, is [being taken private by Madison Dearborn at a 23% premium](#).
  - Madison Dearborn’s stated rationale for the buyout is “to accelerate the advancement of our digital growth strategy.” MNI’s CEO stated, “We will have greater opportunities to innovate and transform MoneyGram to lead the industry in cross-border payment technology and deliver a more expansive set of digital offerings.”
  - In related news, **Coinbase (COIN)** is offering [free crypto transfers and free conversion from crypto to Mexican Pesos](#).
    - With this, Coinbase has kicked off a race to the bottom on money transfer fees.
- Rather than flaring excess natural gas, **ConocoPhillips (COP)** is [selling the gas to a bitcoin miner](#).
  - Look at that; crypto can be good for the environment 😊
- **Galaxy Digital**, the crypto merchant bank founded by **Mike Novogratz**, is getting closer to [listing its stock in the US under the ticker GLXY](#).

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