INSIGHTS
MUCH COINS, MUCH WOW

PART 1

Today I want to talk about a topic where I see the cryptocurrency industry diverging away from the traditional investment space – portfolio diversity. It is generally talked about that portfolio diversity is one of the best approaches to manage risk. By having a small portion of your account allocated across different asset classes and instruments, you limit the risk if one fails or a macro event tanks a heavily correlated market.

The challenge I put to you is to ask yourself – how many coins should be in your portfolio? How many projects do you believe will stand the test of time and be around 2, 5, 10 years from now?

This concept of coin/token diversity was typical chatter in the 2017 bull and to a lessening extent as the 2018 bear wore people down. Many commentators would talk through portfolios containing tens to hundreds of coins which was an excellent shotgun strategy in 2017 when everything was moving parabolic However this exposed people to significant risk and loses when the 2018 bear stepped in. We saw the market shift away from speculation, come back down to earth and realise that the majority of promises by ICOs could never be met and as a result Bitcoin's dominance has continued to rise.

We continue to see that the entire crypto market remains heavily tied to the sentiment underpinning Bitcoin. I believe this is appropriate as Bitcoin has the longest lifetime (Lindy effect) and arguably, if it black swanned, we would see the cryptocurrency industry lose a vast majority of attention, investment and value, probably for many years to decades. When Bitcoin gets a substantial bid under it, money often overflows into the altcoin space. When the fear takes over, the altcoins experience increased sell pressure as people flee back into the relative safety of Bitcoin. This may evolve as more fiat-altcoin routes open up but for now, BTC is largely the crypto reserve currency. Furthermore, Ethereum acts as somewhat of a bell weather for altcoin sentiment having been an driving force behind the 2017 altcoin boom.

PREDICTION MARKETS

The market capitalization rankings you see on CoinMarketCap and others similar is an example of a massive prediction market. At the moment, Bitcoin dominance is around 55% which indicates that the market perceives a large chance that Bitcoin will survive in the long run in this industry. Similarly, Ethereum commands a 10% share of the whole market which represents 21% of the Altcoin market and is thus the most voted to survive in the context of the current market conditions.

The concept of efficiency of markets is an interesting topic. Essentially, a markets efficiency is a measure of how well the price reflects all the known information about the asset. There is another dimension to this on how closely the price follows the mean across all major exchanges. The recent [Bitwise report](#) showed that when you ignore the 95% fake volume data, the top 8 real volume exchanges almost always trade within a few pennies of each other on the BTCUSD price making it the most efficient market on earth.

The predictability of Bitcoin's supply schedule and the perceived risk of the future sustainability of the fee market may be priced in years in advance. This can likewise be said for the MakerDAO platform where the interest rate, Dai issued and transaction volume data open for anyone to inspect. This is a truly unique value proposition and something which makes cryptocurrency significantly more transparent and understandable when compared to the complexity of the government issued fiat currency.

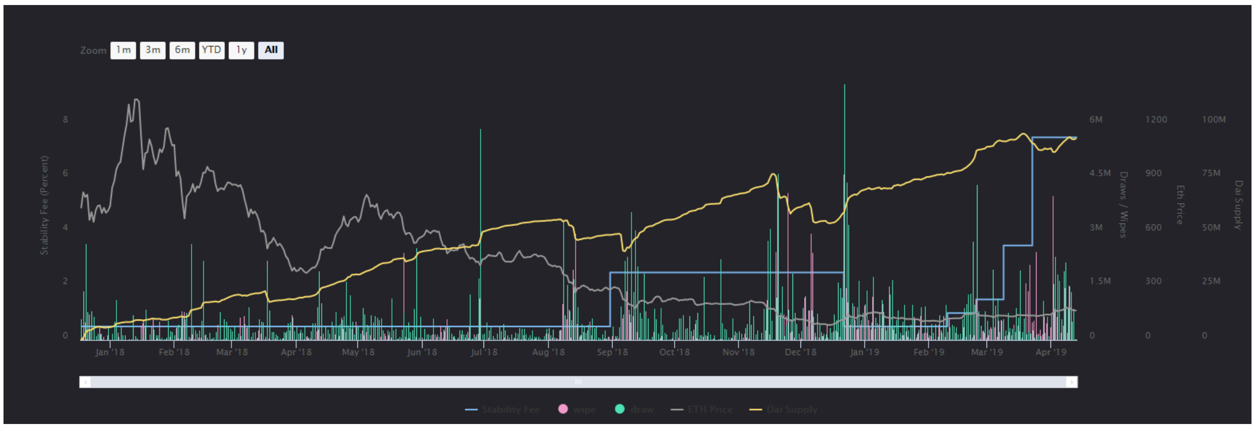

Figure 1: Snapshot from MakerDAO showing the issuance supply of Dai, inflation rate and the opening and closing of CDPs. No central bank is this transparent.

What this boils down to is that cryptocurrency introduces a transparency and actual performance metrics which are open to the world to observe. We see this in the incredible charts and valuation metrics produced by Willy Woo, Nic Carter and many others in the Bitcoin community. With natively digital currencies, exchange arbitrage becomes more trivial leading to an extremely efficient market.

This means that price is a genuine metric which distills all the information regarding performance, sentiment, technical development and market perception of risks today and in the future. It is a representation of the smart (and dumb) money evaluating the many data points into a single indicator of value. Of course there will always be periods of over-bought and over-sold due to human nature and thus identification of these zones becomes the point of maximum opportunity.

More on this in the future (target mid 2019) when we being out our RSC Bitcoin Network Fundamentals course – stay tuned.

MICRO TRENDS IN 2019-20

So what does all this market efficiency business this mean for your portfolio allocations?

I believe that we will see micro trends emerge in the (assumed) upcoming bull run as well as a consolidation onto quality, at least in the early market. Personally I see the following micro trends as likely where we see a rotation of capital into these groups of assets based on external sentiment and developments in the space. I see the premier projects leading the market with some overflow of capital into higher risk more speculative bets as the trend continues. Depending on your risk tolerance and beliefs regarding the value of distributed ledgers, your portfolio allocations could follow these trends:

- **Cryptocurrency protocols** with a fixed supply will be led by BTC and followed by currencies with genuine differentiators to Bitcoin such as Nano, Decred, ZCash and Monero. With a fixed supply and pre-determined issuance schedule these coins are Austrian economic dreams and will respond positively to any market forces revolving around deflation of the coin (halving events), inflation of fiat currencies or instabilities in central banks. They are a hedge against central bank currency control and exist in a hostile environment and must build immunity to this hostility – it's a hard life and the ones which survive will be here to stay.
    - **Privacy coins** may have an even harder life. The Bitcoin community is hard at work implementing fungibility and limited privacy tech onto the Bitcoin network. In all honesty, as soon as Bitcoin becomes suitably fungible (i.e. no longer able to identify "dirty coins") I believe privacy coins will struggle to justify their existence.

- **Smart Contract Platforms** most likely led by Ethereum and will be heavily influenced by sentiment revolving around a) hype for successful release of features and b) actual performance and successful launching of dAPPS. These coins are a software first approach are will be the topic of much VC investment capital. Many smart contract platforms promised the world in 2017 and I believe that 2019-20 will be where many of these platforms drop off the map. Stand up and compete or go home.
    - Ethereum has an impressive lead in terms of developer capital and dAPPs released in the DeFi industry. The remaining smart contract platforms have this massive hurdle to get over in order to truly compete – although, any that do make it will see tremendous growth. Watch for new contenders who have been developing in the background such as Dfinity, Cosmos, Radix and Polkadot.
    - Funding of these protocols will be a hot topic. Many projects are running out of money and the bear has cost a lot from the warchests. All projects need capital and poor treasury management or unsustainable models will result in closed doors as time goes on.

- Select **utility tokens**. Now whilst I am personally very bearish on the survivability of utility tokens in the long run (3+ years), markets are irrational and we will still see capital rotate into tokens through the next cycle. Many people (new and old in the market) will expect the moon and greed tends to cloud judgement. What I do believe is that we will see a concentration of capital on utility tokens that deliver an actual product and whitepaper projects will fade away. Nevertheless, these tokens could represent short exposure swing trade opportunities in the hype leading up to a product/feature release. Get in- get your fair share, get out back into quality.

    - Be aware, ICOs will be the target of regulators in the coming year, there is no excuse anymore and the actions of 2017 will not just disappear unanswered. Legal action and bankruptcy will be the outcome for many projects. Don't forget that 99.99% of tokens have a central company and people accountable that can and will be shut down – they are NOT decentralised and thus NOT resistant to censorship. It is likely that we see a reverse trend where ICO's actually continue to see sell pressure well after the bull has commenced until people finally capitulate and accept the token as worthless.

- **Security Token Platforms and infrastructure** will see their own hype cycle although I do believe that the irrationality of the "utility" market will be fueled by IEOs, shillers and human greed. This may make STO's a topic of hype further in the future although the infrastructure is being built today. When we start to see STO platforms gaining some traction, it will be an indicator of the dumb money finally making their play as well as the aforementioned consolidation onto quality. We are the smart money and we are looking at this space today during the period of maximum opportunity.

- The preference here at RSC is always equity in companies however there may still be opportunities in the STO utility coin market. Just be conscious that real world companies/institutions are less likely to buy tokens as collateral so always be critical of the “staked to launch an STO” demand model as Polymath recently proved this is not quite working as desired.

You may notice the semblance of these trends to the RSC Three Pillars of Cryptocurrency, DeFi and Digital Securities. Coincidence?

With these micro trends in mind, think about which ones you see as having the most chance of survival and attraction of investment capital in the short (1yr), medium (3-5yrs) and long term (10yrs). When structuring a portfolio, it is useful to keep these allocations and timelines in focus. If you see a Cryptocurrency like Bitcoin being the global reserve in 20years, it should represent 80+% of you portfolio at that time. Perhaps it represents a smaller portion today whilst the hyper around smart contracts and utility tokens sees gains in these areas. It is ok to ride riskier hype waves so long as you have your exits planned in advance. And remember to rebalance and transition as the market calls for it.

Stay tuned for Part two where I discuss my own journey and how it has shaped my current thinking around a portfolio allocation and the RSC community fund.

PART 2

Today I want to reflect on the RSC Portfolio Phase 2 and how it relates to my own journey as an investor in this industry. This follows on from the last newsletter where I talked through the likely consolidation into quality and micro trends I expect to see play out in 2019-20.

PORTFOLIO ALLOCATIONS

This may be preaching to the choir. The allocations you as RSC members added to the Phase 2 RSC community portfolio showed a strong correlation of allocations to the micro trends I discussed in Part 1. These are very much in line with my own perspective and it will be exciting to boil this down further in Phase 3 recently issued. Some observations from digesting Phase 2 data:

I see a consolidation on Cryptocurrency (50-60%) which represent the fundamental reason to decentralise – uncensorable and programmable money led by Bitcoin

I see a moderate degree of speculation on programmability and automation in the world of smart contracts, decentralised/open finance led by the Ethereum Protocol (15-25%)

I see a reasonable focus on Digital Securities infrastructure (10-20%) recognizing that these are the early days and the core infrastructure is being built now for a more efficient tomorrow.

I also see we are all speculative nuts with a high risk tolerance and a vision of a better future with <10% assigned to Precious metals and Other avenues. I dig the conviction!

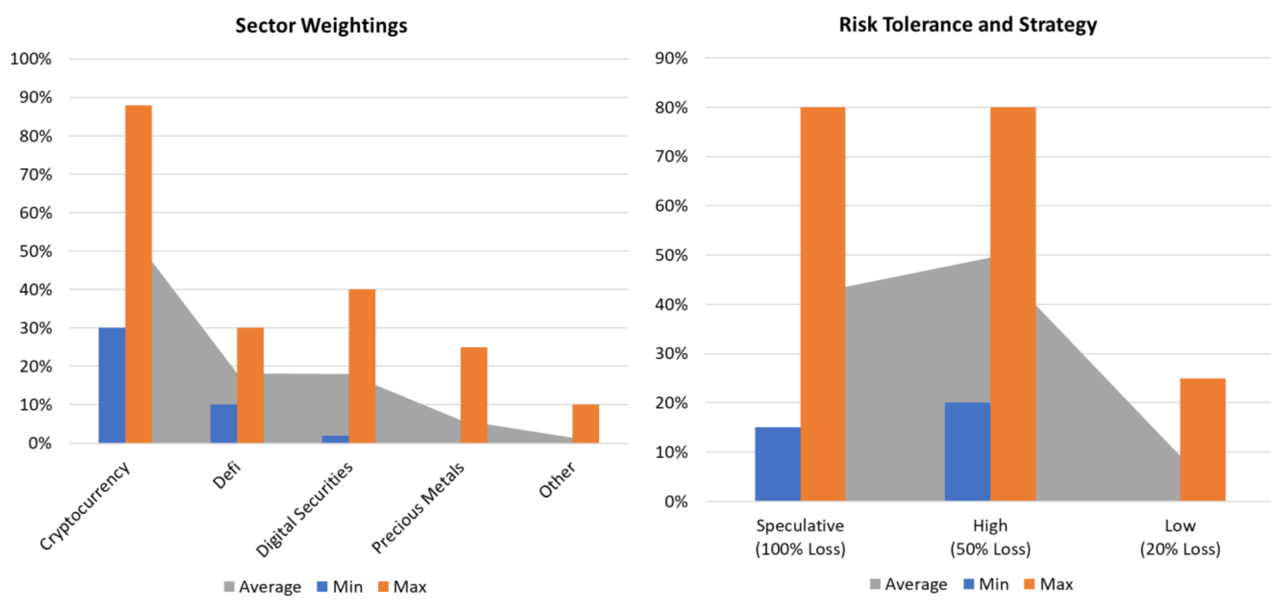

Figure 2 - RSC Community Portfolio Phase 2 Allocations (as of 14/4/2019)

HOW MANY COINS SHOULD BE IN MY PORTFOLIO?

I want to challenge you all to revisit your portfolio allocation with a 'cruel to be kind' mentality and distill it to contain only those coins you truly believe in. As a guide, I want to discuss my own portfolio strategy for 2019 based on my own experience so far. Remember that these are simply my honest opinions and not to be confused with any form of financial advice (we all need a disclaimer from time to time…).

I entered the market like many of you in Jan 2018. I went full multi-coiner and did bugger all research into projects. I watched Youtube shills, I bought into hype and I learned my lesson. What I did find was the RSC channel and a level of quality research and insight not seen anywhere else in the market. It didn't take long before my information diet consisted solely of Doc and Mav's commentary and this opened up my previously wasted time to start looking deeper into projects on my own schedule. And now here I am, hoping to assist you all on the same journey.

I look at 2019-20 with a fresh portfolio starting with 100% BTC and then diversifying from there.

As I have mentioned, I have turned full circle into a Bitcoiner which is NOT a maximalist. I believe that the Three Pillars of Crypto, DeFi and Digital Securities represent the greatest opportunity of our lifetime. What I will say is that through becoming a Bitcoiner, I find that a project needs to justify itself BIG TIME before I will spend my bitcoin to invest in it. I am sacrificing what I believe to be a currency with immense future purchasing power so the project had better be offering something extremely compelling. This acts to keep my Bitcoin safe until a true opportunity comes across my desk with sound fundamentals, strong vision and valid reason to exist.

Cryptocurrencies

I will only invest my Bitcoin in a cryptocurrency project that solves a problem Bitcoin doesn't. An example is Decred which attempts to solve governance, Nano which solves speed and feeless Tx and Elastos which is my cryptocurrency play out of China. Note how they all have fixed supply, defined issuance schedules and a key differentiator to Bitcoin. They all have (relatively) strong decentralisation and security measures at play. They represent the reason money belongs on a DLT – immutability.

Smart Contracts and DeFi

Ethereum remains the strongest contender in my books. It has the most developer capital and the most diverse dAPP ecosystem. No doubt about it, DeFi is hectic! I have my critical questions long term but right now, Ethereum is solving a very different problem to Bitcoin and I believe the two can co-exist. Ethereum is not trying to eat Bitcoin's lunch of sound money because it knows Bitcoin will just eat it if it does. Bitcoin is Austrian, Ethereum is Keynesian and to ignore that today's world is Keynesian by design and thus easier to translate to Ethereum would be foolish.

Other smart contract platforms and tokens therefore need to be compelling enough that I spend my Ethereum and diversify into them. Right now, there are very few which tempt me aside from MakerDAO which is the King on Ethereum's chess board. MKR has voting rights in the DAO and a semi deflationary supply which resembles the main draw card from Bitcoin. MKR is the only token I see in the market which represents the potential future of crypto tokens – a share in a natively digital organization. All others are too close to an unregistered security with a head that can be taken off for my taste and I struggle to justify risking my BTC or ETH on them as investments.

The only exception to this rule is Digitex Futures. I, like many of us, are keen to trade on their exchange. However, I am extremely conscious of their coordinated hype around their ICO and chatter regarding the token price – usually a strong no-no in traditional markets. Look at how quickly Elon Musk was reprimanded for tweeting price sensitive information about Tesla. I fear Digitex have made themselves an easy and centralized target for regulators who have shut down many online gambling circuits in the past and Digitex could easily become a casualty in such an attack. My allocation post exchange launch will be on an "as needed basis" to minimise this risk as far as practicable.

Digital Securities infrastructure opportunities are more limited as it stands today. At the moment, Ravencoin is the primary crypto temptation for me given its similarities to Bitcoin (fixed supply, decentralised and simple use case specific nature) and the likely association with tZERO. I have my skepticism around FLO as noted in a past research report although a speculative set and forget may be acceptable.

The utility tokens like SLT, SWM CHX etc need additional research on my end before I can craft a sound opinion either way. Where I am primarily allocating capital is to the equity space and tokenized VC space. Granted, the options today are even more limited however I expect many of these will open up in the coming years. This is where Mav and I will be like hawks to distill the opportunities for you as members and will be the basis for where we take the RSC fund. Massive opportunities here, stay tuned.

BUT THAT'S ONLY SEVEN COINS!??

In the end, this does leave me with a (crypto) portfolio of long hold investments with only six coins and one token. It took me a long time and a fat account drawdown to come to this conclusion, that a small and concentrated portfolio is the way I want to go. However, this solves many problems of information overload and excess diversity. It helps justify my investments and manage my risk when a coin has a good or bad day. Rebalancing is easier with fewer coins and I don't need to stay updated on 50 different projects. My confidence is higher and I now find most other project much less compelling having understood the value of those sitting proud in my portfolio.

My position is one of strong opinions weakly held. I have an allocation of BTC as my "reserve currency" to Cryptocurrency and ETH as my reserve currency for all smart contract and Defi Plays. Any investment project needs to be so compelling that I am willing to spend my BTC or ETH. Using this model helps me control allocations and restricts diversity only where I have fundamental research and conviction around the trade.

So how do I capitalise on the market volatility and high risk coin moon missions?

SWING TRADES AND DERIVATIVES

This is where I leverage Doc's experience. Get in, get your fair share, get out. There is an opportunity to grow my Bitcoin and Ethereum balances by riding hype waves on any coin or token with the right technical patterns and liquidity. This is where I allocate 10-20% of my BTC and/or ETH holdings specifically to play within these markets.

I use swing trades to gain exposure to the more speculative assets on a short term basis. I do not invest in these coins/tokens in the long term but I can still benefit from their volatility. If I am in a swing trade for a period of a few days to a week, the risk of a huge negative piece of news landing to destroy my value is acceptably low.

At the end of the day, it's the best of both worlds. I can sleep easy knowing that my large holdings have sound fundamentals, a genuine purpose and reason to exist. I can manage my risk across seven coins far better than 50+. At the same time, I grow my reserve currencies BTC and ETH through swing trades and derivatives. I can gain exposure to risky assets whilst not having to worry about my reaction time if the regulators come out swinging.

CONCLUDING REMARKS

In summary, I want to challenge you to cut off the dead wood. Don't be tempted easily to spend your precious large caps. Justify every single satoshi and every single gwei because the prediction markets right now favor the survival of BTC and ETH over anything else in this space (especially when you consider #3 coin XRP has question marks around its actual supply being half what is claimed – see here and here).

Stay Vigilant, Be Humble, Stack Sats, Gather Gwei.

However you do it, don't be afraid to concentrate on quality because the market will eventual and you want to be the smart money who was here first.