

FirstWatch Crypto

At FirstWatch Crypto, we are thrilled by the possibilities presented by blockchain. Both as an investment and as a technology, we believe cryptocurrency will shape the investment world over the next decade and beyond.

Investing In Digital Assets: A Thesis

The crypto market represents a new, distinct investable asset class. More than digital money, cryptocurrencies change the way value is created and exchanged. Every investor should consider cryptocurrencies for their portfolio.

Why Invest in Crypto?

“Infrastructure is exponentially more valuable when it is open, composable, and neutral. As decentralized models take hold, the moats of yesterday’s incumbents—scale and switching costs—will fade away, unlocking trillions of dollars of economic value.” (Escape Velocity)

With over eight billion people on the planet and technology evolving at its fastest rate in history – now more than ever – the world needs a financial system to keep up with the advanced pace of change. Blockchain technology, the foundation of crypto, is at the root of a more global, efficient, digital system of value transfer.

We see blockchain technology as addressing the needs of society for the digital age, redefining value transfer and commerce around the world.

By removing the middleman in digital transactions and creating an immutable ledger, blockchain provides global efficiency gains, on par with the onset of the railroad system or the internet.

We are currently in the stage of this technological advancement where new infrastructure to achieve the vision is getting built. Blockchain is not a cure-all solution, but blockchains are finding use cases relevant to many of today’s needs and to the needs to anticipate in the future.

The Opportunity

"Whosoever desires constant success must change his conduct with the times." (Niccolo Machiavelli)

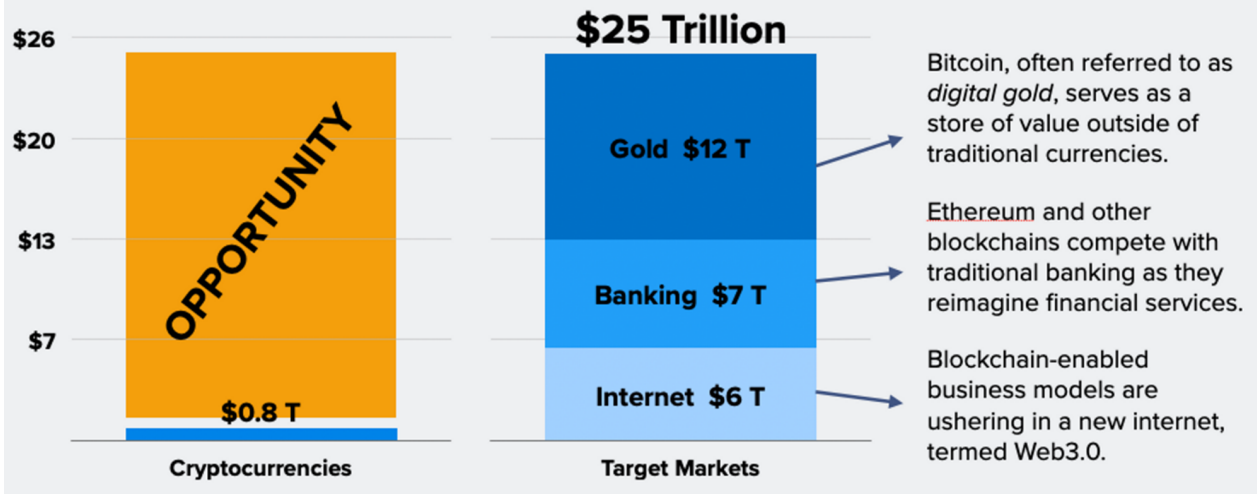


Figure 1: Opportunities within the crypto space

Today cryptocurrencies represent around \$1T in market share, a minuscule number in the global arena of finance.

Yet, decentralized applications already compete with traditional products – Uniswap competes with Coinbase using a fraction of the overhead. Additionally, the total addressable market for blockchain products is far greater than for traditional finance.

As the industry matures, we believe more themes will emerge as problems are solved:

- **Decentralized Finance** will decrease the cost of financial services.
- **Creators and artists** will connect more directly with their fans, creating new thriving communities at the expense of existing predatory media companies.
- New **monetization strategies** will develop to monitor and reward engagement and behavior.
- Blockchain creates the possibility of true **ownership of digital user data, identity, and content**.
- Unbanked households will have direct **access to funds and a financial system** as they never have before.
- Decentralized entities can **compete with traditional corporations** in enabling alternative, decentralized governance capabilities.

Our Thesis

We believe investing via cryptocurrency tokens will be the most effective, direct way to capture value in the digital asset space. The networks and applications supported by cryptocurrencies are valuable, not according to traditional financial metrics but by metrics of network adoption, utility, and incentives, as well as cash flows and ownership when applicable. Over time, we also believe the traditional financial metrics will make their way into blockchain token valuation.

We distill the complexity of cryptocurrencies down to a few key points:

A handful of blockchains will reach mass adoption.

The applications of blockchain are diverse; it will not be winner-take-all. Many projects have failed, and thousands more will too. But the winners will reach a new stratosphere of tech adoption due to network effects and application evolution. To be ahead of the curve, it's critical to analyze potential competitor blockchains and regulatory impacts on any product or service.

Applications create networks; interoperable applications create super networks.

A clear path to mass adoption of the new product or service must be understood. *Developer Activity* is a critical indicator for application development that reveals leading networks and scaling solutions. Usable applications are the critical growth driver of any new technology. User adoption numbers, such as *Active Addresses*, *Active Wallets*, and *Number of Transactions*, indicate the health of the crypto's existing ecosystem and help project future network growth.

Web3 business models need strong financial fundamentals.

Not every project needs a token, but tokens rely on sound financial design and the value of the project. As Charlie Munger famously said: "Show me the incentive and I will show you the outcome." Like any business model, a web3 business model's supply, demand, growth, and revenue generation trajectory also get into this analysis.

A token investment is the most direct way to benefit from the growth of crypto.

Crypto is constantly evolving. Any indirect exposure to the digital asset space will not see the same benefits of the organic growth of the crypto networks described above. A fundamental understanding of how different tokens are utilized and designed will benefit any investor.

Use Cases for Crypto

Developer infrastructure – the tools for program developers to create applications – has only recently hit the inflection point necessary for entrepreneurs to compete in complex, \$1T+ markets like telecommunications, energy, transportation, and healthcare. And during this **early adoption** phase, we

already see some blockchain networks disrupting parts of business models, ushering in the next great era of venture returns.

Real-World Asset Tokenization

The most prominent use case for blockchain is real-world asset tokenization. A unique token on the blockchain representing a real-world asset will evolve from its current use of digital images (NFTs) and be used with stocks, bonds, digital avatars, addresses, homes, cars, digital art, music, and reservations. All these physical *things* can be freely traded in the future.

Global Finance

Global reserve assets like bitcoin, free from inflation and debasement, will become necessary. Blockchain code managed by its users, also known as decentralized finance protocols, can become the trustless rails for these digital assets to be traded, lent, or spent.

Gaming Economy

In-game items have introduced a new sector for blockchain applications. As part of the metaverse, these gamers spend their time and money in virtual worlds, buying virtual lands, homes, and other digital assets.

Development of New Security and Commodity Markets

Assets born from technology like user data, computing power, storage, and social media followers can develop efficient trading markets on the blockchain.