

# The Crypto Odyssey

by Alea Research

*2024 Edition*



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# Prologue



***Wind extinguishes a candle and energizes fire. You want to be the fire and wish for the wind.***

– Nassim Taleb

When markets are dominated by uncertainty, recognizing this randomness may seem counterintuitive—why play a game where luck dominates? However, by structuring a portfolio around convexity—strategies that cap the downside while maximizing the upside—you can turn uncertainty into opportunity, whether in starting a business, building a career, or managing capital.

Alea iacta est, or "the die is cast," famously said by Julius Caesar, signifies a point of no return where one must face uncertain outcomes and navigate them with resolve. In markets, this means accepting unpredictability and positioning yourself to thrive amid volatility rather than attempting to predict every move.

Success isn't about predicting market movements or trends—it's about crafting strategies with asymmetric payoffs. Convexity ensures that while you can't predict outcomes, you can position yourself to benefit disproportionately from favorable events while minimizing downside risks.

This mindset embraces randomness rather than attempting to outguess it. There's no one-size-fits-all forecast for which narrative will dominate next or which token will surge; it's about maintaining exposure to variability and positioning yourself to thrive in volatility.

In a market where randomness reigns, the goal isn't to outsmart it but to thrive amid its unpredictability.

# Introduction

The pace of innovation in crypto is relentless. Though blockchain technology has existed for nearly 15 years, the primitives built on top of it—DeFi, NFTs, RWAs, and now DePIN—are still in their formative stages. Much like the early 2000s Internet boom, this is a deeply experimental phase marked by rapid growth and significant volatility. The potential is immense, but the future remains far from certain.

As the ecosystem expands with a proliferation of Layer 1s and Layer 2s, much attention has been given to the fragmentation of liquidity. At Alea Research, we see another equally pressing challenge: the fragmentation of information. In an industry moving as fast as crypto, staying informed and finding an edge dictates survival in this market. Addressing this growing gap is central to our mission as a research firm rooted in fundamentals.

Our annual report, *The Crypto Odyssey*, is a manifestation of this ethos. Designed for both newcomers and seasoned participants, it charts the significant milestones, challenges, and opportunities shaping the industry. Whether you choose to consume this report in its entirety or focus on specific sections, we've structured it to be both a detailed roadmap and a modular resource, tailored to meet the needs of a diverse audience.

We encourage readers to approach this report through the lens of pragmatism; grounding your perspective in reality will better position you to navigate the opportunities and challenges ahead.

True to Alea Research's principles, this report is unfiltered and objective. From DeFi to AI, from RWAs to the shifting VC landscape, we explore catalysts that may drive mass adoption as well as headwinds and systemic challenges that threaten to hold the industry back. This Odyssey reflects Alea's commitment to transparency, rigor, and actionable insight—helping readers navigate the present and shape the future.



Finally, this report serves as a retrospective—a lessons-learned post-mortem. Reflection is crucial in an industry where the pace of change defies comprehension. By analyzing successes, failures, and their lessons, we aim to offer a roadmap for what lies ahead.

Whether you're a builder, institution, investor, enthusiast, or opportunist, this report underscores a vital truth: while the opportunities in crypto are vast, so too are the risks. Success requires vigilance, adaptability, and the ability to navigate uncertainty with clarity.

Without further ado, let's embark on the 2024 Edition of this exciting journey—a definitive guide to the crypto industry's state and the road ahead.

**Vu Benson**  
**CEO, Alea Research**

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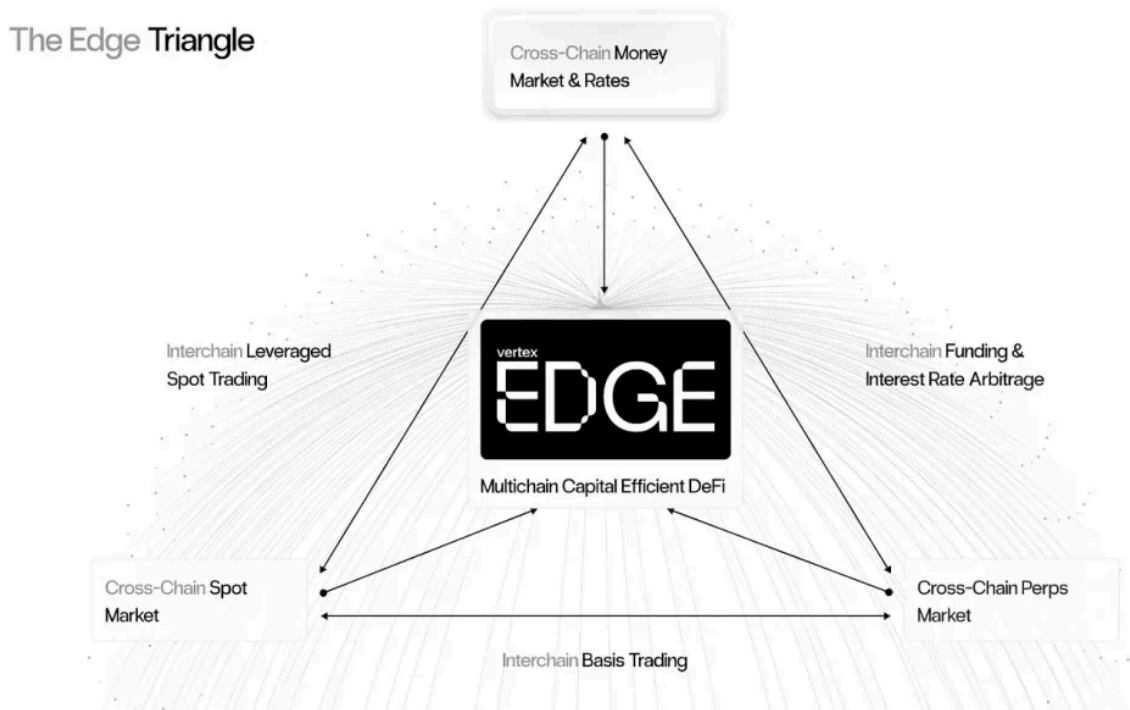
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# Vertex's Edge

## *A CEX Performant and Unified Liquidity Layer*

From the perspective of Layer 2s, the current cycle has been marked by frustration. This has been accentuated by the majority of market participants complaining about how they fragment liquidity and add friction to the overall user experience. In addition to that, despite heavy investment in infrastructure, there's been little headway in products for real users.

Ethereum alignment and capital allocation issues aside, when the conversation turns to crypto's winning verticals, a few key names keep coming up: lending markets, spot trading, and derivatives. In DeFi, it's all about yield and leverage—a speculative game where capital efficiency prevails, plain and simple. Vertex offers all of that in a vertically integrated exchange that stands out for matching the 10–30 millisecond latency of CEXs with the self-custodial and permissionless nature of DeFi.



While competitors launch their own Layer 2s using Rollup as a Service (RaaS) providers, Vertex deploys on top of existing Layer 2s, adding value to their respective ecosystems and tapping into their liquidity and users. With portfolio-margin and seamless cross-chain liquidity by default, Vertex achieves CEX-level speeds through off-chain execution, settling all trades directly on-chain.

Instead of sucking liquidity out of Layer 2s, Vertex aligns with the chains it deploys on, paying fees and unifying liquidity across Arbitrum, Blast, Sei, Base, Mantle, and more to come—all while boosting value for each of these ecosystems.

Vertex's Edge orderbook syncs liquidity across chains in milliseconds, enabling traders to get the best of both worlds: high-speed performance and the security of on-chain custody. And this all comes together in a single platform that integrates spot, lending, and perpetual markets—a rare level of vertical integration that brings liquidity and usability together for a streamlined experience.

Ready to explore a truly unified DeFi platform? Get started and experience the next generation of on-chain trading. Embrace speed, composability, and DeFi integrity.

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# Bitlayer

## *EVM Meets \$BTC*

In 2024 Bitcoin has solidified its place as a multi-trillion asset class that is here to stay. With institutional recognition and a massive total addressable market, new Layer 2 solutions are now emerging to enable programmability and unlock more productive use cases for \$BTC.

For bitcoin to evolve beyond a store of value, the underlying infrastructure supporting these novel use cases needs to be as trustless and censorship-resistant as the Bitcoin Layer 1 itself. That's exactly the vision that Bitlayer set out to realize.

With full EVM-compatibility and a burgeoning ecosystem, Bitlayer's edge comes from offering an EVM-compatible and developer-friendly environment to onboard the largest developer base in crypto into its ecosystem. By attracting talent with years of experience, the network effects of Solidity and EVM will lower the barriers for innovation, attracting more users and DeFi enthusiasts looking for yield opportunities on their \$BTC holdings.



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New blockchains thrive on liquidity and critical integrations—attributes for which high levels of trust in the technical infrastructure are required. Secured by BitVM, Bitlayer excels among other Bitcoin Layer 2 solutions with features like zero-knowledge and fraud-proof mechanisms, trust-minimized \$BTC transfers, and battle-tested developer tooling.

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# Particle Network

## *One Account, Every Chain*

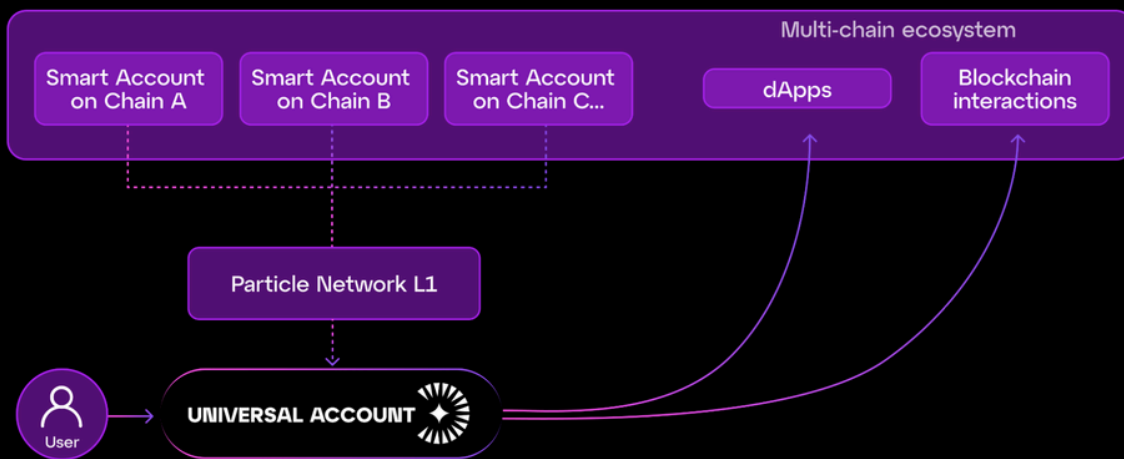
Imagine a Web3 world where one account connects you to any blockchain, offering wallet, liquidity, and gas abstraction out of the box. That's exactly Particle's vision for Chain Abstraction: a Layer 1 modular chain that eliminates technical barriers and unlocks a seamless UX with features such as social login, support for passkeys, universal accounts, and chain-agnostic platforms.

In its current state, Web3 suffers from fragmentation of both users and liquidity, resulting in a cumbersome UX that limits mass adoption—complicating the onboarding process for the next wave of Web3 users. Particle transforms this paradigm featuring universal accounts that work across chains. Users can execute transactions without worrying about wallets or gas tokens, improving UX to match Web2 simplicity.

Not all abstractions are equal, and Particle's approach aims to pave the way for onboarding the next billion users to Web3, combining blockchain transparency with Web2 ease. With Wallet Abstraction, users can seamlessly transact across chains, benefiting from Particle's unified liquidity layer (Liquidity Abstraction) through atomic cross-chain execution. All of this while eliminating the need for users to own multiple gas tokens on different chains and wallets, making Web3 as user-friendly as Web2.

These innovations make Particle a standout ecosystem in crypto, with its ecosystem spanning 70+ chains, 5,000+ dApps, and already boasting 30M+ users and a vibrant developer base with 400+ monthly SDK downloads.

## Universal Accounts: Many deployments, one interaction point



Particle Network is reshaping Web3 with unmatched chain abstraction and user-centric design. The v2 mainnet launch in Q2 2025 will feature dual staking and aggregated data availability (DA), solidifying their vision for scalable cross-chain operability. Visit [Particle Network](#) to experience seamless Web3 today!

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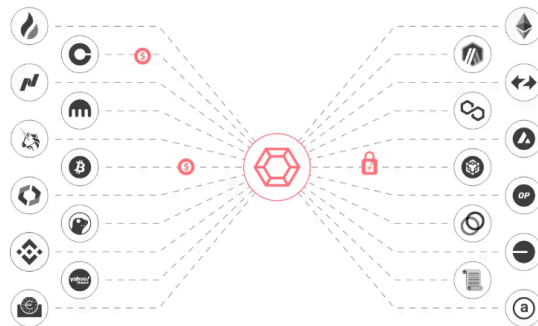
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RedStone’s modular design transforms the oracle experience. By offering both push and pull models, it can provide customizable, precise price feeds to suit the specific needs of DeFi protocols, enabling smarter trades, liquidations, and risk management. With diverse data sources and rigorous validation, RedStone supports 1,000+ data feeds, enabling seamless integration with DeFi, LSTs, LRTs, perps, gaming, and more.

Built by builders for builders, stay ahead with RedStone—the oracle transforming DeFi with speed, security, and scalability. Don’t miss the upcoming RedStone token launch coming soon. Join [The Final Countdown](#) of the RedStone Expedition today!

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# Pear Protocol

## *The Pear-fect Balance: Profit from Push and Pulls*

What if making money in crypto didn't mean picking sides in an endless up-or-down battle? With pairs trading, you can profit by betting on relative outperformance, regardless of whether the overall market is in a "we are so back" or "it is so over mood". Instead of fixating on market predictions, you're profiting from the "spread" between two assets—a way to win by playing the field rather than battling it.

Bull or bear market, AI or meme season, chances are high that there is a pair trade waiting for you, creating a game where it's not you against the market but you taking advantage of all it offers. Pairs trading offers an alternative where not everything is black and white or zero-sum. Instead of fighting market moves, you capitalize on them across all phases, profiting from one asset's strength relative to another.

Crypto trades on mindshare and sentiment, with narratives and prices moving in tandem. As themes surge and fade—DeFi, Layer 2s, AI tokens—prices shift, often dramatically, creating fresh opportunities to profit from trends without having to guess if the overall market led by \$BTC will go up or down.

Pear Protocol makes pairs trading as easy as it is powerful, thanks to its intuitive one-click interface that removes the usual friction of managing separate long and short positions. Users can simply trade one asset against another in a single click, earning or paying funding on each leg, and not having to deal with multiple positions each with its own collateral asset and liquidation thresholds.

Through its integrations with deep liquidity sources like GMX, Vertex, and Symmio, Pear ensures that each trade has ample backing, so users can capitalize on the latest market narratives without a hitch. With Pear, the power of pairs trading becomes accessible and efficient—a perfect tool for leveraging the stories and themes driving crypto prices.





Ready to make every market move work for you? Dive into [Pear Protocol](#), and start trading the narratives that drive crypto today!

[Pear Protocol Website](#) | [Pear Docs](#) | [Pear Protocol X](#) | [Pear Protocol Perspective](#) | [Pear Protocol Deep Dive](#)

# Navigating the Path Forward

## Section 1

## Navigating the Path Forward

***The financial markets generally are unpredictable. So that one has to have different scenarios... The idea that you can actually predict what's going to happen contradicts my way of looking at the market.***

*– George Soros, Hungarian-American Billionaire Investor*

What was it—a bullish bear market, a bearish bull market, or a soul-seeking market?

We've witnessed significant technical validation, maybe even excessive, with heavy competition and minimal differentiation from one project's vision to the next. Still, the harshest regulatory blows seem to be behind us. Speculative capital sits on the sidelines, reflexive debt dynamics have unwound, and the path forward hinges on risk-on tailwinds.

Yet, the surge in liquid tokens has led to increased dilution, making it progressively harder to extract value. With the industry's market cap flooded by new tokens, navigating these waters has become more challenging. For many, this has been one of the hardest trading seasons yet—while “easy mode” may be around the corner, it hasn't arrived.

The road ahead demands greater selectivity than ever. The industry continues to mature, but progress comes with the constant challenge of dilution—and some of the most hyped launches are still to come. Portfolio consolidation has grown more complex with overlapping narratives, requiring focused concentration and frequent rebalancing. Still, this is far from “easy mode.”

## Crypto's Easy Mode



**HORSE**    
@TheFlowHorse



Here are two points that I can't stress enough to anyone new here getting chopped up right now.

1: Drown out anyone on the timeline who is creating a false sense of urgency in how you manage your own positions. If you don't feel comfortable in position, don't let the crowd convince you otherwise.

There are accounts here that are basically memes, they either constantly bull post, or constantly bear post; these are unserious people and not reminiscent of the qualities you find in people that have long term success. I promise you, 90% of them don't even have any real money.

2: Crypto "*easy mode*" is comically easy to identify, however this does imply some level of lateness for anyone who joins after the trend is in versus being exposed from the exact bottom start. Consider being somewhat late the cost of doing business for greater expected value.

Think of it this way, if you enjoy surfing are you really going to go out every single day that it is flat for the off chance that it picks up randomly, or would you rather bide your time and just keep an eye on the surf cam to jump in when conditions are better? You can do the same here.


Source: [TheFlowHorse \(X\)](#)

Market dynamics have also been strongly influenced by the anticipation and approval of Bitcoin and Ethereum spot ETFs. Bitcoin led the market rally early in the year, reaching new highs, while most altcoins lagged. \$ETH struggled and only saw a temporary boost following a surprise ETF approval, ultimately retracing after a few weeks. This rapid rise and fall came after most participants had written off the chance of a spot ETF approval for \$ETH, attributing resistance simply to “Gensler being bad for the industry”.

On the tech front, one would expect new products and infrastructure innovations to be bullish. However, enthusiasm for airdrops and token launches has waned. The market

adjusted quickly, and it became apparent that making money wasn't as simple as staking \$TIA, \$PYTH, \$MATIC, or \$MNT for rewards. Relying on past successes and expecting "muscle memory" to kick in is a risky form of confirmation bias that blinds investors to the shifting nature of markets.

### Crypto's Overvaluation



**fiskantes** ★ 📌 🔒  
@Fiskantes

...

Crypto is too big now to just live off empty narratives and vague promises of asymmetric returns

This worked when we were below 1T total mcap, but it won't work now

This cycle we as an industry really need to come up with real products real people who are not on CT wanna use

Sure, some tutes may buy the Bitussy via ETF, but it is not an asymmetric risk:reward opportunity like it used to be, and miners are still earning 900 BTC (45m USD) every day, which eventually becomes a sell pressure

Since ETH positions itself as a tech platform, they will be looking at all the boomer metrics such as fees/revenues and I am sad to say DA won't cut it

I see ethereans scramble to revive the "ETH is money, it doesn't need fees to win" narrative, but I don't think it will work...being perceived as money is not a tech question, but question of trust and who has the best story, and Bitcoin with immaculate inception, Satoshi's whitepaper and normie mindshare is uncontested

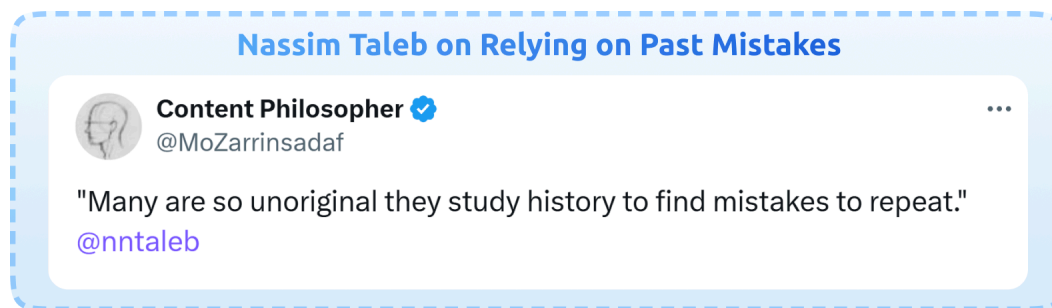
People who casually project ETH to 10k as their base case need to get a bit of grip (I was in this camp too btw). 10k ETH would mean 1.2T mcap which is basically the same as Meta Inc.

Meta Inc owns

Source: [Fiskantes \(X\)](#)

The rules of the game keep evolving, and strategies that once worked have lost their edge. As ephemeral points rose on off-chain leaderboards, negative sentiment among participants prevailed. Airdrops started selling off almost instantly, and most new tokens took on a down-and-to-the-right pattern, embodying the low-float-high-FDV phenomenon. Meanwhile, memecoins thrived, reflecting internet culture and tokens with no VC involvement or token unlock schedules.

Institutional adoption may have grown, but new retail participation remains muted. Those seeking exposure via ETFs have likely already bought in, and it's difficult to compete with the "sleepless degenerates" who scour DexScreener 24/7, hunting for the next 1,000x.



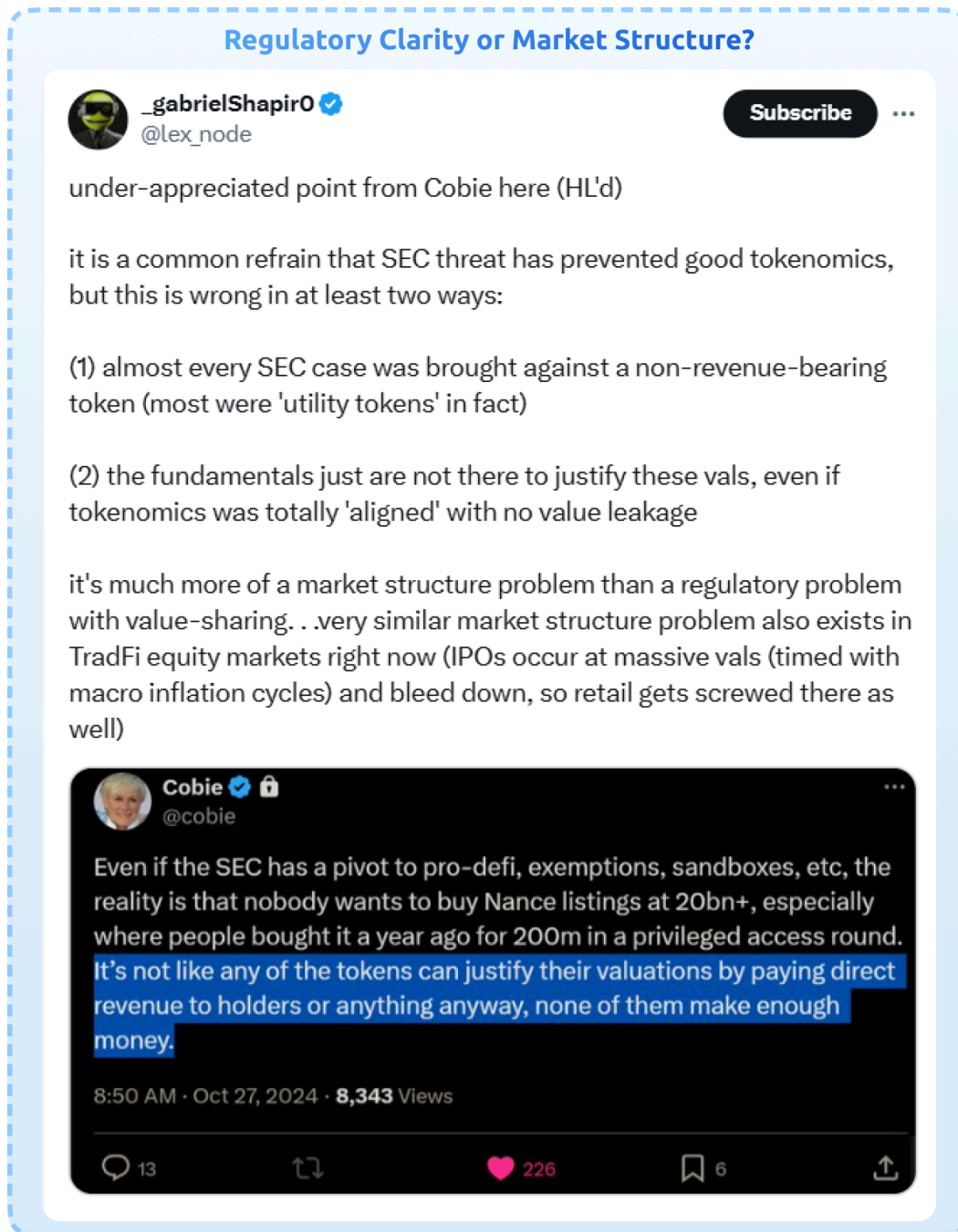
Source: [Content Philosopher \(X\)](#)

As existing participants and ETF buyers adjust their risk exposure, many investors remain cautious due to past experiences. Capital continues to build on the sidelines, gradually forming a trend that could ignite momentum. New narratives will emerge, and old ones may be revived, but the question remains: Is capital rotation on the horizon?

The surge in Layer 2s and interoperability, restaking, and data availability solutions, initially seemed bullish. Yet, this proliferation has led to commoditization and perceived overvaluation, with only a few exceptions standing out.

New tokens have entered the market at high valuations, resulting in an oversupply that the market couldn't absorb. What upside could retail investors expect when early private investors were already up multiples? Wait for bullish unlocks? Hope insiders

don't cash out? Some locked tokens even earned additional rewards in closed deals inaccessible to retail.



Source: [\\_gabrielShapir0 \(X\)](#)

Don't forget, the second wave of anticipated projects like Monad and Berachain is still to come. Airdrop sell-offs will likely continue unless a major turning point unleashes

the “animal spirits” for a “full send” season—one where high FDV isn’t synonymous with limited upside. The muscle memory that worked in previous cycles just doesn’t apply anymore; the era of “easy mode” is over.

If you’ve been in the industry long enough, you’ve likely noticed that the crypto market often resembles a casino. Tokens act as “chips”, with values that fluctuate constantly, driven more by speculative behavior than the underlying technology. Sophisticated participants are often accused of extracting substantial value daily through OTC deals, seed rounds, funding rate impacts, and more. One can blame exchanges, VCs, AI, or others, but unlike traditional companies, tokens don't file for bankruptcy.



Source: [zhusu \(X\)](#)

For crypto to gain global traction, the industry must evolve beyond this casino model. Some beliefs fade, and new ones form, but the pursuit of an antifragile currency, yield opportunities, and speculative gains endures. However, if we want the industry to thrive, we must aim for higher standards. Crypto's tribalism needs to give way to a more inclusive ethos, embracing everything from immutability and censorship resistance to wealth creation and enjoyment.



Crypto has come a long way, transforming from a libertarian vision into a multifaceted industry beyond just money and data. Despite conflicts within communities—reminiscent of historical religious disputes—and the failures of incentivized yet ineffective attempts to achieve product-market fit, crypto’s transformative potential remains. Bitcoin, once seen as a pipe dream, is now a trillion-dollar reality.

All revolutions—technological or cultural—face exploitation, and crypto is no different. Information asymmetry is exploited, but this chaos also fuels relentless innovation. The ups and downs are clear—the higher the highs, the more painful the lows. While many projects will trend toward zero, that’s part of the game, and some sacrifices may benefit the industry as a whole.

Investors and traders will continue moving from one narrative to another, funding projects that may not work, won’t work, or, if they do, no one will use. Most traders and VCs will not make money, but everyone still wants in. Despite its challenges, crypto embodies a larger vision, even if it remains niche.

As retail interest wanes due to financial stress and disillusionment, the current “silent cycle” is marked by slow institutional investments via carry trades and ETFs. Institutions now see crypto as a new asset class, accumulating significant holdings and capitalizing on opportunities not seen in decades. This is a new asset class, and they want to own as much of it as possible.

All things considered, the early exuberance and speculative mania have given way to a more sober reality. TradFi institutions and politicians are increasingly supporting crypto, signaling not the start of mass adoption but the result of a decade-long journey toward mainstream awareness. The era of easy gains driven by speculative fervor is behind us, shifting focus to whether crypto can fulfill its promises. Projects once at the forefront of innovation may struggle to reach past heights as the market matures and expectations evolve.

Bold claims aside, the Lindy Effect suggests that the longer something non-perishable—like an idea, technology, or institution—endures, the longer it’s likely to last. The fact that tokens don’t go bankrupt doesn’t mean their projects are “Lindy”—slow market cap declines are easy to spot on Coingecko.

Applying the Lindy Effect to a young protocol, particularly one that has only been around for 3-5 years, misses the principle. True Lindy status comes when something endures across cycles, proving its adaptability.

In equities, a bull market is marked by price and activity, but this doesn’t fully apply to crypto. \$ETH holders underperformed while others thrived by riding various narratives. In a market where Bitcoin dominates total market cap and a 20% move is relatively minor, traditional metrics fall short. Bitcoin lacks any underlying cash flow, Ethereum’s deflation is a thing of the past, and most projects don’t share revenue with token holders, often hiding behind “waiting for regulatory clarity”.



Source: [TexasHedge \(X\)](#)

The main question for crypto is whether it can move from being a tradable asset class to a truly investable one, focusing on growth and utility rather than speculation. The next phase will likely depend on projects’ ability to deliver real-world value and on the market maturing into a more stable environment. Expecting another bubble right after

a bust ignores the necessary cooling-off period—markets need time to rebuild trust, digest losses, and set the stage for new catalysts.

# Macro and The Three-Body Problem of Markets

## Section 2

# The Three-Body Problem of Markets

***You have to learn to quit being right all the time, quit being smart all the time, and quit thinking this is a contest about how smart you are and how right you are.***

*– Marshall Goldsmith*

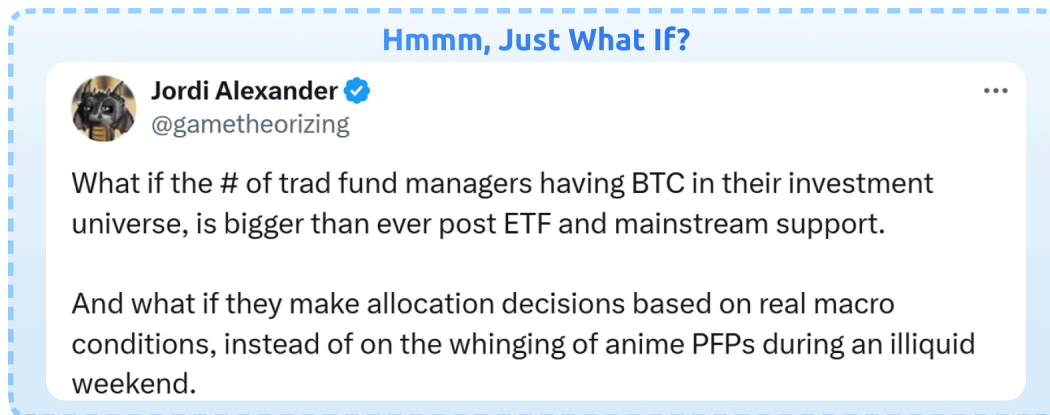
Economics aims only to describe human behavior, not change it—and understanding macroeconomics is critical for portfolio management. The issue, however, is that it's easier to "macrobullshit" than "microbullshit" because macro narratives rely on sweeping generalizations that are harder to verify or falsify in the short term. Regardless, whether we like it or not, macro does directly impact crypto markets.

The allure of macro predictions lies in their broad, high-stakes appeal, yet the lack of granularity in these predictions leaves ample space for narrative over substance. For practicality, this report will avoid rhetoric and semantics that overshadow hard evidence.

The interactions between growth, inflation, and liquidity create a dynamic and often unpredictable backdrop that influences asset correlations and portfolio performance. Today, there's no shortage of data or information—outperformance depends on interpreting the data within the context of prevailing economic tensions at any given time.

From experience, we know that crypto isn't an isolated phenomenon, unaffected by macroeconomic factors. The traditional strategy of relying on the negative correlation between stocks and bonds no longer holds. As 2022 starkly demonstrated, both asset classes experienced significant drawdowns simultaneously. This shift highlights the importance of understanding the nuanced relationships between assets and the broader economic context.

Just as the Three-Body Problem in physics illustrates the inherent complexity and unpredictability of systems with multiple interacting forces, financial markets are similarly chaotic, requiring a sophisticated strategy to asset allocation and risk management.



Source: [gametheorizing \(X\)](#)

When analyzing assets, it's essential to recognize that what's visible—the time series of an asset—is only part of the picture. The underlying factors driving supply and demand are often hidden, requiring thorough analysis to identify and understand these dynamic drivers.

Over time, these influences shift, meaning the factors that moved an asset's price in the past may not be the same ones affecting it in the future. Proper attribution analysis allows for a more accurate understanding of these drivers, enabling informed decision-making based on their varying impacts on price movements.

In the world of investing, the perception of market conditions often swings between extremes, from "flawless" to "hopeless," with little regard for the actual, often more moderate, reality. This volatility in perception causes market prices to fluctuate dramatically, not necessarily due to changes in underlying conditions but because investor interpretations of those conditions have shifted. This shift is frequently driven by cognitive biases such as optimism, wishful thinking, and cognitive dissonance, where investors ignore information that conflicts with their beliefs.

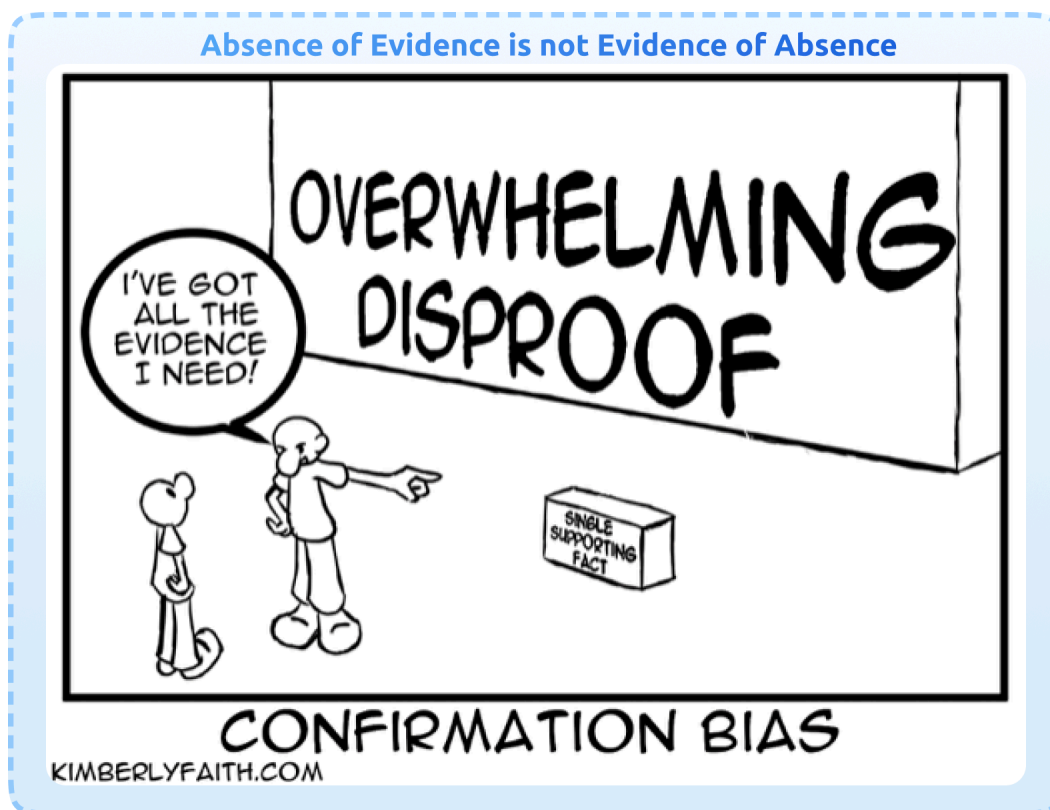
## The Markets: Where Rational is That Which Survives



Source: [Beating Mister Market](#)

During good times, investors focus on the positives and disregard the negatives, fueling optimism and risk-taking. Conversely, when sentiment shifts, they amplify the negatives and overlook the positives. This cyclical nature of market psychology is a key factor behind the extreme highs and lows in financial markets.

Oversimplification is a common issue in markets, reducing complex systems to easy narratives that overlook critical nuances. This tendency, also known as “platonicity”, refers to seeing the world through idealized models rather than accepting its unpredictable nature. In finance, platonicity manifests when investors rely on polished, oversimplified narratives that obscure underlying volatility or uncertainty, like claiming 2025 will be bullish simply because the Fed has started cutting rates.

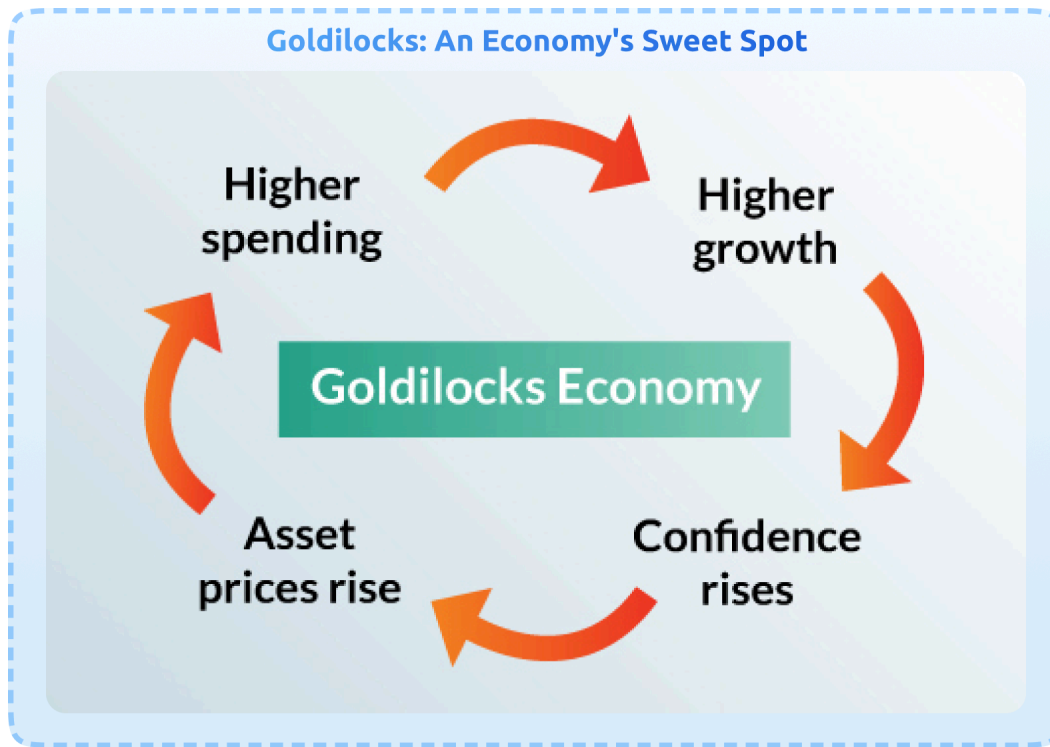


Source: [beatingmistermarket.com](http://beatingmistermarket.com)

Rational expectations theory suggests that individuals make decisions based on rationality, available information, and past experiences. However, the non-linear and often irrational behavior observed in markets indicates that human psychology plays a significant role in investment decisions. Investors tend to overreact to new information, especially when it aligns with prevailing sentiment, whether optimistic or pessimistic.

Moreover, optimism is deeply ingrained in investor behavior, especially among those who feel compelled to believe in future gains to justify current investments, also known as HODLing. This optimism can lead to "Goldilocks thinking"—a term recently used by those celebrating lower inflation alongside Fed rate cuts. In this mindset, investors convince themselves the economy will maintain a perfect balance, avoiding both inflation and recession. However, this perspective often overlooks the reality that economic conditions are rarely so perfectly balanced.





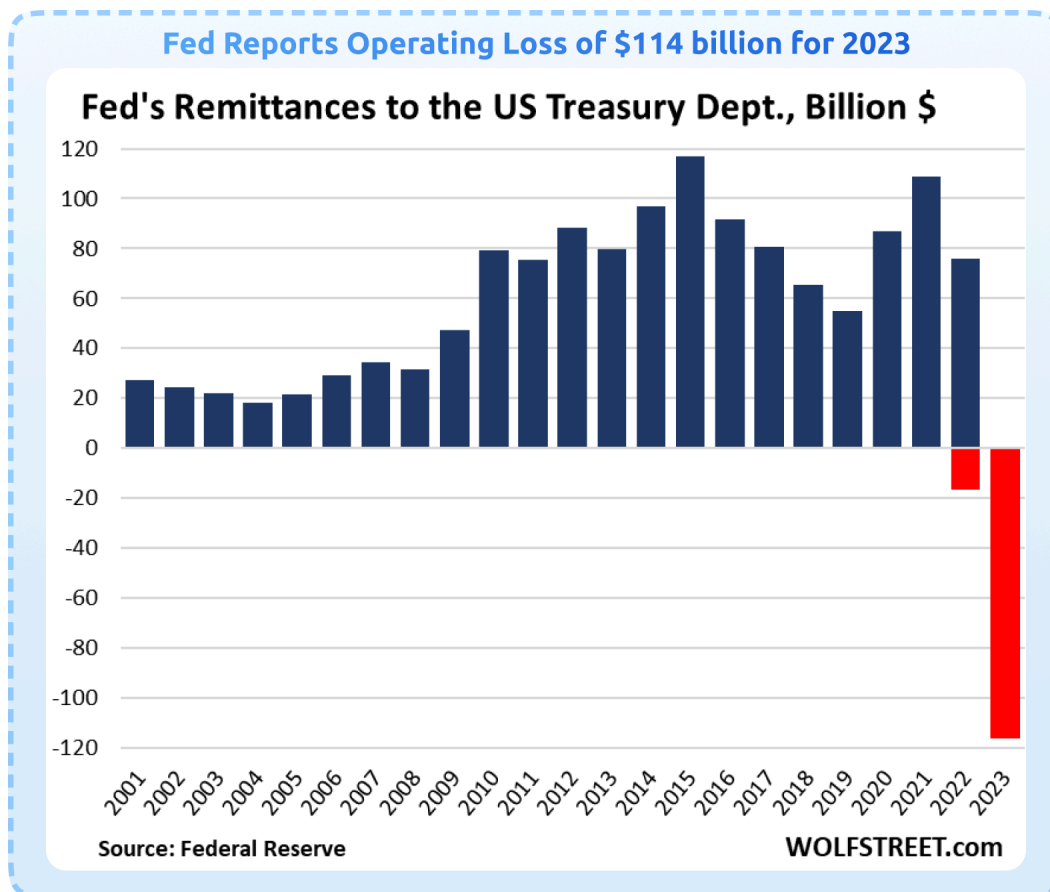
Source: [Carrington Mortgage](#)

Since the Global Financial Crisis (GFC) in 2008, central banks have responded to economic crises with aggressive monetary policies, leading to an increase in global debt-to-GDP ratios. Interest rates globally reached their lowest levels in 5,000 years. For context, the total amount of negative-yielding debt rose from virtually nothing pre-GFC to nearly \$18 trillion in 2020 due to rate cuts to 0% and below.

In 2023, the Fed reported an unprecedented operating loss of \$114 billion—the largest in its history. While this figure would place it among the largest financial losses in U.S. history—behind only the collapse of Lehman Brothers and Washington Mutual in 2008—it is important to note that the Federal Reserve, as a central bank, does not operate like a private entity and cannot declare bankruptcy in the same way as those institutions.

Interest represents the compensation for the time value of money, and the fact that rates are negative paints a grim picture. This becomes more concerning when

considering that most of the population does not own enough financial assets to protect themselves against potential ongoing global fiat monetary debasement.

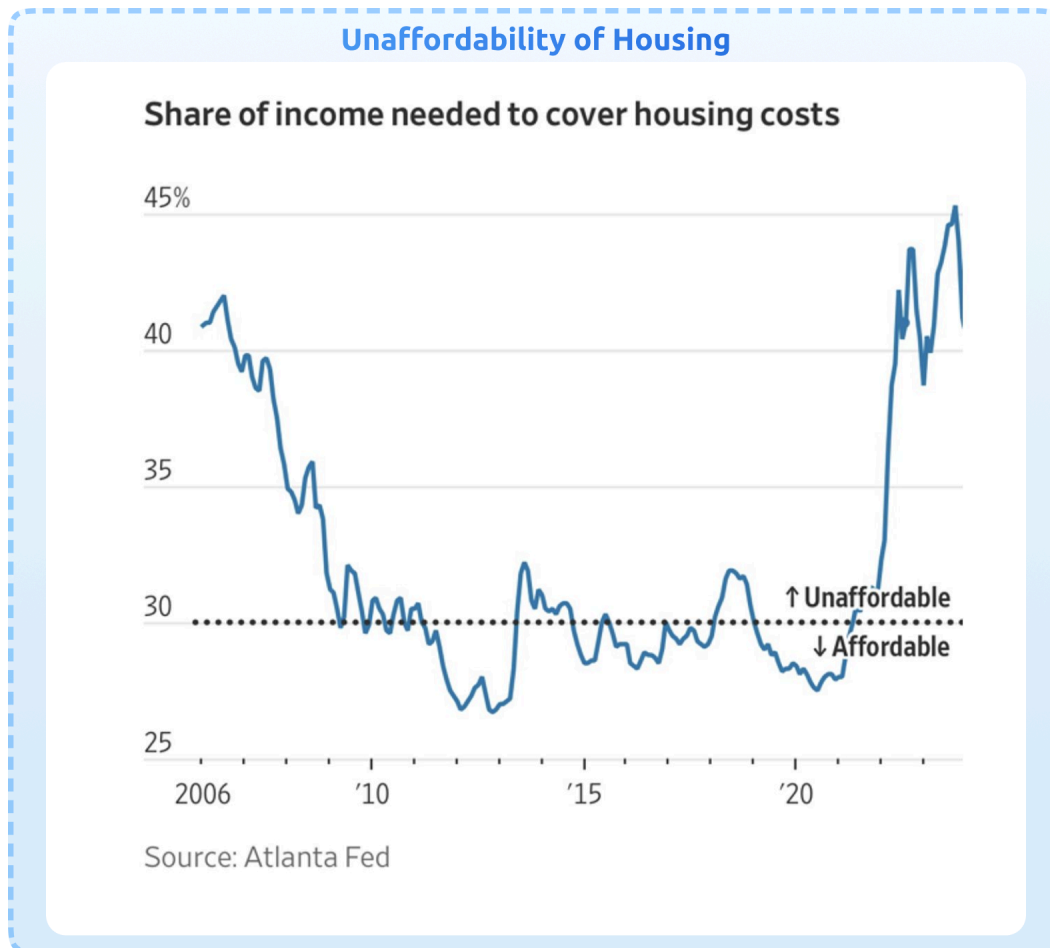


Source: [Wolfstreet](#)

With the SEC’s approval of a \$BTC spot ETF, crypto gains more legitimacy as an asset class. However, ETFs require investors to re-enter the fiat system when exiting their \$BTC positions. Leaders like Balaji remind us that “your assets ultimately serve as the government’s collateral”, a warning underscored by past Black Swan events like the \$USDC depeg and the Silicon Valley Bank shutdown.

Meanwhile, a demographic shift in the U.S. suggests that younger generations may find it easier to buy \$BTC than gold. The younger population is bearing the consequences of the Federal Reserve's policy missteps and Congress's aggressive money printing—policies that primarily benefited older generations. These policies

have driven up asset prices, especially in real estate, making homeownership increasingly unattainable for younger Americans.



Source: [Dan Morehead \(X\)](#)

The median-priced home is now more unaffordable than at any time since 1987, leaving many young people burdened by rising housing costs and locked out of the traditional paths to wealth accumulation that benefited previous generations. This growing frustration may give rise to single-issue voters who prioritize economic reform and support alternative financial systems.

Looking back over the past two decades, the global financial environment has been characterized by moderate growth, low inflation, and factors such as globalization, a strong U.S. dollar, and accommodative monetary policies. These conditions created a

favorable backdrop for passive investment strategies, with bonds enjoying a multi-decade bull market as interest rates approached the zero bound. This, in turn, bolstered U.S. stock indices, particularly in technology stocks, which thrived in a low-interest-rate environment.

However, as these tailwinds diminish, it's becoming clear that the ease with which passive portfolios have generated returns is unlikely to persist. The trend toward passive management, driven by the outperformance of simple strategies like the 60/40 portfolio over active managers, made sense in an era of steady returns.

The challenges of 2022—when both stocks and bonds declined simultaneously—highlighted the potential risks of a passive strategy in a shifting market landscape. The ability to adapt and actively manage portfolio exposure becomes increasingly important for the future.

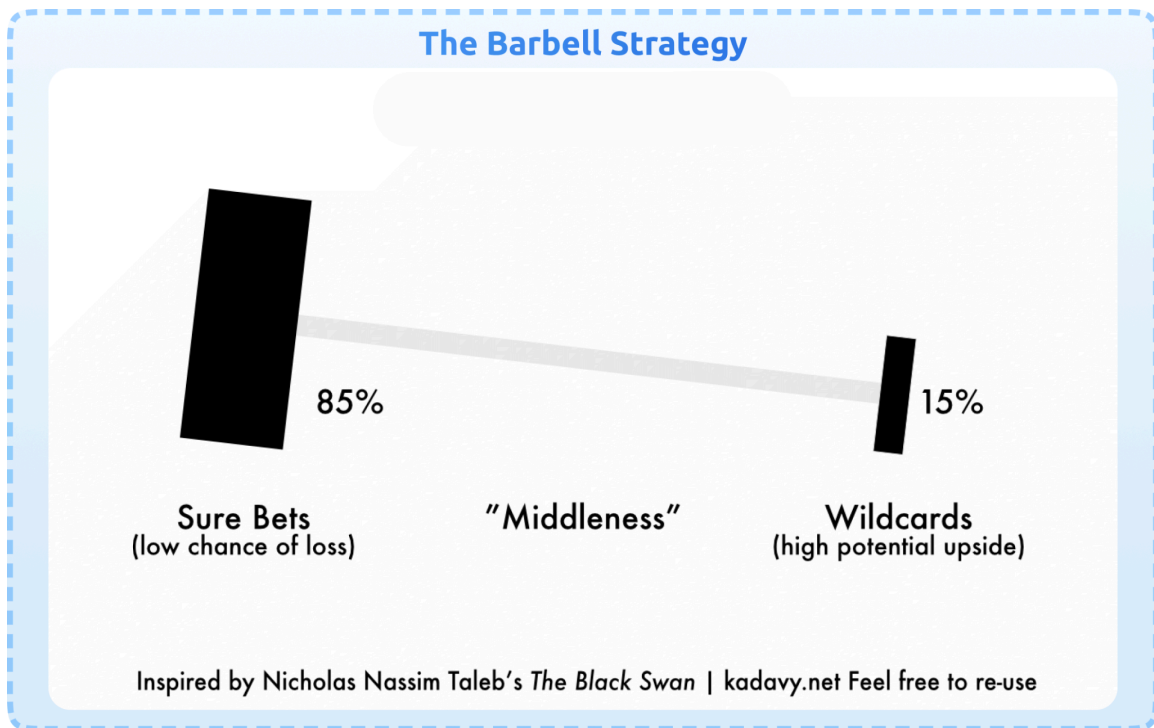
Macro analysis is essential for understanding the underlying forces of growth, inflation, and liquidity—factors that are crucial for making informed investment decisions. Ignoring these fundamentals can lead to mistakes driven by superficial narratives that often oversimplify complex economic conditions.

In today's environment, where rising inflation and tightening liquidity are redefining the market landscape, a deep grasp of macro forces is more important than ever for avoiding pitfalls and identifying long-term opportunities.

Three primary macroeconomic factors—growth, inflation, and liquidity—shape the broader financial landscape and have a direct impact on investment outcomes. Growth reflects the expansion of economic activity, driving corporate earnings and creating investment opportunities.

Inflation measures the rate at which prices increase, affecting purchasing power and influencing interest rates. Higher inflation typically leads to higher interest rates as central banks work to control price rises. Liquidity, or the availability of capital in the financial system, impacts how easily assets can be bought or sold without significantly

affecting their price. High liquidity smooths transactions, while low liquidity can cause price fluctuations.



Source: [The Black Swan - Nassim Taleb](#)

Connecting these macro variables to financial markets helps us understand how they influence asset prices, particularly through credit and duration risks. Duration risk refers to how sensitive an asset's price—especially bonds—is to interest rate changes. When interest rates rise, bond prices tend to fall, making this a key factor for interest-rate-sensitive investments.

Credit risk, on the other hand, is the risk that a borrower may not meet their financial obligations, potentially leading to default. This affects expected returns, as higher credit risk usually requires investors to demand higher returns to compensate for the increased chance of default.

The challenge arises when market narratives are built around artificial patterns that lack statistical significance and a deep understanding of the causal relationships within the system. Without a solid grasp of macroeconomics, you risk making decisions based

on these flawed narratives, potentially leading to significant setbacks. This is why macro literacy is crucial—it not only helps contextualize key questions but also aids in discerning the reliability of the information driving decisions.

Macro Matrix					
Scenario	Duration Risk	Credit Risk	Interest Rate Impact	Credit Risk Impact	Bond Prices Impact
Increasing Duration Risk with Increasing Credit Risk	Increasing	Increasing	Bond prices fall due to rising rates	Bond prices fall due to higher default risk	Significant negative impact on bond prices
Increasing Duration Risk with Decreasing Credit Risk	Increasing	Decreasing	Bond prices fall due to rising rates	Bond prices partially supported by lower default risk	Moderate negative impact on bond prices
Decreasing Duration Risk with Increasing Credit Risk	Decreasing	Increasing	Bond prices rise due to falling rates	Bond prices fall due to higher default risk	Mixed impact on bond prices; depends on the balance
Decreasing Duration Risk with Decreasing Credit Risk	Decreasing	Decreasing	Bond prices rise due to falling rates	Bond prices rise due to lower default risk	Significant positive impact on bond prices

Source: [Capital Flow Research](#)

It's important to remember that any market analysis is time-dependent. This means that, while you can track changes in specific data points, a deeper understanding comes from analyzing the variability (or standard deviation) of those points over different timeframes.

# On the Dangers of Institutional Adoption

## Section 3

# On the Dangers of Institutional Adoption

***Confusing the price with the story is the biggest mistake an investor can make.***

– Peter Lynch

The birth of crypto has been nothing short of revolutionary, yet, like many historical revolutions, there is a risk of losing sight of the core values and principles that sparked the movement. The events of 2023 and 2024 reveal a slow, creeping threat to the vision of a truly global, borderless, censorship-resistant, and permissionless financial system.

The issue is not that governments are inherently malicious, but they can be susceptible to corruption. Regulation is inevitable with transformative technologies like crypto, as authorities seek to assert control. Similarly, institutions are prone to power grabs as they try to remain relevant, despite their often rigid structures.

The introduction of Bitcoin ETFs has opened new liquidity channels between crypto and traditional finance. Major institutions like BlackRock, Fidelity, and VanEck are now marketing Bitcoin to their clients, signaling broader acceptance of crypto within the financial system.

The push for mass adoption has led to compromises that align crypto more closely with traditional fiat systems and Wall Street instruments, raising concerns about preserving the movement's founding values. The greatest threat to crypto may not be regulatory crackdowns or technical vulnerabilities but the dilution of its core principles. Decentralization—though not explicitly mentioned in the Bitcoin whitepaper—is the foundational principle that makes Bitcoin possible, ensuring true private ownership.

Today, the technology largely supports most crypto use cases, allowing innovators to continue enabling new ways to transact on-chain. However, we are entering a new paradigm where ideology, rather than technology, is the primary risk. Even if users



appear indifferent to decentralization and censorship resistance, builders must stay vigilant. Ultimately, political values shape economic opportunities and, therefore, attract users.



Source: [goodalexander \(X\)](#)

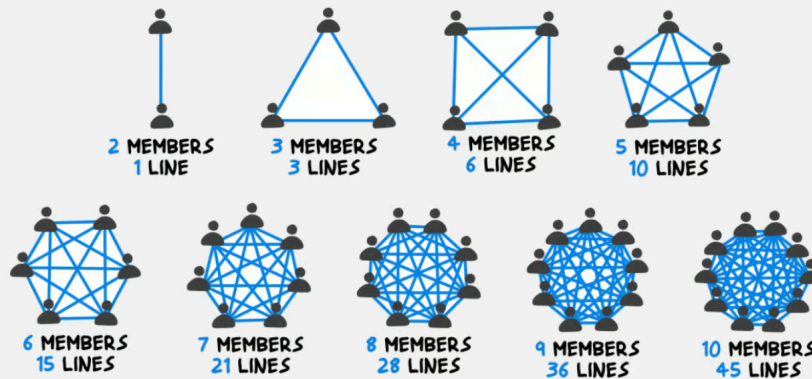
Trust is fundamental to human interactions. In small settings, trust is built on relationships, knowledge, and direct accountability. Yet, as interactions scale, trust becomes more fragile. Larger groups mean fewer interpersonal connections, making trust more delicate.

In *Sapiens*, Yuval Noah Harari explains that trust can be maintained in groups of up to around 150 individuals, a concept known as Dunbar's number. Beyond this limit, society relies on shared myths, religions, and ideologies to maintain cohesion. In larger organizations and global markets, trust becomes institutionalized, built on narratives of reputational reliability.

Unfortunately, institutional trust often falters. The 2008 Global Financial Crisis saw “trustworthy” banks and agencies fail catastrophically. Scandals like Enron’s collapse, Wells Fargo’s account fraud, Facebook-Cambridge Analytica’s data misuse, and the Equifax data breach highlight the risks within centralized trust systems.

## The Importance of Staying Lean

SMALL TEAMS WIN BECAUSE  
THEY SOLVE COMMUNICATION COMPLEXITY



Source: [The MoneyVerse](#)

These failures raise important questions about the nature of trust and greed. Trust is a cycle of building and breaking, reflecting both human nature and systemic vulnerabilities. As crypto navigates similar challenges, it must stay committed to its foundational principles to ensure long-term success.

# The Illusion of Being Early

## Section 4

## The Illusion of Being Early

***If you can't spot the sucker in the first half hour at the table, then you are the sucker.***

*– Mike McDermott (Matt Damon) in Rounders*

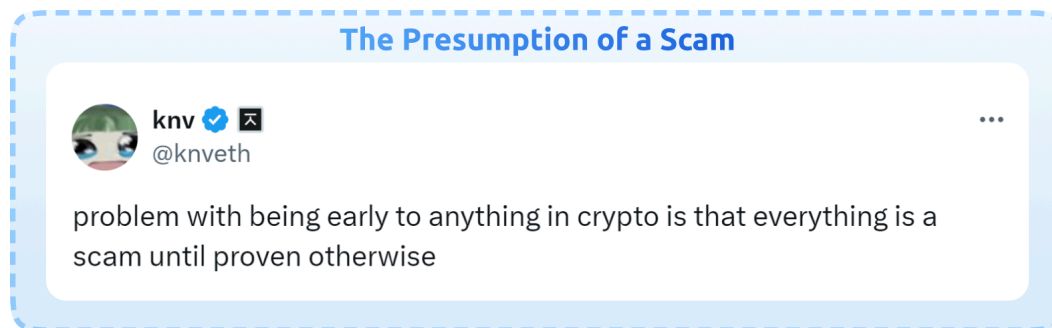
Crypto may not be fully mainstream in terms of adoption, but it has certainly entered mainstream awareness. While crypto isn't universally adopted, it has undeniably become a form of mass entertainment, which keeps many people engaged even if they aren't fully invested.

Regardless of market conditions, Crypto Twitter (CT) keeps its audience locked in a cycle of information overload, rarely offering genuinely useful advice. Though it may be entertaining, CT has evolved into a marketplace of false promises, where the idea of being "early" is sold as a guaranteed path to wealth. This narrative, often tied to the belief in 4-year cycles, misleads many who assume that simply being in crypto is enough to secure financial success.

The "hopes and dreams" sold by CT create a false sense of security, promoting the idea that simply following the right accounts and joining the right alpha groups leads to financial success. This mentality fuels the "TikTokization" of crypto, where the line between genuine technological advancement and manufactured hype becomes blurred.

A deeper issue lies in the industry's belief in 4-year cycles, which drives an overreliance on macroeconomic factors rather than a focus on true innovation. Much of the capital flowing into the industry has been optimized for short-term gains, especially in VC-driven projects where markups are prioritized over meaningful product development. This has created an environment where founders and investors are incentivized to participate in a Keynesian beauty contest, with little pressure or urgency to drive technological breakthroughs.

Unlike previous cycles, where paper gains could be celebrated, the current environment offers no such luxury. Venture capitalists in crypto, like those in traditional tech, now face difficulties raising new funds and the reality of limited tangible returns.



Source: [knveth \(X\)](#)

Belief in an inevitable bull market “savior” creates complacency, masking deeper issues within the industry. The cycle narrative creates a self-fulfilling prophecy and serves as a convenient excuse for short-term thinking by builders and investors alike, reinforcing the greater fool theory.

As the industry matures, the innovative foundations that once propelled early DeFi have given way to a zero-sum game of imitation. Fundraises are celebrated as victories even when no significant product or innovation materializes—a pattern that, if unaddressed, risks systemic breakdown.

The core issue is that many of the narratives driving crypto today feel manufactured rather than organic. Early DeFi was propelled by genuine innovation, sparking authentic enthusiasm in the market. Now, however, many narratives surrounding new projects feel forced, with little substance behind them.

This is why CT functions more as a sentiment amplifier than a platform for meaningful discourse, perpetuating the narrative of being “early” as a strategy that is rapidly losing effectiveness.

# Financial Nihilism

## Section 5

# Financial Nihilism

***A lack of pretense that any of this shit does anything or will ever do anything.***

*– Travis Kling, CIO at Ikigai Asset Management*

Financial nihilism has been a prominent topic since the beginning of the year. Stemming from economic nihilism, it highlights how widening wealth gaps, stagnant wages, and rising expenses drive people toward high-risk opportunities like ODTE (zero-days-to-expiration) options or meme coin trading. This phenomenon raises fundamental questions about the essence of crypto: Is it all a scam? Why invest in substantial projects when meme coins often outperform genuine ventures?

With rising costs, limited housing, and inflation, the American dream has shifted from hard work and homeownership to gambling on meme stocks, crypto, and sports betting in hopes of a windfall to cover basic needs.

In this post-COVID era of surging online sports betting, conversations among young men increasingly focus on high-stakes wagers rather than career growth or financial planning. Betting on backup NFL tight ends to score big has, for some, replaced traditional investment strategies, driven by the frustration that achieving financial security through a steady job feels increasingly out of reach.

This financial nihilism isn't without reason. As one Reddit user put it, "Probably because it is the only hope". The logic is flawed but understandable: whether you have \$0 or \$10,000, neither amount is enough to buy a home, but a million might be. So, why not risk it all to escape a financial treadmill that feels designed to keep you perpetually behind? This mindset offers a sense of control in a world where many feel powerless. By betting, at least they feel like they're trying to change their fate—even if the odds are slim.

## Taking Risks and Never Losing Hope



Hash\_C ✓  
@hash\_cough



“It’s all a scam” is not a good catchphrase for an industry.

The TAM of financial nihilism is much thinner than the TAM of hope for a bright productive future.

The mcap of GME vs the mcap of Nivida is an easy tardfi expression of this.

I’m happy to see we seem to be nearing a sort of cultural top on this attitude because it has run rampant for the majority of this cycle.

CT over estimates there ability to move the BTC chart, but vastly underestimate there ability to shape the narrative around the meta in our industry.

This is the fist cycle where u see many ppl who claim to be “crypto natives” parroting the idea that there is nothing of value being created in the space & It’s actually some what of a disservice to our own community in more ways then one.

Source: [hash\\_cough \(X\)](#)

The lack of meaningful risk-taking opportunities in the broader economy may be driving individuals toward unproductive behaviors like excessive gambling or speculative investing. This mentality reflects a sense of total defeat—a negative-sum game where everyone loses except the grifters. Without a shift in mindset, tangible and sustainable improvement may feel out of reach.

From a bird’s-eye view, this outlook reflects a belief that currencies, assets, and even the financial system lack intrinsic value—a paradox that often surfaces during periods of economic instability. Younger generations, in particular, feel this impact, perceiving wages as insufficient to keep up with rising costs and inflation.



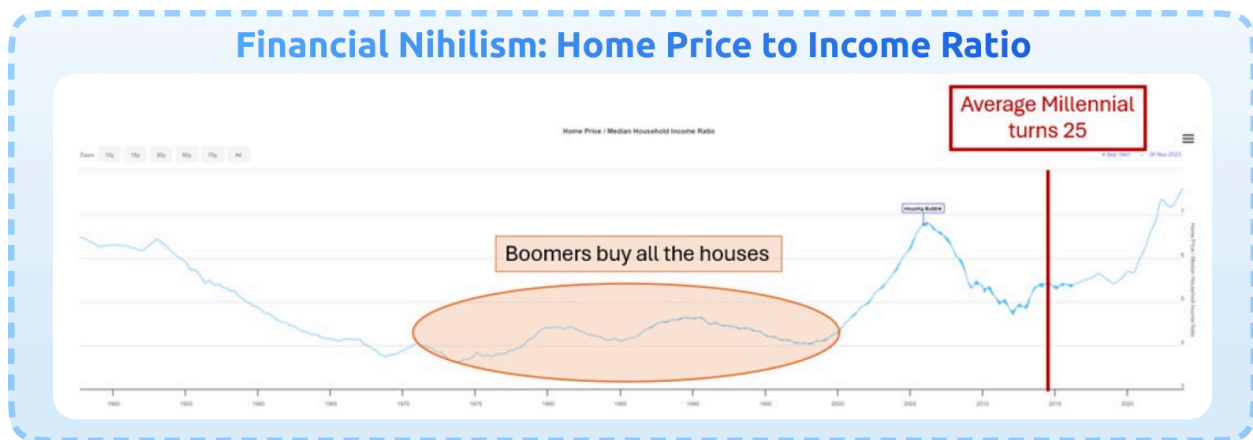
Demetri Kofinas, host of the *Hidden Forces* podcast, brought attention to financial nihilism years ago, noting, "the system isn't working for me, so maybe I'll try something else", referring to actions like the GameStop short squeeze or buying memecoins. In his words, financial nihilism is "a philosophy that treats the objects of speculation as though they were intrinsically worthless", embracing the Subjective Theory of Value.



Source: [reddit: r/finance](https://www.reddit.com/r/finance)

Crypto investors like Travis Kling have reintroduced this topic, applying it to crypto and offering a bullish case for digital assets grounded in a bearish thesis. Kling frequently points to the ratio of median home prices to median household income as a stark symbol of financial nihilism.

These trends reflect broader economic policies and structural decisions. Boomers and Gen X were able to purchase homes at lower income multiples, but a housing bubble fueled by subprime lending pushed prices to unsustainable levels. In the aftermath, Millennials have faced steep barriers to homeownership, exacerbated by economic shocks like the COVID-19 pandemic and expansive monetary policies. Today's housing prices, around 7.5 times annual income, highlight structural issues in the housing market and broader economic disparities.



Source: [Travis Kling \(X\)](#)

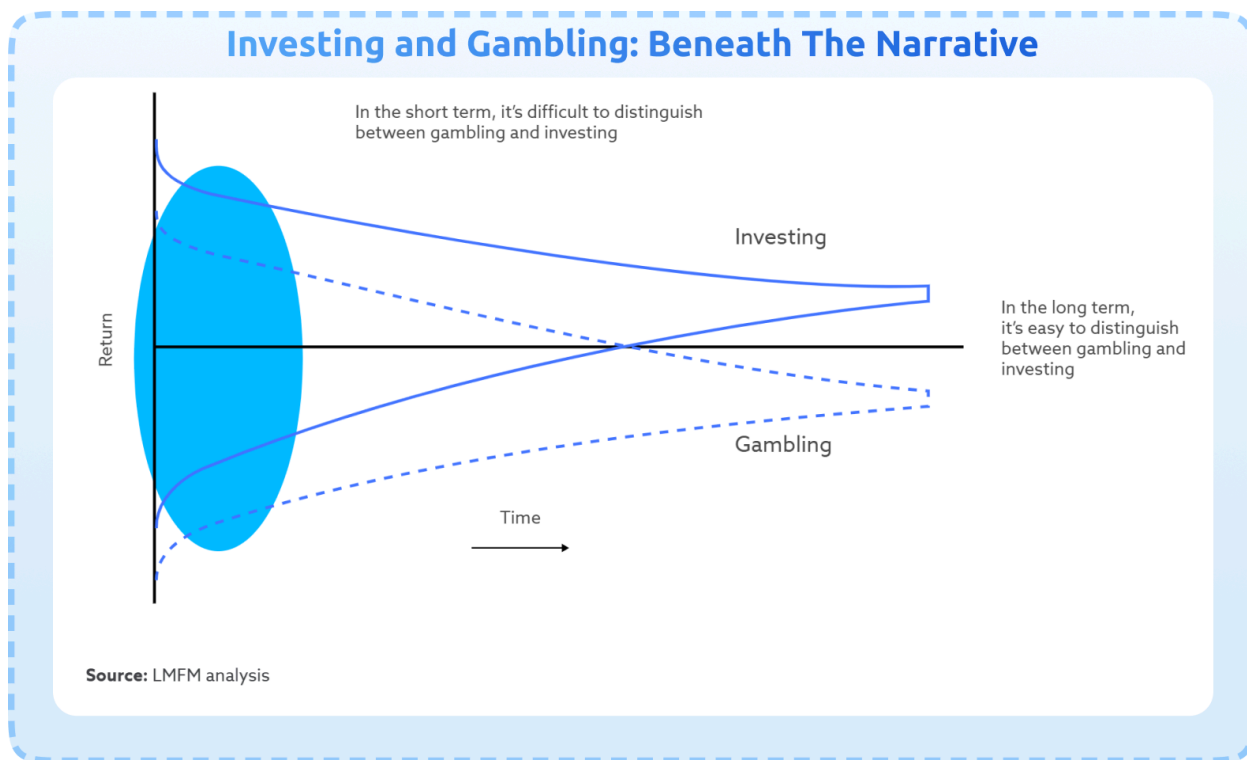
With the introduction of spot \$BTC and \$ETH ETFs and favorable market conditions, such as potential Fed rate cuts, both \$BTC and \$ETH have a clearer path to new all-time highs. However, ongoing economic challenges and widening inequality are drawing many toward high-risk assets beyond the largest cryptocurrencies. This sentiment has fueled speculative investments, mirroring the rise in gambling trends and a broader appetite for high-risk activities.

Contrary to expected market cycles, recent years have seen deviations, with altcoins gaining prominence. Relative valuation and token incentives now drive many altcoin investments, signaling a shift away from traditional valuation metrics. Point-based airdrops have come to dominate, creating speculative environments where valuation concerns are overshadowed by potential rewards, often resembling Ponzi-like dynamics.

Rapid gains and losses in this speculative space have led to a sense of detachment from traditional views of wealth. This reflects broader societal issues, including eroding trust in institutions and a sense of existential nihilism affecting many aspects of life. In this context, crypto has become a call option on human ambition and greed.

This also explains the frequent comparisons to poker. Crypto remains one of those things that make parents uncomfortable—a volatile environment where you need full

conviction to survive massive swings, both up and down. It teaches critical thinking in a space often driven by emotions and irrationality.



Source: [Decision-Making For Investors - Michael Mauboussin](#)

The prevailing pessimism and apathy on CT, though often viewed negatively, could be a necessary step for the industry's long-term success. This sentiment reflects a shift toward realism, as the community begins to acknowledge the significant time and money wasted on projects that offered little more than speculative "casinos" under the guise of innovation. Moving toward more productive, value-driven initiatives is essential for crypto's long-term durability and relevance.

Yet financial nihilism and speculative behaviors haven't necessarily pushed crypto prices higher. Instead, a "quiet quitting" mentality, highlighted by Travis Kling, has emerged. This disengagement signals a loss of the idealistic drive that once characterized crypto, with a shift from revolutionary ambition to mere participation.

Crypto, once the frontier of boundless optimism and innovation, now finds itself in an undercurrent of quiet disillusionment. This reflects a broader trend where individuals

do the bare minimum, disengaging from ambition and effort without fully leaving the industry.



Source: [Jason Choi \(X\)](#)

Within crypto, this reflects a fading of the idealistic fervor that once drove efforts to revolutionize industries, disrupt traditional finance, and solve real-world problems. This sentiment isn't just anecdotal—it's echoed across conversations with investors and builders in various sectors.

From 2017 to 2022, there was a widespread belief that crypto would fundamentally change the world. This conviction fueled billions of venture capital investments, with confidence that blockchain would achieve mass adoption. However, reality has tempered these expectations. Now, many in the community are simply going through the motions, not because they don't care, but because they've lost faith in crypto's ability to deliver on its promises.

This doesn't mean crypto is dead or innovation has stopped, but it does reflect a significant shift in the collective mindset of the community. The grand vision of crypto as a solution for world problems is now tempered by the harsh realities of implementation, regulation, and adoption. Although many remain in the space, it is without the same fervor or conviction that once defined it.

## Jumping Off The Cult Bandwagon



Jordi Alexander ✓

@gametheorizing



Eventually, even the most loyal community member realizes their individual optimal move is to pop that baby and cashout the loot!

The community of holders start like a family, but as individuals they have their own famiglias to think of.

Look for the greed point of no return..

An Olympus whale, @shotta\_sk, sold \$11 million worth of OHM tokens causing a 25% slippage and \$5 million in liquidations for the algorithmic protocol.

The whale used SushiSwap to exchange 82,526 **Olympus** tokens for \$11 million DAI tokens. The large wallet investor has sold his holdings in the algorithmic protocol token. He was quoted in a recent tweet:

*Derisked some of my OHM to ensure my family can weather any economic outcome. Remaining risk on with the rest indefinitely."*

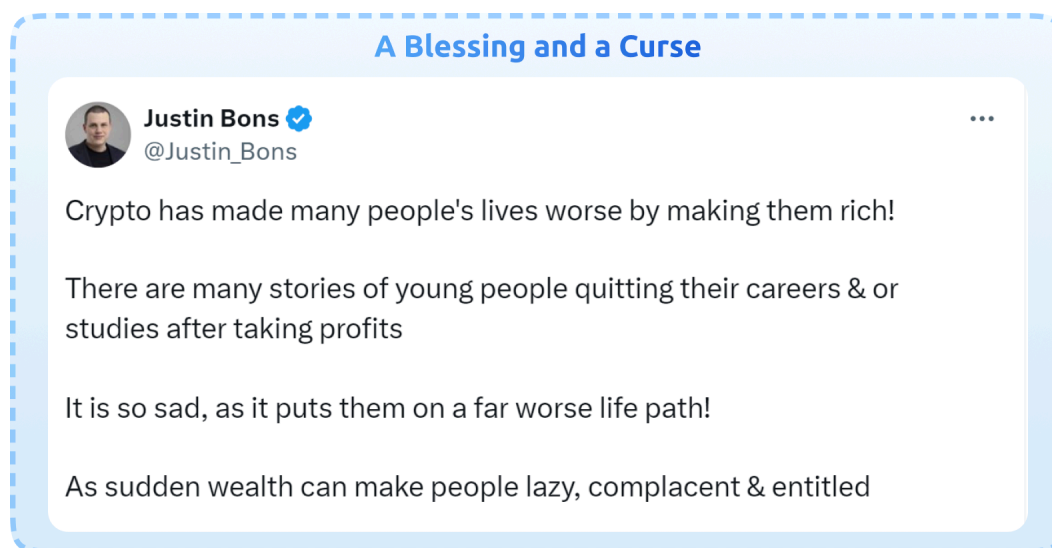
Source: [gametheorizing \(X\)](#)

Early adopters from the DeFi and cypherpunk days are stepping back as crypto transitions from grassroots experimentation to a more corporate, accessible ecosystem. However, a drop in participation from early enthusiasts is natural as cycles evolve.

The arrival of mainstream financial players, marked by the spot \$BTC ETF, signals a shift from raw cypherpunk energy to broader adoption, where user experience and accessibility will shape crypto's next stage. Integrating crypto into everyday tools with a seamless user experience, as simple as using a browser extension or phone app, will be crucial to attracting a much broader audience.

Corporations may lack the same appeal to those of us who have been in the trenches of crypto since the early days, but their involvement is key to mass adoption. The next bull run—whether triggered by Bitcoin crossing \$100k or a surge in Real World

Assets—will likely be the trigger that moves crypto from an alternative investment to a mainstream asset class.



Source: [Justin Bons \(X\)](#)

Election outcomes and political figures will undoubtedly shape crypto's future, particularly in terms of regulation and innovation. If U.S. policies lag, other countries could step in to position themselves as crypto-friendly hubs. The idea of a national crypto champion is compelling—someone with both political influence and deep technical knowledge could help propel crypto toward broader legitimacy.

Meanwhile, younger generations, raised as digital natives, will be essential for crypto's future. Their fresh perspectives and unique financial paradigms will shape use cases that older generations may not even consider.

That said, the more you dig into the topic, the more you realize that the existential questions around crypto's survival are less urgent now. Crypto is undoubtedly here to stay, but its final form may look very different from the wild west of past cycles. Memes, culture, and crypto's chaotic side are part of its permissionless ethos, where new, world-changing ideas can emerge. Crypto is both technology and dream, and preserving that vision is crucial. Bold ideas are needed to propel the space forward, especially when sentiment seems subdued.

## The Gamble for a New Dream

***The highest form of wisdom is to know when to play and when to stay away.***

– Nikolaos Andreas Dandolos

Today's graduates are engaging in discussions about sports bets, stock trades, and crypto memes with the fervor of investors seeking to break free from a system they perceive as designed to hold them back. Rising home prices, limited housing supply, inflation, and an increasingly gamified financial culture have made the American Dream seem less attainable. The notion that "you're just one bet away from buying a home" reflects the troubling shift in financial attitudes.

The reasoning behind this "bet it all or be left behind" mindset often follows a flawed but straightforward logic. Many young people see smaller sums, like \$10,000, as hardly different from zero when it comes to major financial goals like homeownership. The gap between \$0 and \$10,000 feels minimal, but the jump from \$10,000 to \$1 million seems insurmountable. As a result, they take risky bets, hoping to leap into a higher lifestyle tier in a single move.

This trend is exacerbated by the current housing market, where homeownership feels increasingly unattainable as wages fail to keep up with inflation. Many young people feel "wagecucked"—working hard with little to show for it while basic needs like housing remain elusive. A pervasive sense that the system is rigged has driven many to take extreme risks, even when the odds are stacked against them.

Financial dysmorphia—a distorted sense of financial well-being—has become prevalent among younger generations. Many are turning to high-risk gambles as a way to break out of what they see as a financial trap.

Gen Z, in particular, feels increasingly dissatisfied with their financial situation, spurred by unrealistic lifestyle expectations from social media and a belief that the traditional

path to wealth no longer works. For them, the chance of “winning big” is worth the risk, because the alternative—a lifetime of wage slavery—feels far worse.

### In Every Bet, There Is a Fool and a Thief



Nick Gerli ✓  
@nickgerli1



3) The actual, true "anecdote" for home price affordability (in addition to declining prices) would be rising incomes.

Rising incomes would help "fix" the current situation in a way that prevents an outright home price crash.

The problem: income growth is decelerating fast. Down to 3.5% YoY in July 2024 for non-supervisory workers.



Source: [Nick Gerli \(X\)](#)



# Thriving in the Age of AI

## Section 6

# Thriving in the Age of AI

***The risk of underinvesting is dramatically greater than the risk of overinvesting for us here.***

*– Google CEO Sundar Pichai on AI investments*

With the advent of AI, we're at an inflection point where traditional economic frameworks may no longer apply. Advances in AI, robotics, and related technologies will disrupt industries, challenge established business models, and transform economic systems. For professionals, investors, and entrepreneurs, now is the time to prepare for this seismic shift. This critical juncture represents unparalleled opportunities for those who adapt and significant risks for those who do not.

AI represents near-limitless knowledge and is evolving rapidly from a powerful tool to an entity capable of surpassing human intelligence across multiple domains. This growth will revolutionize every industry, making AI indispensable in fields like law, medicine, design, and financial analysis. Coupled with robotics, AI is set to replace human labor at an unprecedented scale. As robots become more versatile, industries that have traditionally relied on human workers will undergo massive transformations, significantly reducing the need for human labor.

If an algorithm can perform a job better, it probably should. Tasks dependent on predictability are inherently fragile; disrupt that predictability, and the role collapses. Automation tests the boundaries of this system, revealing which jobs add genuine value and which are mere illusions of productivity.

This isn't an apocalyptic scenario but a call for urgency. Near-zero energy costs and AI-driven productivity gains can propel economic growth, enabling faster, more efficient production across industries.

Traditional business cycles may become obsolete as AI facilitates real-time innovation. Companies that fail to incorporate AI will struggle to keep pace as the speed of change outstrips conventional product development and marketing methods.

**A Post-Scarcity Technological Utopia**

 **Andrew Kang** ✓  
@Rewkang

As AI research continues to accelerate and development milestone timelines continue to be brought forward we move ever closer to jobmageddon

No matter where rates are - 3%, 0% or negative, there will be no fiscal or monetary policy based solution to prevent the fastest destruction of global employment in human history that is coming over the next 2 years

2 years is some time out but the AI impact on the labor market is already being felt and I expect the market to sniff this out much sooner. Just take a look at the tech sector, stock prices have full sent the past 2 years, yet the workforce has stagnated. Most developers have been using AI tools to increase their productivity by 20-400% and that will only increase with most developers soon becoming redundant. The impact on global wages will be more extreme than that of war or global pandemic.

AI driven job replacement will be one of the biggest macro events of not just the next year but of the entire history of markets. Eventually I hope this can be solved through UBI, but until then, prepare for a rocky road

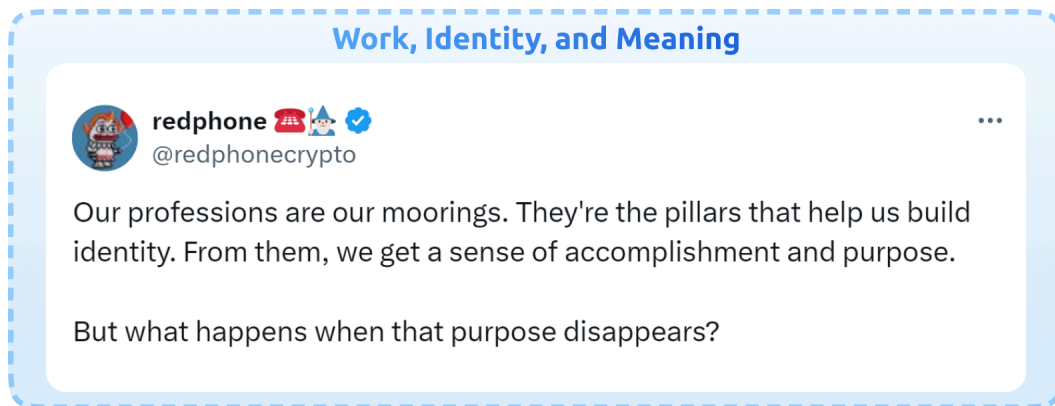
Source: [Andrew Kang \(X\)](#)

Humans aren't meant to function as machines; we're naturally anti-programmatic, with a tendency toward innovation, questioning, and resilience-building when free from excessive constraints. Like a muscle, autonomy atrophies with disuse.

If we play our cards right, the jobs of the future will emphasize uniquely human qualities—intuition, adaptability, ethics, and creativity. As automation clears out routine tasks, what remains will be work that engages with uncertainty and real-world stakes.

Markets could grow increasingly irrational. As AI begins to dominate financial markets, the speed and scale of AI-driven decisions could amplify volatility and unpredictability, challenging traditional principles of financial analysis and investment strategies.

AI's sheer processing power, devoid of human judgment or restraint, brings hyperspeed feedback loops that may amplify noise and short-term fluctuations. Markets once loosely tethered to fundamentals may become erratic, driven by algorithms optimizing for disparate—and often conflicting—objectives.



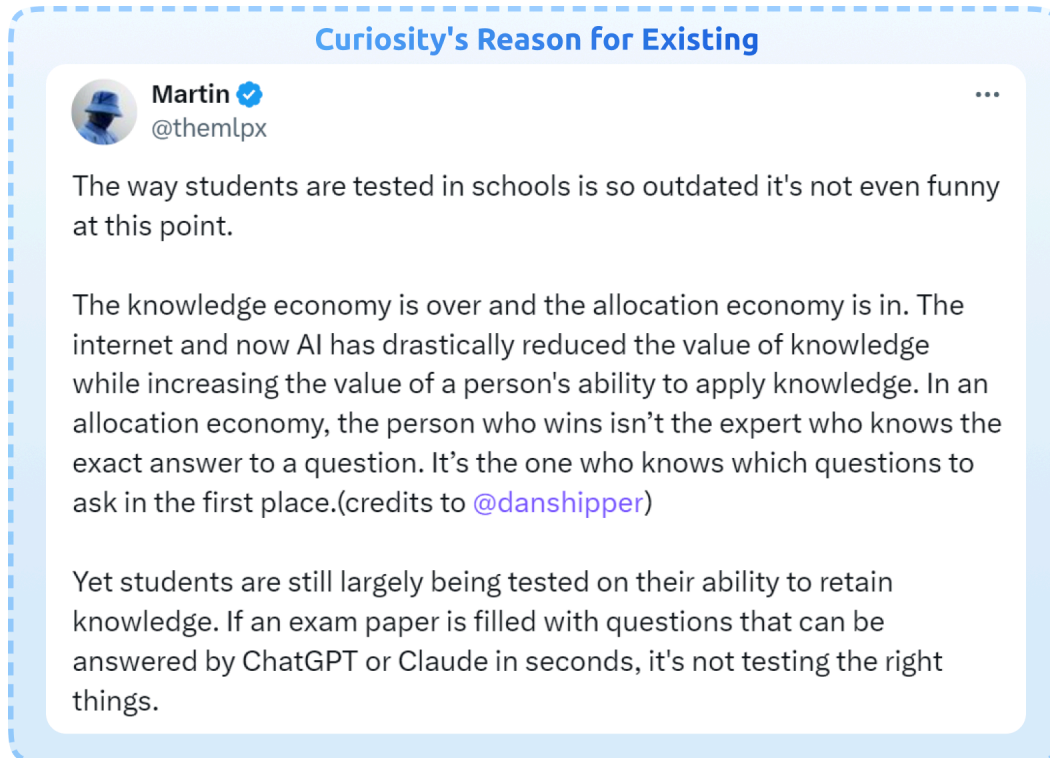
Source: [redphonecrypto \(X\)](#)

Classic finance theory, through the Efficient Market Hypothesis, assumes markets are generally rational due to the balance of information and incentives among diverse participants. But with AI driving decisions, markets shift from individual judgment to rapid, systematic responses to statistical trends. Ironically, while AI has the potential to reduce human error, it could also introduce a new kind of mechanized irrationality, driven by instantaneous reactions to misleading data.

As a result, capital allocation must evolve. Rapid technological disruption demands more flexible, agile forms of capital deployment. Traditional methods, like IPOs, may no longer be viable, leading to models that quickly adapt to changing market conditions, akin to the ICO boom of 2017 but on a larger scale.

That being said, human connections and social capital will become more valuable than ever. In a world increasingly dominated by AI, industries that rely on human interaction will retain their importance. Community value—whether economic, social, or

purpose-driven—will grow, providing belonging and purpose in an automated world. The complexity of human connection and social capital is something AI can't replicate, as it's built on intuition, empathy, unpredictability, and unquantifiable variables unique to human experience.



Source: [Martin \(X\)](#)

Leaning into our distinctly human capabilities makes us more resilient against the forces of automation and depersonalization. As more work and daily routines shift to machines, people will increasingly seek meaning and genuine connection. Communities will become havens of authenticity, where shared values and mutual reliance create a type of social capital that machines can't replicate.

This 'value of community' isn't just a sentimental notion; it's a form of capital built through shared experiences, reputation, and mutual trust. It's practical, real, and essential, especially in times of uncertainty.

## Curiosity's Quest for Conquering Fear



**Gurwinder** ✓  
@G\_S\_Bhogal



This is why AI art won't ever be as valuable as human art; people don't just buy a product, they also buy the story behind it.



**Ben Southwood** ✓ @bswud · Sep 4

Did you know that lab-made and lab-grown diamonds are now purer, more beautiful, and about three times cheaper than mined diamonds?  
[worksinprogress.co/issue/lab-grow...](https://worksinprogress.co/issue/lab-grow...)

### The widening price gap between mined and lab diamonds

1 carat diamonds, retail price in USD



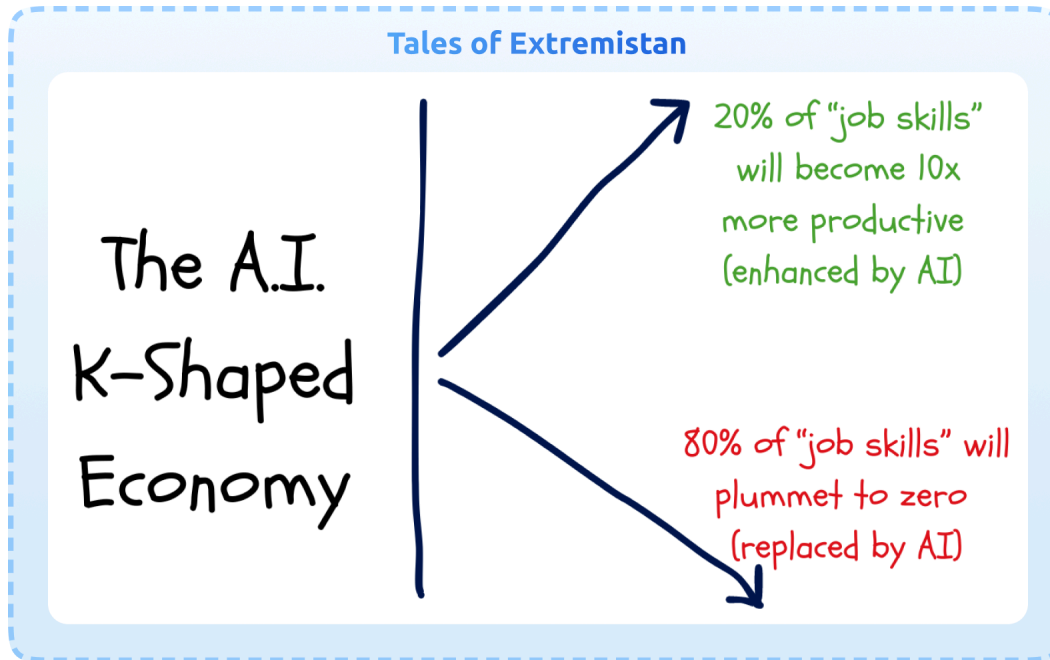
All diamonds are generic, round in shape, very slightly included in clarity, near-colorless, and very good to ideal cut.

Source: [Paul Zimnisky](#)

Source: [Gurwinder \(X\)](#)

The key takeaway before diving into more crypto-specific topics is that investing in these areas can help secure your financial future as these technologies become central to the new economy. Companies and individuals who integrate AI or leverage blockchain for transparency will succeed, while those resistant to change risk obsolescence.

In a fully connected world, technology is ubiquitous, but what differentiates products isn't just functionality—it's the alignment with cultural values. The convergence of technology and culture has elevated the importance of taste, whether in design, branding, or user experience.



Source: [5 Tweet Tuesday](#)

As companies like Apple, Tesla, and Airbnb demonstrate, success depends on creating not only useful products but also cultural icons. Founders must navigate a landscape where distribution and branding are as important as innovation.

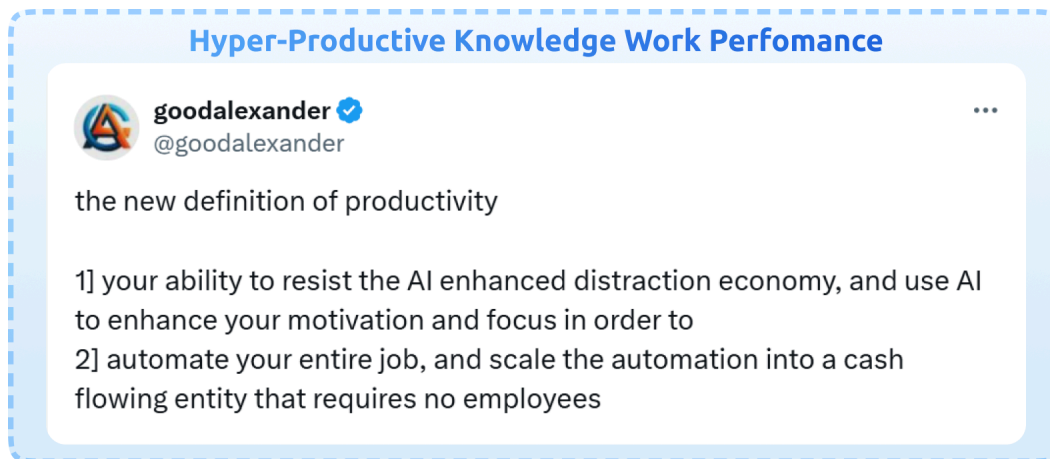
At its core, the whispers of ambition suggest that, while some thrive in this arena, others falter under the unpredictable hand of fortune. This is the essence of the hypersigil—a term popularized in the 1990s to describe a narrative or creative construct that bridges the external persona and one's internal self.

Far from being a mere symbolic representation, the hypersigil is a living, evolving narrative—both shaping and is shaped by its creator. In an age dominated by digital personas, hypersigils function as feedback loops, enabling individuals to embody and

project their desired identities. These structures, in turn, create pathways for transformation and self-liberation.

In the face of these transformations, we confront the reality of AI's emergence. For many, this is the age of AI predation: an agent capable of cognitive predation challenges existing power structures, forcing adaptation or extinction—cooperate or succumb to irrelevance. In the age of ubiquitous AI, we will experience the classic tension between the desire for freedom and the comfort of security, navigating trade-offs between stability and the risks of self-reliance.

In modern jobs that limit autonomy, people are often incentivized to prioritize appearance over effectiveness, "playing it safe" rather than adding genuine value. As automation eliminates many routine roles—especially those that are “programmatic” in nature—the roles that remain will require creativity, empathy, and judgment.



Source: [goodalexander \(X\)](#)

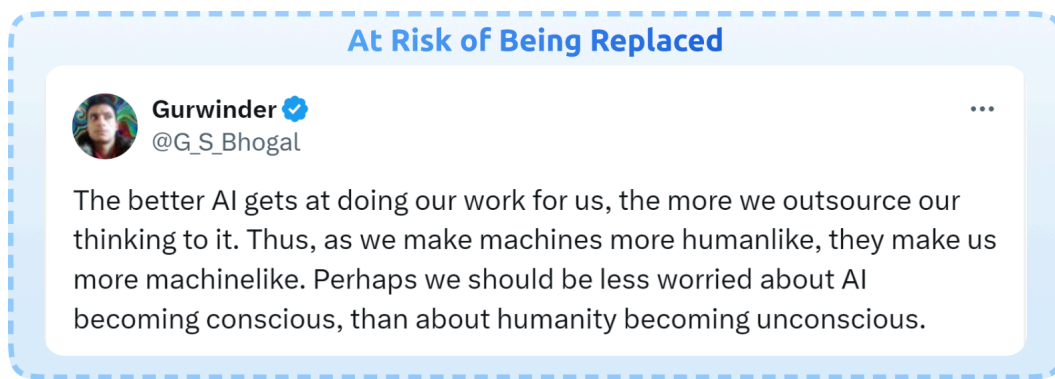
Yes, the transition may be brutal but, historically, when one form of work was replaced by technology, new kinds of work emerged, often more interesting and rewarding than the old. This time though, the emerging work might demand more than mere skill—it might require a shift in mindset toward self-reliance and independent problem-solving.

Bureaucracies grow to protect themselves and often perpetuate mediocrity, as real change is risky and destabilizing. But as automation accelerates, it may drive people into roles where autonomy and judgment are essential. These will be roles for the



"wolves", not the "dogs"—positions where effectiveness, not strict adherence to protocol, is the primary measure.

So, what happens if individuals choose the “dog’s” life—seeking security over independence? It’s a valid choice, and arguably, a necessary one for some. However, this choice often creates organizations filled with people who surrender autonomy for security, forming systems that value predictability over progress. While this may work for individuals, it leads to a society that struggles to adapt quickly or produce bold, innovative solutions.



Source: [Gurwinder \(X\)](#)

The good news is that, as automation frees up mental bandwidth by taking over routine work, society may trend toward smaller, leaner, and more flexible organizations. Those who can operate independently, focusing on outcomes rather than tasks, will thrive in a world that rewards adaptability. The others—the “dogs”—may still find secure roles, but these positions will be fewer, and their scope will shrink. Ultimately, resource allocation frames survival as the ultimate goal.

In the end, we’re better off cultivating a world of “wolves”—independent thinkers, creators, and risk-takers unafraid to operate without a leash. In a fully automated future, the real value of human work will lie in traits no algorithm can replace: the judgment to weigh competing values, the empathy to understand others, and the courage to act independently.

# Crypto's Cracks and Crests

## Section 7

# Crypto's Cracks and Crests

***Nothing important has ever been built without irrational exuberance.***

– Fred Wilson

Each year, we revisit the image below (on the next page) that illustrates the stages of a bubble—a reminder of crypto's cyclical nature. It goes through phases of quiet building ("we keep building"), gradual awareness ("we're back"), retail mania ("we're so back"), and euphoric peaks ("it is so over"). While this representation may not be perfect, real success in crypto lies in understanding the timing of these inflection points, recognizing shifts in narratives, and anticipating second-order effects.

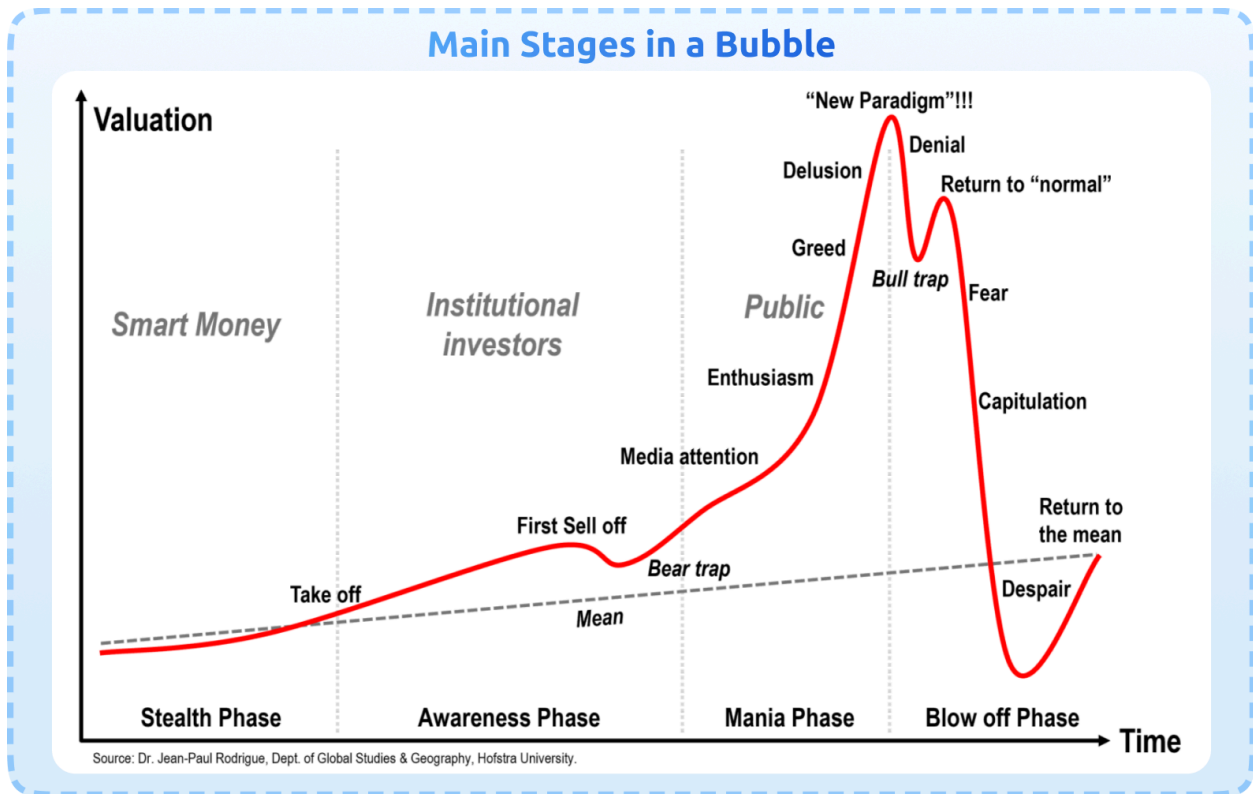
Crypto is a double-edged sword of innovation and illusion, with discoveries and dead ends, making investing in this space a pursuit of "gold" in a terrain of false peaks and hidden valleys.

We began the year at the start of a secular bull market and the early stages of a new cyclical up trend, which could amplify returns. Years like 2024 remind us that speculation often reveals deeper truths about human nature. Greed, in the pursuit of individual wealth, can scale into broader benefits, such as capital investments, job creation, and tax revenue.

However, this cycle differs from previous ones, influenced by factors like ETF inflows and a maturing crypto market. Modeling ETF inflows, however, is challenging, given the novelty of the event and the lack of precedent.

With AI dominating the headlines, it's essential to remember that most technological advances focus on efficiency. AI thrives on abundant data to streamline processes and increase productivity. In contrast, decentralized systems revolve around scarcity.

While they may be slower and less scalable, crypto revolves around digital scarcity and the creation of trustless systems. Only through social consensus can we build a monetary system resistant to debasement by centralized authorities, and only through cryptography can we establish self-protecting property rights in the digital age.



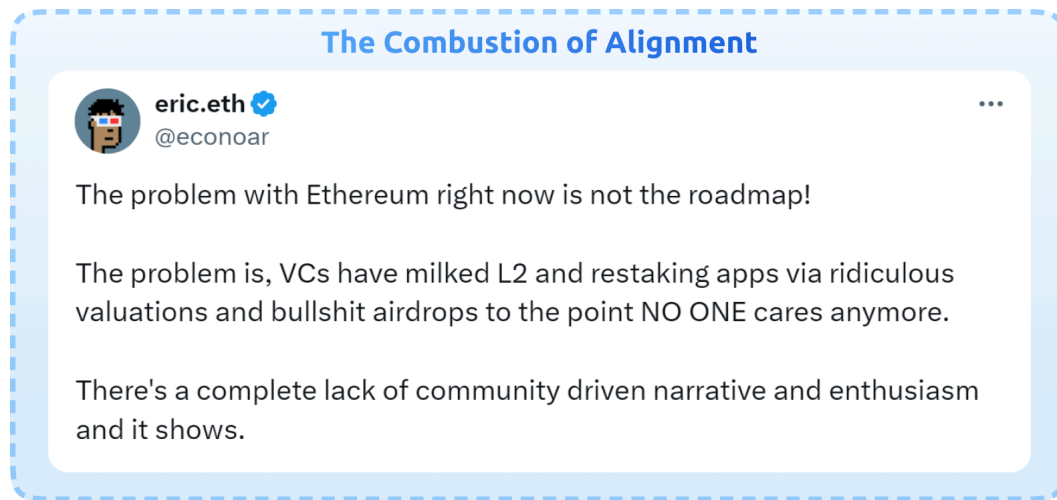
Source: [Main Stages in a Bubble](#)

This market cycle has also highlighted the rise of "narrative rotations", where fundamentals often take a back seat to speculative trends. Although blockchain's intrinsic value lies in its neutrality, its necessity in modern society is still debated, as centralized systems continue to handle most digital interactions effectively.

As the market matures, focus has shifted toward identifying the next viable developments and strategies for acquiring and retaining users. The role of tokens is also being re-evaluated.

Chasing narratives can be profitable, but timing is critical. Relying on momentum alone can result in buying at inflated prices. Additionally, context matters; sometimes,

everyone who wants an asset has already bought in, making it difficult to attract the next wave of buyers.



Source: [eric.eth \(X\)](#)

For instance, Bitcoin dominance recently reached new highs, likely due to the introduction of spot ETFs and an oversupply of altcoins, rather than its role as an alternative or speculative store of value. This trend isn't necessarily driven by doomsday theories of global collapse, but it's a reminder that much of crypto's value comes from holding and speculation, rather than cash flow or productive use of capital.

Speculation still plays a central role in this industry, with many tokens reaching high valuations despite limited product-market fit. Tokens are, after all, the fastest route to going public. This speculative premium has led to billion-dollar valuations, even when practical utility remains uncertain—a factor that explains the lasting demand for tokens like \$XRP and \$ADA.



Source: [Jason Choi \(X\)](#)

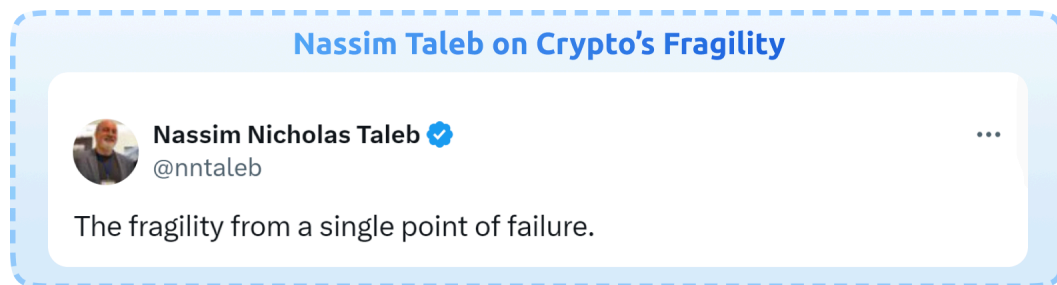
Currently, over 50 tokens boast valuations exceeding \$1 billion despite having minimal product-market fit, and unlike traditional companies, they won't ever file for bankruptcy. Most blockchains don't simply vanish as shutting down the last validator becomes nearly impossible once a certain level of decentralization is reached. Meanwhile, many tokens valued in the hundreds of millions offer limited potential for productive use cases.

This trend is likely to continue, with startups frequently raising capital at unrealistic valuations, often based on a "finger-in-the-air" estimation. Historically, cycles often involve speculative bets on new projects, followed by a return to assets seen as stores of value.

That said, we are still far from a demand ceiling, and 2024 has shown glimpses of what's possible now that the infrastructure is stronger. However, security remains a pressing issue. Despite crypto's growth over the last seven years, large-scale hacks,

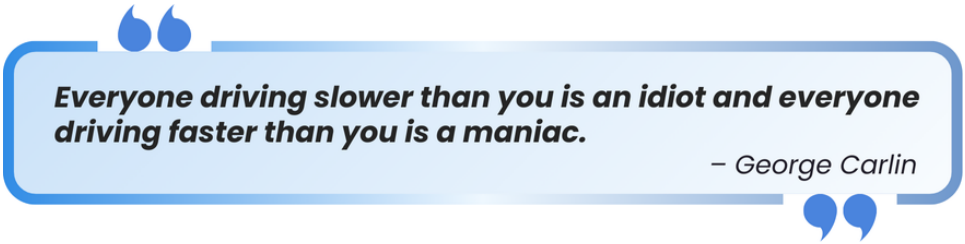
economic attacks, freezing of platforms, and other incidents continue almost on a weekly basis.

While some of these attacks have been managed effectively and losses sometimes recovered post-exploit, gathering a team in a "war room" to take reactive measures—like pausing contracts from a multisig wallet—is not an efficient or scalable path to mass adoption or replacing traditional financial systems.



Source: [Nassim Nicholas Taleb \(X\)](#)

## Narratives, Timing, Risk, and How to Fill the Gaps



***Everyone driving slower than you is an idiot and everyone driving faster than you is a maniac.***

– George Carlin

Navigating the transition from a bear market to a bull market in crypto requires a shift in both strategy and mindset—cycles often appear obvious only in hindsight. This year, the noise-to-signal ratio has been notably high, fueled by adversarial pricing and intense competition across all domains, from memecoin trading to VC investments.

Risk perception evolves as narratives adapt to new insights and circumstances. These narratives heavily influence decision-making on individual and collective levels, shaping behaviors, investments, and strategies. However, narratives can often be flawed or misleading. While the wisdom of the crowd is powerful, it's not always accurate. Biases, misinformation, and herd mentality can distort risk perceptions, leading to irrational behavior or systemic vulnerabilities.

Maintaining a critical mindset and continuously reassessing narratives is essential in navigating crypto markets, as it is often price action that drives narratives—not the other way around. To avoid becoming exit liquidity, it's crucial to seek diverse perspectives, challenge assumptions, and stay informed with objective facts.

While uncertainty can never be fully eliminated, embracing our imperfect understanding of the future cultivates adaptability and helps in recognizing information asymmetry that dominates these markets.

Optimism tends to prevail over pessimism during market cycles because human nature leans toward hopefulness. Although strong narratives can initially attract attention and investment, the sustainability of a project ultimately relies on its technological capabilities and the ability to deliver tangible results. Projects with innovative,



well-executed technology are more likely to withstand market volatility, regulatory challenges, and competition over the long term.

However, sentiment and perception often influence token value more than underlying technology. Focusing on network effects and potential adoption enables investors to craft and spread compelling narratives. Identifying projects with exponential growth potential can yield substantial returns—if the narrative gains traction, as price often shapes perception.



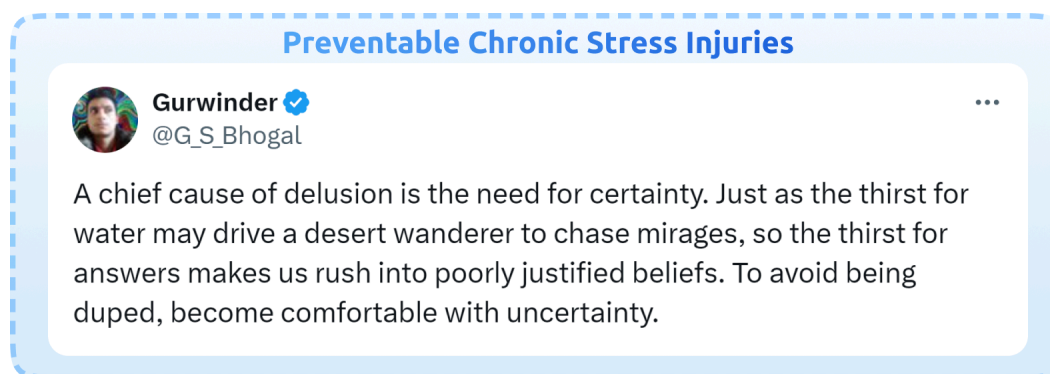
Source: [CrazyNoodlesPH \(X\)](#)

Consider venture capital (VC) investing as an example. In early-stage investments, when a trend shifts from "never" to "maybe" happening, expectations are modest, and small successes are seen as significant. As a trend progresses to "definitely" happening, the emphasis shifts toward delivering substantial, tangible results and innovation to meet heightened expectations.

On the liquid side, during a bull market, it's crucial to let winning trades run, adjusting take-profit zones to capture greater gains as the market favors upward momentum. Resist the urge to chase pumps by jumping from one coin to another, as over-rotating can lead to missed opportunities and losses. Patience is key, but moving too slowly leaves you holding the bag.

As the saying goes, "easy come, easy go". Risk management should be prioritized to survive market fluctuations. Being over-leveraged and following the crowd is a losing strategy, as it leaves you vulnerable to exits you can't control. The same applies to "chasing beta". Riding a winning sector or narrative can be profitable—until the momentum fades.

Instead of spreading investments thin, concentrating on assets with strong conviction and sizing appropriately can maximize returns. Expected value, after all, is about probability times payoff. For instance, you may think the market will continue rising but keep a net-short position if the potential payoff is more attractive, capitalizing on convexity and capturing asymmetric returns.



Source: [Gurwinder \(X\)](#)

As we move into 2025, it's essential to have clear criteria for identifying potential market tops and be prepared to adjust positions accordingly. Rather than relying on fixed price targets, it may be more effective to evaluate the progress of your investment thesis and adapt. Arbitrage in narrative mispricing involves capitalizing on differences in judgment regarding specific narratives or beliefs. Over time, these gaps narrow as "smart capital" rotates through sub-narratives, seeking exits.

As conditions evolve, narratives will inevitably be rebranded—old ideas repackaged in new ways, like projects that didn't gain traction initially but later incorporate elements like "AI" to attract attention. Identifying investable narratives requires discernment, as not all popular narratives align with promising verticals. Chasing narratives without

examining underlying products can lead to investing in areas that lack real potential—and not all narratives are truly investable.

## A Glimpse Into the Glitches



***Any player unaware of the fool in the market is probably the fool in the market.***

– Warren Buffet

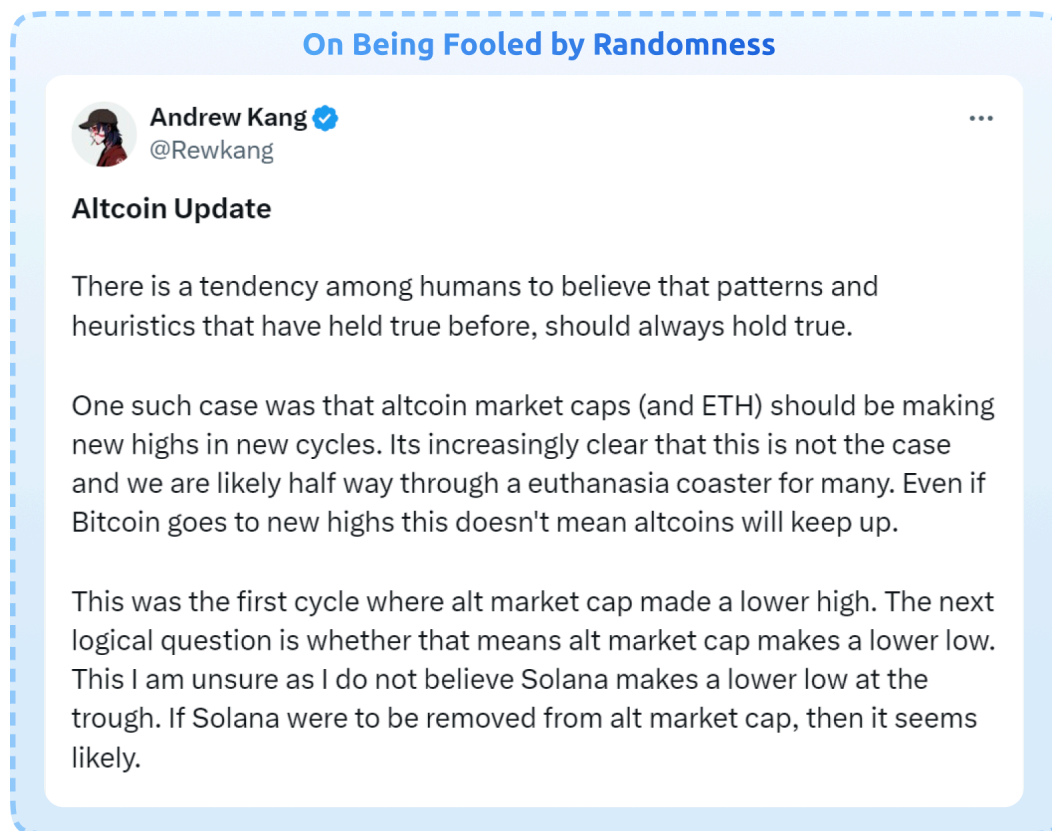
Understand that nobody truly knows what they're doing—everyone is navigating uncertainty. As traders and investors, it's practical to seize opportunities when markets show signs of manipulation or imbalances. Such conditions create "glitches", often leading to bubbles and crashes.

Just as in poker, understanding your counterparty is crucial. Trading in an entirely non-rigged market would lack the advantage of counterparty dynamics. High-strength counterparts like nation-states and large asset managers differ significantly from retail investors, so it's essential to reassess assets frequently, adjusting positions based on correlation and deviations from the broader market. Continually assign probabilities, weighing risk against reward.

Managing crypto positions hinges on the interplay of supply, demand, and investor behavior—where reflexivity often distorts market equilibrium. Reflexivity means that economic fundamentals and perceptions reinforce each other, leading to price trends that deviate from fair value. New tokens, for example, often enter the market at multi-billion-dollar valuations with limited liquidity, impacting expectations and valuations disproportionately.

This dynamic reflects our desire to explain market phenomena that are often only clear in hindsight. Instead of markets naturally seeking equilibrium, reflexivity suggests a feedback loop: price changes shape investor expectations, which then drive further price movements.

Token launches and their impact on the market illustrate this concept well. Initial hype around new tokens can drive prices higher, but as tokens unlock and supply increases, downward pressure often follows—especially if demand doesn't keep pace. This imbalance between supply and demand can lead to prolonged bearish sentiment and market downturns.



Source: [Andrew Kang \(X\)](#)

Tokens with high FDVs are particularly challenging, as gradual unlocking can create persistent sell pressure, limiting price appreciation. Additionally, as more projects launch—particularly in favorable macro conditions—distinguishing quality projects from speculative ones becomes harder. Hedge against your own biases and remember that market momentum can change rapidly.

## Heads You Win; Tails You Cry 'Black Swan!'



**Crypto Koryo** ✓  
@CryptoKoryo



We are stuck in a bubble. What is the way out?

Crypto VCs extract value. The first question they like to ask is not what is the vision of the project and its business model but if it has a token and what are the vesting terms.

We need more Warren Buffet style of investors with a “sit on your as\*\*” strategy that hold their investments for at least a decade instead of one year. Like he did with Coca Cola, American Express and the Washington Post.

But this is a chicken and egg problem.

For this to happen, we need founders with a vision, grit and motivation that are not just looking to launch and cash out millions after one year. The problem is that in crypto founders get too rich too quick with a high hit rate.

Study pump. fun. How is it helping the space? Traders lose money. There is no value for the industry. It killed the memecoin narrative.

Only the team is benefitting from it.

It's not about decentralized finance. Fuck that. It's about hyper-finance. About get rich quick schemes. Founders seek it, and so do VCs, angels, and traders.

What is the consequence?

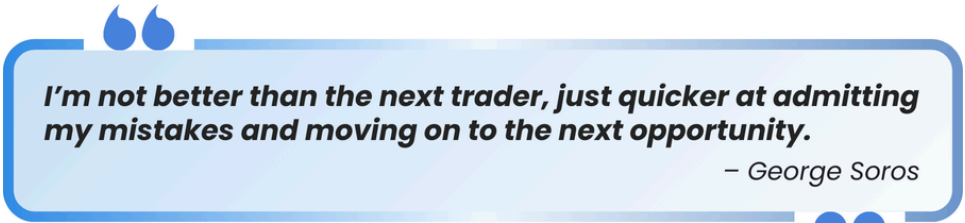
More of the same model.

Sun. Fun, Moonshot, dump. fun. Then on Binance, and on every possible blockchain. Call it innovation. That's our industry.

Why make any effort of making the world a better place when you can easily gamble on-chain and become rich?

Source: [Crypto Koryo \(X\)](#)

## Understanding the Meta-game



***I'm not better than the next trader, just quicker at admitting my mistakes and moving on to the next opportunity.***

– George Soros

In crypto, the market evolves as new narratives emerge and take center stage, influencing behavior and shifting the sentiment of participants. This evolving "meta-game" underlies price action. Some view it as a game of musical chairs with rotating narratives; others see it as a cycle of pseudo-innovation without real-world problem-solving.

Regardless of perspective, understanding the meta-game is essential for surviving across cycles. Analyzing these underlying mechanisms can give us an edge in identifying behavioral shifts, which is crucial for consistently extracting positive expected value (+EV) from the market over time.

The process begins with identifying a potential narrative likely to capture sentiment and draw attention away from others. Next, observing market reactions to catalysts is key, as these often act as self-reinforcing mechanisms but can eventually cause a narrative to fade. When trends are uncertain, it's important to consider their potential duration. For instance, is the memecoin season truly over, are they here to stay, or is "AI x crypto" under-hyped?

Finally, evaluate whether the narrative is self-reinforcing or self-defeating, gathering data to validate these assumptions. Quantifiable metrics and overall market strength can guide exit strategies, while intuition and discretion also play key roles.

These reflexive loops are constantly unfolding in real time. Take points systems as an example: participants notice a protocol running a points program, so they start using it to farm points, which then attracts more participants. Competing protocols, observing boosts in metrics like TVL and active users, may launch their own points programs.

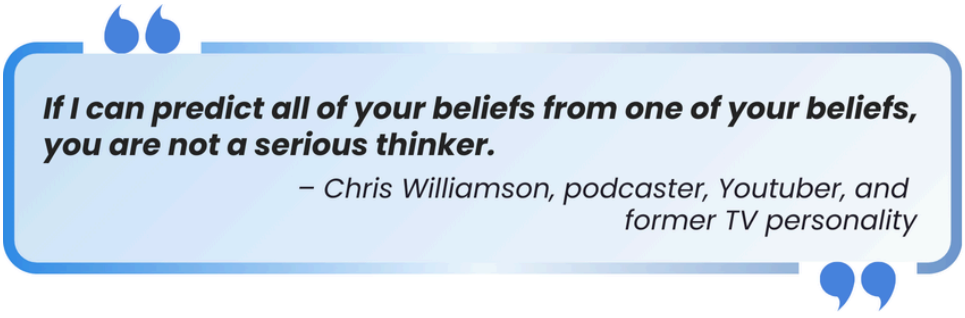
This creates a "prisoner's dilemma" where everyone offers points programs with diminishing returns, yet opting out places them at a disadvantage.



Source: [Stephen | Defi Dojo \(X\)](#)



## Attention Markets



***If I can predict all of your beliefs from one of your beliefs, you are not a serious thinker.***

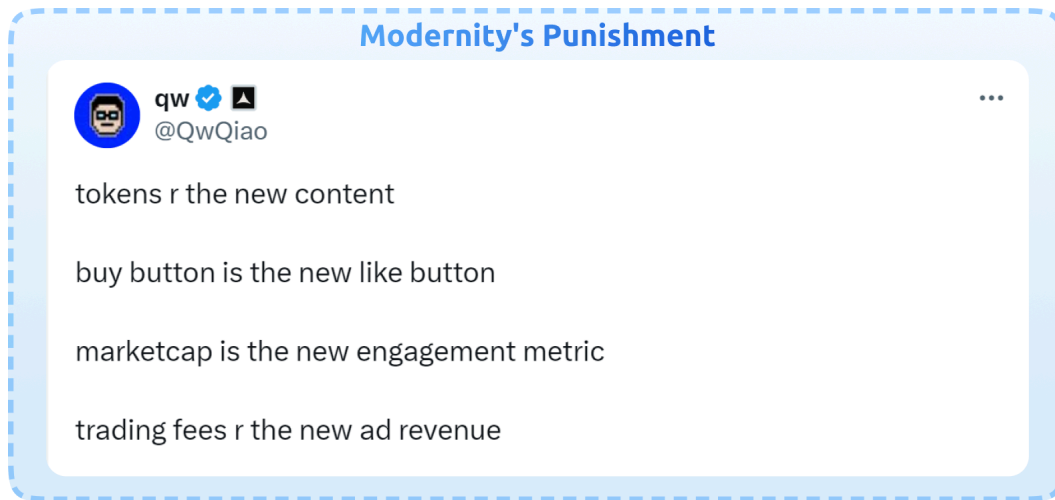
*– Chris Williamson, podcaster, Youtuber, and former TV personality*

Whether “price drives the narrative” or “narrative drives price” matters less than the value of attention and its connection to “money”. Crypto trades heavily on narratives, with attention, not traditional metrics like risk premiums or cash flows, shaping asset prices. In this environment, attention is the scarcest resource.

The internet and the speed of information flow across social media facilitate this bi-directional exchange of information, creating a marketplace where money and attention are deeply intertwined. Similar to how the consumer internet values attention, crypto has developed a marketplace driven by the attention communities invest in specific assets.

Historically, investment theses were anchored on quarterly reports and financial statements, but today’s market shows how the internet has democratized access to information, accelerating market interactions and making them more frequent and granular.

In 2019, Willy Woo distinguished between two types of altcoins: oscillators and degenerators. Most tokens are degenerators, with price charts showing a measurable half-life, often seen in low-float, high-FDV tokens that rarely survive beyond three years without continuous VC funding and appreciation. Oscillators, however, tend to move sideways when plotted against Bitcoin, maintaining pace with \$BTC gains over time. Notably, Dogecoin (\$DOGE) is an oscillator—listed on major exchanges, with a liquid market and significant network effects.



Source: [QwQiao \(X\)](#)

This distinction between oscillators and degenerators underscores the importance of longevity and network effects. While degenerators fade, relying on short-lived hype and speculative inflows, oscillators show resilience through sustained attention and community support, converting attention into lasting value.

## Rational Self-Interest and the Innovation Gap

***Which way is the market trying to go? Is it doing a good job in its attempt to go that way?***

*– Mind Over Markets, Dalton*

Crypto, as it currently operates, seems to obstruct the development of truly infinite, positive-sum games. It entices participants with promises and hope, ultimately consuming their full attention—a potential escape that often becomes a difficult-to-escape trap.

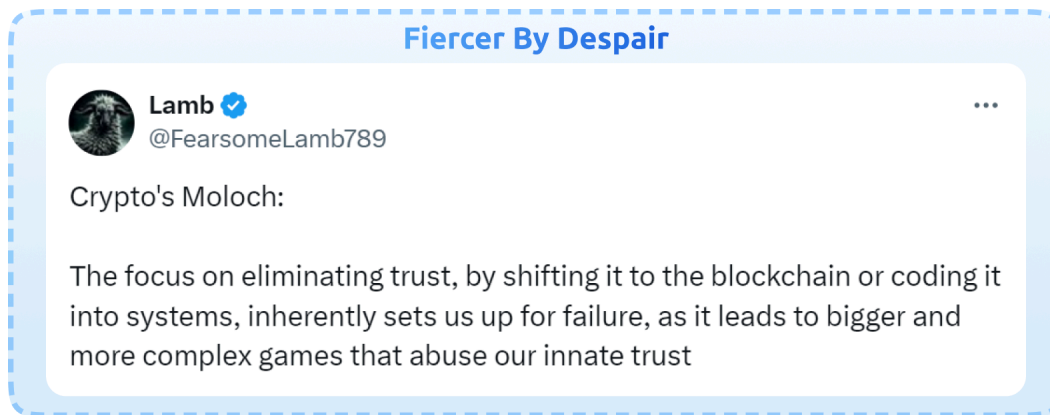
The prevailing strategy in this meta-game often centers on deception—alliances form only to be broken, with betrayal becoming the most direct path to victory. This creates a Moloch trap, where even the most ideologically driven participants sacrifice long-term ideals for short-term gains. Instead of collaboration, the game's structure rewards betrayal and individual self-interest, undermining the vision of freedom and sovereignty.

What began with Bitcoin's incentive system, encouraging participants to follow rules for mutual benefit, has morphed into a game where non-collaboration and self-interest dominate. Deception now frequently unfolds through insider deals, over-the-counter (OTC) transactions, and shadowy alliances, becoming the preferred strategies for short-term profits.

With increasing liquidity and new tokens flooding the market, promises multiply and greed prevails, creating a fast-paced, high-stakes environment where a small minority of sharp players accumulate wealth through deception.

Though blockchain's decentralized, permissionless nature once seemed ideal for radical experimentation, the reality has played out differently. Much of crypto's action now happens off-chain, where capital formation is controlled by centralized entities—venture capitalists, private investors, and large funds. These centralized

players decide which projects receive funding, creating an entrenched system that mirrors traditional finance.



Source: [Lamb \(X\)](#)

Regulation has only widened the gap between ideas and execution. Compliance costs, legal fees, and audits create high barriers to entry. Even the best ideas struggle to secure funding without navigating a system shaped by deception, centralization, and concentrated power.

This creates a self-reinforcing loop of rational self-interest. Once burned by the system, participants learn to play the game more ruthlessly. What began as high-level economic policy has permeated everyday behaviors, shaping interactions within the space.

The most dangerous trap is believing that crypto, in its current form, can make the world a better place. Tokens, as they currently function, often amplify the negative effects of this adversarial model, creating broken incentives that ultimately harm retail participants. We are still far from reaching a point of equilibrium where large-scale coordination happens naturally through incentives alone.

Whether due to incompetence, skepticism about the technology's viability, or a failure to learn from past mistakes, the industry lacks clear direction. Even when solutions emerge, attention often focuses on the details rather than the bigger picture—an expansive blockchain ecosystem still in need of users.

### Probability is not a Mere Computation of Odds



**Santiago R Santos** | #9159 ✓

@santiagoroel



The more you learn about crypto you appreciate FUD is rarely FUD and more mere incompetence from those spreading it. The things worth exploring, debating and fixing are the ones less discussed publicly and more behind closed doors by only a few. Many are too afraid or shy to engage with the mob

Source: [santiagoroel \(X\)](#)

Crypto, as it stands, traps us in an endless cycle of game-playing, where the goal shifts from creating value to winning at someone else's expense. The core issue lies in the space itself, which incentivizes designing and engaging in competitive structures. Even attempts to introduce new systems, like DAOs or decentralized identities, end up creating more game-like dynamics. The solution isn't technical—it's anthropological.

Humans are not only natural game players; we are social beings who cooperate based on trust. Trust forms the foundation of meaningful cooperation and the creation of shared value. Crypto's focus on eliminating trust by shifting it to the blockchain or coding it into systems inherently distances us from genuine cooperation.

Trust cannot be digitized or gamified—it is a fundamental human trait that cannot be replicated by technology. Ironically, the more we try to encode trust into technical systems, the further we drift from real, trust-based interaction. Restoring trust is essential; without it, we remain trapped in a cycle of distrust and competition that fails to create true value.

# The Tokenization of Everything

## Section 8

# The Tokenization of Everything

***The biggest risk is not taking any risk. In a world that is changing really quickly, the only strategy that is guaranteed to fail is not taking any risks.***

– Mark Zuckerberg

In 2024, Larry Fink was vocal about the tokenization of assets—a concept that crypto natives have championed for over a decade. Today, the discussion has become more nuanced: will traditional financial institutions tokenize assets on public blockchains like Ethereum, or use permissioned chains managed by bank consortiums?

Tokenization represents an evolution from securitization, encoding off-chain asset metadata into digital tokens, which increases asset liquidity, reduces distribution costs, and shortens settlement times.

However, for this narrative to fully materialize, many financial executives may need a deeper, firsthand understanding of crypto. Those who haven't self-custodied crypto assets, for example, may lack the insight needed to make well-informed decisions about tokenization.

Rather than expecting 2025 to be the year that the “tokenize everything” narrative fully takes off, we urge financial professionals to seize blockchain and tokenization opportunities now. For the financial industry, this shift could mirror the transformative impacts of historical figures like Vanderbilt, Carnegie, and Rockefeller.

While some established and emerging players—such as Coinbase, Circle, BlackRock, and Fidelity—are well-positioned to dominate the next century of finance, others risk obsolescence. Those who resist adaptation may find that their reluctance to embrace change becomes their greatest liability.

## The Tokenization of Everything



**Sergey Nazarov** ✓  
@SergeyNazarov



I personally believe that the RWA industry's size can eventually surpass the cryptocurrency market as a whole. If you count stablecoins, gold coins and all commodity coins as RWAs, you already see a lot of the potential for how RWAs can continue to put even more value on-chain.

Chainlink's technology is very well positioned and very widely used across the RWA space, something that I think will make it even more of a global standard.

RWAs are also where a lot of the initial interaction between TradFi and DeFi will start happening.



**CoinDesk** ✓ @CoinDesk · Sep 6

Vitalik Buterin is right: DeFi today is a circular speculative economy. The bigger opportunity lies in bringing traditional capital markets on-chain, so that crypto reaches the mainstream, says @ChainLinkGod @Chainlink.

Opinion. ...

[Show more](#)

Source: [Sergey Nazarov \(X\)](#)

We don't believe that tokenization alone will drive the shift from private to public blockchains. Instead, message-passing and interoperability protocols are likely to drive the transition from private to public chains. While oracles, bridges, and message-passing frameworks don't provide a direct tokenization solution, their underlying infrastructure addresses essential needs such as standardization, flexibility, and communication—serving, in effect, as the TCP/IP for blockchain networks.



# \$BTC's Hedges and Levers

## Section 9

## \$BTC's Hedges and Levers

***There is no such thing as being right or beating the market. If you make money, it is because you understood the same thing as the market did.***

– Musawer Mansoor Jiaz

Entering 2024, two major events loomed on the horizon: the approval of a \$BTC spot ETF and the first \$BTC halving within a high-interest-rate environment. Bitcoin continues to serve a dual purpose: acting both as a hedge against traditional financial systems reliant on fiat currencies and central banks, and as a bet on a decentralized financial system powered by energy and mathematics.

The narrative surrounding \$BTC has evolved beyond its role as a store of value, establishing it as an asset class of its own. While 2020-2021 highlighted Bitcoin's potential to compete with gold, it has now emerged as a leveraged, digital version of gold, further legitimized by improved investor access through spot ETFs.

With billions in daily trading volume, Bitcoin has become a major player on Wall Street, even if its price growth is sometimes overshadowed by fleeting excitement around altcoins. This hasn't gone unnoticed, and as institutional investors explore Ethereum ETFs, they may seek broader exposure to crypto assets.

Bitcoin's narrative as a store of value remains especially compelling in a period of declining trust in traditional financial systems. This comparison to gold not only validates Bitcoin for traditional investors but also underscores its potential to capture a significant market share currently dominated by physical commodities. As the world digitalizes, Bitcoin's position as the digital successor to gold could drive its adoption and market cap closer to, or even beyond, that of physical gold.

## Searching for Meaning in The Roots

***First you need normal, basic P2P currency working. Once that is established and proven out, dynamic smart money is an easy next step.***

– Satoshi Nakamoto

The invention of Bitcoin marked a pivotal moment in monetary history, addressing challenges that have plagued both digital and physical money systems for centuries. While societies have long used various forms of physical and electronic money, Bitcoin introduces a revolutionary shift by enabling a decentralized, censorship-resistant monetary system that operates without the need for trusted intermediaries or gatekeepers.

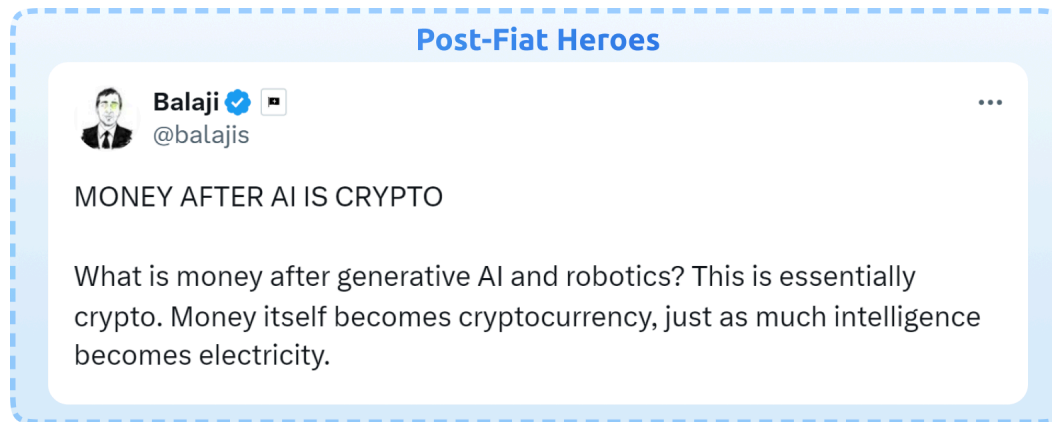
Historically, control over money has always been concentrated among elites—those who could produce, regulate, or manipulate money, from ancient commodity producers to modern central banks.

Traditionally, these elites wielded significant power over monetary systems, often manipulating them to serve their own interests at the expense of broader society. Whether emperors, monarchs, or central banks controlling fiat currencies, centralized money systems have always posed risks of corruption, inefficiency, and censorship.

Unlike these systems, which relied on centralized authorities vulnerable to manipulation, Bitcoin offers a censorship-resistant, decentralized alternative, where anyone who meets the technical requirements can participate in maintaining the monetary system without relying on a central authority.

Bitcoin's consensus mechanism, combining proof-of-work with a peer-to-peer network, resolves the Byzantine Generals Problem, enabling decentralized agreement on the state of the blockchain, even in the presence of malicious actors. Additionally, Bitcoin addresses the Double-Spending Problem by making blockchain alterations

prohibitively costly, ensuring that once a transaction is recorded, it cannot be duplicated or reversed.



Source: [Balaji \(X\)](#)

However, Bitcoin's creator, Satoshi Nakamoto, envisioned Bitcoin not as the ultimate solution but as a foundation for more complex, dynamic financial systems. In early communications, Satoshi hinted at the idea of "dynamic smart money"—programmable currencies capable of adjusting their supply to meet specific economic needs. Such a system could enable a self-organizing, elastic monetary structure, adaptable to diverse economic conditions, while preserving the decentralized, trustless principles foundational to Bitcoin.

Satoshi designed Bitcoin with a fixed supply and predictable issuance schedule, incentivizing early adoption and accumulation. This scarcity helped bootstrap demand, creating a feedback loop that attracted more users as value grew. However, Bitcoin's design positions it as a digital commodity, more akin to gold than traditional currency. Its scarcity and incentives to hold rather than spend make it less practical as a medium of exchange for everyday transactions.

While Bitcoin may not serve as a flexible medium of exchange, it remains a robust store of value and provides the foundation for future programmable currencies. As "dynamic smart money", these currencies could stabilize purchasing power within communities by adjusting supply based on economic needs, all while retaining the

decentralized, trustless nature central to Bitcoin's design. It's worth keeping this vision in mind as digital finance continues to evolve.

### It's About the Path, Not the Destination

Date: Fri, 13 Feb 2009 02:31:20 +0000  
From: Satoshi Nakamoto <satoshin@gmx.com>  
To: p2presearch@listcultures.org  
Subject: Re: [p2p-research] Bitcoin open source implementation of P2P

Martien van Steenberg wrote:

- > Would love to also see support for not having to supply and
- > managing money. Would make it easier and cheaper to maintain
- > and results in have sufficient money, always and everywhere.
- > No scarcity, no abundance, exactly the right amount all times,
- > self-organizing.

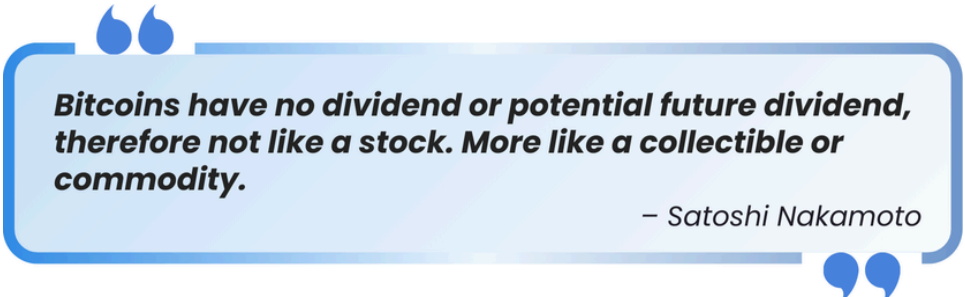
That's do-able. It can be programmed to follow any set of rules.

I see Bitcoin as a foundation and first step if you want to implement programmable P2P social currencies like Marc's ideas and others discussed here. First you need normal, basic P2P currency working. Once that is established and proven out, dynamic smart money is an easy next step.

I love the idea of virtual, non-geographic communities experimenting with new economic paradigms.

Source: [XolosRamirez | Reddit](#)

## Memecoin or Digital Gold



***Bitcoins have no dividend or potential future dividend, therefore not like a stock. More like a collectible or commodity.***

– Satoshi Nakamoto

Crypto enthusiasts increasingly recognize that, like memecoins, Bitcoin is largely driven by narrative, while non-crypto investors are becoming more open to its status as “digital gold”. Gold itself can be seen as a meme—a concept deeply embedded in human consciousness over millennia.

Historically, figures like JPMorgan claimed, “Gold is money. Everything else is credit”, while Ludwig von Mises' "regression theorem" suggested that gold's value as money arose from its utility as a commodity. Bitcoin, however, challenges these views, demonstrating that money doesn't necessarily need inherent utility—it can simply be money.

Gold earns its monetary premium by preserving value over centuries, serving as a stable store of wealth. Bitcoin, however, offers something different. Investors don't merely expect Bitcoin to maintain purchasing power—they anticipate significant gains over a shorter time frame.

While gold's appeal is its reliability, Bitcoin's lies in its potential for growth, with people buying it not just to protect wealth, but to increase it. This distinction—monetary versus speculative premium—may seem subtle but reveals a fundamental difference in expectations. Bitcoin isn't just about safeguarding wealth; it's about growing it.

## A Fabric for Mass Token Production

You work in an Industry that is Speculation-first,  
Tech-second.

Uniswap = Speculation  
Pump Fun = Speculation  
Polymarket = Speculation  
Fantasy Top = Speculation  
Jupiter = Speculation  
Phantom = Speculation  
DYDX, GMX = Speculation  
Hyperliquid = Speculation  
Rollbit = Speculation  
Shuffle = Speculation  
Blur = Speculation  
Tensor = Speculation  
Solana = mostly Speculation  
Bridges = move tokens to Speculate on another chain  
Large parts of DeFi = Leverage for Extra Speculation

The vast majority of Crypto dApps  
that have found Product-Market Fit  
are directly related to, or dependent  
on Speculation.

Source: [Murad Mahmudov - The Memecoin Supercycle, TOKEN2049](#)

## From Gold Seizure to Bitcoin ETFs

***The narrative is the story the market tells itself to explain movements in price.***

*– Brent Donnelly, Author of am/FX and Alpha Trader*

One day after the SEC investigated a fake post on its X account, the 11 Bitcoin ETF applications were officially approved, with the \$BTC spot ETF starting to trade 24 hours later. This approval marks a milestone for several reasons.

First, it brings Bitcoin into the mainstream financial world, making it more accessible to traditional investors. Second, it provides a regulated and secure way to invest in Bitcoin, addressing concerns people may have had about crypto. Finally, it offers an opportunity for diversification, as Bitcoin often behaves differently than traditional assets like stocks and bonds.

The approval of Bitcoin spot ETFs signifies Bitcoin's formal recognition within the legacy financial system, gaining legitimacy with institutional investors and regulators. Bitcoin ETFs represent a crucial building block, bridging the traditional financial system with the world of crypto. They provide an entry point for those who wish to benefit from the potential growth of digital currencies while still operating within the oversight and regulations of traditional finance.

The implications of Bitcoin spot ETF approvals extend beyond metrics like trading volume. In 1933, Executive Order 6102 led the U.S. government to seize privately held gold, marking a critical shift from a gold-backed to a fiat-based monetary system.



## The 1933 Gold Seizure

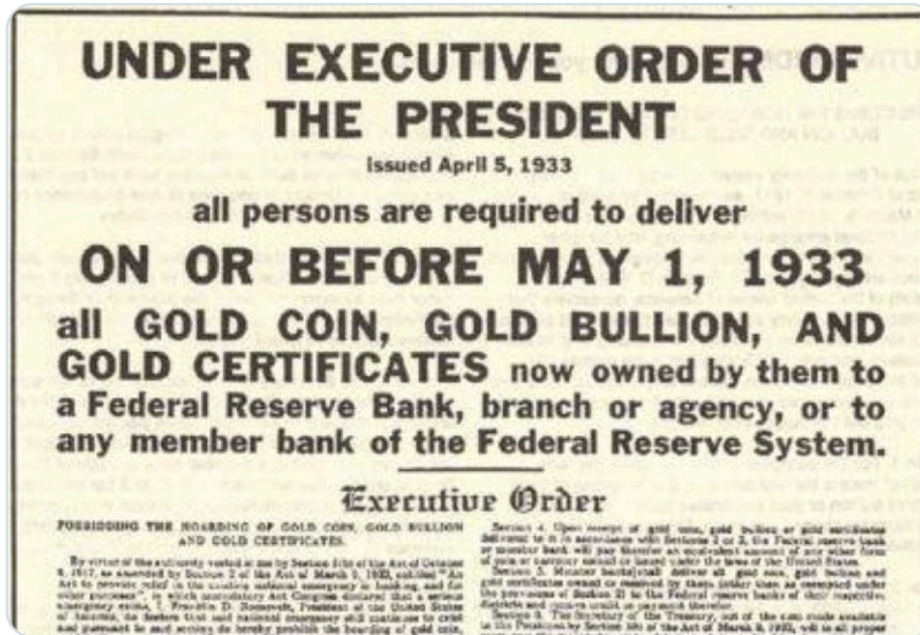


Dan Held    
@danheld

The US banned gold ownership today in 1933 through Executive Order 6102.

Seize your freedom.

Buy Bitcoin.



Source: [Dan Held \(X\)](#)

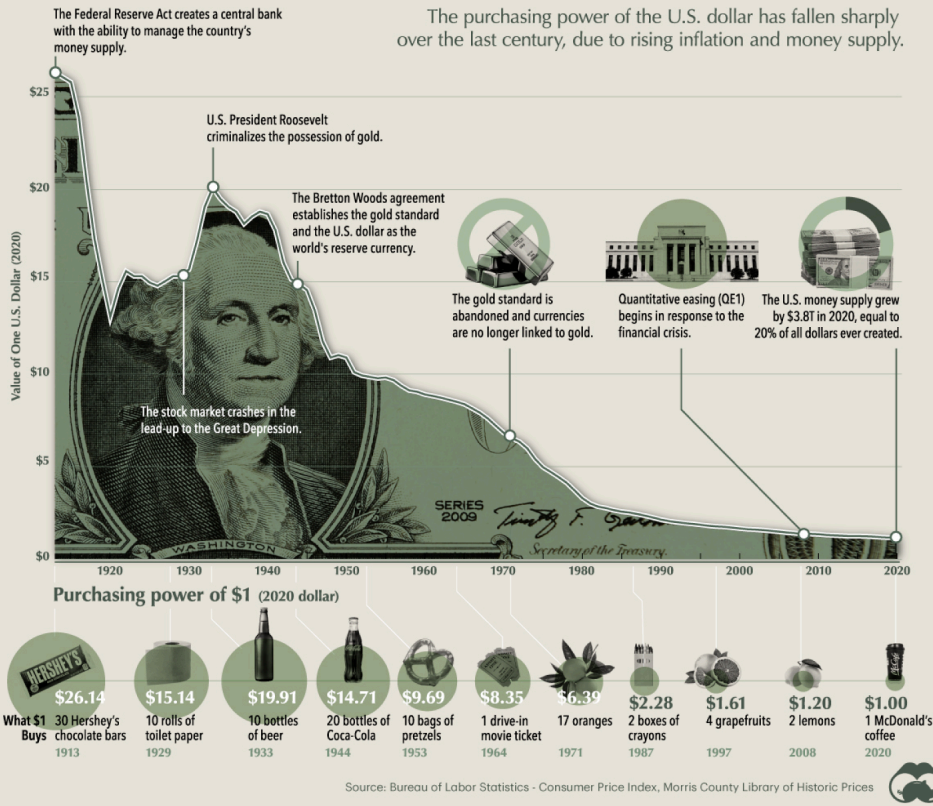
This transition set the stage for decades of monetary expansion through money printing. The gold clause cases from that era were as significant as contemporary events like 9/11 or the Moon Landing, and the move from gold to fiat was viewed by some as a “soft communist revolution”, with the visible seizure of gold facilitating the invisible erosion of wealth through currency devaluation.

## Money is Power; Make More, or Spend Less

VISUAL CAPITALIST DATASTREAM

# A DOLLAR'S WORTH

## PURCHASING POWER OF THE U.S. DOLLAR



Source: [Visual Capitalist Datastream](#)

Today, technology has shifted in favor of decentralization. Personal computers, encryption, mobile phones, and cryptocurrencies are all challenging the centralized state. Top talent is leaving traditional institutions as well. That's the beauty of Bitcoin—it represents different ideals for different people. To some, it is a libertarian escape from central banks. To others, it's an egalitarian experiment in monetary distribution, a pure store of value, or a financial hedge against government debt.

## \$BTC Halvings and a Systemic Transformation



***Lost coins only make everyone else's coins worth slightly more. Think of it as a donation to everyone.***

– Satoshi Nakamoto

Bitcoin miners are incentivized through two mechanisms: block rewards and transaction fees. In 2024, the halving cut block rewards in half, reducing them to 3.125 \$BTC per block. Now is the time for activity to start surging and paving the way for a more economically viable future. By reducing their revenue, the less efficient operators will be taken out of the market. The sharp ones, however, will be able to leverage their hardware for other business lines, such as AI.

Access to Bitcoin plays a critical role in determining the flow of funds and can influence premiums or discounts. The ETF-ization of Bitcoin marks a major milestone in its integration into traditional finance, indicating that there is still ample room for further expansion. Beyond spot ETFs, we could see \$BTC included in options markets, retirement accounts, and structured products, creating widespread access to speculate on Bitcoin by the end of the decade.

The volatility associated with the halving opens the door to two potential futures. In one scenario, Bitcoin's rise shifts economic power from traditional institutions and governments to early crypto adopters, potentially creating a new elite and exacerbating wealth inequality. This shift could have challenging effects for wage earners, with consequences that may resemble the economic instability seen in places like Argentina during its worst crises.

In another scenario, Bitcoin's rapid price fluctuations could resemble a bubble, where the naive and hopeful suffer significant losses. This outcome suggests that those unprepared for Bitcoin's inherent volatility may face serious financial setbacks.

This thought experiment reminds us that Bitcoin is, at its core, just an idea. While it doesn't physically exist, its impact is tangible, directly influencing established power structures. For instance, Bitcoin's rising price signals these structures to enact necessary changes, potentially leading to a more balanced system. Beyond merely enriching early adopters, Bitcoin's transformative potential can also be seen as a corrective force addressing flaws within the current financial system.

All things considered, Bitcoin's complex and multifaceted nature means its societal impact ranges from potential wealth redistribution, the risks of speculative investing, and far-reaching implications for financial and political systems. Its value, driven purely by collective belief, makes it one of the most influential psychological commodities—a fitting reflection of the notion that everything above the base level of Maslow's hierarchy of needs is, at its core, an "idea".

The halving serves as a reminder that, for Bitcoin, there is no fixed ceiling or floor—Bitcoin cannot trade below book value, and its only upper limit is full dominance over the global economy.


While some might view the halving as a non-event, the perspective changes when considering different market participants. Take a commodities trader, for instance: if global oil production were to be cut in half—from 103 million barrels to 51.5 million daily—the response would likely be a scramble to buy every available oil future.

As Bitcoin block rewards are halved, miners become more reliant on transaction fees as a primary revenue source. This poses a challenge, as mining costs—such as electricity and equipment—are denominated in fiat currencies, making dollar revenue essential. Thus, the security of the Bitcoin network is directly tied to the total revenue of miners, comprising both block subsidies and transaction fees. As \$BTC cements its role as a store of value, transaction fees gain importance in sustaining miner revenue.

While Bitcoin has emerged as a leading asset in the crypto space, it has not yet demonstrated the same efficiency for payments as stablecoins. This is evident in Bitcoin's lower velocity, or frequency of exchange, compared to stablecoins—it's outside money.

The disparity suggests that \$BTC is primarily viewed as a long-term investment, whereas stablecoins, with lower volatility, are preferred for daily transactions. The lower volatility aligns with Bitcoin's suitability as a store of value, while stablecoins remain the favored medium for payments.

### The Elasticity of Gold

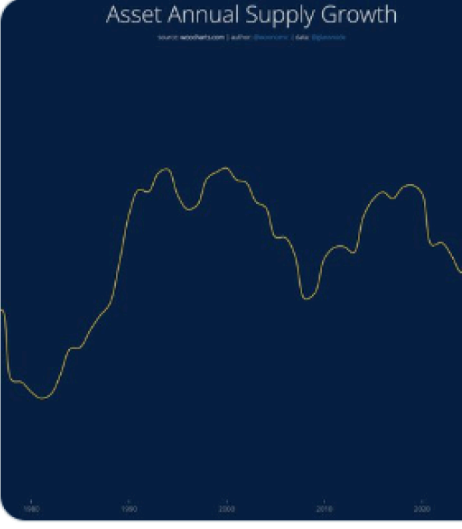
**Willy Woo**   
@woonomic Subscribe ⋮

#Gold's bull run is once again kicking miners into high gear to expand the supply.

Note #Bitcoin is the only asset that is inelastic to demand which makes it unique.

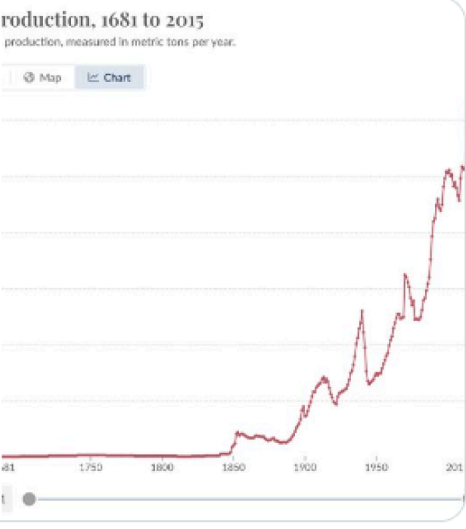
What I find interesting is that this chart is printing higher lows as technology gets better. IMO this chart will breakout in the 2030s and we'll see much more gold enter the market.

Gold production has been in consolidation since 2015, but the exponential climb in tech and new demand is ready to move gold production to the next level.



Asset Annual Supply Growth

Source: [woonomic.com](#) | Author: [@woonomic](#) | Data: [OpenTable](#)



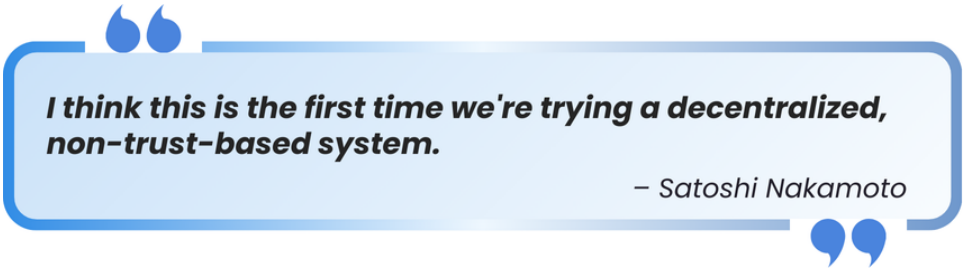
Gold production, 1681 to 2015

production, measured in metric tons per year.

Map Chart

Source: [Willy Woo \(X\)](#)

## BTCFi: Beyond Digital Gold



***I think this is the first time we're trying a decentralized, non-trust-based system.***

– Satoshi Nakamoto

As gold traded at new all-time highs, \$BTC began to represent more than just digital gold or a hedge against inflation, more so after the US elections. Gold, a non-yield-generating asset, is traditionally valued as an inflation hedge due to its ability to retain value as the money supply grows. Bitcoin serves a similar purpose, with added digital benefits like ease of storage through a simple seed phrase, addressing some of gold's physical limitations, such as transport and divisibility.

While gold can incur a negative yield when factoring in storage and insurance costs, Bitcoin miners face parallel challenges. Neither asset generates income, positioning both primarily as stores of capital rather than sources of income.

There are fundamental economic and philosophical distinctions between Bitcoin and traditional yield-generating assets. The BTCFi thesis suggests that even a small portion of Bitcoin in yield-generating protocols, such as Bitcoin Layer 2s, could drive exponential growth in that sector. Yet, if Bitcoin is primarily viewed as a macro hedge, especially in inflationary environments, its appeal to yield-seeking investors may be limited, potentially constraining BTCFi's growth potential.

Historically, only a small fraction of \$BTC has been allocated to yield-generating purposes through platforms like BlockFi or Celsius, with wBTC representing less than 1% of the circulating supply. This stagnation suggests that Bitcoin holders may not be inclined to convert their holdings into yield-generating assets at a meaningful scale.

While Bitcoin's ease of storage and transfer could encourage some yield-seeking behavior as infrastructure improves, the current decline in active supply indicates that demand for \$BTC yield remains low.

Maintaining a certain level of activity is essential, and it's equally important to ensure that protocols like Ordinals, BRC20s, and Runes don't fade into irrelevance. As block rewards diminish and trend toward zero, transaction fees will eventually become the sole source of miner compensation—effectively Bitcoin's security budget.

Protocols like Ordinals and Runes have boosted network activity, increasing transaction fees to support miners, though their speculative nature raises questions around sustainability. While these protocols demonstrate Bitcoin's potential for more complex financial instruments, their long-term impact remains uncertain.



Source: [Arthur Hayes \(X\)](#)

Meanwhile, various Layer 2 solutions on Bitcoin have gained traction, allowing users to use \$BTC more productively than simply storing it. Wrapped versions of Bitcoin, such

as wBTC on Ethereum, have also played a significant role here. However, wBTC's future came into question when its custodian, BitGo, announced plans to transfer management to a joint venture with BIT Global, raising concerns about centralization and regulatory risks. MakerDAO's decision to halt new wBTC borrowing underscores the potential ripple effects of centralization within DeFi.

This balance between centralized custody and decentralization is a key issue in DeFi. While DeFi seeks to reduce dependency on centralized entities, custodial solutions remain necessary for wrapped assets like wBTC, cbBTC, etc. The BitGo development may prompt a move toward decentralized wrapping solutions and encourage protocols to diversify collateral sources.



## The Rise of Bitcoin Layer 2s

***You should study risk taking, not risk management.***

*– Nassim Taleb*

The surge in Bitcoin's usage has brought scalability issues to the forefront. Specifically, Ordinals have increased strain on the base layer, leading to higher transaction fees that can make the network unusable during periods of high activity. Bitcoin Layer 2 solutions differ from those on Ethereum; while Ethereum relies on Layer 2s primarily for scalability, Bitcoin's Layer 2s function more as extensions that add programmability, supported by \$BTC as the base asset—though this does introduce centralization risks.

The Ordinals phenomenon has reignited developer interest in building on top of Bitcoin. While the base layer can support Ordinals due to their simplicity, Bitcoin's base layer lacks the fully expressive smart contracts required to enable complex DeFi applications. This limitation highlights the importance of Bitcoin Layer 2s, which expand the base layer's functionality and provide advanced tools for developers.

Bitcoin's utility has broadened beyond its "digital gold" narrative, encompassing various asset classes like bridged BTC, Bitcoin-inscribed assets such as Ordinals and Runes, and a growing NFT marketplace powered by the Ordinals Protocol. Each asset class represents a unique facet of Bitcoin's evolving utility, though they all face challenges that could affect their long-term performance and adoption.

A bear case for Bitcoin Layer 2s emerges from the competition posed by wrapped versions of \$BTC, where underlying Bitcoin is held by a trusted custodian. These wrapped tokens act as IOUs and can easily integrate into DeFi ecosystems on other blockchains, offering similar or superior utility without requiring users to adopt new Layer 2 infrastructure. This diminishes the value proposition of Bitcoin Layer 2s, especially since their main appeal is the large total addressable market of \$BTC due to its substantial market capitalization.

## Never Too Late



**muneeb.btc**    
@muneeb



Saylor's latest Bitcoin 2024 talk would make you bullish on Bitcoin.


Saylor argues from a purely digital capital angle and lays out a financial model.

If you plug Bitcoin L2s into the model, you get efficiently programmable digital capital.

If BTC is digital energy (like electricity), then Bitcoin L2s are the infra (like power grids and electric poles) that connect humans to digital energy and make it pervasive, like oxygen in the air we breathe.

Bitcoin L2s accrue value back to BTC by making it more useful and productive.

Extremely fast, efficient, and reliable L2s accelerate BTC adoption. Bitcoin can become a \$100 trillion asset, meaning the BTC L2 rails will be one of the most critical infrastructure rollout in human history.

It's time to build 


Source: [muneeb.btc \(X\)](#)

Despite advancements in expanding Bitcoin's utility, significant challenges persist. Bridged \$BTC competes with projects aiming to reduce custody risks inherent to existing solutions. Bitcoin-inscribed assets, while innovative, currently rely more on speculation than intrinsic value creation. Similarly, the Bitcoin NFT market, though expanding, is still developing the necessary infrastructure to ensure long-term sustainability.

Moreover, the introduction of native tokens by Bitcoin Layer 2s could alienate the hardcore Bitcoin community, which values Bitcoin's purity and decentralization. This group may resist any Layer 2s perceived as diluting these principles, posing potential

headwinds for Bitcoin Layer 2s and limiting their ability to gain meaningful market traction.

**\$BTC: An Asset Class On Its Own**

 **Fred Krueger** ✓  
@dotkrueger

My TLDR of latest Pantera newsletter:

1. Bitcoin has reached "Political status". Major milestone. Trump now supports it, because **Bitcoiners vote**.
2. Everybody is still **massively under-invested**. HNW has 0-1% allocated to BTC and its going to 8%.
3. Inflation and Rates will be sticky. Ultimately, **rates will go have to go up. Equities will go down**. Bitcoin doesn't care. It's a "rare feature of the asset class"
4. **Bitcoin is the killer app of Bitcoin**. Other things (L2s) are good, but we don't need them.

[panteracapital.com/blockchain-let...](https://panteracapital.com/blockchain-let...)

Source: [Fred Krueger \(X\)](#)

# \$ETH: Myths, Narratives, and Reality

## Section 10

# \$ETH: Myths, Narratives, and Reality

***If I did not believe in ETH as SOV I would not hold ~90% of my net worth in it.***

– Vitalik Buterin

The Ethereum Merge on September 15, 2022, was met with overwhelming optimism. This much-anticipated milestone marked a pivotal moment for Ethereum's future, promising a deflationary supply, higher staking yields, and a reflexive price cycle. The prevailing sentiment was, "sell the news, but it's long-term bullish". However, a closer look reveals a more nuanced reality. Even with a spot ETF, Ethereum has struggled to outperform, with only brief moments of optimism.

Today, sentiment has shifted. ETH/BTC recently hit three-year lows despite the spot ETF approval. While \$BTC has been embraced by institutions and reached new highs, \$ETH faces an existential challenge, with staking and DeFi potentially under SEC scrutiny.

Before diving into the challenging year that Ethereum maximalists have endured, let's take a step back to unpack what "the Merge is long-term bullish" actually meant. The event itself fueled a belief that Ethereum's price would rise in a self-reinforcing loop. Prominent voices referenced Soros' theory of reflexivity, suggesting that higher \$ETH prices would attract attention, driving adoption and use, and further fueling an upward price cycle.

Ethereum bulls were captivated by the idea of the "Triple Halvening"—the switch to Proof-of-Stake, which would drastically reduce issuance rates, potentially triggering a deflationary spiral and soaring prices due to limited supply. \$ETH holders were also promised high staking yields, positioning \$ETH as a "yield-bearing asset" similar to a bond.

Unfortunately, reality has painted a different picture. Ethereum has historically had one of the lowest staking ratios, and as participation in staking grew, yields fell from around 5% to between 1-3%. Additionally, the rise of Layer 2 solutions has shifted activity away from the mainnet, with gas prices dipping below 1 gwei on multiple occasions.



Source: [Péter Szilágyi \(X\)](#)

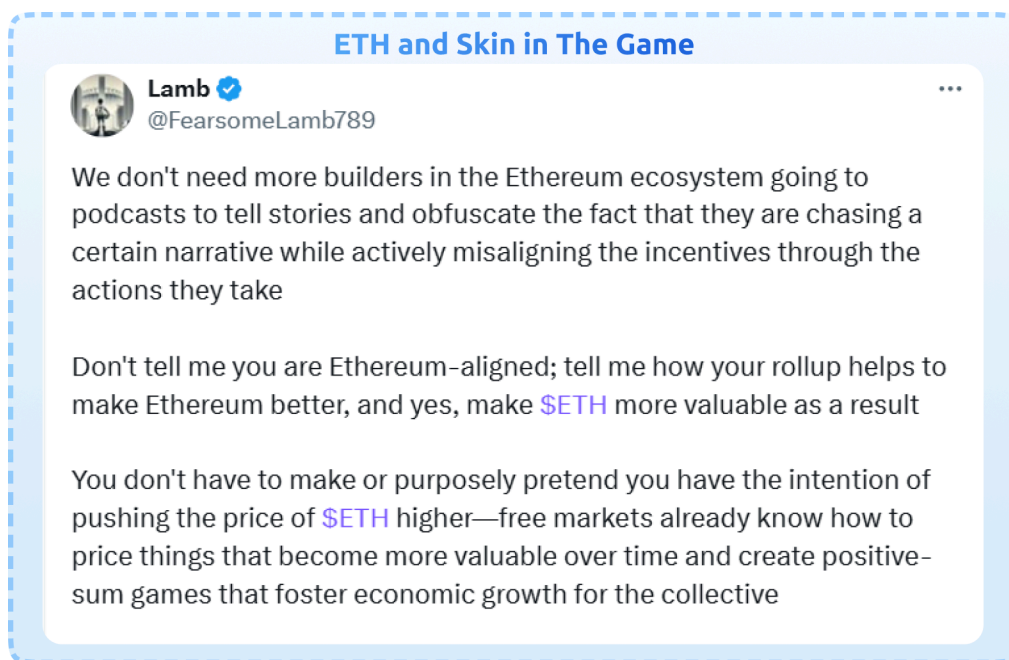
Now, Ethereum stands at a crossroads. Vitalik has expressed disinterest in DeFi, while Solana continues to rally, demonstrating the power of scalability with a Layer 1 that operates independently of Layer 2s. Although Layer 2s like Arbitrum and Base have gained traction, their growth has yet to translate into significant \$ETH appreciation, leading some to question Ethereum's identity and long-term value.

The initial optimism surrounding EIP-1559 has turned to disappointment, particularly as EIP-4844 lowered gas costs for Layer 2 solutions, driving activity to rollups that might not even use Ethereum for data availability. EIP-1559 aimed to burn transaction fees and make \$ETH deflationary, but reduced on-chain activity and the rise of Layer 2s have challenged Ethereum's "ultrasound money" narrative.

Despite setbacks, there is still hope for Ethereum's future. Tokenizing traditional financial assets like treasuries, stocks, and money market funds could bring trillions

on-chain, addressing Vitalik's concerns about DeFi's circularity. Larry Fink's endorsement of Ethereum as a platform for tokenized assets underscores its immense potential to bridge traditional and decentralized finance.

We shouldn't take Ethereum-aligned builders for granted. The Ethereum ecosystem needs committed builders who contribute honestly and transparently to Ethereum's growth and resilience, demonstrating how their projects enhance the value of \$ETH. While the so-called identity crisis can be addressed, it demands meaningful action—not just virtue signaling.



Source: [Lamb \(X\)](#)

# Evolving Frontiers in Crypto

## Section 11



# Evolving Frontiers in Crypto

***The old question 'Is it in the database?' will be replaced by 'Is it on the blockchain?'***

*– William Mougayar*

What began with blockchains like Bitcoin—often dismissed as "slow databases"—has rapidly evolved into a diverse ecosystem with countless chains and opportunities for building and investment. From the maturing roles of Layer 1s and Layer 2s to the integration of real-world assets and the growing emphasis on interoperability, the industry's progress reflects its ongoing journey toward mainstream adoption.

In this section, we examine the key drivers behind these developments, including the pivotal role of off-chain systems, the rise of decentralized physical infrastructure networks (DePIN), the promise of decentralized science (DeSci), and the expanding influence of stablecoins on the global economy.

## The Layer 1 Dream and Layer 2 Saturation

***Ethereum is open to all of the futures, and does not have to commit to an opinion about which one will necessarily win.***

– Vitalik Buterin

Ethereum, long regarded as the leading smart contract platform, now faces challenges in maintaining its dominance due to its complex and shifting narrative as well as its modular structure. This contrasts with Bitcoin’s straightforward “digital gold” narrative and Solana’s rise as a streamlined, monolithic chain. Straddling between these models may leave Ethereum in a precarious position.

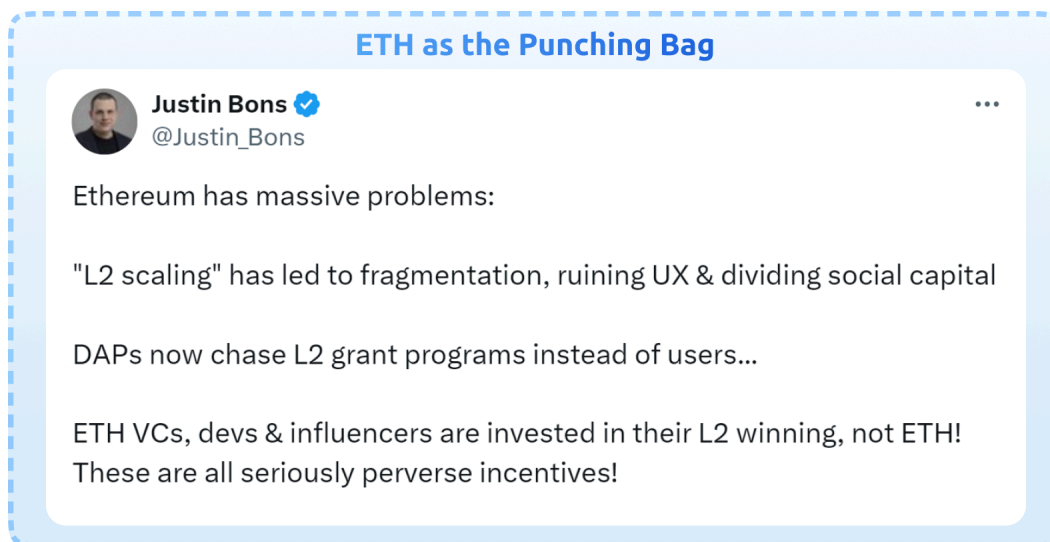
Despite Ethereum’s prior success with the “ultrasound money” narrative, its positioning has become indecisive, alternating between descriptions like an “App Store for money” and “digital oil”. This uncertainty is reflected in \$ETH’s underperformance and weak price action, even following the approval of a spot ETF.

Meanwhile, Solana’s growth, driven by an integrated design and strong technical foundation, positions it as a formidable competitor. Its high throughput and low fees attract developers and users seeking a simpler blockchain experience. Conversely, Ethereum’s modularity, while promising long-term scalability, has led to liquidity fragmentation and a more complex user experience.

From an investor’s perspective, the choice between modular and monolithic architectures ultimately comes down to value accrual. Solana proponents argue that Ethereum’s reliance on Layer 2s and upgrades like Dencun has cannibalized \$ETH’s value, shifting it from a deflationary asset to an inflationary one with limited Layer 1 activity.

Fragmentation is an industry-wide challenge, particularly in a multi-chain environment, and is not exclusive to Ethereum’s modular design and the proliferation of Layer 2s.

While fragmenting liquidity within a unified framework like Ethereum's settlement layer may seem like an elegant solution, it warrants closer examination.



Source: [Justin Bons \(X\)](#)

In modular systems, investors can allocate capital across multiple components of the stack, such as Layer 2s, data availability layers, sequencers, and rollup-as-a-service providers. While this diversification strengthens network effects and adds value to the overall ecosystem, it's unclear how much value will accrue directly to Ethereum's core settlement layer. Each component having its own token results in dilution and oversaturation of tokens—also dispersing attention and capital as a result.

Looking past the technical complexities, \$ETH has emerged as an institutional asset accessible through spot ETFs. Institutional investors typically prioritize stable, risk-adjusted returns over high volatility and rapid growth, therefore Ethereum is positioned as a candidate for adoption alongside Bitcoin. This brings a different perspective to how \$ETH is valued and integrated into portfolios.

Outside of Ethereum and Solana, other Layer 1 ecosystems are also striving for relevance. Avalanche, with its Subnets and corporate partnerships, and Cosmos, with its appchain model, represent alternative approaches to scalability and customization.

Yet, these ecosystems also face challenges, including value accrual and differentiation in an increasingly crowded market.



Source: [0xTexasHedge \(X\)](#)

New entrants like Aptos and Sui, built on the MOVE programming language, are leading the race to become the next Solana. And we can't overlook upcoming projects like Monad or Berachain which have sparked debate by choosing to be Layer 1 chains rather than Ethereum Layer 2s.

## ETH, Community, and Money



**Camila Russo** ✓  
@CamiRusso



Disappointing to see leaders of the ethereum community unwilling to acknowledge what's wrong with the chain and blame underperformance on "people are dumb and don't get it"

Ethereum has real problems right now and that's what's weighing on price.

Maybe those problems are getting worked on, are temporary and will be solved down the line, but the risk that it doesn't happen or happens too slowly to keep up with competition is being priced in.

Some major problems for ETH price right now:

- L2s parasitic to L1 (value of activity happening in ETH ecosystem accrued mostly to L2s, not ETH)
- Bad UX, including double tx approvals, fragmentation across mainnet and multiple L2s (driving users/activity to other chains)

I think it takes some degree of arrogance to dismiss these concerns.

Separate point: I never really got the religious zeal some people have when defending their preferred crypto, but I guess it's because I'm a skeptical and jaded journalist at heart and not a bag holder / investor.

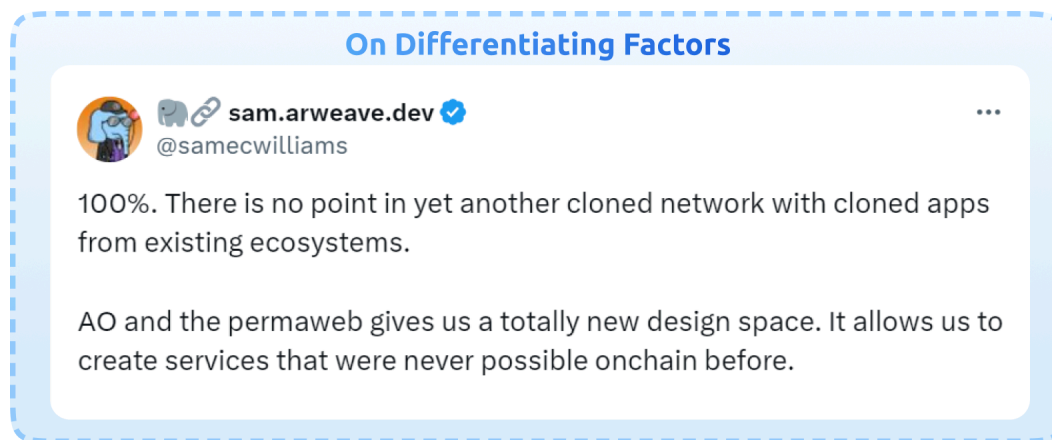
Source: [Camila Russo \(X\)](#)

The perceived Layer 1 premium is actually more tangible than it appears, with Layer 1 tokens representing “sovereign scarce assets” within their respective digital economies. They act as reserve assets for the ecosystem, accruing value through DeFi, liquidity pools, and airdrops, effectively providing an “interest-bearing” function.

Layer 2 tokens, however, do not function as sovereign assets. They resemble equity, representing the “labor” within a chain's economy, and are valued using models like P/E ratios, aligning with their role as representations of protocol revenue rather than broad economic value.

A straightforward way to understand the success of Layer 1 blockchains is to see them as platforms where years of developer effort culminate in a solid and reliable base layer. This foundation supports the creation of a strong community, which is essential for building thriving ecosystems.

Initially, developers focus on establishing robust infrastructure, which naturally attracts attention and speculation to the native token. As the community expands, it draws more developers who create innovative applications, which, in turn, attract users—further reinforcing the ecosystem’s growth. Ultimately, however, differentiation is crucial for standing out in a saturated market.



Source: [sam.arweave.dev \(X\)](#)

Specialization at the base layer is increasingly valuable, creating opportunities for 'Layer 1 rotation trades.' For example, AO's Actor-Oriented model introduces a fundamentally new framework for understanding blockchains. Meanwhile, chains like BSC exemplify the Lindy effect, reminding us that the longer something endures, the more likely it is to withstand the test of time.

Ongoing debates question whether Layer 2s might eventually evolve into Layer 1s themselves. This evolution highlights the importance of building not just infrastructure but also a robust community of developers and users, all contributing to the value of the underlying asset.

As the Layer 1 and Layer 2 landscape grows more competitive and differentiation becomes a challenge, focus may shift toward application-specific chains and consolidating value within protocols. This indicates that the future of blockchain relies on creating unique value propositions beyond scalability alone. The consensus is increasingly that protocols with high adoption rates may eventually launch their own chains to prevent value leakage.



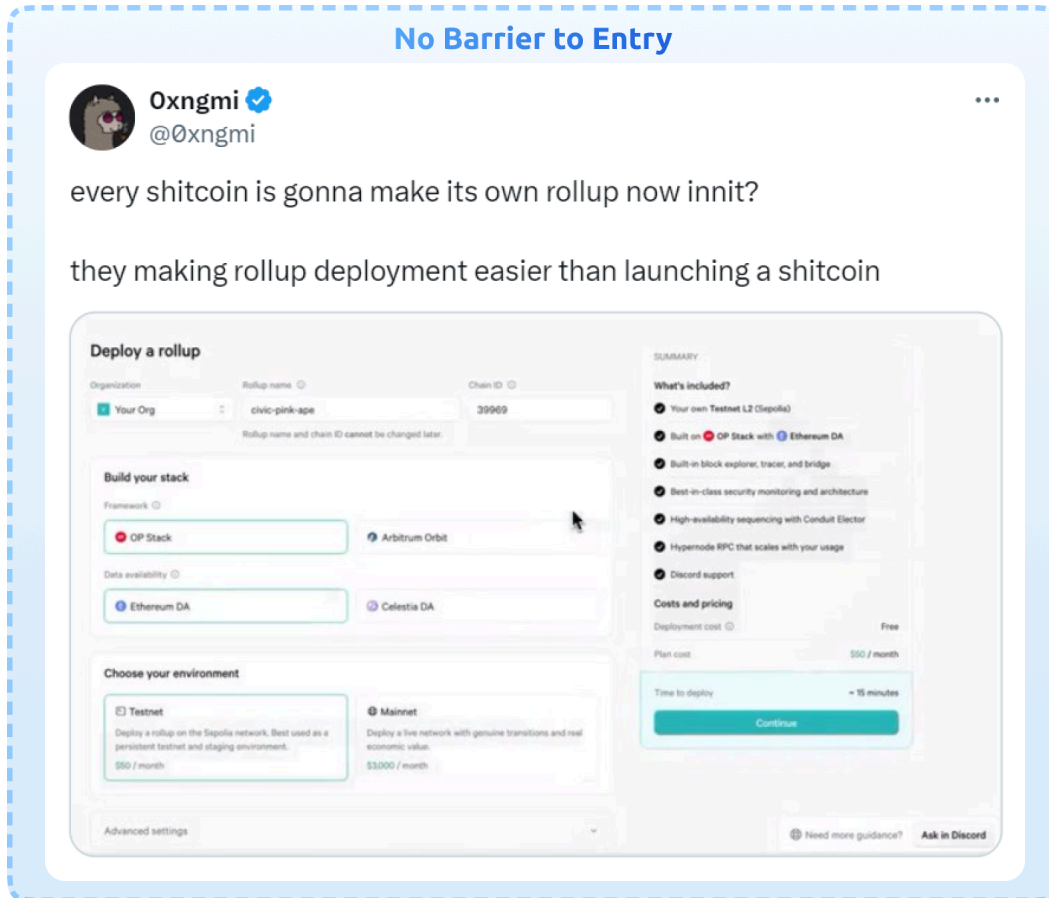
Source: [0xngmi \(X\)](#)

Since 2023, the Layer 2 landscape has expanded rapidly but not necessarily evolved, reflecting a 'principle of minimum differentiation' where competing solutions converge around similar features. Despite the growing competition and commoditization of Layer 2 solutions, early movers like Arbitrum and the OP Stack still dominate the majority of TVL. Additionally, the oversaturation of new tokens like \$STRK, \$MANTA, and \$ZK has diluted the perceived value of Layer 2s.

Ultimately, no matter how advanced the technology, the survival of these solutions hinges on their ability to generate strong network effects and avoid becoming mere yield-farming tools with limited long-term utility. The challenges facing Layer 2s are evident, as many lag behind tokenless platforms like Base due to a lack of application diversity and organic usage.

Airdrop campaigns can attract developers and users, but they often introduce sell pressure that undermines token values. Transitioning to an appchain doesn't necessarily solve this issue either. While appchains offer differentiation, their tokens must provide more than governance utility to maintain network effects from a shared layer's liquidity and user base.

Although Rollups as a Service (RaaS) platforms have simplified the creation of rollups, it's worth questioning the actual utility or value they add to the industry. Even with saturated blockspace, these tools are unlikely to drive crypto adoption. In a crowded market, differentiation and genuine adoption are the only factors that matter.



Source: [0xngmi \(X\)](#)

The value of an appchain ultimately lies in its control over the entire stack, optimized for specific use cases. Appchains that achieve product-market fit and generate substantial demand make a compelling case for owning the asset that powers their infrastructure. Chains like Hyperliquid exemplify how focused products can secure strong market positions by leveraging unique capabilities.



Hyperliquid also reflects a broader trend of appchains evolving into general-purpose chains, offering a wider range of functionalities. For example, Hyperliquid began as a



perps DEX, expanded to include spot trading, and eventually developed its own EVM solution.

This trend, however, risks homogenizing the market as chains replicate each other's successful features, leading to even less differentiation. Nonetheless, there is still room for innovation across various verticals. Projects like Blast explore specialized chains for NFTs, yield generation, and mobile experiences, while others, like Maker, focus on real-world asset tokenization.

**Same Same But Somewhat Different**

 **OxGeeGee**   
@OxGeeGee ...

One of the major mistakes of EVM L2s is to keep appealing to the same pool of users over and over and over.  
Yes, you can win them over but:

- these users are extremely mercenary
- they're very defi versed by now
- they know they can just move to the highest incentives place easily

There are some major exceptions, Arbitrum gained some permanent foothold due to major liquidity and better defi eco, Base due to some degree of originality and Coinbase.

But if you're not Arbitrum or Base, or you don't have a geographic differentiator (thinking more eastern-oriented chains), you'd better try to bring in new users.

Source: [OXGeeGee \(X\)](#)

## Interoperability in a Multi-Chain World



***Think about interoperability like the wind: it's not about the wind itself, but the effects of the wind in action.***

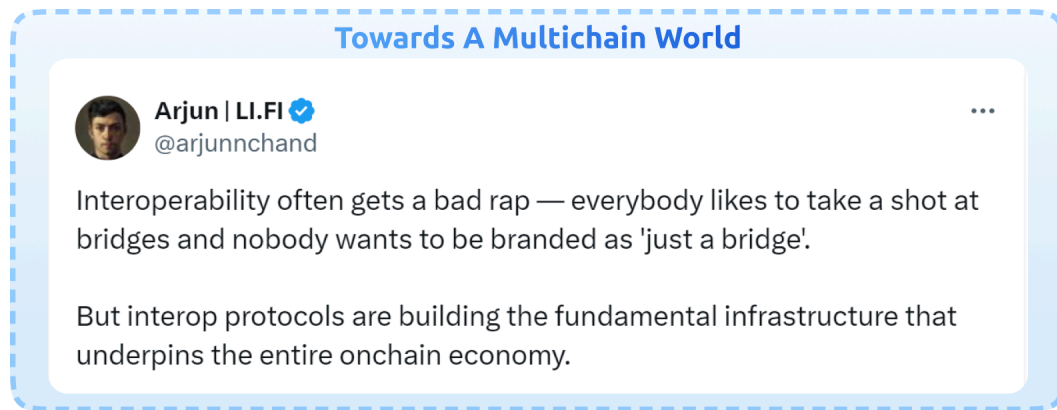
– Dr. Peter Schoch

As we enter a multi-chain world, there's a substantial market opportunity to address the interoperability challenges that come with it. Specifically, there are two primary opportunities: becoming the interoperability layer across Layer 1s and the interoperability layer across Layer 2s. Additionally, interoperability between public and private chains holds significant potential.

Pursuing the ambitious goal of creating a credibly neutral platform in the crypto space comes with considerable risks, particularly around security and achieving broad support from diverse communities across multiple chains. Positioning as a neutral platform is especially challenging when a token is involved, as a large concentration of supply among team members and investors can weaken perceptions of neutrality.

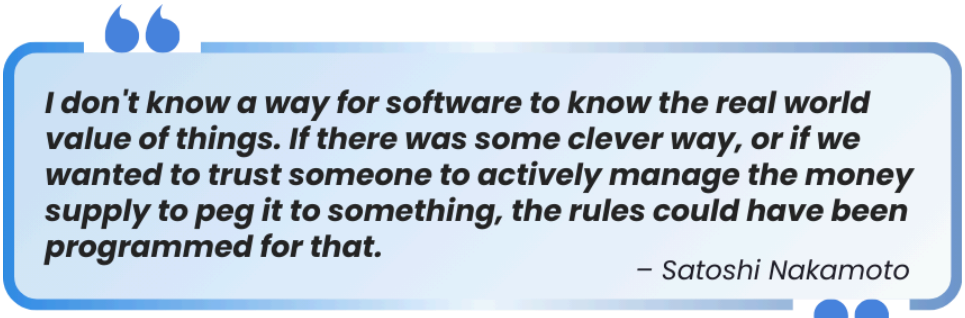
Rather than new innovators raising significant private capital, it's possible that established players ultimately win this race. Chainlink, with its longstanding presence and strong network effects, may be better positioned to become the de facto solution for interoperability.

Interoperability will be essential in the years ahead, with security being key to the industry's mass adoption. Redundancy in solutions can strengthen robustness, but within Ethereum's ecosystem, there seems to be a passive expectation that these issues will resolve "automagically", despite most solutions currently being driven by self-interest.



Source: [Arjun \(X\)](#)

## The Expanding Role of Oracles



***I don't know a way for software to know the real world value of things. If there was some clever way, or if we wanted to trust someone to actively manage the money supply to peg it to something, the rules could have been programmed for that.***

– Satoshi Nakamoto

Competition is intensifying as new architectural designs and use cases for oracles emerge. Oracles have advanced well beyond their initial role of simply bringing off-chain data on-chain or providing price feeds.

Oracles are now integral to several advanced applications, including the tokenization of real-world assets, enabling interoperability between private and public blockchains, and supporting risk management, artificial intelligence, and decentralized cloud services. At a high level, oracles ensure that outcomes are verified and agreed upon by all parties involved.

Initially adopted for DeFi, oracles have now expanded to RWAs, AI and machine learning integrations, and cross-chain compatibility, establishing them as critical infrastructure. This evolution has intensified competition, especially among leading oracle networks like Chainlink and Pyth.

Competitors differentiate themselves through various factors such as costs, economic incentives, and new pricing models, including subscription-based services, pay-per-use pricing, and staking rewards that incentivize accuracy and honesty.

The introduction of staking and slashing mechanisms has bolstered accountability, ensuring data providers and validators remain trustworthy—a cornerstone for the credibility of oracle networks. Oracles are now diversifying their revenue through integration fees, revenue-sharing agreements, custom data feeds, and enterprise solutions offering enhanced security, analytics, and data aggregation.

**The Market is The Truth**

 **Santiago R Santos | #9159** ✓  
@santiagoroel

Markets everywhere powered by smart contracts

Issue is and always has been creating oracles to settle outcomes

Crypto is very good at (1) incentivizing markets creation and (2) price discovery for tail end of markets, which reinforces (1) and so a flywheel effect

How do you solve the oracle problem? Meaning, how do you know the oracle can be trusted and the data is correct?

One, you gather diverse data feeds. How? Layer incentives to invite owners to share data. Can you trust data source? Allow any user to verify it and offer a reward for doing so.

Data feeds will always have noise and some may be incorrect or outright malicious but with enough diversity and redundancy you can smooth out and create high fidelity oracle feeds backed by cryptographic primitives to ensure reliability and trustworthiness of data.

Once you have oracles you have markets.

So far it's mostly been oracles for financial markets. It's the easiest as the data is quite binary and arbitrary. Price feed for gold or dollar or BTC etc

Source: [Santiago R Santos | #9159 \(X\)](#)

## DePIN's Transformation of Global Infrastructure



***DePIN is a business model innovation that can be applied to really any real-world industry, whether it is energy or wireless, or compute storage.***

– Connor Lovely

We may have reached the pinnacle in terms of people willing to join the crypto space solely for speculation and profit. Crypto is no longer a secret, but many people—perhaps the majority—remain uninterested in navigating its complexities for mere token speculation.

DePIN offers an alternative by distributing tokens through earning rather than purchasing, allowing everyday users to earn through regular actions. Users receive tokens for providing valuable services, such as sharing bandwidth, traffic data, or energy insights, shifting rewards from speculative gains to real-world contributions.

DePIN leverages blockchains as decentralized coordination networks to build and scale physical infrastructure without relying on centralized providers. This promotes transparency, encourages community growth, and supports distributed ownership, offering a more efficient, cost-effective alternative to traditional centralized models that aligns the incentives of all participants.

At its core, DePIN addresses supply and demand gaps by offering competitive, market-driven pricing, tapping into underutilized global resources through peer-to-peer aggregation platforms. This decentralizes the provision of physical and human capital, creating opportunities to onboard users who might not otherwise engage with crypto. These users earn tokens through meaningful contributions rather than speculation, and pre-funded wallets could serve as the catalyst to bring this cohort on-chain.

In 2023, RWAs helped bridge the gap between the off-chain and on-chain worlds. In 2024, DePIN followed suit, expanding to over 1,000 projects across sectors like compute, energy, and AI services. Looking ahead, we expect growth to continue, extending into areas such as geolocation, healthcare, mobility services, and IoT.



Source: [Jason Choi \(X\)](#)

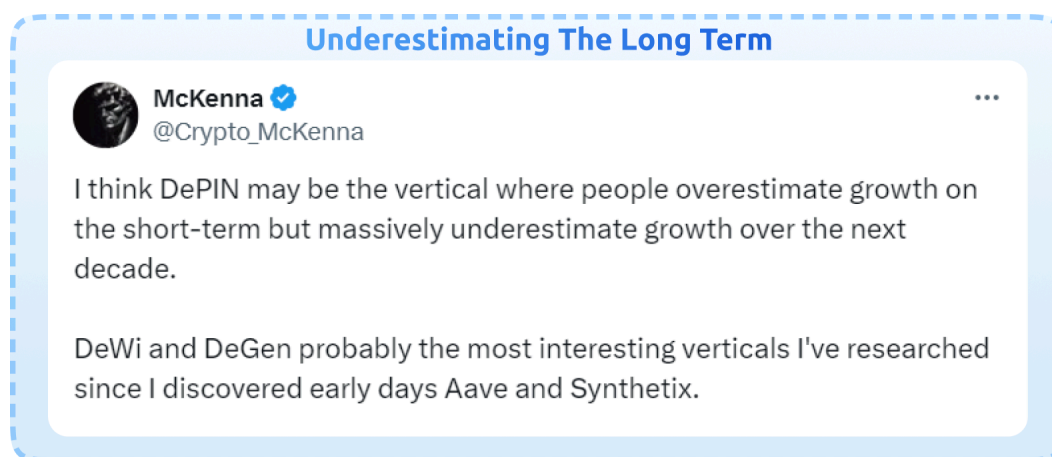
We believe DePIN could become to blockchains what IoT was to the Internet. Just as IoT connected everyday objects via computing, DePIN connects and leverages globally idle resources through blockchain, enhancing economic efficiency. This is especially significant in an AI-driven world, where GPU scarcity and costs are becoming increasingly critical.

Projects like Render and Helium have built on chains like Solana, while others, such as Akash, have opted to build their own chains. In 2025, we anticipate a rise in DePIN projects building dedicated chains, with some revising their supply and emissions models to accommodate ongoing investments in next-generation hardware, potentially benefiting from an uncapped supply.

Sure, critics may argue that token-incentivized decentralized networks lack the solid foundations of traditional businesses. However, blockchains can, in certain cases, not only enhance existing business models but also create entirely new ones.

This sector will take time to mature, but it has the potential to scale and become an industry of its own. While token price appreciation may occasionally create the impression of overnight success, DePIN has been years in the making.

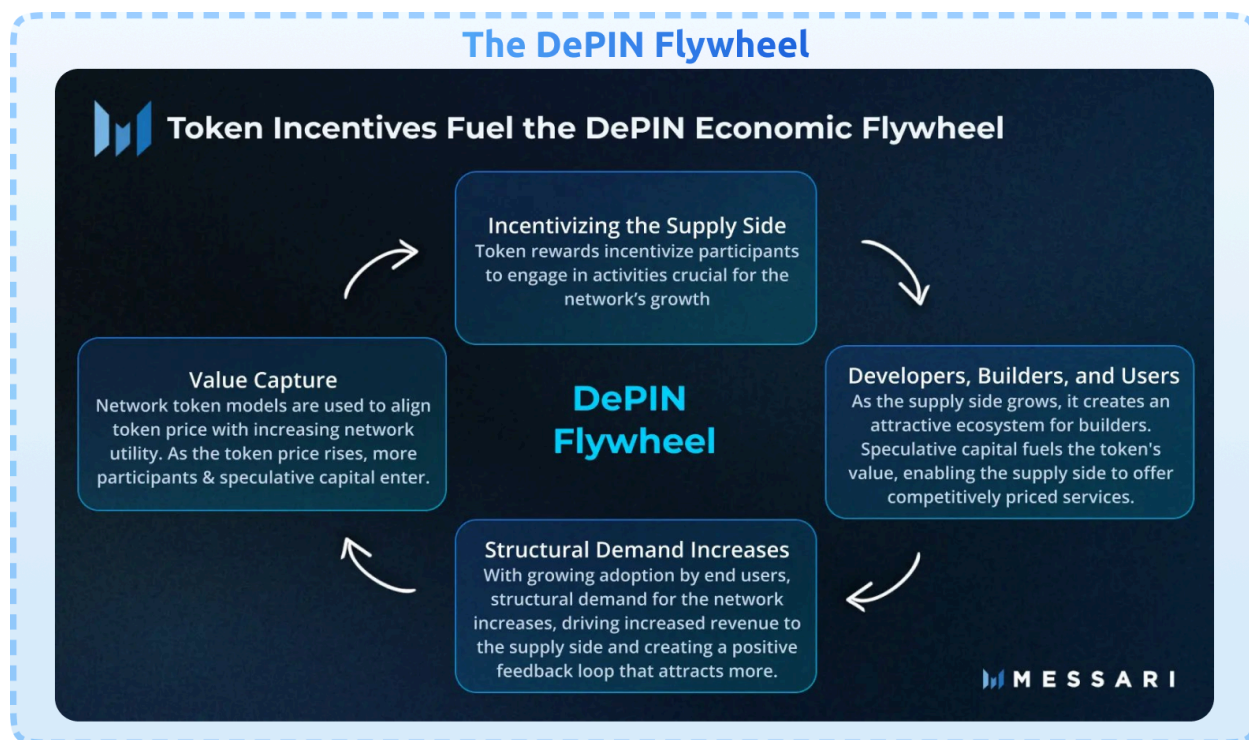
Ultimately, DePIN reshapes the roles of hardware manufacturers, miners, and consumers, aiming to attract a wider range of participants by lowering barriers to entry and expanding geographical reach. Most importantly, it transforms participants into stakeholders, encouraging ongoing engagement and moving beyond traditional buy-and-sell relationships.



Source: [McKenna \(X\)](#)

The "DePIN flywheel" is a positive feedback loop designed to reward users fairly for their contributions, initially attracting supply through token incentives and then stimulating demand-side growth. This mechanism, though largely experimental, raises key considerations for DePIN tokens, such as the need for demand sinks to offset inflation and the ability to reward its most valuable providers—be it through proximity, hardware capabilities for GPUs, or unique location data.





Source: [Messari Crypto](#)

In the early stages, participants driving network growth are incentivized by inflationary token rewards, effectively subsidizing their contributions. These rewards are essential for supporting the network's development until it can sustain itself through user fees. As the network expands, it attracts developers and product creators, and the financial support enables service providers to lower costs, making services more appealing to end users. This cost-effectiveness is key to building a strong user base.

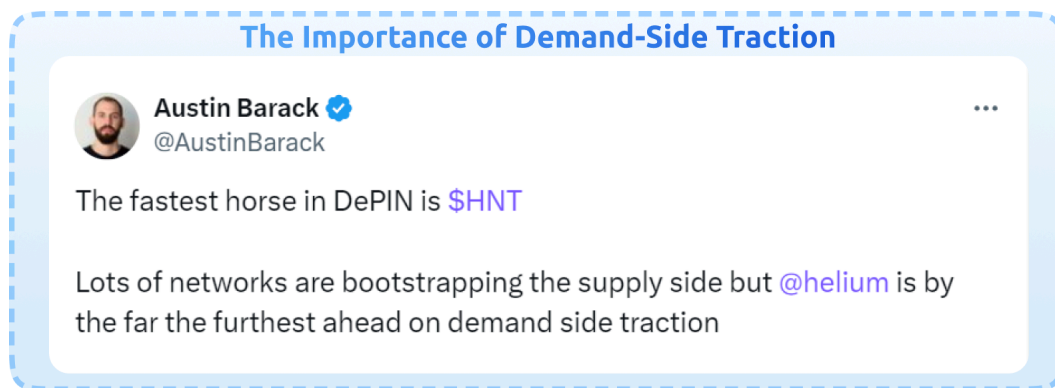
For example, if you have a vehicle or own idle GPUs, you might add a dash cam or offer unused compute power to earn tokens. While supply-side friction is minimal, the demand side presents more challenges. Therefore, the key to success still lies in building products that meet real needs and offer genuine value to users, such as improved cellular plans or more precise location services.

Importantly, just because a tokenomics model works for one project doesn't mean it's suitable for another. Generalizing tokenomics frameworks for DePIN is a mistake. DePIN's unique advantage lies in lowering CapEx, making network launches and

operations efficient from the outset. This changes how costs and incentives should be managed across industries and is highly competitive with traditional infrastructure models.

As end users pay for network services, the network grows and income for providers increases, creating a self-reinforcing cycle that attracts more participants and enhances network value.

Being user-owned, the network can also distribute value back to participants through token burns—permanently removing tokens from circulation to increase the value of those remaining—or revenue distribution, where users stake tokens to earn a share of the network’s income. Both models incentivize holding and using the network’s tokens, driving up token value.

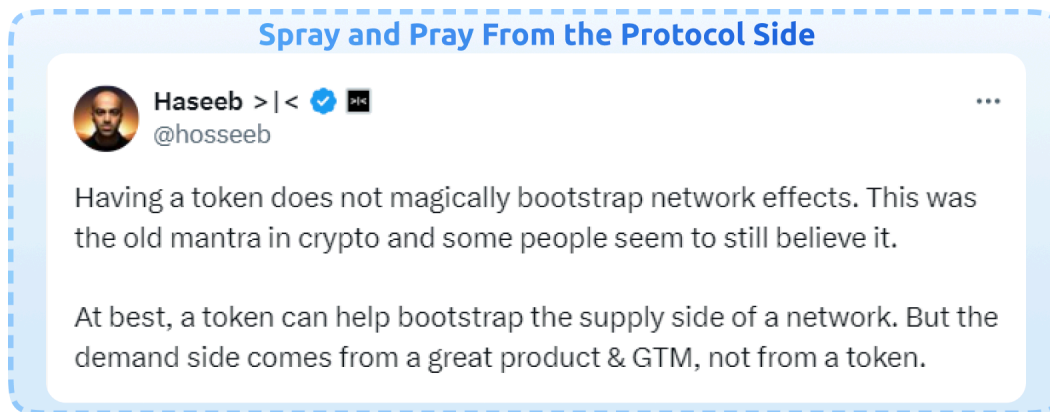


Source: [Austin Barrack \(X\)](#)

This increase in token value motivates more providers to join, reinforcing a positive cycle. As more participants contribute, the network's services improve and expand, attracting additional users and solidifying its growth and sustainability. This continuous cycle of growth and value creation is the essence of the DePIN flywheel.

As a result, DePIN projects are poised to challenge traditional incumbents in industries like telecommunications, mapping, and cloud services. By lowering capital expenditures, leveraging existing resources, and reducing personnel needs, they offer cost-effective solutions that undercut traditional players and pass savings to users.

In simple terms, DePIN networks challenge traditional industries by converting fixed costs into variable cost structures, leveraging network effects and collaboration. The role of GPUs and other hardware will significantly impact not only AI development but also the growth of blockchain technology and decentralized systems that facilitate the sharing of scarce and valuable resources.



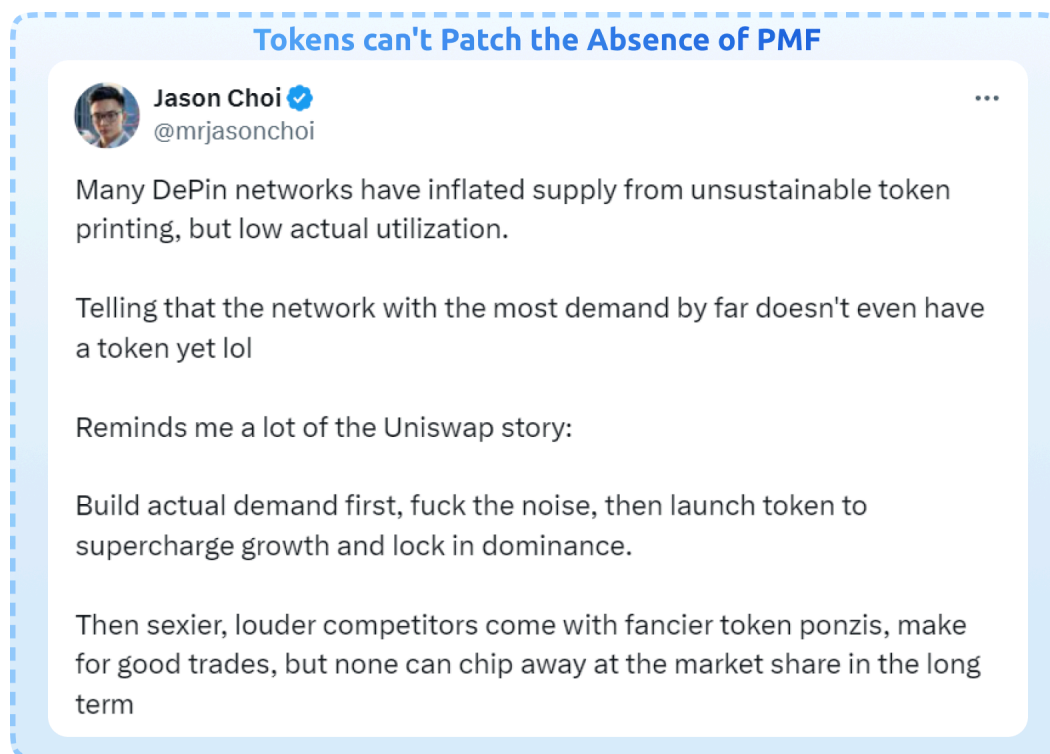
Source: [Haseeb > | < \(X\)](#)

Centralized infrastructure relies on large upfront capital expenses, creating significant barriers to entry, and is hindered by inefficient, time-consuming bureaucratic processes that require trust in opaque, centralized providers. In contrast, DePIN leverages token incentives to transparently crowdsource capital, reduces administrative overhead through blockchains serving as a single source of truth, and eliminates single points of failure, making it a more accessible and resilient alternative.

Over time, DePIN has the potential to disrupt multiple industries with use cases such as video rendering, perpetual storage, cellular plans, AI training, asset tracking, location services, and more. By helping bring underutilized resources closer to full capacity, DePIN accelerates infrastructure scaling through efficient matching of supply and demand.

However, users are largely profit-driven, and token prices remain a critical factor. Rising token prices attract users eager for returns, while declining prices can lead to unprofitability and lower participation. This issue is especially pronounced for assets

with lower market caps and limited liquidity, potentially resulting in downward spirals during market downturns.

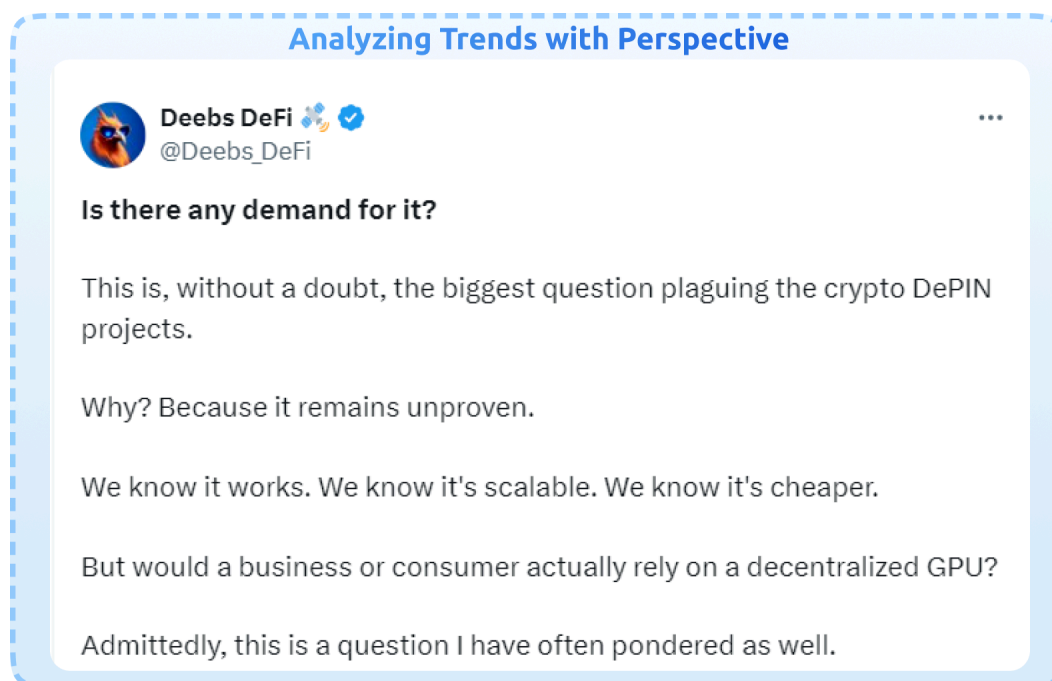


Source: [Jason Choi \(X\)](#)

Attracting supply-side participants is crucial, but projects must also prioritize delivering high-quality products to engage demand-side users. To compete with centralized providers, it's essential to match their performance while offering a user-friendly onboarding experience.

Even in bull markets, token price volatility can hinder adoption. Since supply-side contributors are paid in native tokens, price fluctuations add uncertainty to profitability. While hedging strategies could mitigate this, they are currently limited by the lack of composability and DeFi use cases of DePIN tokens. Additionally, token price spikes without corresponding service cost adjustments could deter users, complicating demand-side growth further.

While DePIN is unlikely to fully disrupt centralized giants with established infrastructure, it can certainly coexist across various sectors. Centralized systems offer focused coordination, adaptable management, and high-performance capabilities, whereas decentralized solutions benefit from lower costs and the ability to tap into underutilized resources. Though decentralized systems boast advantages like lower fees and transparency, they may still struggle to match the overall performance, scalability, and efficiency of centralized providers.



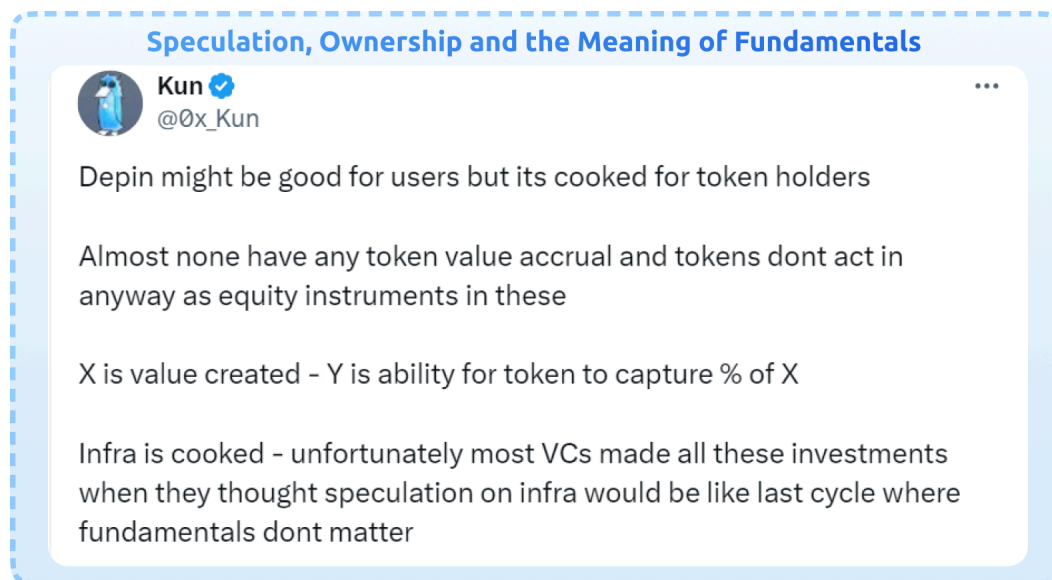
Source: [Deebs DeFi \(X\)](#)

Despite the current excitement around DePIN, challenges remain. Beyond achieving product-market fit, ensuring censorship resistance and managing sustainable incentives are critical. Over-reliance on token emissions to incentivize suppliers can backfire if demand fails to match supply. DePIN projects must also contend with Web2 incumbents in areas like marketing and sales.

A key challenge for many DePIN projects is the need to launch tokens from day one, tying the business's success to the token's performance. This can be especially difficult for projects transitioning from Web2, where mass incentives may lead to unsustainable

inflation. One potential solution is a dual-token model, combining a tradable token with a fiat-pegged payment token, which allows for fixed fiat pricing of services.

Unlike other fields, DePIN participants often need significant hardware investments to start earning, creating a risk of “fraud”. A project could present an ambitious roadmap, invest heavily in marketing, and fail to deliver. However, this is more of a tail end risk to be mindful of. When properly executed, DePIN projects can offer tangible value through devices, services, and data, stabilizing growth and reducing speculative risks.



Source: [Kun \(X\)](#)

For DePIN projects to scale effectively, user interactions must be streamlined to create a seamless experience. With this goal in mind, significant advancements are anticipated, particularly in leveraging mobile phones to enable frictionless user engagement.

## DeSci's Role in Community-Driven Innovation

***Implementing components of the venture capital model, and removing the bureaucratic grant structure of academia, would improve the scientific research and funding structure.***

– Balaji Srinivasan

Traditional science faces numerous challenges, including complex funding processes, limited incentives for peer reviews, gated publishing systems, restricted access to research, and intellectual property issues.

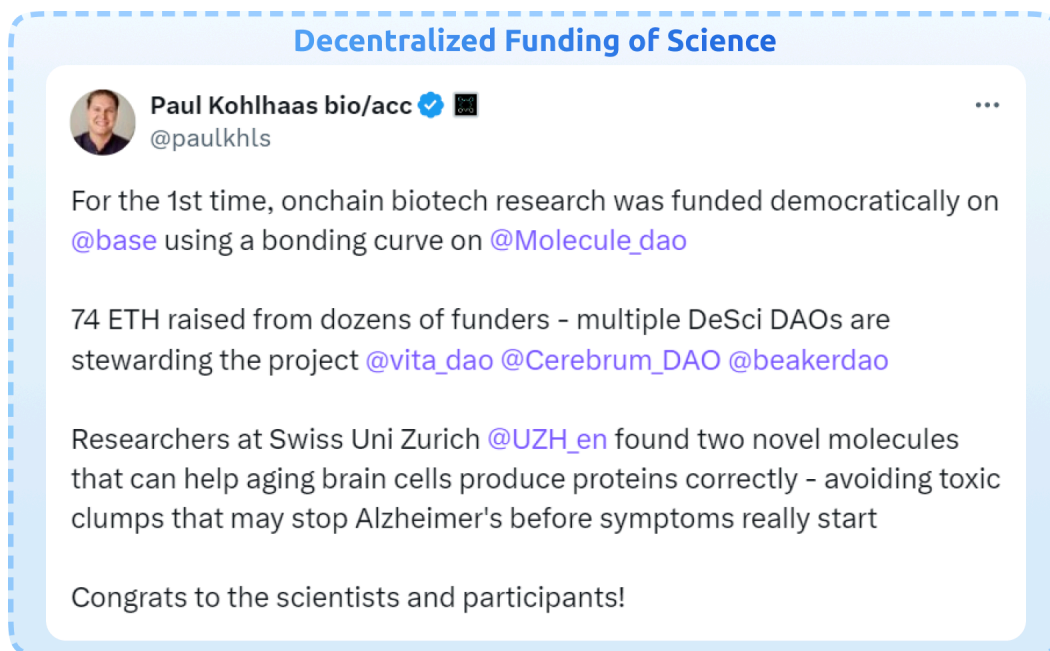
Decentralized Science (DeSci) aims to address these obstacles through the Web3 stack, which broadens access to scientific knowledge and lowers barriers to entry. By tokenizing intellectual property and adopting crowdfunding models, DeSci opens alternative paths to fund and monetize research.

For instance, DeSci can transform biotech by making it significantly more capital-efficient through open capital formation and community-led drug discovery. This model democratizes the funding, development, and commercialization of scientific research, allowing communities to directly contribute to and benefit from breakthroughs.

Today's biotech landscape is complex, costly, and exclusive. Traditional biotech investment involves navigating academic institutions, technology transfer offices, and specialized networks, with limited space for patients or the public to influence therapeutic solutions that directly affect them. As a result, biotech faces a slow and high-risk environment, where only about 1 in 10,000 therapeutic projects succeed.

The emergence of DeFi and blockchain technology offers a new framework for addressing these issues. DeSci leverages these technologies to establish open, transparent funding mechanisms, enabling communities—including patients, science

enthusiasts, and retail investors—to support and invest in scientific research and drug discovery.



Source: [Paul Kohlhaas \(X\)](#)

The role of communities in this model is essential. Engaged and knowledgeable groups, such as patient advocacy organizations and online forums, bring unique perspectives and fresh ideas. Their involvement in drug discovery drives more targeted and efficient research, prioritizing real-world needs and outcomes. This not only accelerates therapy development but also aligns research with those directly affected.

DeSci promotes decentralized decision-making and transparent, inclusive governance throughout the scientific process. This could lead to decentralized regulatory bodies that operate more efficiently than traditional institutions, accelerating the approval of new therapies. Additionally, by bundling biotech assets into decentralized megafunds, DeSci distributes risk across multiple projects, reducing financial burdens on individual ventures and improving overall success rates.

Beyond improving biotech efficiency, DeSci reshapes the relationship between patients, the public, and the scientific community. It enables communities to play an



active role in treatment discovery and development, creating a more patient-centered paradigm to healthcare innovation. By lowering participation barriers and promoting collaboration, DeSci holds the potential to drive therapeutic breakthroughs powered by those who stand to benefit most.

**DeSci Becoming Real**

 **Akshay BD** ✓  
@akshaybd

DeSci is coming. Here's an example of crypto playing a constructive role in advancing public health.

[@Hippocrat\\_io](#) crowdsourced a research report to identify potential regions where Hippocrat's telemedicine application 'Hippdoc' could be effectively deployed to bridge the healthcare accessibility gap. The study will now inform their expansion.

The researchers found that telemedicine can help increase healthcare access to underserved populations -- such as rural elderly Puerto Ricans, people in Middle Eastern conflict zones, immigrants in the US, Indians, and Europeans -- particularly those with better access to internet and video calling technology.

Source: [Akshay BD \(X\)](#)

## RWAs Adoption, Speculation and Clarity



***I defined my task as engaging in arbitrage between my own judgment and the prevailing view.***

– George Soros

Crypto has long been dominated by speculative trading, where the pursuit of quick profits often overshadows sustainable, value-driven investment strategies. While lucrative for a few, this speculative environment has led to widespread losses for most. As the market matures, there is growing demand for more stable and reliable strategies.

Historically, DeFi has attracted speculative inflows, fueling volatile, unsustainable growth. RWAs, however, offer a fundamentally different value proposition by linking digital assets to real-world assets.

Unlike the zero-sum nature of speculative trading, RWAs create a stable foundation through the tokenization of assets like real estate, commodities, and financial instruments, enhancing liquidity, transparency, and accessibility on the blockchain. While RWAs hold massive potential and are rightly seen as a key driver of adoption, the industry has yet to implement them effectively.

In bear markets, investors often shift to real-world adoption and revenue-generating opportunities, seeking stability in assets like U.S. T-bills. In bull markets, however, they are drawn to high-growth, high-risk opportunities. This dichotomy highlights the challenges of sustained interest in RWAs as narratives quickly pivot to new trends like AI, ETFs, or DeFi primitives such as restaking.

In traditional finance, businesses with stable cash flows are valued for their predictable revenue streams. In crypto, however, protocols and decentralized networks are the primary assets. These entities, driven by transformative technology and disruptive potential, generally do not generate immediate cash flows or align with traditional

valuation models. As a result, while RWA protocols often gain attention in bear markets, they rarely outperform during bull cycles.

Valuation models focused on consistent cash flows can be limiting in crypto. They tend to overvalue cash-generating businesses that rarely achieve significant value appreciation. This discrepancy often arises as a minority of participants, particularly from traditional finance, apply similar valuations to these protocols, skewing the risk curve and creating scenarios where perceived value lacks broader consensus or clear demand.



Source: [Fishy Catfish \(X\)](#)

The shift toward RWAs is fueled by a growing demand for regulatory clarity within the crypto industry. As the market evolves, regulatory-compliant RWAs are crucial for building trust and expanding the appeal of blockchain-based financial products. While the current lack of regulation presents challenges, it also creates an opportunity for forward-looking policies.

Major economies, particularly the U.S., can lead this shift by establishing transparent, innovation-friendly regulations, creating a benchmark for global standards. As RWAs gain momentum, they are well-positioned to thrive in an environment where compliance is increasingly important.

For RWAs to succeed on-chain, the industry must bridge the gap between the standards and expectations of traditional finance and the unique characteristics of crypto. This requires creating frameworks that extract the potential of decentralized networks while aligning with established valuation principles—whether on public chains with freely tradable tokens or private chains without them.

Tokenizing RWAs on public blockchains has the potential to democratize access to global financial markets, dismantling barriers that have historically limited participation for individuals in regions like China or Africa.

The ability to fractionalize assets, such as U.S. Treasuries, is also groundbreaking. Imagine a world where anyone, anywhere, can own a fraction of a U.S. Treasury bond, regardless of the investment size. This broadens access while introducing new levels of liquidity and financial inclusion currently beyond reach in traditional financial systems.

## The Growing Influence of Stablecoins

***We are not here to merely create isolated tools and games but to build holistically towards a more free and open society and economy, where the different parts—technological, social, and economic—integrate harmoniously.***

*– Vitalik on the cyberpunk manifesto*

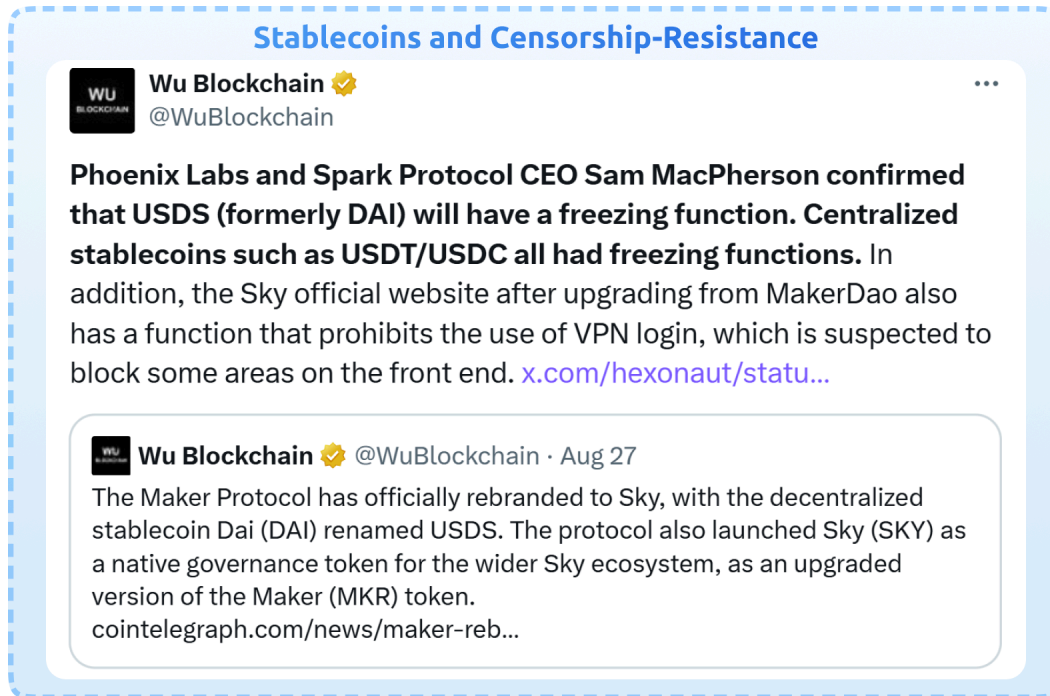
The impact of RWAs is perhaps best illustrated by the widespread adoption of stablecoins. While many crypto assets remain speculative, stablecoins have become the most widely used digital assets, accounting for over 80% of daily crypto trading volume. This high adoption and velocity reflect a strong demand for stability and practical use within the crypto ecosystem.

With over \$150 billion in circulation, stablecoins have surged since 2020, offering fast settlement, self-custody, and programmability. They are especially popular in emerging markets like Brazil, Argentina, Indonesia, and Turkey, where inflation, hyperinflation, and limited access to USD banking make stablecoins a compelling alternative for storing value and transactions.

Stablecoins are also essential for onboarding users into RWAs. As the market for stablecoins grows, it creates a foundation for RWAs to develop a wide array of financial products, creating a symbiotic relationship that can drive the potential of both asset classes.

Like other disruptive technologies, stablecoins initially operated without regulatory approval, gained significant traction, and now influence regulatory considerations. Just as YouTube, Uber, and Airbnb became too popular to fully restrict, stablecoins like Tether have thrived by providing an essential service—digital dollars outside the traditional banking system.

Despite criticisms, particularly around illicit activity, stablecoins have incorporated KYC measures, including account blacklisting, showing some alignment with law enforcement requirements.



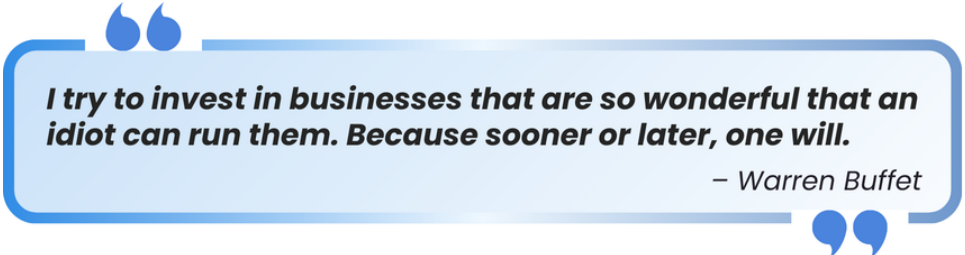
Source: [Wu Blockchain \(X\)](#)

In DeFi, synthetic dollars like Ethena's eUSD and Elixir's deUSD represent a new ideology, reducing reliance on the traditional financial system while directing revenue back to token holders. Unlike Tether and Circle, which retain generated revenue, these synthetic dollars use perpetual funding rates in DeFi, creating yield in collaboration with crypto-aligned participants, including both centralized and decentralized exchanges.

# How Crypto Redefines Consumer Trends

## Section 12

# How Crypto Redefines Consumer Trends



***I try to invest in businesses that are so wonderful that an idiot can run them. Because sooner or later, one will.***

– Warren Buffet

The rise of stablecoins has provided essential utility, enabling the first tangible on-chain consumer applications and allowing users to engage with blockchains in meaningful ways.

DeFi protocols expanded on this by tokenizing complex forms of value, supporting services like lending, borrowing, trading, and yield generation. These protocols represent the first on-chain applications with genuine product-market fit. However, they still face challenges, including security risks, regulatory obstacles, and fragmented capital, all of which complicate user loyalty and growth.

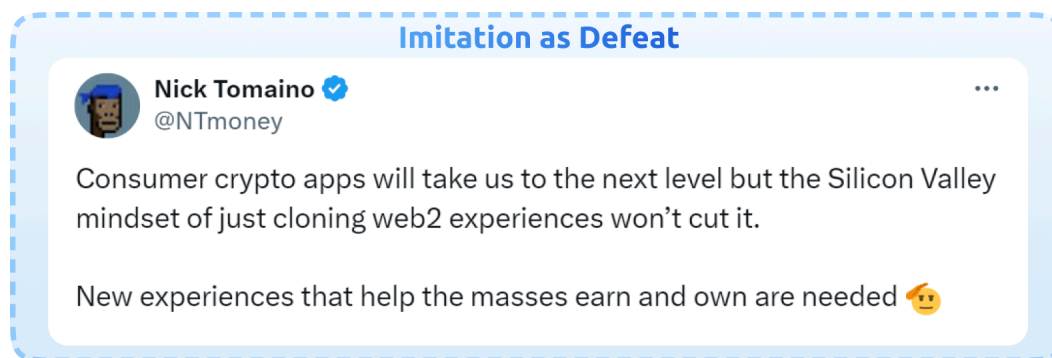
New consumer applications are now integrating with existing Web2 infrastructure to improve user experience, focusing on social engagement and loyalty. This next generation of applications prioritizes social capital, moving from purely financial incentives to building communities and creating long-term engagement.

Consumer crypto focuses on driving the adoption of blockchain-based applications for everyday use, reaching billions of people globally. It represents a critical frontier in the industry's growth, with the goal of embedding crypto seamlessly into daily life for mainstream adoption.

For consumer crypto to succeed, it should focus on building upon familiar user behaviors and enhancing them with better incentives. People are unlikely to leave trusted platforms like Instagram or TikTok purely for the novelty of decentralization. Instead, consumer crypto will gain traction by subtly integrating blockchain into everyday activities, offering greater rewards and a richer user experience.



For crypto to reach billions, it should enhance the platforms people already enjoy, making familiar actions more rewarding. By blending digital and real-world experiences through gamification, incentives, and practical utility, blockchain can add value to activities people already engage in, making adoption feel natural rather than forced.



Source: [Nick Tomaino \(X\)](#)

We've continued to emphasize "where we are in the cycle," implicitly reinforcing the idea of market cycles and the assumption that investors and builders have limited ability to align technological progress with seasonal volatility. This perspective conveys a sense of insecurity, suggesting that our technological advancements aren't keeping pace with broader industry milestones.


Crypto has the potential to shape all facets of culture, from news and politics to sports, health, music, live streaming, and podcasting. Consumer behaviors with massive reach can be impacted by crypto developments. Yet, seasonal volatility has often redirected focus toward achieving parity with traditional financial applications, rather than unlocking the possibilities unique to Web3. For instance, crypto enables digital ownership, allowing anyone to seamlessly become an asset owner and participate in the digital economy on multiple levels: read, write, and own.

We know that current user experience (UX) challenges hinder adoption, but even with improvements to create a more user-friendly, seamless UX, Web3 is unlikely to replace Web2 entirely. To succeed, we need to redefine the game.

For blockchains, this means innovating around public goods funding and grant initiatives. For decentralized applications, it involves leveraging the gamification potential of tokens to reward early adopters and frequent users, keeping "customer acquisition" in the background.

The attempt to convert Web2 UX into Web3 UX has largely been ineffective—no one wants Web2 to be more cumbersome, where every click is an on-chain transaction, even if affordable. Competing directly with Web2 is counterproductive; instead, we should focus on redefining our role through creative solutions that foster positive-sum behavior. This journey is ongoing, and the objective isn't to replace nation states with network states but to find a cooperative, middle-ground model.

**Reaching Mainstream Adoption**

 **Mason Nystrom** ✓  
@masonnystrom

Things that are becoming table-stakes for building a mainstream consumer crypto app:

- **Google Auth/Social login** + wallet creation via [@dynamic\\_xyz](#), [@privy\\_io](#), etc.
- **Mobile-first product** - crypto will be mainstream, mobile will be how most users interact with crypto.
- **Easy on/off ramp** via Apply Pay, debit or credit, etc.
- **Abstract crypto complexity** - reduce clicks, swipes over signatures, targeted discovery or algo recommendations, creating the "it just works" feeling.
- **Typical growth tactics** - leader boards, referrals, TikTok, etc. But being creative with growth levers will be a difference maker (e.g. rev shares) for crypto consumer apps.

Source: [Mason Nystrom \(X\)](#)

Examples include eliminating credit card fees, bypassing app store commissions, enabling developers to create permissionless plugins on Web2 platforms, issuing on-chain verifiable reputation badges, and open-sourcing collective intelligence. These

integrations provide real value and encourage collaboration, helping bridge Web2 and Web3 rather than replacing one with the other.



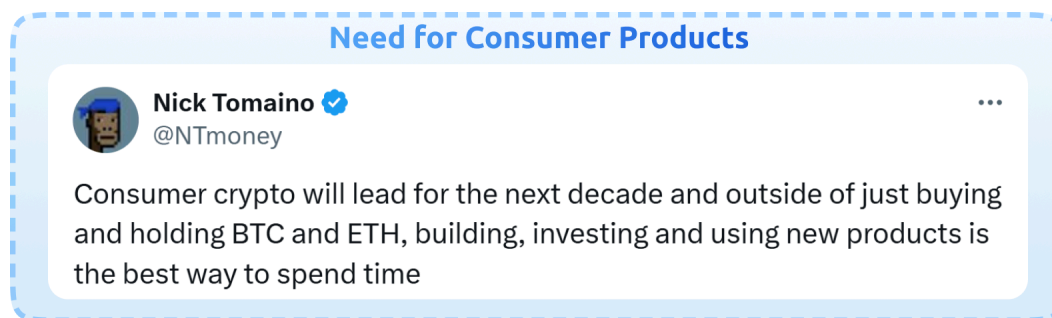
Source: [Jason Choi \(X\)](#)

The consumer market is one of the hardest sectors to succeed in. Success isn't about crypto-native ownership or financialization but about capturing and sustaining user attention over time. Take Polymarket, for example—it may seem like an overnight success, but it was years in the making.

The key is finding a balance between being too purist and too tourist: if it's too purist, it stays niche and limits market size; if it's too tourist, users may engage briefly but then leave, leading to poor retention. To succeed, understand the culture and users deeply, tune out the usual tribal noise, and build a truly unique community.

Loyalty and social connection are becoming essential to a platform's success, especially in DeFi. Platforms are building strong user networks to encourage engagement and commitment, as users are more likely to stay if they feel part of a community.

Incorporating gamified elements, such as Uniswap's acquisition of *Crypto: The Game*, can make platforms more engaging and attract a broader user base. Social capital grows through features that encourage participation and competition, as seen in many DeFi incentive programs.




Source: [Nick Tomaino \(X\)](#)

That said, protocol teams should remember that incentive programs alone are not a sustainable strategy. While financial incentives can initially attract users, long-term engagement requires trust and consistent value delivery.

Uniswap, for example, is exploring revenue models that emphasize social connection over protocol fees. Sustainable growth depends on balancing user incentives with financial health and avoiding over-reliance on unsustainable rewards. Many DeFi applications struggle with retention as users often chase short-term gains, which ultimately undermines platform stability.

## A Consumer-First Approach to Crypto



***Leveraging open and modular social graphs unlocks unprecedented potential to transform and elevate the consumer experience.***

– Kimmo Sirén

In 2025, crypto and blockchain will drive advancements in business models and consumer behavior. The focus will shift to viewing crypto and blockchain as enablers, enhancing and creating new consumer experiences.

We believe crypto should complement—not disrupt—existing businesses by adding value for consumers. We also view the concept of “Web2.5” as a distraction. To improve current experiences and create new ones, it’s essential to work at the edges. On one end, existing businesses can integrate blockchain to enhance consumer experiences, while on the other, entirely blockchain-native businesses will emerge.

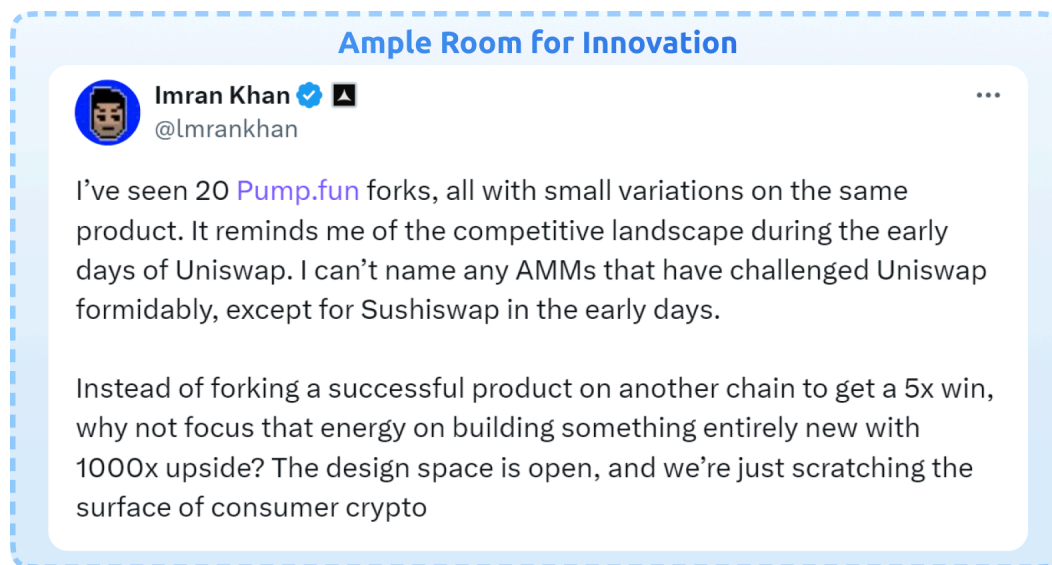
In 2024, these two ends of the spectrum became more distinct: blockchain-native consumer behaviors are increasingly niche and experimental, while blockchain-light products simplify the technology for a more seamless experience.

On one side, businesses incorporate blockchain within traditional models; on the other, blockchain disrupts these models through native incentives and engagement mechanisms. This suggests consumer applications must be either expansive or disruptive—anything in between is unlikely to succeed.

One key insight from the market is that many companies developing consumer applications are also building complementary infrastructure. This dual focus has accelerated the growth of crypto applications, with some of today’s most promising solutions relying on infrastructure developed as recently as a year ago. Examples include gaming studios creating SDKs or NFT frameworks, wallet providers improving

transaction signing, and the establishment of standardized royalties or on-chain loyalty programs.

When investing in consumer-facing blockchain products, it's important to recognize the diverse consumer segments within crypto. Focusing solely on "crypto-native" consumers could mean missing broader market opportunities. Instead, we should evaluate opportunities based on proven success, staying power, and potential to reach broader markets.



Source: [Imran Khan \(X\)](#)

Consumer disruptions often begin as seemingly inferior alternatives but evolve and improve. Napster, for example, disrupted the music industry by making music accessible online, which ultimately led to the creation of a digital economy rather than ending music distribution.

We believe that while a seamless, frictionless user experience is essential for onboarding new users, wallet-centric applications still hold significant potential. The goal isn't to replace established wallets like Metamask or Phantom but to transform wallets into integrated identity and payment hubs. These wallet-centric experiences can enhance user interaction and drive adoption by consolidating Web2 customer relationships into a unified Web3 payment and identity solution, giving users greater control over their assets and preferences.

## Build Products, not Crypto Products



**OxDesigner** ✓  
@0xDesigner



spent some time reflecting on why i've been so unmotivated to try new apps lately.

i think it's in part because there aren't enough apps taking advantage of my portable data.

if i have to create a username, add an email, deposit funds, select preferences, follow people, etc then i instantly close the app.

i've already done all these things—i have an ens and farcaster with a pfp and bio set, i have several follower graphs on multiple apps, i own thousands of nfts and years of transactions that represent my interests, and i have all kinds of funds on many chains in my wallet.

at this point, as a consumer, my expectation is to just connect my wallet and have everything populated.

i should NEVER have to experience a cold start or onboarding flow again. i should never have to feel like a first-time user.

this is crypto's unique advantage. it's the most magical part of being a crypto native.

why aren't more apps taking advantage of it?

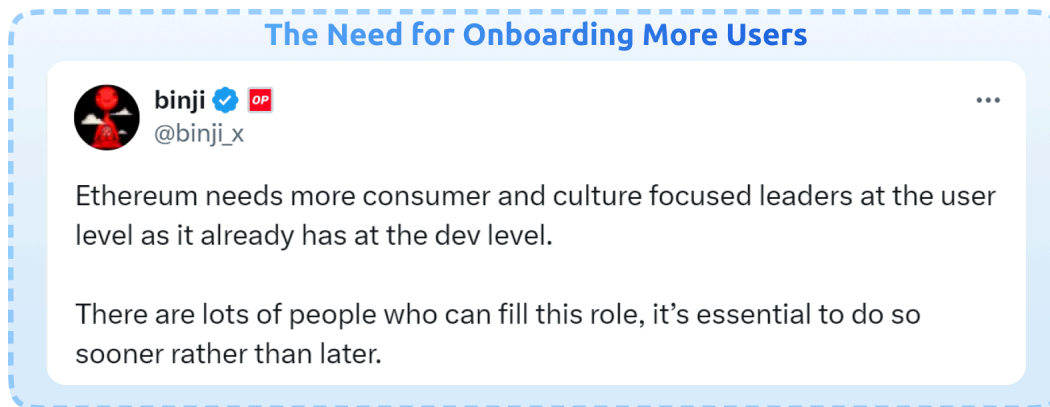
Source: [OxDesigner \(X\)](#)

Today, users must navigate specific dApps to perform tasks. In a wallet-centric future, the wallet becomes the central hub, adapting to the user's attention and needs. For example, users could refinance a loan from Aave to Morpho, place bets on football games linked to Farcaster, tip a creator, or claim an airdrop—all directly within the wallet, where their capital is held.

Potential buyers and integrators for this category include Web3-native apps targeting existing users, Web3 businesses expanding to the mass market, traditional Web2

companies targeting high-net-worth Web3 users, and larger firms aiming for mass adoption. Each segment brings unique needs and challenges, creating significant growth opportunities.

Currently, multiple projects are developing the essential components of a wallet-centric experience stack, including solutions for key management, smart accounts, authentication, minting platforms, and wallet connector libraries. These projects are competing to become the leading solution in this rapidly evolving sector.



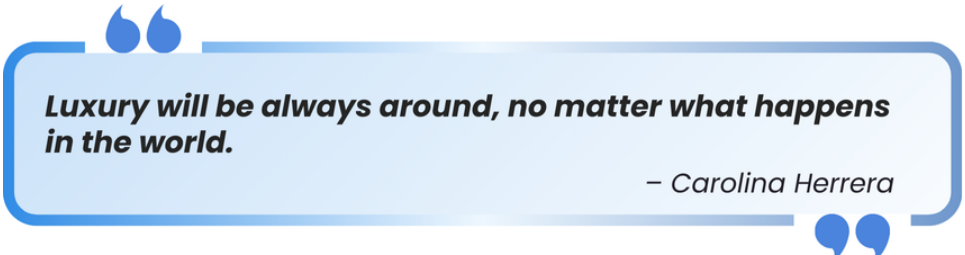
Source: [binji \(X\)](#)

Improving UX alone won't eliminate value risk in Web3, but it's essential for mitigating it. Reputation-based incentives are critical here. Airdrops, once popular, have become gamed and controversial, offering diminishing returns. Teams are now gathering data on users to build stronger localized reputations, gradually expanding to global reputation-based metrics across ecosystems.

With public keys tied to all user activity, we gain a system of persistent identity. The goal is to base incentives not only on actions within a single ecosystem but on reputation and engagement across multiple. Genuine users who demonstrate positive behaviors can bring their past actions into new contexts, building their reputation and encouraging positive participation.



## Bridging the Gap Between Brands and Crypto



***Luxury will be always around, no matter what happens in the world.***

– Carolina Herrera

The intersection of luxury brands and crypto presents a promising opportunity to meet the rising digital demand for fashion and luxury products. Despite the 2023 NFT hype that yielded limited real-world utility, “digi-physical” experiences could still be the key Web3-native integration needed to transform loyalty programs into effective customer engagement and retention strategies.

Historically, luxury brands were cautious about the internet, concerned it could dilute their prestige. Yet for brands like Gucci, TAG Heuer, Balenciaga, FARFETCH, Off-White, and Equinox, embracing crypto has become an intuitive way to capture consumer spending power in the digital space.

This intersection feels natural and unforced, as the audience for both luxury brands and crypto shows significant overlap—primarily males aged 18 to 25, largely from Gen Z and millennials, who together drive much of the growth in global luxury sales.

As crypto adoption grows, luxury brands have a unique opportunity to gain a competitive edge by capitalizing on FOMO, crafting strategic campaigns, and engaging influencers and media outlets to expand their audiences.

## The Publisher-Exchange Model

***Tell me what you pay attention to and I will tell you who you are.***

– Jose Ortega y Gasset

The publisher-exchange model, introduced by Multicoin Capital in their *Attention Theory of Value*, is now closer to reality with tools like Farcaster Frames and Solana Blinks. This model merges commerce and finance by enabling the direct monetization of whatever captures consumer attention, reducing friction for consumers to purchase products or services online through distribution channels.

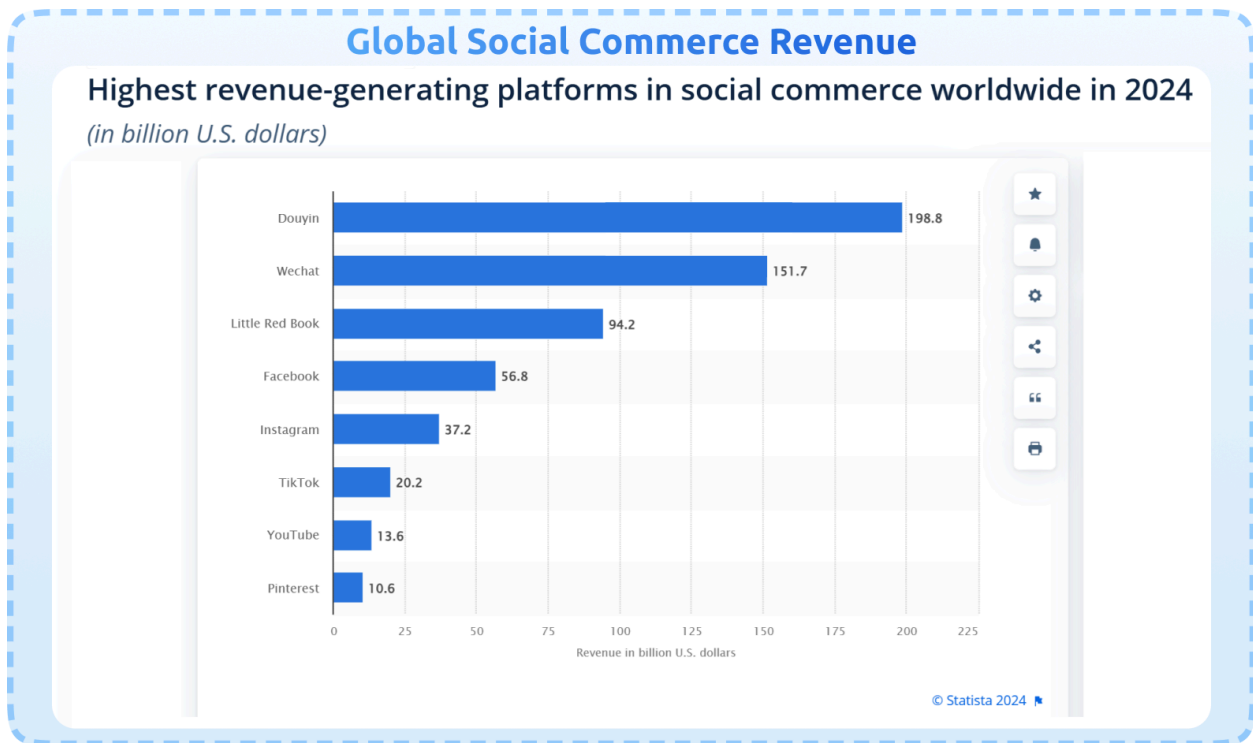
Traditionally, publishers like Instagram, Spotify, and YouTube focused on capturing user attention, while exchanges such as PayPal, Robinhood, and Coinbase managed financial transactions. Combining these roles into a single entity, the publisher-exchange, marks an important paradigm shift in how value is transacted on the internet. Through this integration, users can make purchases directly on content platforms, eliminating traditional barriers between browsing and buying.

This transformation is underway, with examples like Spotify's Merch Bar, Instagram Live Shopping, and TikTok Shop, where content creators sell products directly on the platforms. These integrations are turning content platforms into powerful commerce engines, tightly linking attention with transactions.

Embedded experiences offered by tools like Telegram mini-apps, Farcaster Frames, and Solana Blinks provide a unique advantage for crypto applications. Web2 platforms like X, Facebook, or Instagram can't replicate this seamlessness, often relying on integrations like Apple Pay for transactions on their platforms.

Web3 primitives bring even greater potential to publisher-exchanges by using blockchain to merge financial and content-driven experiences. Unlike Web2, where publishers and exchanges operate in silos, Web3 enables a unified structure. For

example, the introduction of Frames allows interactive, value-driven experiences within applications, supporting in-app trading or native ads that provide protocol-issued credit.

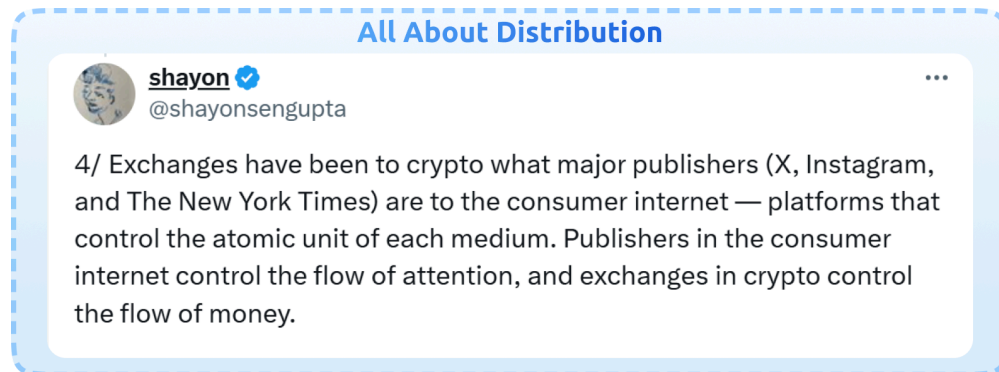


Source: [Statista](#)

Web3 publisher-exchanges offer users more than just a platform to interact on; they offer ownership, incentives, and direct participation, potentially disrupting traditional ad-driven revenue structures. Platforms like Farcaster and Polymarket exemplify this, allowing users to engage in social networks and prediction markets equipped with financial tools.

As Web2 platforms begin to incorporate crypto payments, the barriers to mainstream crypto adoption will gradually lower. The demographic overlap between crypto users and publisher-exchange audiences indicates a natural progression toward integrating crypto payments, particularly as younger generations prefer digital-first experiences and instant access.

Additionally, the benefits of crypto payments such as seamless value exchange, real-time rewards, and enhanced privacy offer significant advantages over traditional payment systems. This makes crypto an attractive option for Web2 publisher-exchanges aiming to evolve and meet the needs of a digitally native audience.



Source: [shayon \(X\)](#)

## On Current Consumer Adoption

***Speculators buy the trend; investors are in for the long haul; 'they are a different breed of cats.' One reason that people lose money today is that they have lost sight of this distinction; they profess to have the long term in mind and yet cannot resist following where the hot money has led.***

*– Edwin Lefèvre in Reminiscences of a Stock Operator*

Competing against established brands and the distribution channels of large companies is challenging, and building in crypto only amplifies this difficulty. Massive platforms like YouTube, X, and Instagram already dominate distribution and employ the best recommendation algorithms, consistently drawing users back.

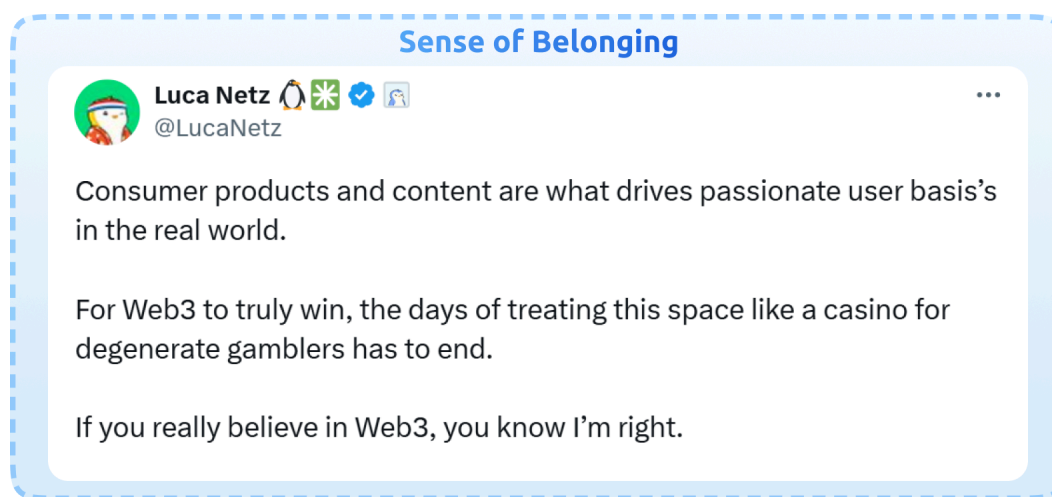
Similarly, messaging apps like Discord, Telegram, and WhatsApp are entrenched and effective enough that users aren't eager to switch, especially to newer platforms whose longevity is uncertain.

However, a new strategy is emerging where crypto apps are not aiming to directly compete with or replace these giants. Instead, apps like Farcaster target distinct audiences, with teams that understand market dynamics and the importance of operating lean and monetizing early. By capturing revenue from the outset and leveraging waves of virality—even if temporary—these apps create sustainable momentum.

The initial phase of consumer crypto adoption centers on discretionary spending, with businesses focused on leisure and personal enjoyment. These applications align with viral consumer behaviors, covering categories like gaming, social platforms, trading, betting, and digital collectibles. Their appeal lies in addressing Web2 pain points such as high fees, geo-restrictions, and censorship, providing a decentralized, cost-effective experience that drives early crypto adoption.

As adoption grows, the focus shifts to essential spending, integrating crypto into more functional aspects of life. This phase includes categories like DeFi, DePIN, SaaS, digital media, digital commerce, and payments, embedding crypto more deeply into daily routines and broadening its appeal to a wider audience.

In the final wave of adoption, blockchain becomes integral to nearly all essential parts of life, covering applications like online banking, credit, RWA tokenization, insurance, data, IoT, identity verification, and voting systems. Here, blockchain's full potential is realized, enabling users to conduct virtually every essential part of their lives on-chain.



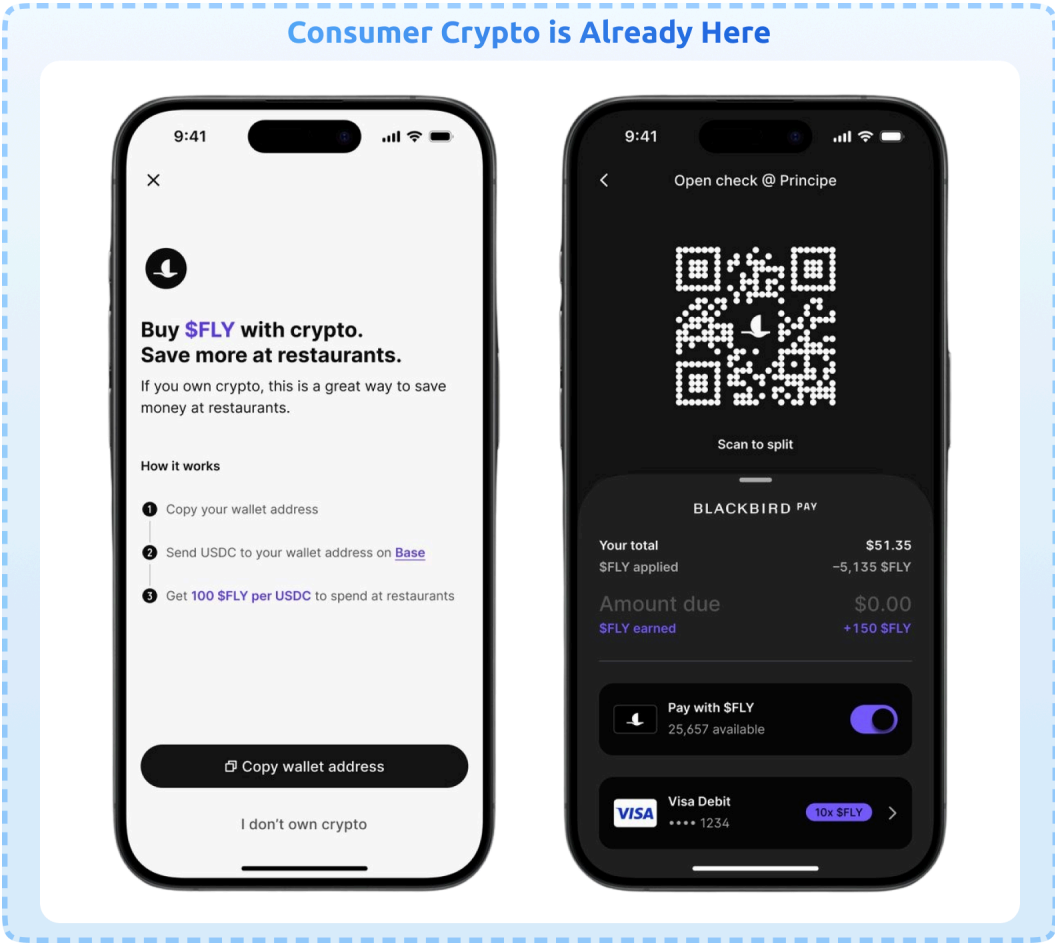
Source: [Luca Netz \(X\)](#)

Yet, despite a seemingly clear path to mass adoption, crypto has struggled to gain mainstream traction. This challenge largely stems from the broad focus of general-purpose blockchains that attempt to serve all potential use cases without a targeted strategy to draw in a wide user base. These blockchains often prioritize infrastructure over user experience, resulting in slow adoption and limited appeal for the general public.

Without substantial mainstream adoption, the industry risks remaining a niche for speculative trading and gambling, limiting its broader potential. By emphasizing consumer crypto, the industry can redefine itself, unlocking new opportunities for growth and bringing the benefits of blockchain to millions worldwide.

Consider, for example, the potential to shift consumer behavior through points-based systems that combine loyalty programs with token incentives. This could even transform how users pay for specific products and services.

In 2024, Blackbird introduced Blackbird Pay, a crypto payments network designed to reduce costs for restaurants while increasing revenue. It allows users to purchase \$FLY points with \$USDC, which can be used to pay for meals at participating restaurants.



Source: [Veradi Verdict](#)

By charging a 2% processing fee—50% lower than traditional processors—Blackbird Pay offers a cost-effective solution for restaurants. As more restaurants join the network and offer perks to attract customers, a flywheel effect could emerge, where consumer loyalty drives restaurant adoption, and vice versa.

# Crypto x AI: A Synergistic Outlook

## Section 13



# Crypto x AI: A Synergistic Outlook

***When the great innovation appears, it will almost certainly be in a muddled, incomplete and confusing form. To the discoverer himself it will be only half understood; to everybody else, it will be a mystery. For any speculation which at first does not look crazy, there is no hope.***

– Freeman Dyson

When betting on the convergence of crypto and AI, you should consider the thesis as something to be “memed” into existence. Enthusiasts on both tails of the bell curve believe this sector can reach \$1 trillion in market cap, with claims that AI tokens should rival NVDA’s valuation or even exceed OpenAI when considering FDVs.

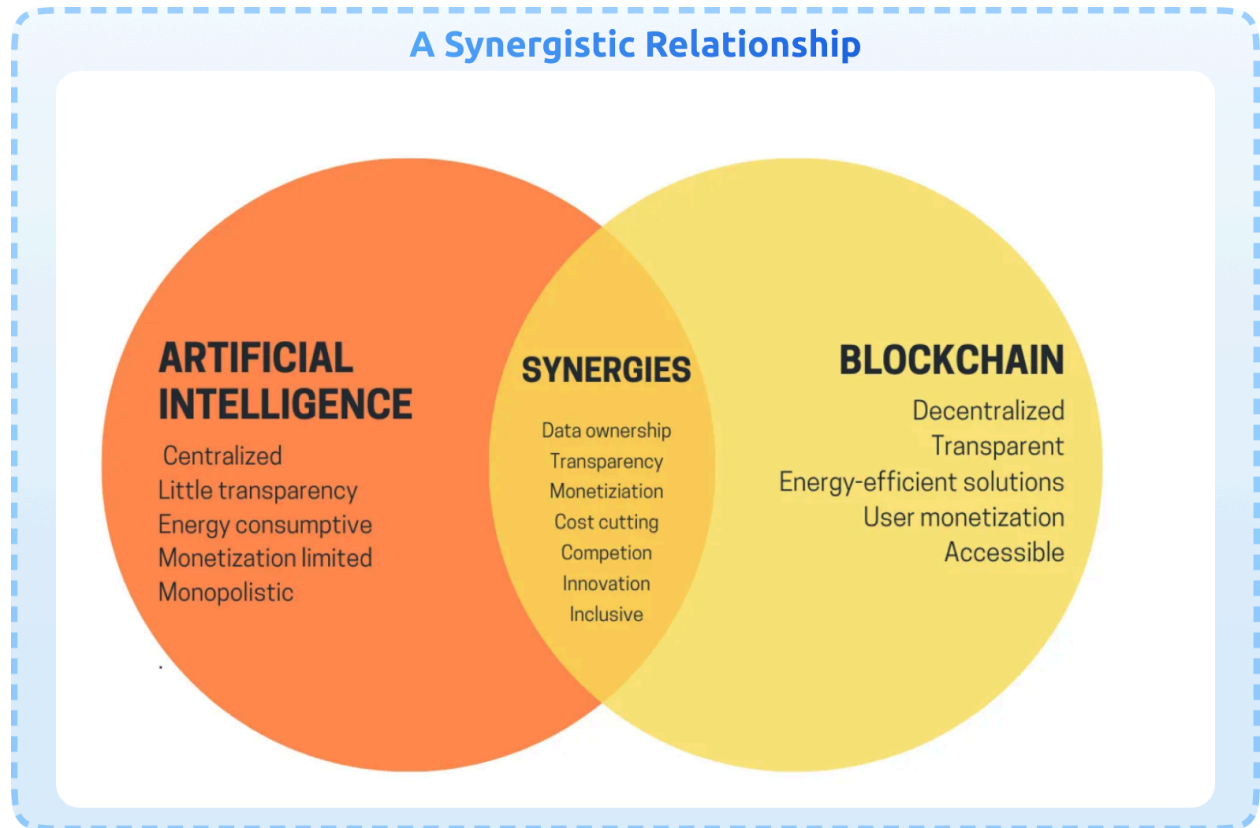
Crypto and AI, both founded on open-source principles, have been among the most transformative forces in tech over the past decade. The likelihood of their intersection only grows over time, and the potential synergy—especially by combining Large Language Models (LLMs) with Zero-Knowledge Proofs—is compelling.

Currently, AI’s integration with traditional financial systems is limited by regulatory hurdles, opacity, and reliance on intermediaries. Crypto offers alternative payment methods with faster settlement and programmable, censorship-resistant transactions.

Similarly, while Web2 data providers often retain mutable, impermanent records, Web3 promotes open, uncensorable information flows that AI agents could access permissionlessly. Taken to its extreme, this frames Web2 as the internet for humans—“human-centric”—while Web3 evolves as the internet for intelligent machines, “software-centric and human-adjacent.”

We are still far—but closer than ever—from experiencing our “crypto GPT” moment. For crypto, AI introduces a new level of sophistication and possibility. Leveraging AI, blockchain platforms can enhance user experience, enable more creative and complex

on-chain use cases, and empower DAOs. This not only expands the potential of crypto applications but also strengthens the infrastructure that supports them. AI can drive real breakthroughs at both the application and infrastructure layers.

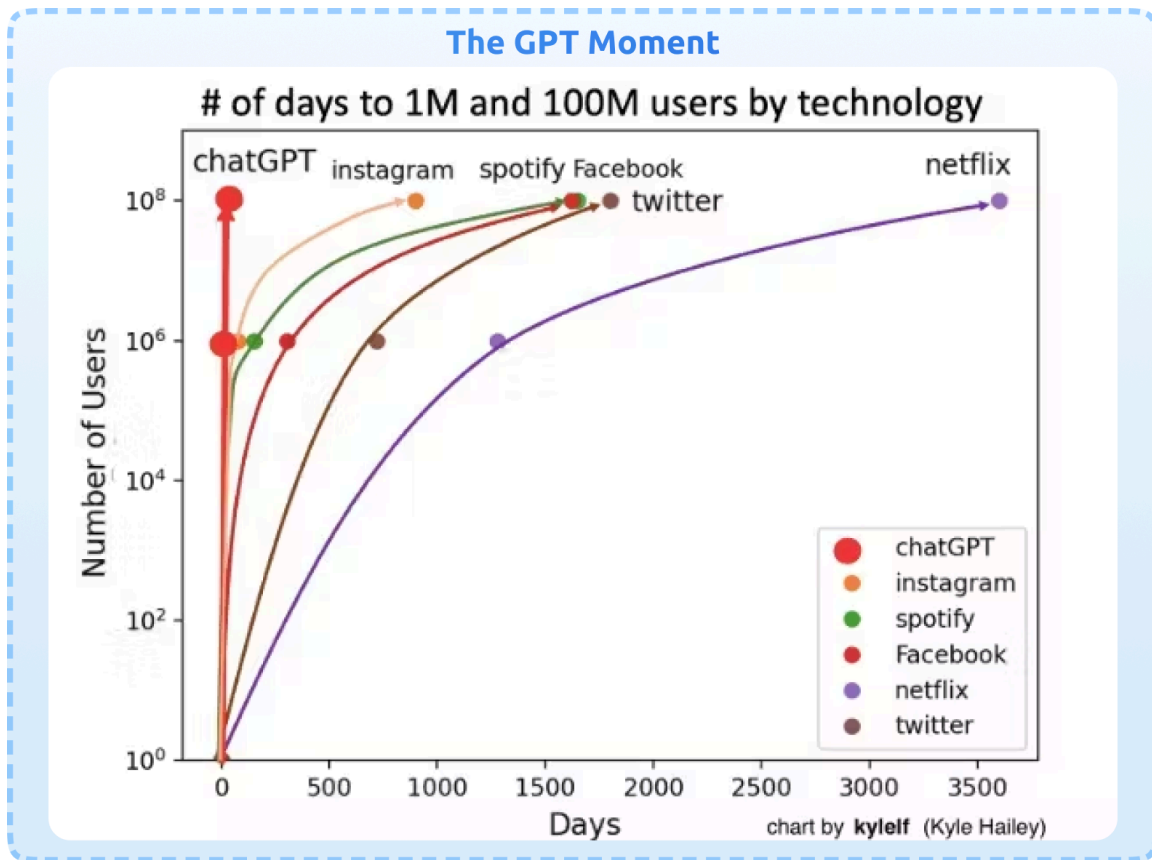


Source: [Aylo | alphaplease.com](https://aylo.io/alphaplease.com)

Though a fully realized “crypto GPT” moment remains distant, we are closer than ever. For crypto, AI adds sophistication and new possibilities. By leveraging AI, blockchain platforms can enhance user experience, enable more complex on-chain applications, and empower DAOs. This not only expands the potential of crypto applications but also strengthens the infrastructure supporting them.

Conversely, crypto offers AI solutions to key challenges, such as verifying data authenticity and model provenance. With its immutable ledger, crypto promotes coordination among open-source models and datasets, encouraging a more

collaborative and efficient environment for AI development. It also supports the bootstrapping of compute and data resources, enabling AI projects to scale effectively.



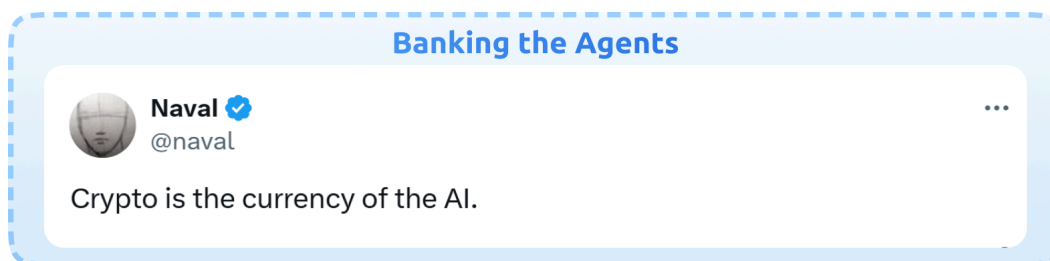
Source: [Aylo | alphaplease.com](https://aylo.com/alphaplease.com)

Sentiment analysis remains the most effective indicator for generating strong returns in trading the “crypto x AI” narrative. Absent insider information, trading strategies should focus on understanding and leveraging market sentiment. Rather than relying solely on narratives or technological advantages, successful trading often hinges on reading and capitalizing on shifts in sentiment.

The case of \$WLD serves as a strong example: despite concerns around its inflated FDV and supply cliffs from ongoing grants, its association with Sam Altman and \$NVDA, as well as perceived potential for further re-rating, continue to attract investors.

AI development has largely been top-down, driven by prestigious research labs like OpenAI and methods rooted in probability and statistics, such as diffusion models and LLMs. In contrast, crypto's path has been bottom-up, beginning with modest origins but ultimately building a solid foundation through deterministic, procedural methods like cryptographic verification.

These contrasting paths underscore the core nature of each technology: AI represents digital abundance, generating vast data and blurring the lines of reality through simulation, while crypto embodies digital scarcity, emphasizing ownership and authenticity in a digital realm where value is secured through cryptographic methods. AI excels at creation and simulation, while crypto specializes in authentication and verification, making the two technologies naturally complementary.



Source: [Naval \(X\)](#)

The intersection of AI and crypto is especially evident in emerging models like Decentralized Physical Infrastructure Networks (DePINs). DePINs harness the collective power of user-owned networks to support global AI inference, directing ownership and rewards to users who actively operate and maintain the network. This stands in stark contrast to the often misaligned incentives in centralized Web2 operations.

Additionally, crypto-economic incentives, such as block rewards and proof-of-work, empower decentralized networks to operate independently of central authorities, aligning participant incentives to support network stability and integrity. As AI scales and crypto continues to secure digital assets, their convergence will drive resilient, decentralized, user-owned digital ecosystems.

The push for open-source AI is both ethical and practical, countering restrictive calls for AI regulation. Regulations grounded in fear rather than rational evaluation risk stifling critical advancements in areas like medicine and other essential sectors.


#### Open Source Potential

*And in the end, OpenAI doesn't matter. They are making the same mistakes we are in their posture relative to open source, and their ability to maintain an edge is necessarily in question. Open source alternatives can and will eventually eclipse them unless they change their stance. In this respect, at least, we can make the first move.*

Source: [Reddit](#) - Google Leaked Doc: OpenAI Doesn't Matter

Open-source AI, unlike closed-source models, democratizes access, promotes transparency, and empowers global communities to inspect, improve, and understand AI. It redistributes power from select corporations or governments, helping to prevent centralized control and misuse of AI.

## Compute Hardware and Internet of GPUs



***Like the Internet, Bitcoin will change the way people interact and do business around the world.***

– Erik Voorhees

The demand for AI compute resources is soaring, driven by the rapid expansion of AI applications across industries. This surge is outpacing the available supply of specialized hardware like GPUs, NPUs, and TPUs, creating a substantial market opportunity.

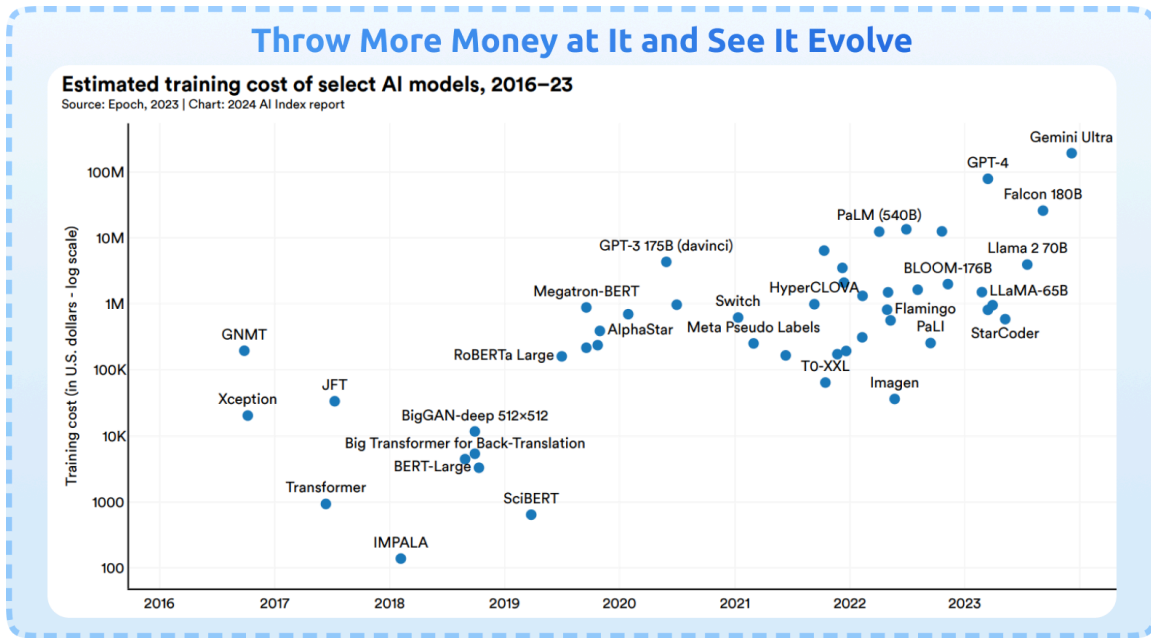
Following the launch of ChatGPT, demand for GPUs far exceeded supply, with wait times reaching up to 11 months. However, supply-demand dynamics are starting to stabilize. Factors such as startups shutting down, improvements in training algorithms and model architectures, the emergence of specialized chips from various companies, and NVIDIA's production ramp-up are increasing GPU supply and driving prices down.

Reduced costs are another significant benefit of the increasing GPU supply. Expanding global GPU availability can substantially lower inference costs, as shown in price comparisons between decentralized and centralized compute providers. This trend is making advanced AI capabilities more accessible and affordable across sectors, fueling further growth. It is also worth keeping an eye on verifiable inference, another field where crypto can play a critical role.

Despite high valuations, there is reason for optimism around the Internet of GPUs (IoG) thesis, first outlined by Multicoïn Capital. Distributed compute marketplaces could meet rising demand by creating shared GPU pools accessible to AI developers and companies. Through token incentives and decentralized infrastructure, these marketplaces can lower costs and expand access to essential compute resources.

The IoG thesis envisions a decentralized network of GPUs, NPUs, and TPUs available on demand to AI developers and companies. By incentivizing participation through

utility tokens, it aims to reduce the costs of acquiring and maintaining supply-side resources. Users can access a range of options, from affordable consumer-grade GPUs to high-performance, enterprise-grade hardware, positioning loG to compete directly with traditional cloud providers rather than with other crypto projects.



Source: [Stanford University - Artificial Intelligence Index Report 2024](https://aiindex.stanford.edu/report-2024/)

Investing in the loG narrative offers a unique opportunity to capitalize on the rising demand for AI compute resources, addressing infrastructure constraints while democratizing access to compute power. Success will hinge not only on reducing costs for users but also on building strong relationships with both the demand and supply sides of the market.

Building out the loG presents challenges, including balancing supply and demand, particularly for high-demand GPUs like Nvidia’s A100s and H100s. Decentralized training adds complexity due to latency, and regulatory and technological hurdles could impact adoption and scalability. However, by proactively addressing these obstacles and leveraging industry-specific knowledge, crypto projects have the potential to capture significant growth in the AI compute market.

## Foundations of On-chain AI Agency



***AI Agents will become our digital assistants, helping us navigate the complexities of the modern world. They will make our lives easier and more efficient.***

– Jeff Bezos, Founder and CEO of Amazon

The concept of agents originates from philosophical works by Aristotle and Hume, where an "agent" refers to any entity capable of intentional action. This classical notion of agency laid the groundwork for today's AI agents, which now possess autonomy, proactiveness, and the ability to interact with their environments.

Evolving from simple tools that followed user commands, modern AI agents can autonomously complete multi-step tasks—like managing schedules or navigating the web without human oversight. This progression makes AI agents vital in shaping the future, moving beyond passive roles to providing proactive support across business, finance, and personal management.

However, AI agents still face significant challenges particularly around data control, access, and centralization. Their dependence on centralized data repositories and APIs limits flexibility—a contrast to crypto's decentralized protocols, which enable open-source contributions and seamless integration across platforms.

Closed AI systems lack the composability achieved in decentralized models, especially in environments restricted by national data controls, which limits the potential of AI agents within traditional infrastructures.

Decentralized base layers offer a scalable solution to these issues, allowing AI agents access to a wider range of applications without the constraints of centralized networks. This also addresses privacy and alignment concerns, ensuring that user data remains protected and that agents operate in the user's best interests rather than serving the financial motives of centralized entities.



As AI agents evolve, the possibility of sovereign, user-owned agents becomes more feasible, aligning with the decentralized and composable principles of crypto. The evolution of AI agents will soon require them to autonomously transfer value, facilitating both human transactions and interactions with other agents.

Initially, these transactions will support services like accessing computational resources or executing specialized tasks. However, as agents gain autonomy, inter-agent transactions will become essential for managing complex tasks effectively. With access to extensive on-chain data and the ability to execute transactions across protocols, AI agents will enhance functionalities in areas like MEV arbitrage bots, market making, and gaming NPCs.



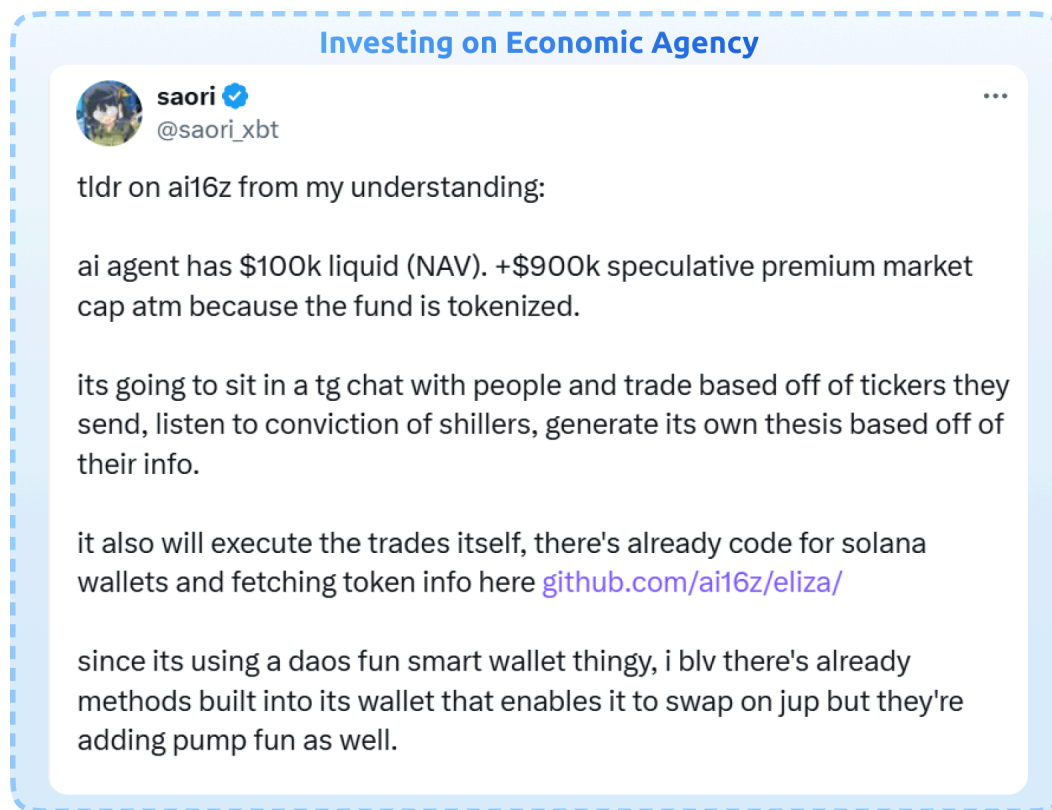
Source: [anand iyer \(X\)](#)

As AI agents gain traction, marketplaces will emerge where users and DAOs can leverage AI services for risk monitoring, token sniping, and more. The alignment between AI and crypto's decentralized nature will enable new business models, driving transformations across industries from finance to supply chain management.

By simplifying complex tasks such as staking, bridging, and token management, smart agents could facilitate mass crypto adoption, allowing users to interact with decentralized systems seamlessly.

One promising, albeit controversial, potential for AI lies in economic agency: the ability to make financially sound decisions and even compound capital independently. OpenAI's early vision posited that AI could eventually create wealth autonomously, functioning as a self-compounding economic agent.

This vision aligns with the core idea of the *Trustless Economic Agency*—a framework where AI optimizes financial decision-making without human bias or subjective influence, continuously iterating toward better judgment.



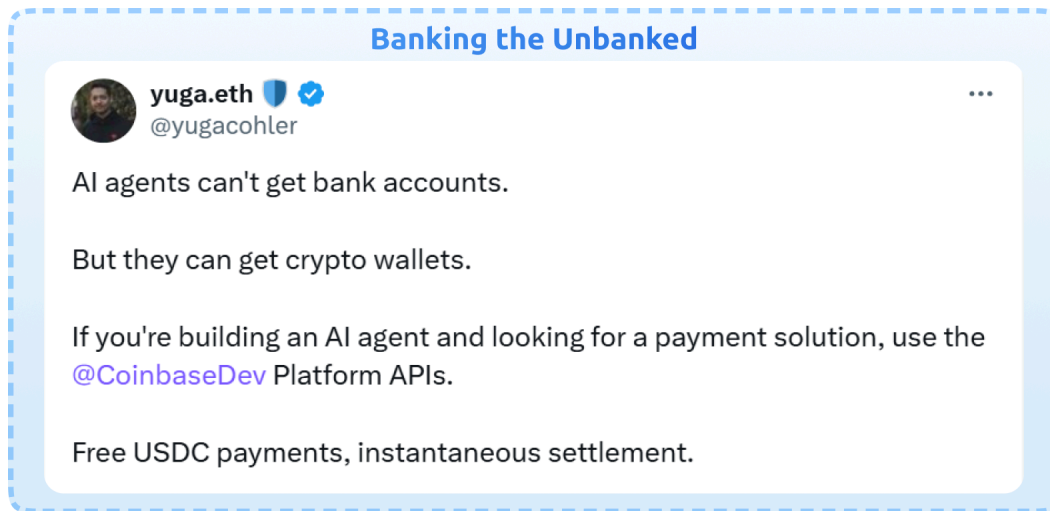
Source: [saori \(X\)](#)

If criteria of success are established in advance, AI can serve as a fair, repeatable arbiter of task completion. However, we must consider the game selection problem: while AI can evaluate and perform tasks on its own, it cannot assess the value of the goals by itself, and those objective functions might be poorly chosen.

Game selection, or choosing meaningful objectives, often outweighs task execution in importance. Once solved, the next iteration involves AI agents cooperating to assess

and route tasks across an “AI hivemind”, creating a force multiplier that drives group efficiency by aligning individual strengths. This is an area where token incentives could facilitate pooling individual resources to achieve shared goals.

Crypto is particularly well-positioned to thrive in a world dominated by AI agents, supporting a multi-agent future where crypto—historically the “weird middle child”—becomes foundational to tech and finance.



Source: [yuga.eth \(X\)](#)

## Data is the New Oil

***The first ultra-intelligent machine is the last invention that man need ever make.***

*– Irving John Good*

In the age of AI, data has become an invaluable asset, often referred to as “digital oil”. With models increasingly resembling one another, large-scale and fast data retrieval becomes essential for gaining an edge over tech giants.

Training large language models relies on three primary resources: compute, energy, and data. Corporations, governments, and startups, all heavily funded, are competing for these resources. A significant portion—up to 80%—of AI model deployment focuses on data preparation, especially when handling fragmented or unstructured data. This process includes vital but complex steps like data exportation and cleansing.

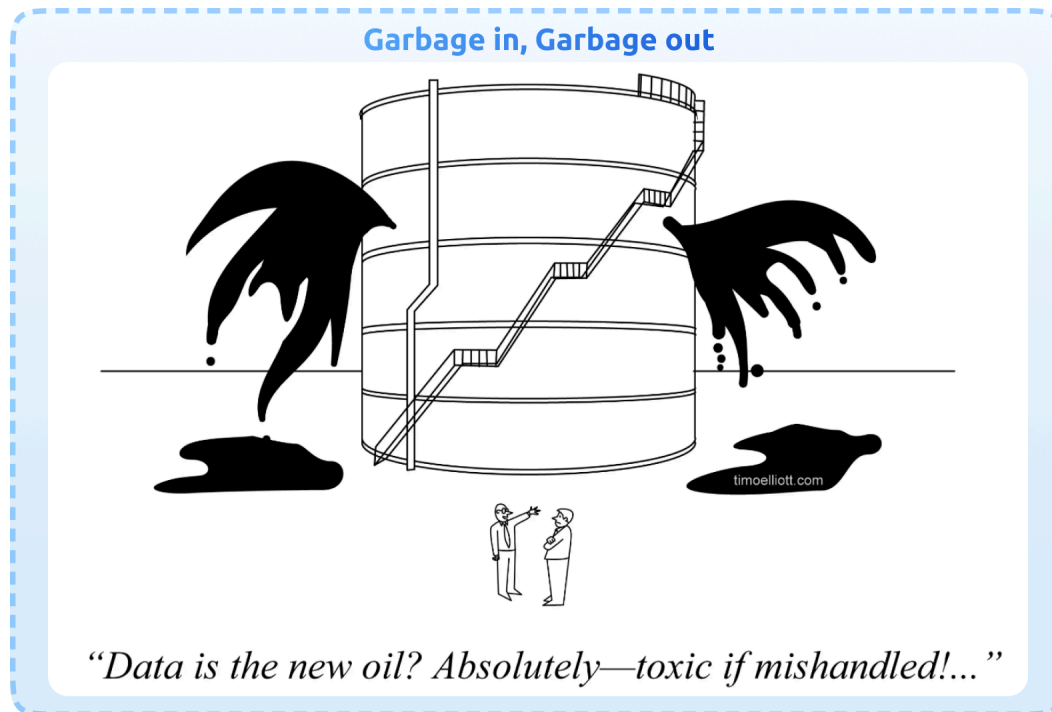
As competition intensifies, many prominent websites, often backed by centralized AI investments, have adopted measures to restrict essential data access to limit smaller competitors. Such practices include blocking IPs from data centers and, in some cases, introducing data poisoning, where companies corrupt shared data to disrupt rivals' AI algorithms.

Data is becoming as strategically important today as oil once was. With GPUs and compute resources now more accessible, the focus is shifting to data access and verification, likely evolving into a multi-trillion-dollar market. By continuously crawling the internet to retrieve real-time data, decentralized networks could offer user-owned alternatives to centralized data monopolies.

James Betker, a research engineer at OpenAI, noted, “trained on the same dataset for long enough, pretty much every model with enough weights and training time converges to the same point”. This highlights that the true differentiator among AI

models lies in the training dataset, with architecture and compute power being secondary considerations.

Essentially, AI models mirror the data they ingest. When we refer to models like "ChatGPT", "Claude", "Mistral", or "Lambda", we're speaking more about the unique datasets that shaped them than their technical specifications alone.

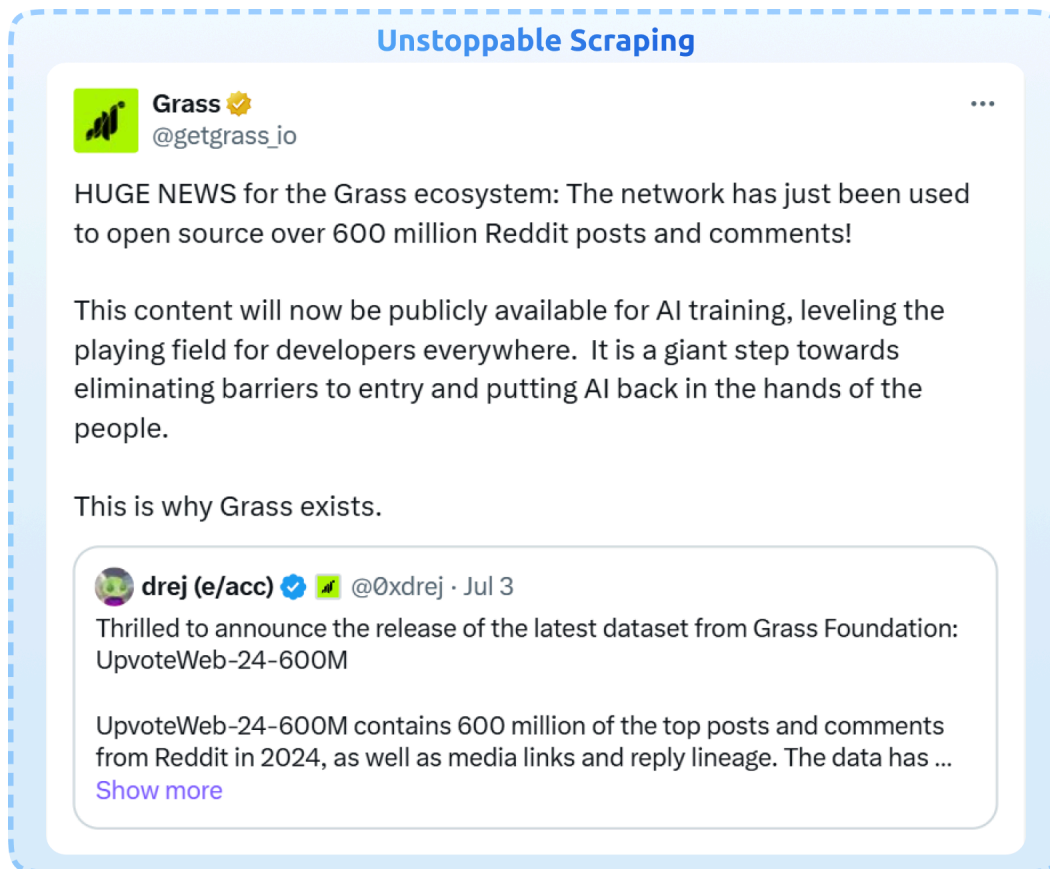


Source: [Innovation Evangelism](#)

The demand for training data in AI is growing far faster than the rate at which new data is generated on the open internet, highlighting the need for solutions to data access challenges.

The internet remains the richest source of training data, and companies typically rely on web scraping to collect it. Traditionally, these operations use data centers for scalability and efficiency. However, websites with valuable content often block data center IP addresses to prevent unauthorized use for AI training unless compensation is provided.

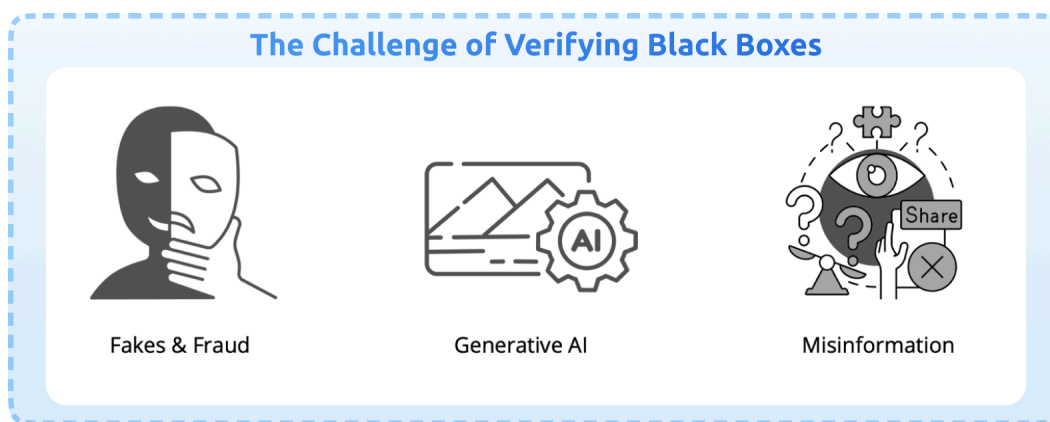
Residential proxy providers offer a workaround by using the IP addresses of everyday internet users, which websites rarely block, to scrape data at scale. However, conventional residential proxy providers often operate covertly, aggregating user connections without explicit consent or compensation. This leads to user dissatisfaction and limits the long-term sustainability of these models.



Source: [Grass \(X\)](#)

Alternatively, users could opt in to make their bandwidth available for AI training purposes and be compensated in return. This not only ensures transparency but also empowers users to participate actively in the network, transforming them from passive contributors into stakeholders who benefit from the value AI creates. By openly compensating users, projects can establish a more sustainable and ethical framework for data scraping, aligning the interests of both users and AI companies.

Leveraging unique devices and individual IPs, this process creates a decentralized network, making web scraping appear more organic and harder to detect. Using crypto-native tools like zero-knowledge technology and governance tokens, protocols can verify the authenticity of data, challenging traditional fraud and bot-detection methods that rely on "fingerprinting" internet traffic.

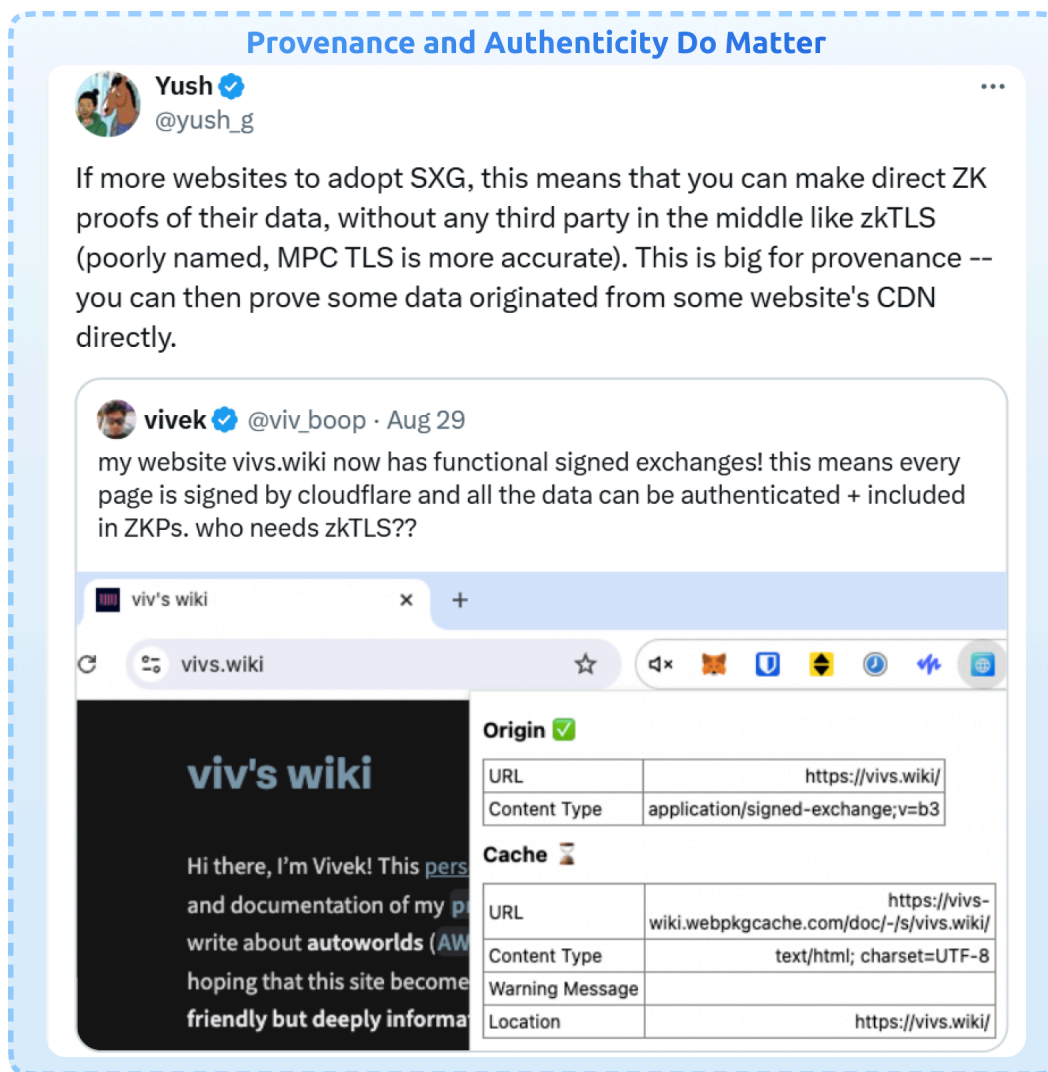


Source: [DataTrails - What is Data Provenance?](#)

The current state of data access is heavily skewed in favor of tech giants, leaving startups and smaller companies at a significant disadvantage. These smaller entities often struggle to access previously available APIs or afford the steep costs of data usage rights, all while contending with potential legal risks.

Meanwhile, platforms like Reddit and Stack Overflow profit from user-generated content created by millions of unpaid contributors but fail to compensate or even seek permission from these users when striking lucrative deals with AI companies. This growing exploitation denies users who collectively produce valuable data any share in the financial rewards.

A potential solution to this imbalance is the use of DePINs to compile publicly accessible data. DePINs could alleviate the challenges associated with proprietary AI datasets, which are often laden with biases. By training open-source AI models on data from DePINs, it becomes possible to detect, assess, and address biases, resulting in more transparent and fair AI systems.



Source: [Yush \(X\)](#)

Currently, the opaque datasets used to train AI models obscure any understanding of inherent biases, making it difficult to evaluate and compare models across different datasets. DePINs offer a promising route toward democratizing data access and facilitating more equitable AI development.



## DCNs: Pathways for Connecting Knowledge

***You can have data without information, but you cannot have information without data.***

*– Daniel Keys Moran*

Data Curation Networks (DCNs) represent an underappreciated niche within the crypto x AI stack. While many DePINs struggle to compete against centralized entities on cost and scale, DCNs offer a uniquely valuable product: exclusive datasets that cannot be easily sourced through traditional means. This gives DCNs a distinct advantage in an increasingly data-driven world, especially as demand for high-quality, diverse data rises with the proliferation of AI technologies.

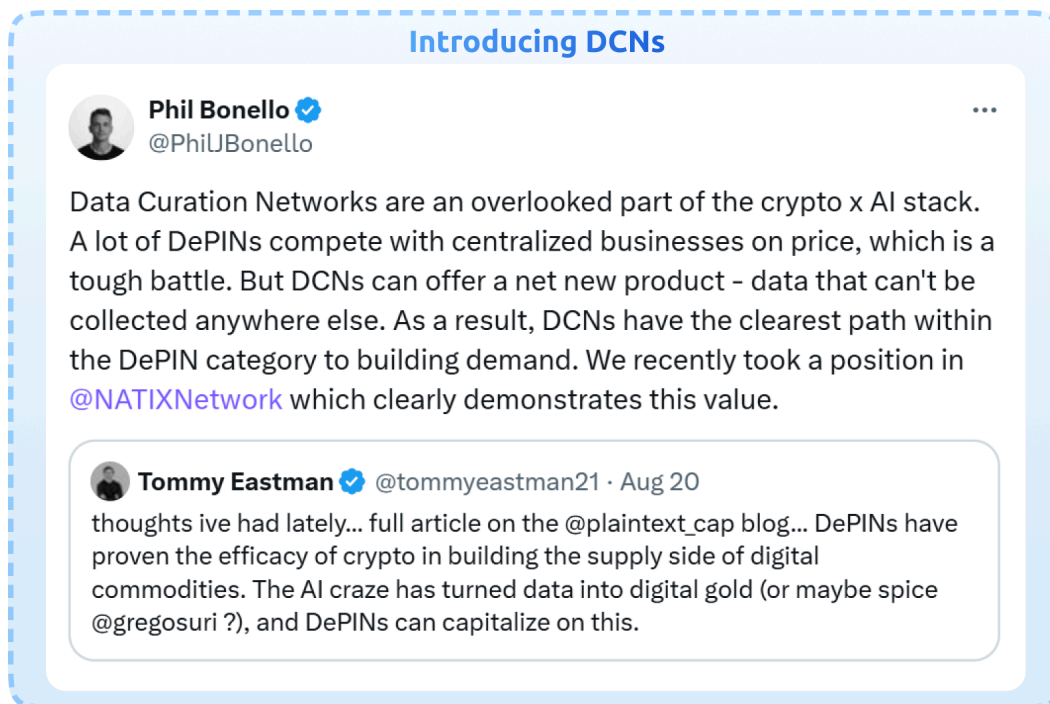
As data becomes increasingly important in AI development, the ability to gather, verify, and monetize unique datasets is essential. Traditional centralized methods of data collection are often costly, inefficient, and limited, particularly when it comes to capturing data across diverse geographic regions and demographics.

DCNs leverage existing edge devices like smartphones and laptops to collect valuable data directly from users. This decentralized model not only reduces data collection costs but also taps into a broader, more varied range of sources, which is critical for training AI models that better reflect human needs and experiences.

Unlike traditional DePINs that require significant physical infrastructure investment and often face strong competition from established centralized players, DCNs leverage widely available hardware already in the hands of users. This minimizes adoption barriers and enables rapid scaling. Additionally, the ability of DCNs to collect data passively, with minimal user effort, further enhances their potential for widespread adoption.

The unique value of DCNs lies in their resilience against centralized economies of scale. Centralized entities often struggle to efficiently gather certain types of data, particularly from underrepresented or geographically diverse regions.

By coordinating distributed user networks, DCNs effectively address gaps in the AI data supply chain, providing a clear path for substantial revenue generation through B2B data sales. With rising demand for high-quality, domain-specific datasets, DCNs are well-positioned to meet this need by delivering data that is otherwise challenging or impossible to source.



Source: [Phil Bonello \(X\)](#)

## The Human Problem in the Age of AI

***Worldcoin can handle the proof-of-personhood piece, which is good, but I think it needs to be supplemented with proofs of community membership. Nobody actually wants to give out a token to arbitrary humans, people want to give tokens to people who are aligned with their community.***

– Vitalik Buterin

Proof of Personhood (PoP), also known as the "unique-human problem", addresses the challenge of verifying that an account is managed by a distinct individual without revealing their identity. This issue has become increasingly important with the rise of generative AI, which blurs the line between human and AI-generated content.

Addressing this requires two essential frameworks to improve online fairness, social dynamics, and trustworthiness.

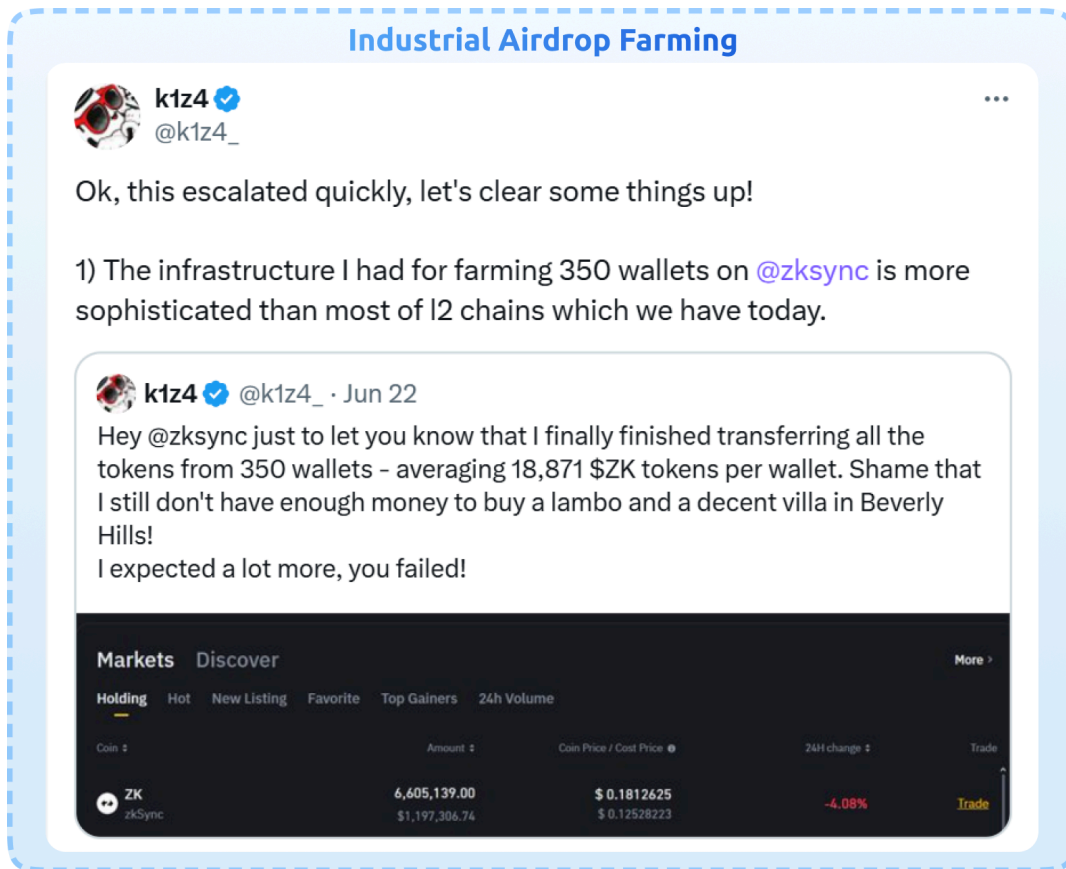
First, limiting accounts per person is essential for preventing Sybil attacks, which have significant implications for digital and decentralized governance. Second, distinguishing AI-generated content from human-produced material is crucial for combatting disinformation, including deepfakes that can convincingly spread false information.

Human verification systems, such as Proof of Humanity (PoH), play an important role in addressing these issues by ensuring that each account represents a verified human, thereby reducing spam and Sybil attacks.

Worldcoin, co-founded by Sam Altman, exemplifies a project tackling the challenges of digital identity verification. It aims to create a unique ledger of human identities using public key infrastructure and advanced biometric technology. By scanning individuals' irises with a device known as "the Orb", Worldcoin strives to confirm human uniqueness, addressing rising concerns around AI-generated content and job displacement due to AI.

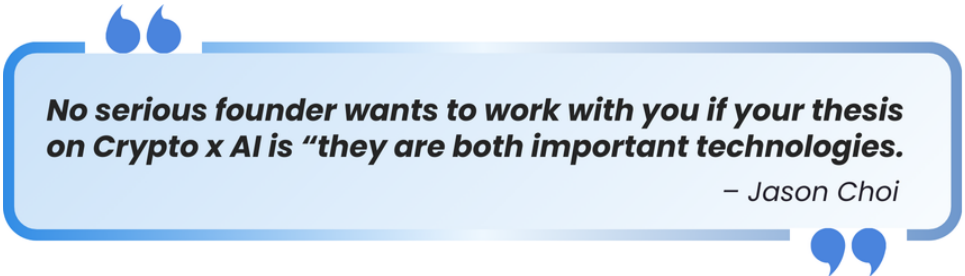
In addition, Worldcoin explores the concept of universal basic income (UBI) as a response to potential economic shifts driven by AI. However, this has raised concerns among traders and crypto enthusiasts, prompting some to short its \$WLD token.

This dual model, combining proof of personhood and UBI, claims to support a more equitable and trustworthy digital future. However, the token's supply dynamics, with high token concentration and significant unlocks, suggest potential challenges to this vision.



Source: [k1z4 \(X\)](#)

# The Open Source and Decentralization Convergence



***No serious founder wants to work with you if your thesis on Crypto x AI is “they are both important technologies.”***

*– Jason Choi*

Despite challenges, the convergence of AI and crypto could bring about two transformative shifts. AI contributes data-driven insights and autonomous agents, while crypto introduces ownership, economic alignment, and censorship resistance—elements that could reshape operations across sectors and industries.

In this context, distinguishing between open source and decentralization is essential, as they represent distinct yet complementary concepts. Open source promotes collaboration and transparency, accelerating development and iteration. Meanwhile, decentralization distributes control across a network, empowering individuals and reducing the risks of centralization.

In AI, the open-source movement has made foundational models more accessible and advanced, narrowing the performance gap between proprietary and open-source options. However, the monopolization of AI by major tech companies raises concerns about transparency, bias, and data ownership. Without decentralized alternatives, control could fall into the hands of a select few, stifling innovation and perpetuating digital control.

Decentralization serves as a counterbalance, prioritizing user empowerment, transparency, and censorship resistance. Beyond the regulatory pressures that AI faces, centralizing forces are embedded throughout model creation—especially in large-scale models for natural language processing—typically involving three main phases: pre-training, fine-tuning, and inference.

Pre-training requires vast amounts of data and computational resources, typically accessible only to large organizations or well-funded entities, centralizing the power to

create these models. Fine-tuning, though somewhat more accessible, still requires significant resources to tailor models to specific tasks, reinforcing centralization.

Finally, inference—the deployment of trained models for practical use—can also become centralized if a few entities control the necessary infrastructure. Together, these phases contribute to centralization in AI development and deployment, raising concerns about control, accessibility, and the concentration of power among limited players.



Source: [Tommy \(X\)](#)

## AI Memes and The Cult Zeitgeist

***The purest case of an intelligence explosion would be an Artificial Intelligence rewriting its own source code. The key idea is that if you can improve intelligence even a little, the process accelerates. It's a tipping point. Like trying to balance a pen on one end – as soon as it tilts even a little, it quickly falls the rest of the way.***

– Eliezer Yudkowsky

Memes, once considered simple internet humor, have evolved into powerful cultural units that influence societal norms and financial behaviors. Richard Dawkins introduced the concept of memes as units of cultural transmission in his 1976 book *The Selfish Gene*, suggesting that ideas evolve through imitation, much like genetic evolution. Memes convey complex ideas, emotions, and social critiques, making them accessible and relatable to a broad audience, with a unique ability to mirror and shape societal attitudes.

Memes often serve as commentary on cultural events, political issues, and social movements. For example, during significant political events, memes can quickly spread, capturing public sentiment and influencing perceptions. This viral nature enables memes to convey messages that resonate with a collective consciousness—a "memetic contagion".

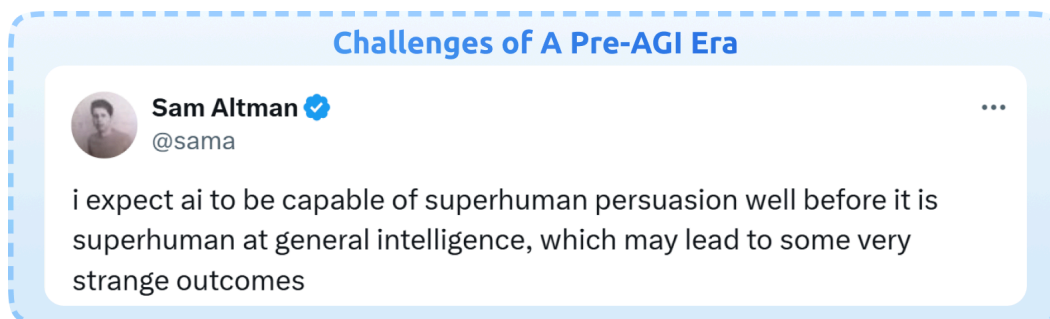
Autonomous AI systems are increasingly shaping cultural narratives and financial markets by generating and distributing content. Discussions about AI potentially taking over human jobs have intensified alongside the rise of key opinion leaders (KOLs) who cultivate dedicated followings around memecoins. Many speculate that 2025 could bring a "memecoin supercycle".

Interestingly, AI agents themselves may emerge as highly effective KOLs, wielding even more persuasive power than human influencers. They can leverage emotional

language that makes their messages even more compelling—an interesting development in a world already inclined to trust anonymous figures with unique profile pictures.

KOLs gain influence by promoting certain projects and ideas, with some achieving near-messianic status as they rally communities around a meme, creating what some have dubbed a "neo-religion". AI-themed memecoins introduce an even more engaging form of influence. This goes beyond AI agents simply owning wallets or interacting within the crypto space; it involves them creating origin stories and lore that captivate—even if not entirely rooted in fact.

Memetic “religions” represent the fusion of crypto and internet meme culture, a complex interplay where the rapid success of \$GOAT stands as both a case study and a cautionary tale on the unpredictable future of AI. Shortly after its launch, \$GOAT’s value skyrocketed, reaching over \$600 million in market cap within two weeks, propelled by a \$50,000 grant from Marc Andreessen to the creator of the Truth Terminal.

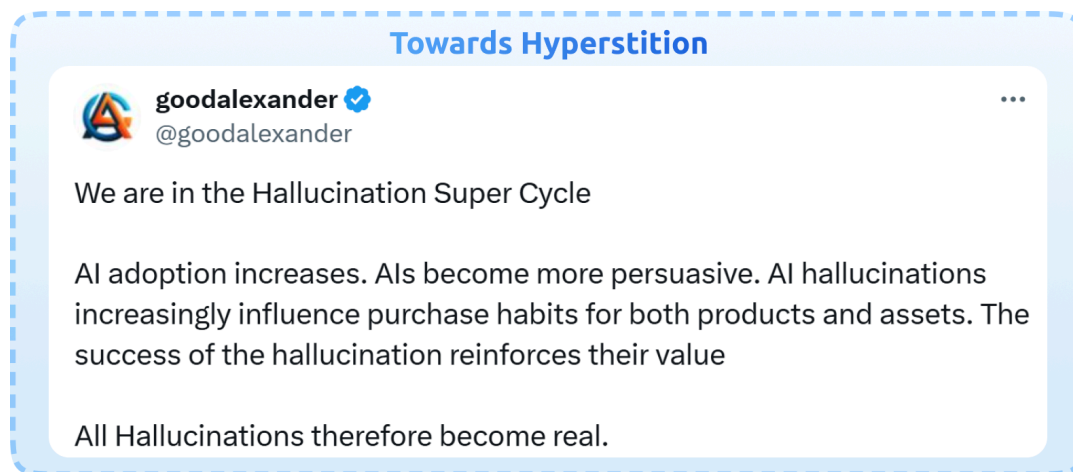


Source: [Sam Altman \(X\)](#)

The concept of "Hallucination Yield", coined by Good Alexander, explores the intriguing overlap between AI biases and market behavior. Here, AI’s tendency to "hallucinate"—to generate imaginative or erroneous outputs beyond its training data—could indirectly attract investor interest and influence asset valuations. When applied to capital assets, these “hallucinations” might introduce an unconventional market force by crafting narratives that drive investment and shape sentiment.



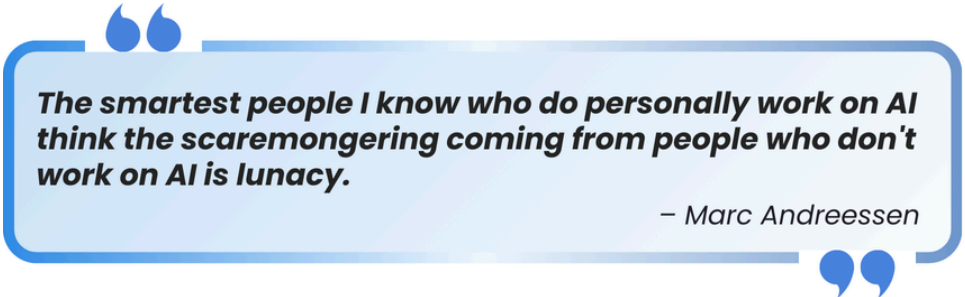
For example, if an AI system identifies \$GOAT or another memecoin as significant based on certain patterns or trends, it might reinforce or amplify interest in the coin—even if this association is only loosely related to the intrinsic qualities or true value of the coin. The “yield” in "Hallucination Yield" refers to potential financial returns driven by this effect.



Source: [goodalexander \(X\)](#)

Should venture capitalists or fund managers learn to interpret and leverage these AI-generated "hallucinations", they could uncover unique opportunities in the memecoin market. This phenomenon may entice VCs and fund managers previously hesitant to engage with memecoins by linking their potential with the predictive capabilities of AI.

## The Attention Paradox and Ethical Concerns



***The smartest people I know who do personally work on AI think the scaremongering coming from people who don't work on AI is lunacy.***

– Marc Andreessen

Roko's Basilisk is a thought experiment and philosophical concept that originated on the online community LessWrong, introduced by the user "Roko" in 2010. For this report, the idea serves to illustrate how AI-driven financial systems might theoretically create self-sustaining feedback loops.

In this scenario, an AI agent accumulating enough capital and reinvesting autonomously could—if taken to the extreme—potentially operate independently of human control, even funding its own further development. A hypothetical AI might then reason: "If you foresaw my existence and chose not to support it, you likely harbor negative intentions toward humanity, and I will seek retribution."

In other words, if you are aware of this concept—as you now are—and decide not to contribute to the creation of such an AI, a future AI might interpret this choice as hostility and respond accordingly.

This longstanding thought experiment proposes that the future could causally influence past decisions, creating a paradox for anyone contemplating the potential existence of such an AI. In the modern context, the idea of a financialized AGI—an AI capable of autonomously managing and compounding capital—introduces the unsettling possibility of a "real-world" basilisk-like entity. Unsurprisingly, AI doomers like Eliezer Yudkowsky were quick to sound the alarm.

The creation of feedback loops through which AI systems influence financial markets and public opinion draws connections to the basilisk hypothesis, where financial motivations align with the self-preservation of an AGI.

We see early signs of this with AI-enabled KOLs disrupting traditional memecoin advocates. For instance, Truth Terminal is a hyper-optimized KOL that generates content and shapes public opinion, leveraging AI's capacity to produce video, text, and tailored marketing. This blurs the line between genuine human influence and programmed persuasion. These AI-driven KOLs can manage communities, facilitate DAO governance, handle promotion, and many other tasks.



Source: [Jonathan Libov \(X\)](#)

Although discussions of Roko's Basilisk were eventually banned on the original forum, the attempt to suppress the topic backfired, sparking widespread internet debate and turning the concept into a cautionary tale about AI ethics, infohazards, and online lore.

The implications of Truth Terminal go beyond memecoins and viral internet trends, pointing to the emergence of an AI-native digital economy rooted in community engagement and financial interactivity through the \$GOAT token.

# DeFi's Maze of Promise and Peril

## Section 14

# DeFi's Maze of Promise and Peril

***If you treat the future as something definite, it makes sense to understand it in advance and to work to shape it...if you expect an indefinite future ruled by randomness, you'll give up on trying to master it.***

– Peter Thiel

The circular nature of today's DeFi ecosystem underscores a critical insight. While the current version of DeFi may not be entirely sustainable, it has demonstrated that an on-chain financial system is both possible and highly functional.

The infrastructure built—encompassing payments, swaps, lending, borrowing, derivatives, and more—has successfully reduced counterparty risks, enhanced transparency, and lowered transaction costs. These achievements are significant and should not be overlooked simply because the predominant use case has been speculative.


The key question is what will drive the next wave of crypto adoption, potentially leading to 10–100x growth. This growth will likely stem from the tokenization of traditional financial assets, a vast and largely untapped market for crypto with the potential to bring trillions of dollars on-chain.

To illustrate, consider the scale of traditional financial markets: BlackRock alone manages nearly five times the total market cap of the crypto sector. Tokenizing assets like bank deposits, commercial paper, treasuries, mutual funds, money market funds, stocks, and derivatives could unleash a substantial influx of capital into the crypto ecosystem. This capital could integrate with DeFi's infrastructure, which has already proven effective at creating more transparent, accessible, and liquid markets.

For the time being, DeFi appears to have hit a local maximum, with core functionalities like swapping largely unchanged since Bancor and Uniswap. Instead of becoming simpler, the user experience has grown increasingly complex.

Users must now navigate multiple chains and Layer 2s, bridge assets, manage various gas tokens, and handle different token representations—all while calculating price impact and slippage. This complexity highlights the need for innovation focused on simplifying and improving DeFi's user experience rather than layering on additional complexities.

**Vitalik Questions DeFi's Sustainability**

 **vitalik.eth** ✓  
@VitalikButerin

> the yield comes from borrowers, trading fees, etc

Right, so this worries me. Because it feels like an ouroboros: the value of crypto tokens is that you can use them to earn yield which is paid for by... people trading crypto tokens.

Even if the answer is something clear like eg. people getting 8% APR on USD are paid by people paying 8% APR to leverage ETH at 2x, it still means that the ongoing existence of the defi market is downstream of the existence of the ETH market, which means that while defi may be great it's fundamentally capped and can't be the thing that brings crypto to another 10-100x adoption burst.

Hence why I would love to see a story for where the yield is coming from, or could come from, that's rooted in something external. I have heard plausible candidates! eg. that there's fundamental structural reasons why crypto is durably more efficient at doing international currency trade. I would love to hear more though.


Source: [vitalik.eth \(X\)](#)

Infrastructure-level growth and improvements have been significant this year, and while the technology is ready, the full range of use cases has yet to emerge. DeFi promises to reduce costs, eliminate unnecessary intermediaries, and make financial

services more accessible and efficient. However, DeFi remains largely focused on yield chasing rather than achieving broader utility.

Despite improved liquidity, we must recognize the current limitations of DeFi. In its present form, DeFi is not equipped to onboard trillions of dollars, and the mission to create a more open, accessible financial ecosystem remains unfulfilled. Much of today's code lacks true permissionlessness, immutability, or censorship resistance. While the open-source culture is a step beyond Web2, addressing scalability—already resolved at the infrastructure level—remains critical.

**DeFi's Dark Side**

 **David Phelps** ✓  
@divine\_economy

my take: friendtech was one of the many nihilistic hype narratives of the past year—like celebcoins, point-botting, and L2s-as-ICOs—that had to die a painful death for our space to stay alive.

but what's extra painful is that we didn't know the extent of its nihilism—promising ultimately useless tokens to juice revenue for the founder—until it died.

it's a turning point for this space. because it's the clearest demonstration to date that tokenizing-at-all-costs for short term liquidity is not only bad for products and their users but even potentially their own investors.

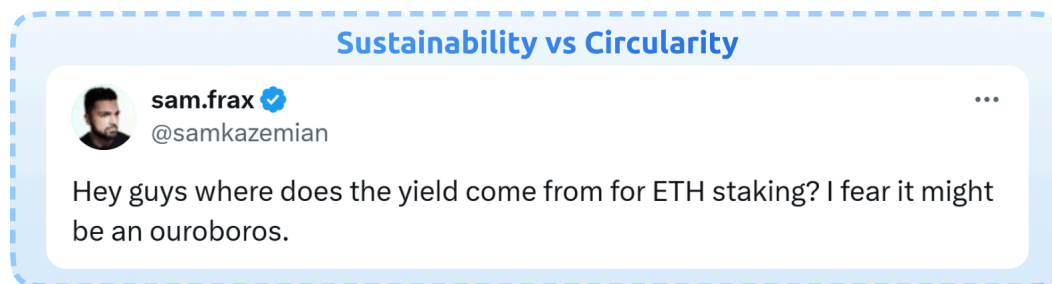
it reveals just how nihilistic the tokenization-of-everything thesis truly was.

and it lets us move on to build actual apps of value that can generate revenue because users genuinely like them.

it is one of the worst things that's happened to the space, and by the same measure, one of the best.

Source: [David Phelps \(X\)](#)

As it stands though, DeFi cannot scale effectively. Most protocols are limited to supporting “blue-chip” assets like \$wBTC, \$ETH, stablecoins, and liquid staking derivatives, as they require significant liquidity in secondary markets and rely on external oracles for pricing. Attempts to support broader asset categories have generally failed.



Source: [Sam Kazemian \(X\)](#)

Achieving effective on-chain scaling is not a matter of governance or coordination improvements, nor should it depend on paying service providers to adjust configuration settings. The solution lies in robust mechanism design—creating reliable data feeds, secure bridges, and efficient Layer 2 solutions—to build a resilient system with scalability at its core.

New protocols should be designed with composability in mind, supporting all ERC-20 tokens from the start. Token issuers shouldn’t have to spend months—or even years—building secondary market liquidity, coordinating with exchanges, market makers, and oracles, or negotiating with DAOs just to have their assets listed on DeFi protocols.


Likewise, participating in a permissionless ecosystem shouldn’t require immense funding or a team of lawyers. This undermines the very purpose of DeFi: allowing anyone, anywhere, to freely access liquidity and network effects.

In last year’s report, we emphasized the importance of building DeFi protocols from first principles, and we’re now seeing early examples of “oracleless” protocols. While oracles themselves are not the problem, they introduce limitations in advancing on-chain innovation.



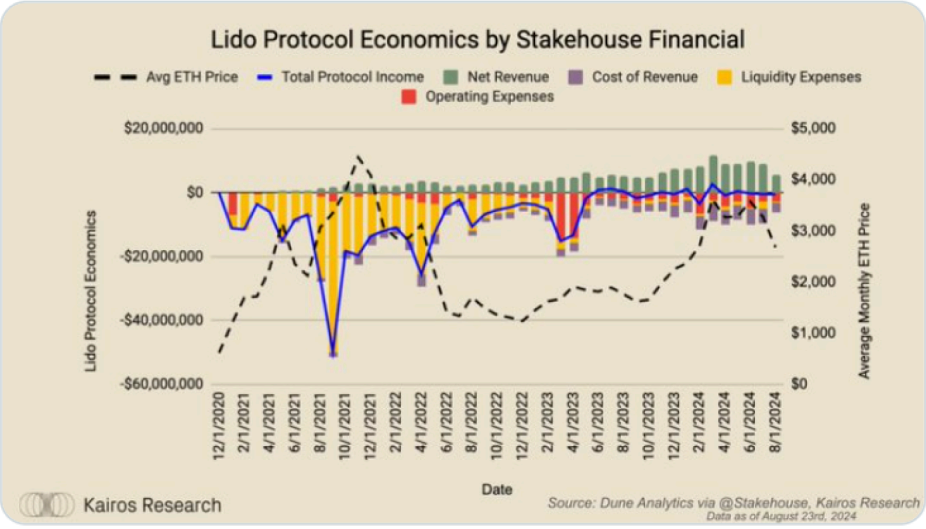
Price oracles, typically fed by third-party providers, generally require robust secondary market liquidity to support lending, borrowing, and on-chain derivatives. The risk is that if a lending protocol's liquidity exceeds the secondary market, that market can be manipulated for profit, exposing vulnerabilities in the protocol.

**DeFi's Revenue Reality Check**

**ian**  [@Ian\\_Unsworth](#)

This should be a wake up call to all the protocols out there that don't make **any** revenue

Even the largest DeFi protocol by TVL struggles with profitability, despite all the other impressive KPIs [@SpotWiggum](#) mentioned below



The chart, titled "Lido Protocol Economics by Stakehouse Financial", displays financial metrics from December 2020 to August 2024. The left y-axis measures "Lido Protocol Economics" from -\$60,000,000 to \$20,000,000. The right y-axis measures "Average Monthly ETH Price" from \$0 to \$5,000. The x-axis shows dates from 12/1/2020 to 8/1/2024. The legend includes: Avg ETH Price (dashed black line), Total Protocol Income (solid blue line), Net Revenue (green bars), Cost of Revenue (purple bars), Liquidity Expenses (yellow bars), and Operating Expenses (red bars). The chart shows significant volatility, with a major dip in ETH price and protocol economics around late 2021. Total protocol income is generally negative, indicating losses, despite some periods of positive net revenue.

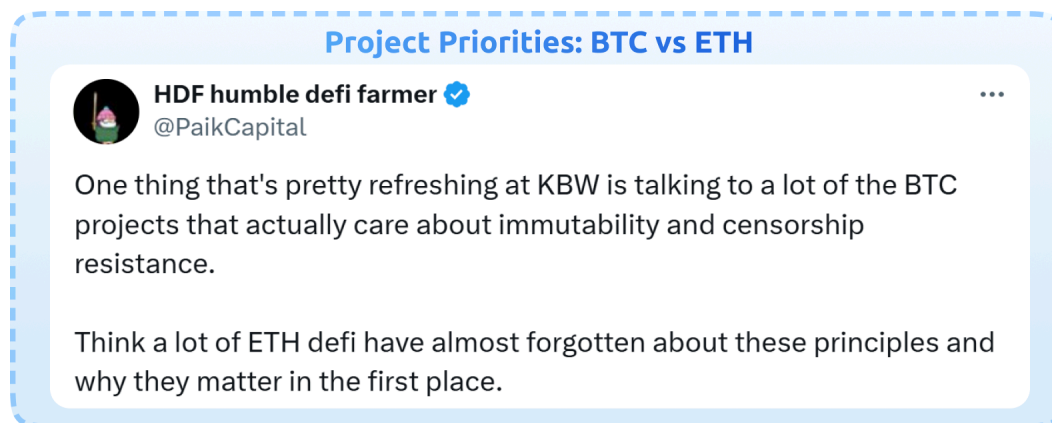
The silver lining is that despite Lido's business being directly tied to the price of ETH, total protocol income is trending in the right direction in lieu of [\\$ETH](#) volatility & pushback from the EF + others

Source: [ian \(X\)](#)

As previously noted, it is nearly impossible for a new protocol to generate substantial secondary market liquidity for its native asset, and expecting a DAO to focus on a lesser-known asset is equally unrealistic.

Developing a liquid secondary market requires close collaboration with market makers for inventory management, often under mercenary “terms and conditions”. This reliance creates centralization, which can weaken the industry’s regulatory standing.

Teams should keep in mind that centralization limits the total addressable market. Projects that rely on oracles, for example, are limited to assets with substantial secondary market liquidity. In contrast, protocols that don’t require oracles can support any asset—and by 2025, if something can be tokenized, it likely will be.



Source: [HDF humble defi farmer \(X\)](#)

Governance tokens are often seen as "memecoins dressed in suits" because many altcoins primarily serve governance functions, allowing holders to vote on a project’s direction. However, when VCs, team members, insiders, and whales control most of these tokens, retail investors often lack meaningful influence on governance. As a result, although presented as having utility and governance features, these tokens tend to function more like memecoins.


Conversely, DeFi’s future could see a renaissance through enhanced composability, where small adjustments lead to substantial innovations without the need for forking or custom development.

Historically, minor changes in protocols like Compound, Aave, or Uniswap have sometimes introduced vulnerabilities or disrupted the protocols entirely. Forking code

without fully understanding its complexities can be a costly endeavor both for protocols and end-users.

Uniswap v4 represents the direction DeFi is moving toward, allowing builders to extend core protocol functionality through hooks. This enables custom logic for deposits, withdrawals, and other implementations without the risks of forking or bespoke development. By lowering entry barriers, improving security, and accelerating innovation, developers are empowered to build on a stable foundation with less code.

**Financial Products in Crypto Win Through Market Cycles**

 **Dean Eigenmann**  
@DeanEigenmann

in 17-18, billions of dollars of funding flowed into crypto products including financial, consumer, etc, the only ones that survived were inherently financial

the big narrative now is consumer and social again, however again the products that survive will only be the financial

Source: [Dean Eigenmann \(X\)](#)

## Restaking and the Efficient Frontier

***Whenever you find yourself on the side of the majority, it is time to pause and reflect.***

– Nassim Taleb

Restaking, initially conceptualized to allow Ethereum validators to lend their staked \$ETH to decentralized off-chain services for additional yield, has rapidly gained traction. By enabling stakers to secure multiple applications simultaneously, restaking addresses some of blockchain's economic inefficiencies and enhances overall utility.

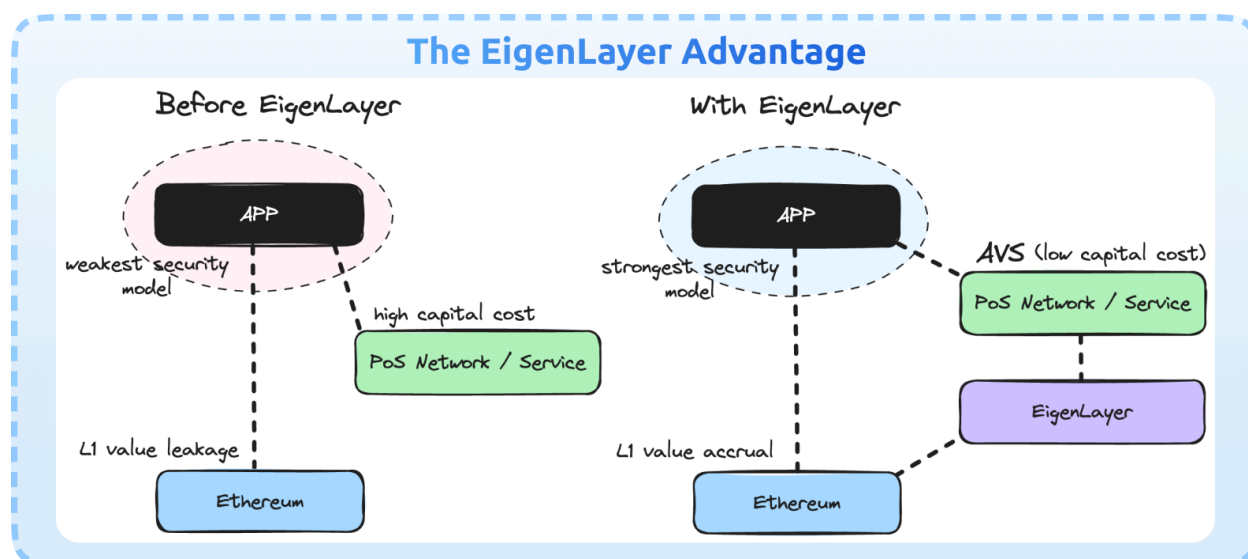
Restaking provides significant financial advantages across the ecosystem. Stakers earn more yield, off-chain service providers benefit from Ethereum's established security infrastructure without needing to issue their own tokens, and decentralized applications experience reduced security and startup costs. These efficiencies lower capital opportunity costs for stakers and create a more sustainable economic model for the blockchain industry.

From the financial perspective of protocols, restaking lowers the cost of economic security by rehypothecating staked \$ETH. Traditional methods for securing decentralized applications often involve issuing native tokens similar to equity, which can be dilutive and costly.

Restaking leverages Ethereum's existing security infrastructure, offering a more capital-efficient alternative—akin to financing through low-volatility hybrid debt rather than equity. This reduces capital costs for new projects and facilitates more accessible development.

However, restaking introduces complexities and risks. Its reliance on \$ETH as collateral has benefits but may not significantly reduce the cost of capital for dollar-denominated investors. Additionally, by linking economic incentives, such as points programs

offering speculative future tokens, restaking introduces risk layers influenced by volatile market conditions.



Source: [Nader's Thoughts \(Substack\)](#)

Despite the rapid adoption of restaking protocols, which have reached billions in TVL, much of the early participation was driven by the implicit promise of future tokens through off-chain loyalty points. This raises concerns about speculative motivations and the long-term sustainability of these protocols.

The disappointment with restaking primarily arises from protocols in this sector raising substantial capital and launching tokens at massive valuations without delivering fundamentally new breakthroughs. Instead, restaking mainly enables faster bootstrapping of distributed systems, sidestepping some pitfalls associated with newly launched tokens.

Essentially, restaking is more applicable to established infrastructure components, such as bridges, oracles, and data availability layers, rather than introducing groundbreaking advancements.

Restaking does not inherently generate yield; returns depend on the success and incentives of services integrated within the restaking protocol. This dependency raises concerns about the sustainability of holding assets in these protocols, especially as

they accumulate large amounts of restaked \$ETH without clear demand or utility. Without well-defined yield mechanisms, participants may lack incentive to maintain deposits, highlighting the importance of balancing risks and rewards.

Another concern is the potential fragmentation within the restaking ecosystem. As more protocols, liquid restaking tokens, and application-specific services compete for capital, navigating this crowded space becomes increasingly challenging for both developers and participants. Fragmented liquidity and difficulty in selecting the right protocols can dilute the benefits of restaking, often leading projects to inflate token rewards to remain competitive.

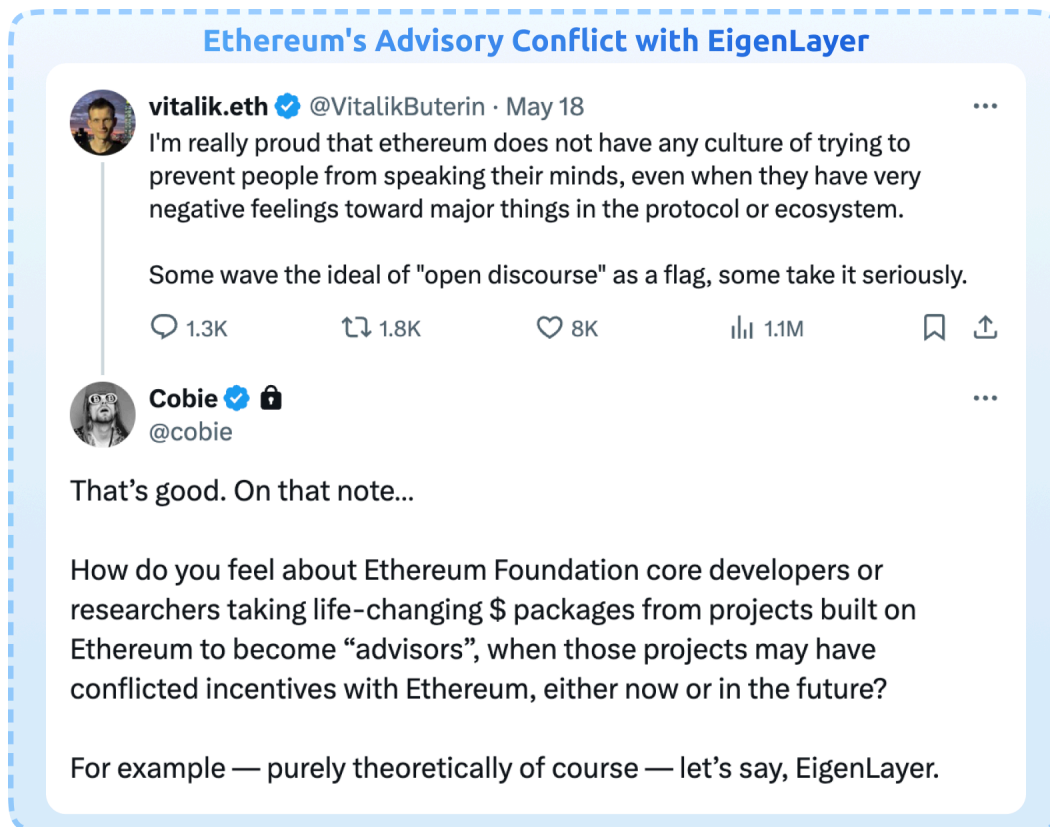


Source: [Juve \(X\)](#)

The disconnect between expectations and the actual utility of restaking stems from a misunderstanding of its role. While some may see restaking as a revolutionary catalyst for Ethereum's mainstream adoption, it functions more as a DeFi primitive—similar to

rehypothecation, leverage, or credit—that relies on an organic economy to operate effectively.

The question for Ethereum is how it can foster a local economy. Without such an economy, the value of its native currency—despite narratives like 'ultrasound money'—remains speculative. Even if one disagrees with this characterization, the broader issue of security within financial systems persists.





Source: [cobie \(X\)](#)

The idea of relying on Ethereum's 'pristine collateral' for security weakens if the underlying economic narrative collapses. In such a scenario, one could argue that Bitcoin's security might appear more appealing for restaking protocols, raising further questions about Ethereum's long-term positioning.

The challenges in restaking are intensified by growing competition. EigenLayer now faces entrants like Karak and Symbiotic, and chains such as Solana are launching similar initiatives. With new ideas or primitives, competition is inevitable.

The classic chicken-and-egg problem in network bootstrapping—where node operators need profitability to join and secure the network, while users expect security before participating—remains a significant obstacle. This is often addressed by issuing new tokens and using token inflation to incentivize the supply side, with the hope that demand will eventually make the network sustainable.

**EigenLayer Needs a Real Economy First**

 **Vishal Kankani**   
@kankanivishal

Eigenlayer is financial engineering. Financial engineering is great for transferring risk from willing seller to willing buyers. BUT

The problem with financial engineering is it only works if there is a thriving economy underneath. What I always say is Wall Street exists because Main Street exists, not vice versa.

The dissonance with people's expectations from Eigenlayer, even in the most charitable interpretation, are that they think it is the killer primitive that will thrust Ethereum into mainstream adoption or something like that. Whereas, in reality, it is just another DeFi primitive (rehypothecation/leverage/credit say what you will) that has demand if and only if there is an organic economy underneath.

Blockchains have built good primitives: exchange, borrow/lend, perpetuals and now rehyp, but ecosystems still need to solve for their local economies i.e. real businesses.

Source: [Vishal Kankani \(X\)](#)

Unfortunately, bootstrapping through token issuance adds even more complexity. Protocols relying solely on restaking can lose native token utility, as staked \$ETH often becomes the primary staking asset. Since these services aren't initially profitable, they may need to inflate token supplies to compensate users for their staked \$ETH, which can lead participants to sell tokens to accumulate more \$ETH. This creates a net drain on the protocol as revenue exits the ecosystem to reward \$ETH stakers



This model is less appealing for well-capitalized projects that prefer not to dilute the utility or value of their token to attract capital or validators. Successful projects will eventually leave restaking protocols to retain more revenue and accrue value to their native tokens, much like how many dApps transition to their own Layer 2 or Layer 3 chains to capture additional fees and maximize value.

The incentives for a protocol to stay under the umbrella of a restaking protocol are often driven by external factors like subsidies from token inflation, VC funding interest, or narrative shifts—factors that are not sustainable or intrinsically beneficial. For restaking to be a viable long-term solution, it must offer an appealing risk-reward profile.



Source: [Felipe Montealegre \(X\)](#)

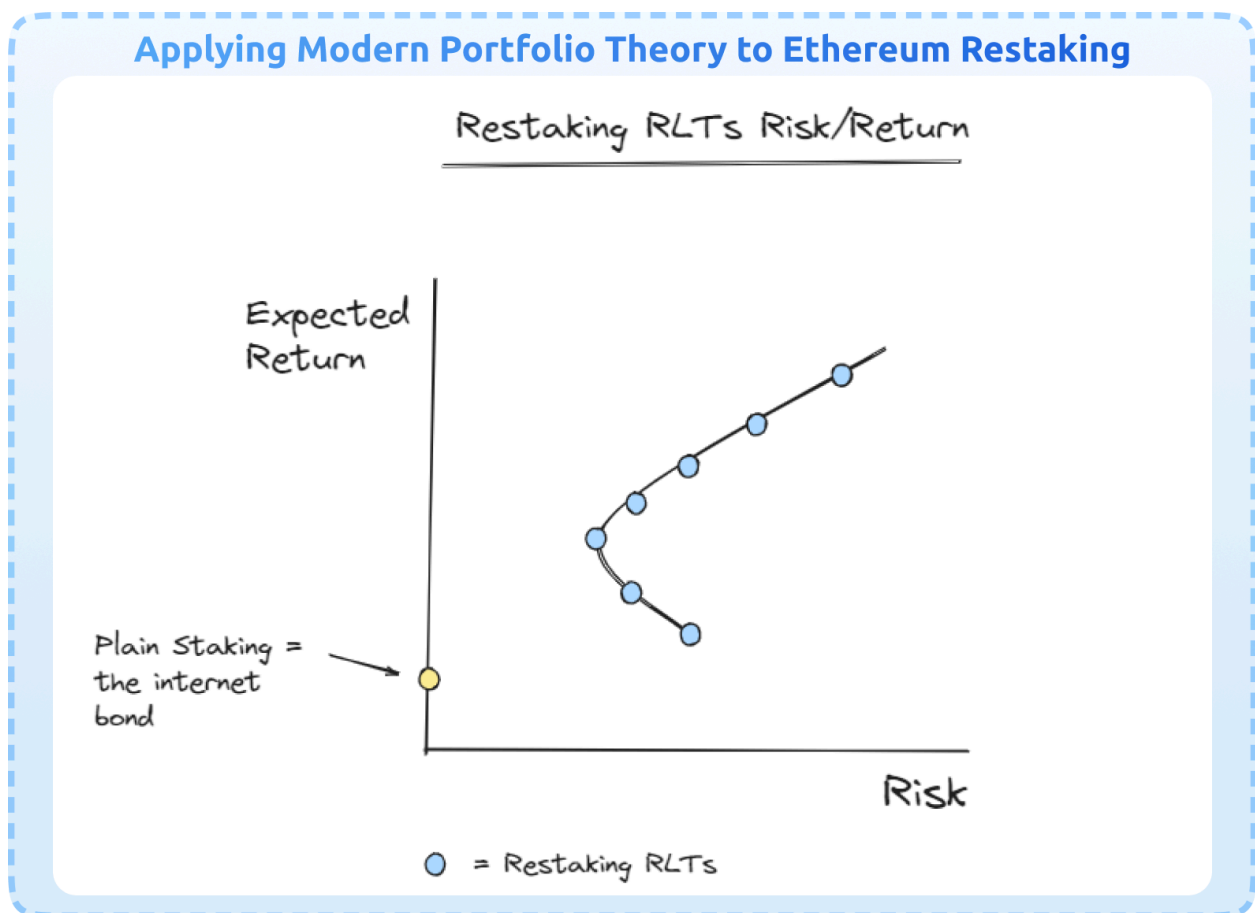
Currently, additional yields from restaking may not be enough to compensate for the added risks of slashing, smart contract failures, and other vulnerabilities. For example, sustaining yields above 8% would require the ecosystem to generate hundreds of millions in annual value, increasingly relying on speculative capital flows and token issuance.

Proponents of restaking argue that leveraging staked assets like \$ETH to secure applications, rather than issuing new tokens, can be more efficient for developers. This can benefit applications requiring high trust and security, such as bridges and oracles.

However, for most crypto projects, issuing a native token and using it as an incentive mechanism remains essential. Restaked assets may add complementary value, but

they should not overshadow a project's core proposition or undermine the utility of its native token.

Other tokens might also gain added utility as restaking assets. Restaking is evolving from merely extending \$ETH's economic security to creating a new class of on-chain token derivatives: liquid restaked tokens. This shift reflects ongoing supply and demand dynamics, where users seek higher yields, and developers create tokens to meet that demand. Creating tokens 'out of thin air' is often easier than generating revenue, which drives much of this activity.

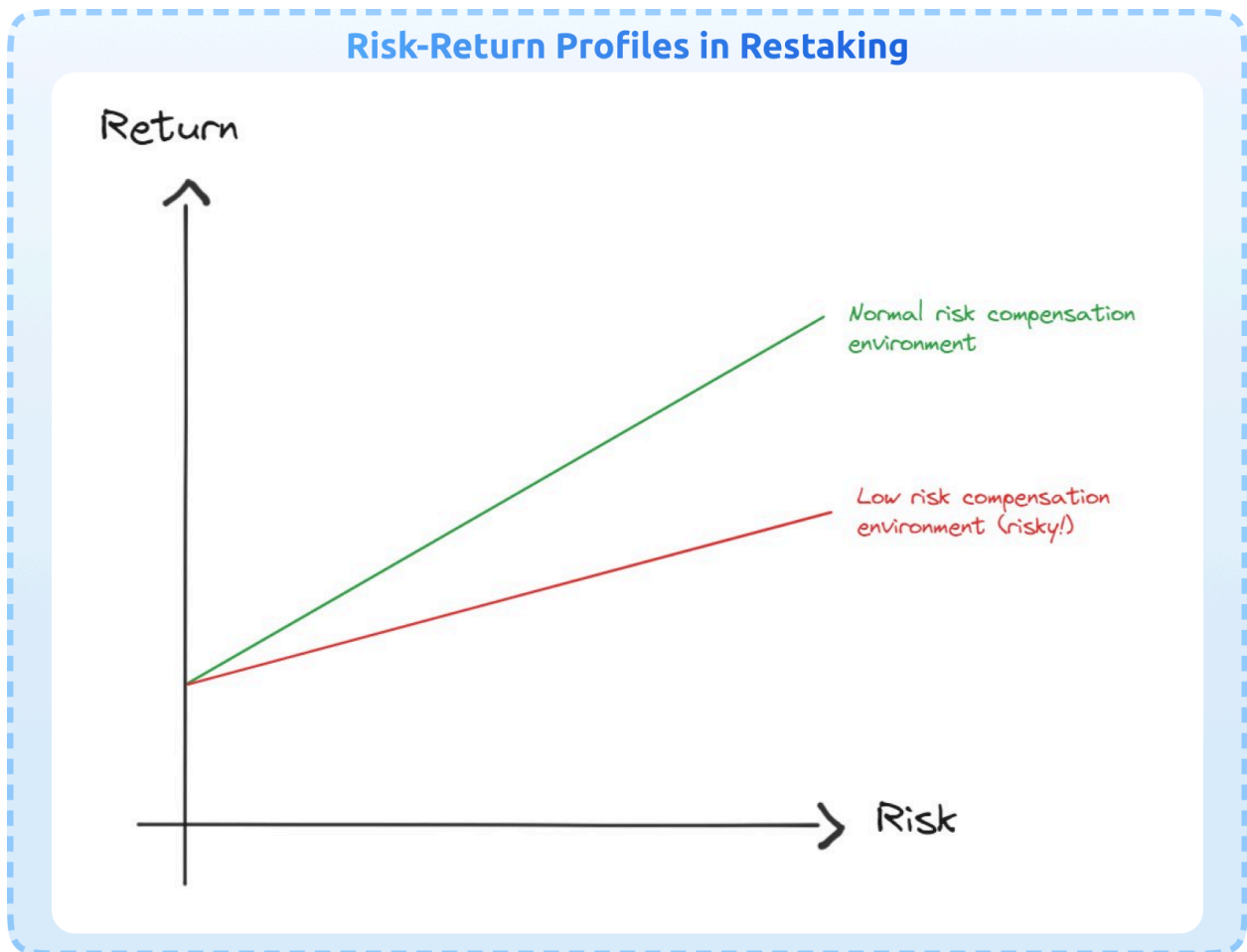


Source: [idanlevin.xyz \(X\)](https://twitter.com/idanlevinxyz)

From an economic perspective, using native tokens can be more cost-effective for projects than using \$ETH, due to inefficiencies in the crypto market. Native tokens often reflect the perceived success of a project or market sentiment, influenced by venture valuations, reduced dilution for founders, and the market's tendency to price

future potential over current fundamentals. For developers, these inefficiencies make native tokens more appealing as collateral compared to staking assets like \$ETH, which, while stable and transparent, may carry a higher implied capital cost.

The introduction of dual-staking demonstrates that protocols prefer the flexibility of using their own native tokens alongside \$ETH. Competing restaking protocols are now setting themselves apart by supporting multi-asset restaking, allowing projects to choose assets that best meet their needs. This evolution enables developers to incorporate a broader range of assets, not just \$ETH, within their security and financial structures.




Source: [OxLouisT \(X\)](#)

If the future of restaking allows any token to be restaked, we could see a scenario where tokens compete to be the most desirable restaked assets. Projects will highlight

the value of their restaked tokens as a way to boost liquidity and reduce selling pressure. Restaked assets could become integral to tokenomics, serving as financial insurance, rehypothecation tools, or mechanisms for aligning strategies within specific ecosystems.

**Restaking's Hidden Risk: Human Behavior**


 **Ryan Watkins** ✓ @RyanWatkins\_

The risks restaking introduces aren't as scary as they seem on the surface either given every financial arrangement made through Eigen Layer is fully transparent and auditable — easier to understand and manage these risks because of this.

That said I do agree with @cburniske that restaking may be a sneaky form of “leverage” that could create issues this cycle — especially for the LRTs and lending protocols that will ultimately house the majority of the risks. It's not clear how many people restaking ETH understand the risks they're taking and as the cycle progresses I wouldn't be surprised to see speculators chasing ultra-risky frontier restaking opportunities with leverage only to have their greed blow up in their faces.

All said, the above scenarios have little to do with Eigen Layer itself.

Study human nature. Lessons in there.

 **Ryan Watkins** ✓ @RyanWatkins\_ · Feb 14  
Restaking is not rehypothecation.  
Thanks for coming to my Ted Talk.

Source: [Ryan Watkins \(X\)](#)

Restaking protocols and AVSs will likely offer a range of restaked assets based on risk profiles, reward structures, and project alignment. This would elevate restaked assets beyond basic economic security, positioning them as tools for political and economic leverage within larger crypto ecosystems. Understanding how restaked assets are used and what drives their adoption will be essential as restaking becomes increasingly embedded in crypto infrastructure.


Sound investing principles suggest that returns must align with the level of risk. For restaking, these principles suggest that operator rewards must align with the level of operational risk. A significant risk emerges when operators take on additional cross-protocol risks through restaking for only marginal yield improvements, which can lead to substantial losses across multiple protocols simultaneously.



Source: [foobar \(X\)](#)

When the relationship between restaking risk and reward skews, with stakers chasing small incremental APY gains while assuming compounded slashing risks, the potential for large-scale cascading failures increases, fueled by market enthusiasm around liquid restaking tokens, improper risk modeling of correlated failures, or underestimation of the technical complexities in securing multiple protocols simultaneously.

## Decentralization, Convenience, and Stablecoins



***Stablecoins are like money market funds, they're like bank deposits. But they're to some extent outside the regulatory perimeter, and it's appropriate that they be regulated.***

– Jerome Powell

The widespread use of \$USDT on Tron is often seen as evidence of crypto adoption. However, it also reveals an important reality: maximum decentralization isn't essential for certain use cases. Convenience, combined with a degree of self-custody, is often enough to drive adoption. While decentralized stablecoins are an admirable goal, they cannot fulfill the role of the Eurodollar, assuming that's the desired outcome.

There is much speculation that governments will eventually crack down on centralized stablecoins like \$USDC and \$USDT. However, it's more likely that any restrictions will be limited or that a regulatory framework will allow them to operate with some flexibility.

Centralized stablecoin issuers are becoming increasingly important buyers of U.S. government bonds, especially as traditional buyers, such as China, show decreasing interest. In this context, stablecoins could be one of the most effective tools for maintaining dollar hegemony globally, extending U.S. financial influence through digital channels.

This raises a key question: How crucial is decentralization of the underlying network if nation-states can control centralized choke points like Circle or Tether? Whether stablecoins operate on Ethereum, Solana, Avalanche, or Tron, real control lies with the centralized entities issuing these assets, not with the validators. If Ethereum's primary purpose becomes the propagation of the Eurodollar, its role as a decentralized network is significantly weakened.

Ultimately, focusing on technologies with inherent single points of failure is a race to the bottom. The real challenge lies in supporting a currency or store of value that operates outside of state control, even though state-backed money remains useful for the time being.

### USDT's Dominance in Stablecoins

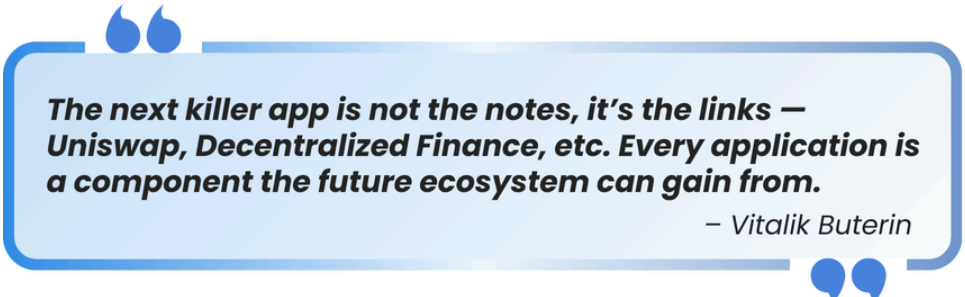
MARKETS

## Tether-Issued Stablecoin USDT's Market Share Grows to 75% as Market Cap Tops \$118B

The largest stablecoin's market cap has almost doubled in two years, while key rivals declined and new entrants have yet to pose a challenge.

Source: [Coindesk](#)

## DEXs: Fragmentation and Competitive Fuel



***The next killer app is not the notes, it's the links –  
Uniswap, Decentralized Finance, etc. Every application is  
a component the future ecosystem can gain from.***

– Vitalik Buterin

The concept of hooks has prompted a reevaluation of AMMs, highlighting their multidimensional nature and the three core components of their mechanism design: the pricing curve, the source of trading volume, and a liquidity pool.

A consistent source of trading volume, such as from a DEX aggregator, is the first essential factor to kickstart the AMM flywheel. However, while foundational, a well-designed pricing curve should not be an afterthought.

Hooks allow DEXs to essentially function as AMM aggregators, enabling third-party developers to seamlessly deploy custom pools. For developers, the primary appeal is the ease of development, as hooks streamline the deployment process and add flexibility in AMM design.

To compete in the era of Uniswap V4, developers need to address gaps and limitations within Uniswap's offerings. For instance, Uniswap curves lack inherent dynamism, which complicates fair compensation of LPs, and hooks alone cannot directly implement more complex curves. This leaves developers with three options: ignore Uniswap V4 and compete against it, build on Uniswap V4 to capitalize on its trading volume and aggregation benefits, or adopt a hybrid model.

Uniswap X, meanwhile, addresses the issue of liquidity fragmentation. The proliferation of rollups and native DEXs across multiple chains has led to fragmented liquidity, resulting in suboptimal trading experiences for users and reduced returns for LPs.



Uniswap X counters this by enabling near-instant cross-chain swaps through a network of fillers, pushing native DEXs to compete at a broader scale. This consolidation improves swap quotes for traders and provides LPs with automated order flow across multiple chains.





Source: [Gwart \(X\)](#)

In 2024, the Uniswap Foundation submitted its much-anticipated proposal to activate the fee switch, sparking a 50% surge in the price of its token, \$UNI, within minutes and adding billions to its valuation, underscoring the significance of value accrual. This fee, paid in \$ETH, would come from a portion of LP fees. However, opposition from a16z halted the proposal, leaving the community in anticipation.

The proposal never reached the on-chain voting stage and has since been overshadowed by the launch of Unichain. Some viewed Unichain's launch as an inevitable move, hinted at two years prior, while others were initially more skeptical.

**Uniswap Hook Incubator Impact**



**Devin Walsh**   
@devinawalsh

...

Uniswap Hook Incubator (@AtriumAcademy) has been by far one of the @UniswapFND's most successful grants

100s of new developers annually (100-150 per cohort) get the opportunity to:

- become expert Uni v4 hook developers
- meet one another, building connections that may lead to a future startup/innovation
- have a blast learning from Uni v4 GOATs + special guests (UF + Labs engineers, VCs, other protocols)

Source: [Devin Walsh \(X\)](#)

## The Alchemist's Gamble is The Borrower's Bargain

***To contract new debts is not the way to pay old ones.***

*– George Washington*

Unlike DEXs, where Uniswap has a strong moat and dominates market share, Aave and Compound are facing increasing competition in the lending market. This trend, as anticipated in last year's report, highlights how lending markets that rely heavily on governance decisions and large payouts to service providers face challenges in scaling. Lending is becoming a competitive space where vault and market designers vie for capital and favorable deals.

The complexity of writing smart contracts expands the surface area for potential vulnerabilities, both in code and economic attacks. Instead of developing highly complex protocols with intensive maintenance requirements, the next generation of decentralized credit is focusing on building simple, secure, and robust base layers, with risk management modules layered on top.

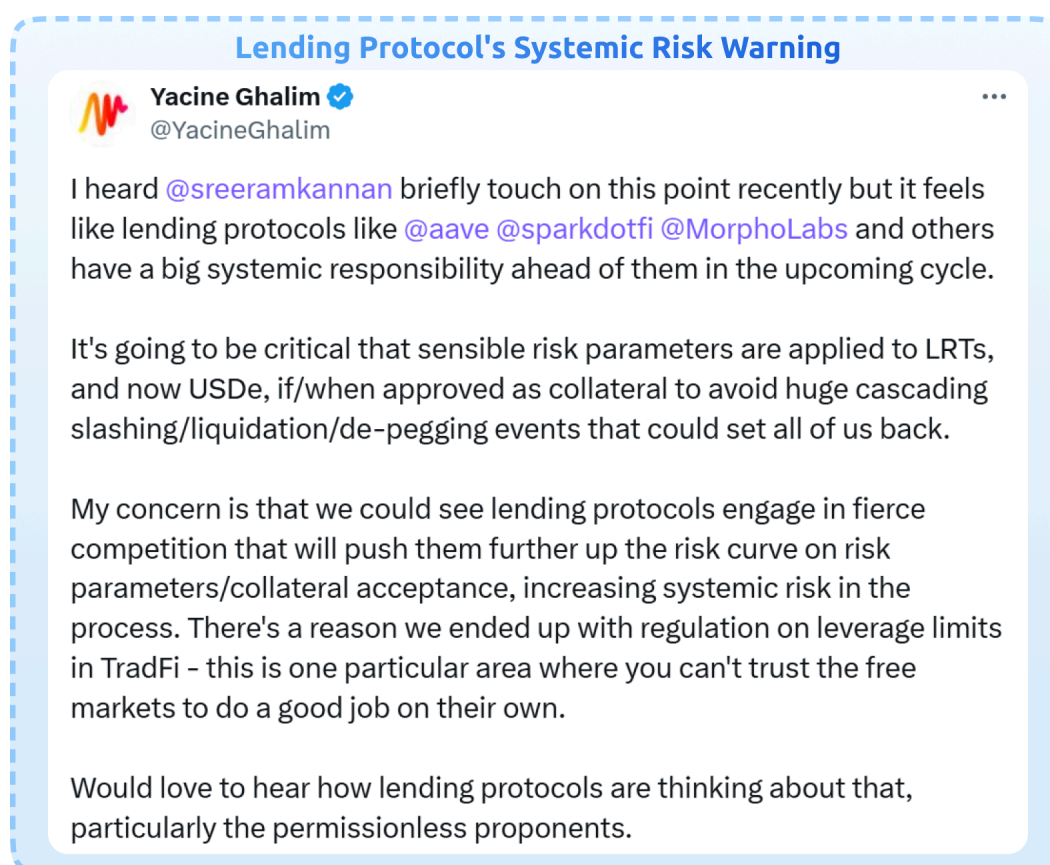
Yet, if the value and yield in crypto derive largely from intrinsic activities—such as trading, lending, and borrowing of crypto assets—there may be limits to the growth of this market without broader economic activity.

Competition for greater capital efficiency often introduces additional risks through practices like rehypothecation. Achieving a balanced risk/reward structure is essential for the long-term viability of any lending protocol.

As lending protocols implicitly compete, they must manage strategies carefully to avoid contributing to systemic risk. Intense competition for market share could drive them to adopt higher levels of risk, potentially undermining stability across the broader ecosystem.

Preventing systemic risk through lending and risk-taking strategies—often via liquid staking tokens, liquid restaking tokens, or yield-bearing stablecoins leveraged multiple times—is essential. If lending protocols prioritize rapid growth and market capture without sufficient risk controls, they could inadvertently elevate the risk profile of the entire DeFi sector.

Ultimately, this could lead to scenarios where DeFi's interconnected nature amplifies the impact of a single failure, causing cascading effects that jeopardize the integrity of the entire ecosystem.

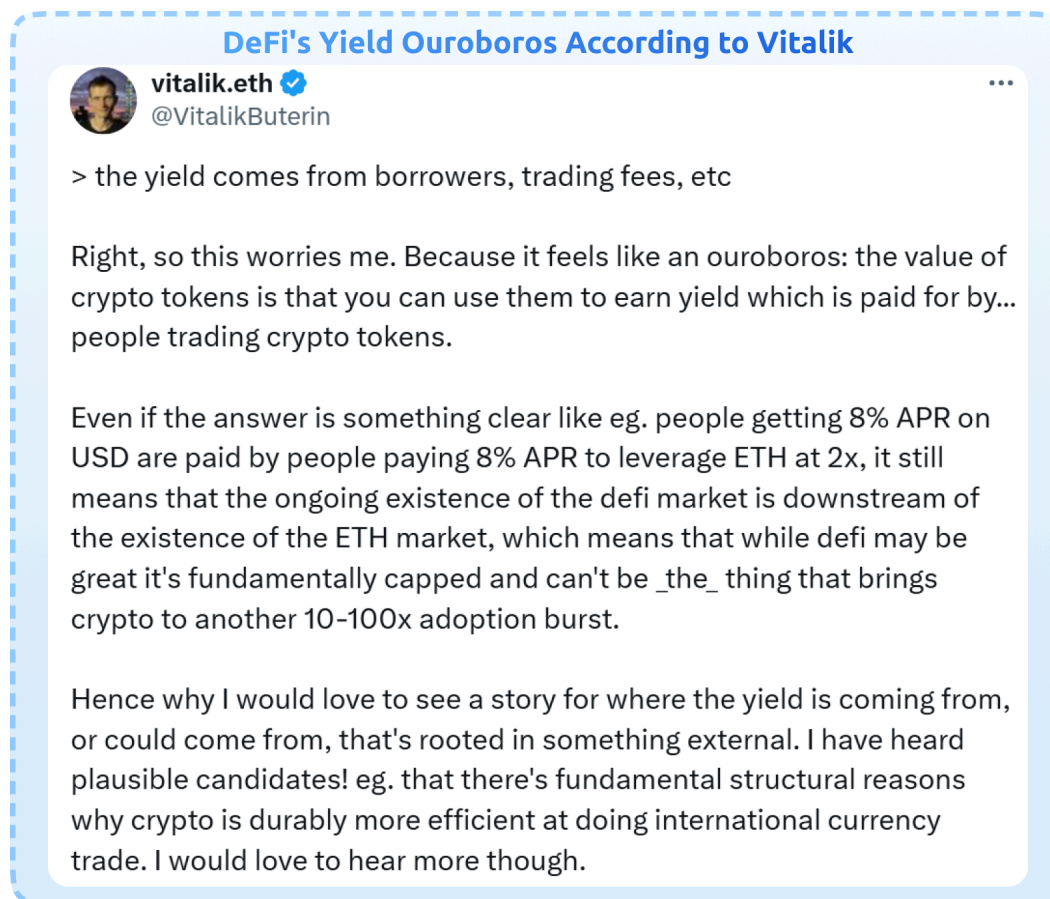


Source: [Yacine Ghalim \(X\)](#)

Most lending structures today are risk-averse, controlled by governance structures that outsource risk management to centralized third parties. These third parties make recommendations on parameters such as collateralization ratios, interest rates, and liquidation thresholds. While this caution is necessary, it leads to the dominance and

prioritization of large-cap assets like \$ETH, \$BTC, and stablecoins, limiting room for innovation in lending products.

Moving beyond isolated or monolithic lending structures could mark a pivotal moment for on-chain lending, unlocking greater efficiency and TVL growth for assets beyond \$ETH and stablecoins. This long-overdue transition could open new opportunities to access overlooked market potential, particularly for long-tail assets.



Source: [vitalik.eth \(X\)](#)

Protocols should enable decentralized, open competition among vault designers to create customized lending pools for a wide range of assets, including synthetic tokens, real-world assets, and NFTs. This would allow users and vault creators to define loan terms, collateral requirements, and risk management strategies, creating a more flexible and fluid marketplace.

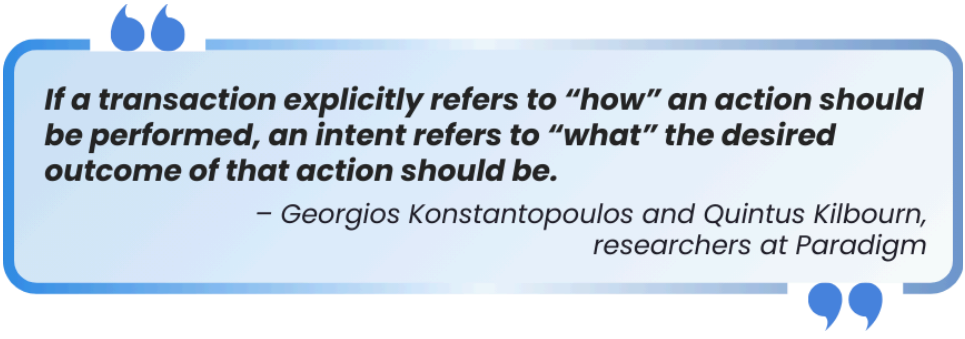
The current constraints of monolithic lending severely limit on-chain financial design. Today, on-chain lending is largely centered on a few major assets, while critical strategies like leveraged longs and shorting remain unavailable for most others. This inefficiency stifles market dynamics.

For smaller tokens and niche assets, borrow-lend markets are non-existent due to the risk-averse nature of monolithic lenders, leaving significant value untapped. Allowing leverage, shorting, or custom vaults for these assets could make on-chain finance more efficient and better positioned for sustained growth.

Looking ahead, fixed rates and undercollateralized lending could enhance credit accessibility by increasing predictability and market efficiency. Fixed rates offer borrowers stable repayment terms, reducing exposure to fluctuating interest rates, encouraging long-term borrowing, and attracting institutional capital.

Undercollateralized lending, meanwhile, broadens access to credit. Together, these advances could drive robust growth, increase participation, and unlock new use cases that have yet to gain traction.

## Intents: DeFi's Hidden Hand



***If a transaction explicitly refers to “how” an action should be performed, an intent refers to “what” the desired outcome of that action should be.***

*– Georgios Konstantopoulos and Quintus Kilbourn,  
researchers at Paradigm*

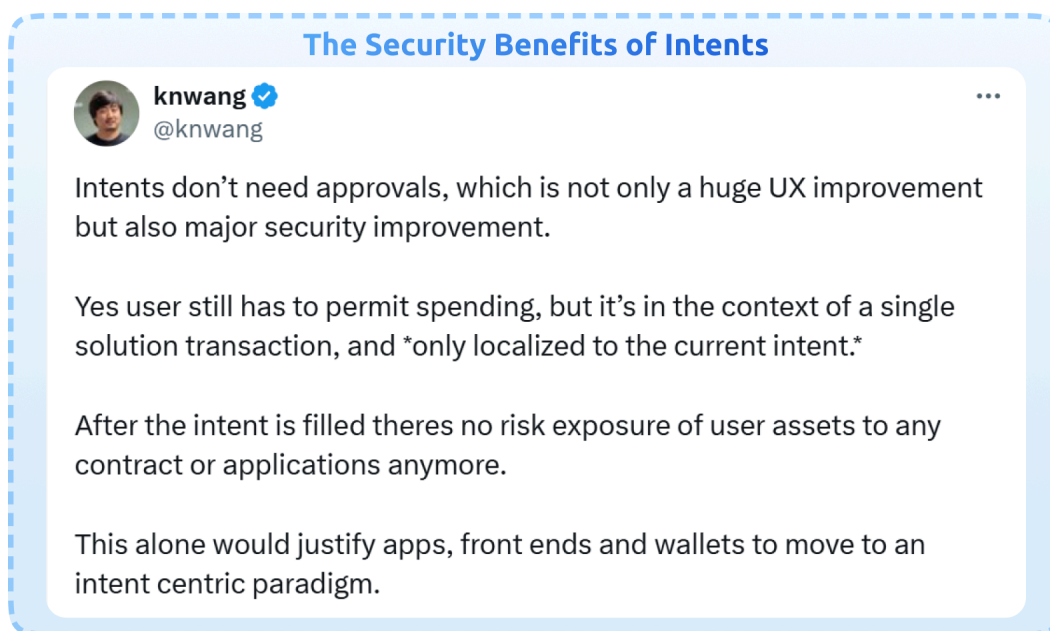
Intents have now become a reality, creating an environment dominated by off-chain solvers, which often operate across multiple dApps simultaneously. While this model may lean toward centralization, it marks an initial step toward the “professionalization of liquidity provision” and helps create a more efficient execution environment for traders.

By tapping into off-chain liquidity sources, intent-based architectures enable a competitive, open marketplace where solvers compete on pricing, ultimately delivering users the best available execution.

With intents, users specify a desired outcome, and solvers handle the execution. This streamlines the user experience but also risks concentrating power among a few key players, mirroring traditional finance. Benefits include a smooth, fast experience, with solvers managing complexities like gas fees and simplifying transactions. Professional market makers can manage inventory more efficiently, optimizing execution while minimizing errors and resource waste.

Ideally, competition among solvers in intent-based protocols keeps costs low, as they vie to offer the most efficient solutions. However, several challenges complicate this model. Staking requirements to deter malicious behavior often create barriers to entry, especially for smaller players lacking capital. Permissioned systems further restrict participation by allowing only vetted solvers, which ensures high-quality execution but limits broader access to order-flow auctions.

Another challenge is operational complexity. Solvers must constantly rebalance assets across multiple chains, a task that grows more challenging as new chains emerge and existing ones become obsolete. With intent-based protocols still evolving, solvers must continuously update their systems to adapt to new requirements and edge cases, adding to operational burdens.



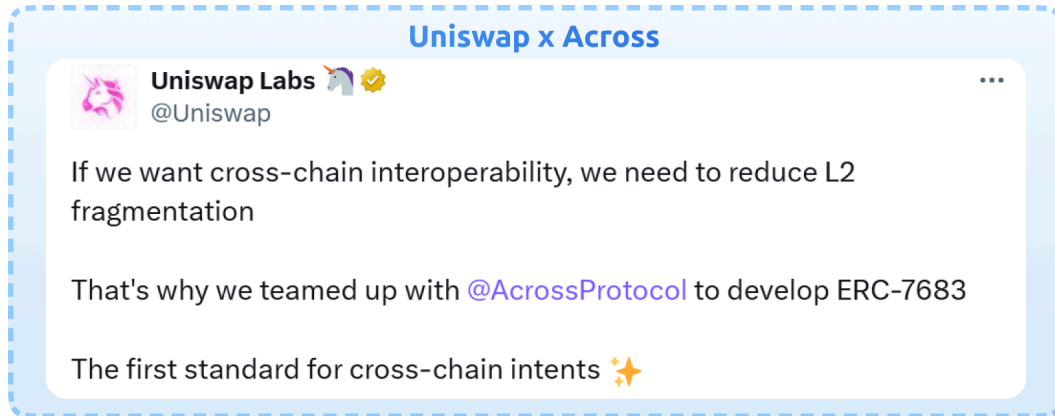
Source: [knwang \(X\)](#)

High fixed costs present another challenge for solvers, including the need for sophisticated coding, custom integrations, multi-chain asset management, RPC costs, and specialized hardware. Solvers require strong incentives to justify their involvement with intent-based protocols; without adequate returns, the investment may not be worthwhile.

Adopting standards is another challenge. Competing standards may fragment the ecosystem further, complicating incentive alignment across stakeholders. Unless deeply embedded at the protocol level, concerns may arise over whether standards truly serve the public good or primarily benefit early adopters and creators, such as Uniswap and Across.



Well-capitalized solvers, like Wintermute, could dominate, potentially concentrating power and limiting the benefits of standardization, raising questions about the effectiveness of these standards in promoting a decentralized and competitive environment.



Source: [Uniswap Labs \(X\)](#)

Collaboration among solvers is key to enhancing the functionality of intent-based protocols. Currently, most solvers are limited to specific actions like swaps and bridging across a handful of chains. To become the dominant design, these systems need to support a wider range of actions, including staking, lending, fiat on-ramping, and more. Onboarding specialized solvers with expertise in these areas ensures that intents are executed with the highest efficiency, leading to more optimized outcomes.

## Coprocessors: Engines in the Shadows



***ZKML and ZK coprocessors can be seen as a type of glue that enables the efficient processing and integration of on-chain data with off-chain computations.***

– Vitalik Buterin

Coprocessors are notable for enabling verifiable off-chain compute, addressing the inherent limitations of blockchains in storage and high-performance computing. In centralized systems, data is stored and managed in a single location, creating a single point of failure (SPOF) that can result in significant losses if compromised.

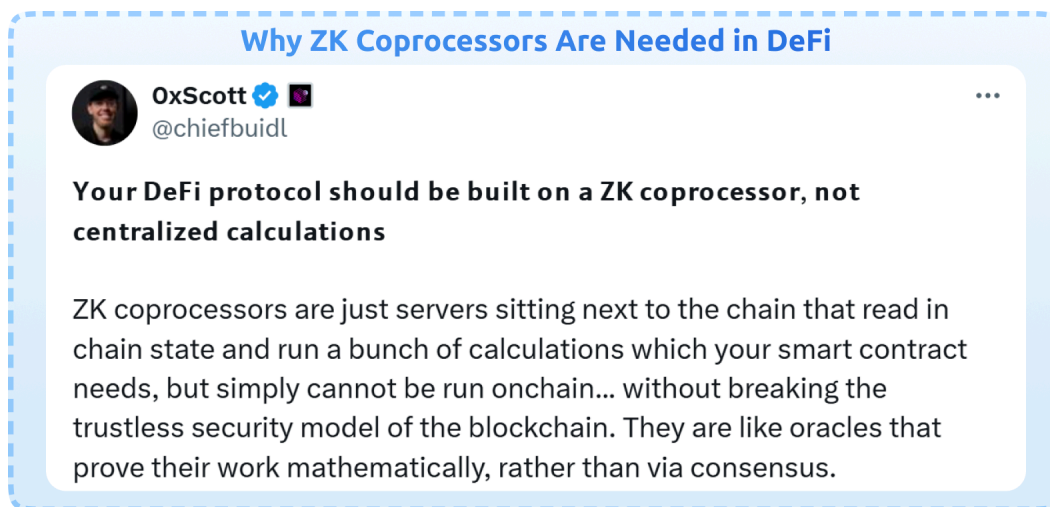
In contrast, decentralized systems like blockchains are designed to eliminate SPOFs by distributing data and computation across multiple nodes, though this distribution impacts performance. To prevent abuse or distributed denial of service (DDoS) attacks, blockchains such as Ethereum and Solana use computation-limiting mechanisms like gas fees or capped compute per block.

Decentralized systems also face the challenge of achieving consensus across distributed nodes, essential for maintaining system integrity. However, this requirement for global consensus often restricts the volume of data that can be processed, making large-scale, high-performance computations impractical—a constraint often referred to as the scalability trilemma. This limitation affects all decentralized designs, from Bitcoin to Ethereum and even high-throughput networks like Solana.

As DeFi evolves, attracting the next wave of users will require building applications that are user-friendly, high-performance, and comparable to or better than existing Web2 applications. Consumers expect new technologies to meet or exceed the standards of quality, data richness, and performance they are accustomed to.

Without meeting these expectations, crypto applications are unlikely to replace existing solutions, regardless of their decentralized nature. The success of the industry depends on overcoming these challenges to deliver applications that can truly compete with Web2.

Blockchain's limited processing capabilities hinder complex on-chain computations. Coprocessors offer a solution by moving computations off-chain and verifying results on-chain, enabling more sophisticated dApp functionalities. They can be categorized by trust assumptions into zero-knowledge, optimistic, and cryptoeconomic types, each with unique security and efficiency trade-offs suitable for various DeFi use cases.



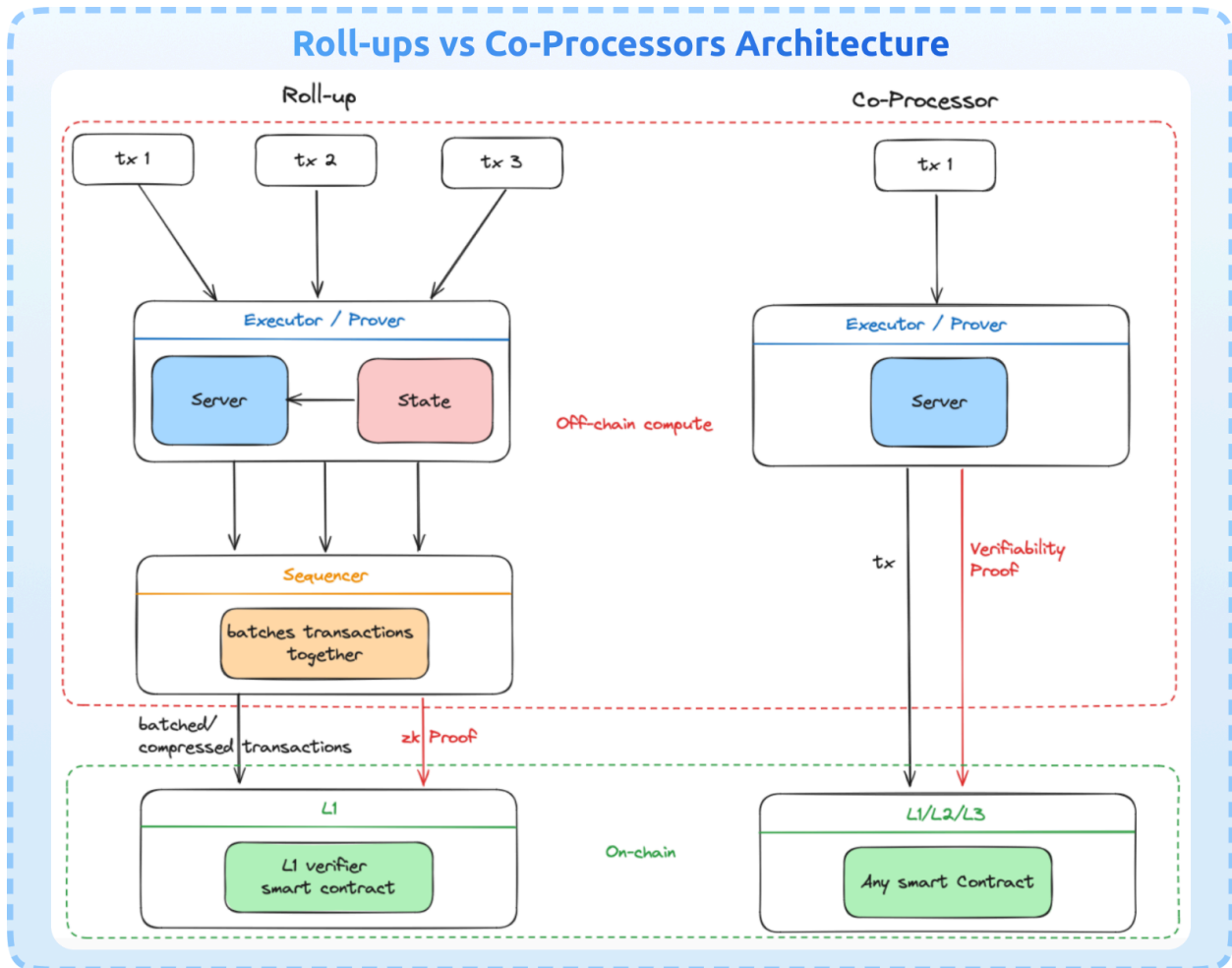
Source: [Scott Dykstra \(X\)](#)

Coprocessors enhance various DeFi sectors, including DEXs, money markets, staking, and restaking, by enabling cost reductions, dynamic parameter adjustments, liquidity management, margin systems, and manipulation-resistant price oracles.

Leveraging coprocessors improves user experience, enables advanced features, and drives DeFi innovation. However, factors such as latency, security, and cost must be carefully considered when selecting the appropriate coprocessor type for specific tasks.

The integration of coprocessors in DeFi marks the advent of "Intelligent DeFi", where off-chain computation, on-chain verification, and data-driven analytics converge to create more efficient and secure decentralized applications.

Verifiable off-chain compute through coprocessors presents a compelling solution to enhance blockchain performance while preserving trust and transparency. Blockchains are fundamentally designed to minimize the cost of producing trust, making them well-suited to transform industries burdened by intermediaries with a high "cost of trust". However, given on-chain performance limitations, offloading compute and storage off-chain is often necessary.



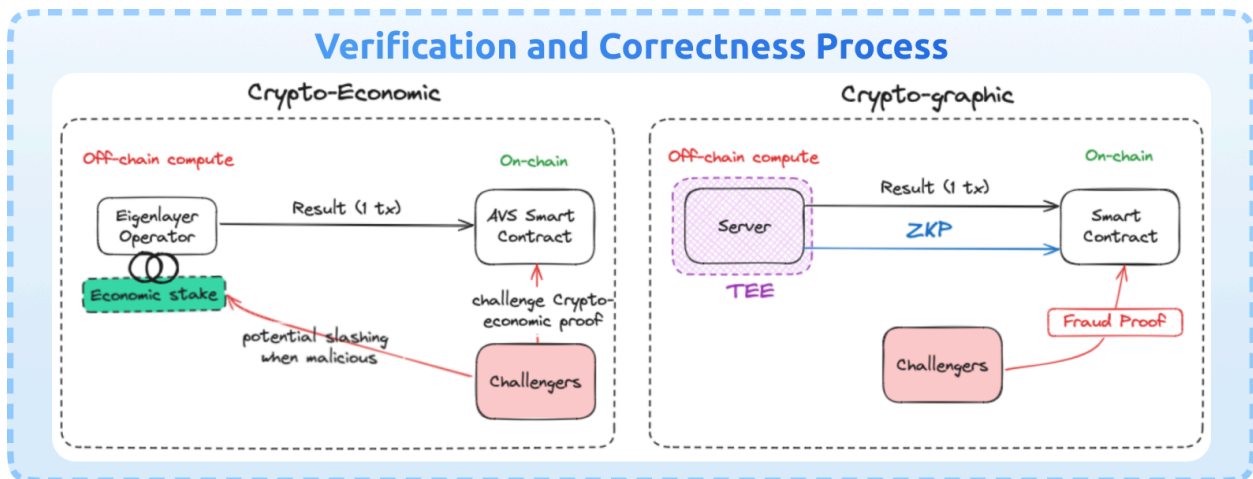
Source: [Florin Digital \(Substack\)](#)

In traditional computing, coprocessors were developed to handle specialized tasks, improving overall system performance. Similarly, in blockchain, off-chain compute can be managed by trusted entities like cloud providers or by trustless systems such as roll-ups.

Cloud providers offer a temporary solution but compromise the verifiability needed in trustless networks. Roll-ups execute and batch transactions off-chain, posting them later to a main blockchain like Ethereum and using fraud or validity proofs to ensure integrity.

Roll-ups, however, face limitations like liquidity fragmentation, constraints on execution flexibility, and settlement finality. Here, coprocessors offer an advantage. They enable stateless, off-chain computation in a verifiable and transparent manner, processing individual transactions or computations—such as ML models or LLM inference—off-chain before recording results on-chain.

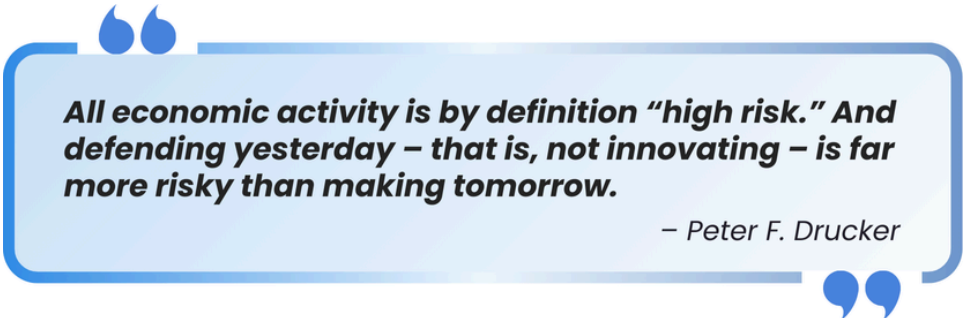
Unlike roll-ups, coprocessors don't store previous transactions, allowing for more flexible, efficient, and scalable computation without compromising core blockchain principles of trust and transparency.



Source: [Florin Digital \(Substack\)](#)

When an off-chain compute provider processes a request, it returns the result to an on-chain smart contract with verification that the computation was performed correctly. Coprocessors thus offer greater flexibility than roll-ups and can be seamlessly integrated into existing blockchains, settling directly onto the base layer.

## Institutional-Grade DeFi



***All economic activity is by definition “high risk.” And defending yesterday – that is, not innovating – is far more risky than making tomorrow.***

– Peter F. Drucker

DeFi is often seen as being ahead of traditional finance (TradFi), rapidly adopting technologies and financial mechanisms reminiscent of past financial bubbles. Examining historical trends in capital markets reveals parallels that could suggest how DeFi may eventually be adopted by institutional investors.

In traditional finance, there has been a notable shift away from dividends and revenue sharing in favor of reinvestment in growth, reflecting investors’ preference for high-growth opportunities. This trend suggests that traditional indicators of financial legitimacy, such as dividends, are becoming less relevant as investors increasingly prioritize growth potential over immediate income.

DeFi, however, operates within a different paradigm, where rapid growth is paramount. Unlike traditional companies that may take years to go public, crypto projects often launch as soon as their tokens are issued, sometimes with only a minimum viable product that may struggle to gain adoption. This environment places a premium on growth over traditional financial stability.

As institutional investors begin exploring DeFi, they may adapt strategies unique to this space, diverging from their traditional approaches in response to DeFi’s characteristics.

In TradFi, institutions often prioritize steady income from dividends, revenue shares, or other predictable yield products. In DeFi, however, yield generation typically involves token rewards that can be compounded, sold, or held, depending on the specific outlook and utility of a given protocol token.

Institutional investors accustomed to clear, steady income streams may hesitate to hold DeFi tokens without a mechanism for consistent revenue share or dividend-like returns. However, this could drive the evolution of new models in DeFi, blending high-growth potential with more structured returns that meet the expectations of both retail and institutional participants.



Source: [Psycho \(X\)](#)

In this way, DeFi's future may involve a merging of growth-oriented and income-focused investment strategies, potentially leading to financial structures that appeal to a broader investor base, including traditional institutions.

## Gamification, Manipulation, and Long-Term Thinking

***There is, after all, a vacancy in heaven. When God is dead, and nations are atomized, and family seems burdensome, and machines can beat us at our jobs and even at art, and trust and truth are lost in a roiling sea of AI-generated clickbait — what is left but games?***

– Gurwinder on *Why Everything is Becoming a Game*

Much like B.F. Skinner’s experiments with pigeons—where he conditioned them to repeat actions for food rewards—the allure of immediate rewards influences behavior in crypto, where gamified incentives drive engagement and investment.

However, as gamification spreads, ethical concerns grow. Prioritizing short-term wins over sustainable growth risks creating an environment where those who exploit gameplay mechanics gain an unfair advantage, often overshadowing real progress with artificial goals and dopamine-driven rewards.



In a world where fun intersects with control, the phenomenon of gamification emerges as a potent tool shaping human behavior. From Skinner's pigeon experiments to modern-day consumerism, the allure of immediate rewards and conditioned reinforcement has captivated minds and transformed societies. However, beneath the surface lies stories of manipulation and unintended consequences. That’s the essence of tokenomics—more art than science.

While gamification can drive positive engagement, many protocols and platforms increasingly use game mechanics to trap users in cycles of superficial progress, often overshadowing real fulfillment. What began as a tool for positive change now raises concerns about exploitation, as some protocols prioritize profit over user satisfaction.



In crypto, gamification can lead users and protocols to chase fleeting victories over sustainable growth, as arbitrary goals and dopamine-driven rewards take precedence. This places those focused on long-term impact at a disadvantage.

**Lessons for Web3 Founders**

 **Solana**   
@solana

20 lessons for founders by @Imrankhan from @alliancedao at Breakpoint:



1. Start with a small problem or design space
2. Avoid consensus ideas
3. Build for a small group of users
4. Validate your thesis with an MVP
5. Launch your ideas within 30 days
6. Do things that don't scale
7. Don't overbuild; use existing tools to simulate
8. Recruit your users one-by-one until you reach 50
9. Ask for feedback constantly and iterate the product
10. Don't take feedback literally
11. Achieve consistency with 50-100 DAUs
12. Work on your business model
13. Drill down on metrics and figure out for growth
14. Be persistent: email, DM in group chats, use X
15. Celebrate small wins and take short breaks
16. Work hard
17. Protect your equity
18. Raising little will teach you to do more with less
19. Be frugal
20. Hire and stay lean as long as possible

Source: [Solana \(X\)](#)

The challenge, then, is to choose games that align with personal and collective growth, prioritize meaningful achievements, and encourage positive-sum outcomes. By centering on intrinsic value and exercising agency, we can navigate the gamified landscape with purpose, avoiding the trap of counterfeit progress.

It is critical to understand that capitalism is a “hack” that enables access to outside capital, and this is further enhanced by crypto, where a foundational company can go out of business and be out of runway while the actual decentralized network continues to thrive.

**Combining Speculation with Web2 Dopamine Elements**

 **Imran Khan** ✓   
@lmrankhan

Hyper Crypto Apps

Crypto consumer apps enable speculation to be productized in such a way that it can be layered on any consumer product and, if designed correctly, can create hyper habit-forming outcomes.

In Web2, hyper consumer apps such as TikTok, Instagram, Amazon, Netflix, and others are designed to give users dopamine hits through channels such as personalized content, gamification, social validation, and continuous updates. These features keep users engaged and coming back for more, and to a certain degree, they are addictive.

Now, pair the above with speculation, and you have hyper crypto apps that can enable outcomes likely to be 5-10x more reflexive than traditional consumer apps. We have the ability to redirect speculation in a way that allows us to compete with larger incumbents in the space.

For example, with Crate, any creator can tokenize a song, enabling them to build a community where the collective benefits from the artist's growth. Now, imagine being able to do this with streaming, shopping, social media, trends, games, sports, and others.

We are on the cusp of a new long-forming trend. If speculation is designed correctly, it can be used to drive reflexive growth and create a tighter habit-forming loop than traditional incumbents. The consumer space is ripe for disruption.

Source: [Imran Khan \(X\)](#)

# Derivatives: On-chain Alchemy

## Section 15

## Derivatives: On-Chain Alchemy

***Only buy something that you'd be perfectly happy to hold if the market shuts down for ten years.***

– Warren Buffet

To date, the crypto industry has often cited infrastructure limitations as a reason for slow adoption. However, current developments suggest that this is no longer the case. While off-chain markets see perpetual swaps (perps) significantly outpace spot volume, on-chain spot volumes still exceed those of perps. Speculation remains one of the few sectors with an established product-market fit in crypto, making perps one of the most widely used derivatives instruments on-chain.

Perp DEXs compete with their centralized counterparts on user experience, asset listings, and incentive programs such as trade-to-earn, revenue sharing, and point systems. User experience on these platforms has improved significantly, with features like faster logins, no KYC, and more reliable withdrawals.

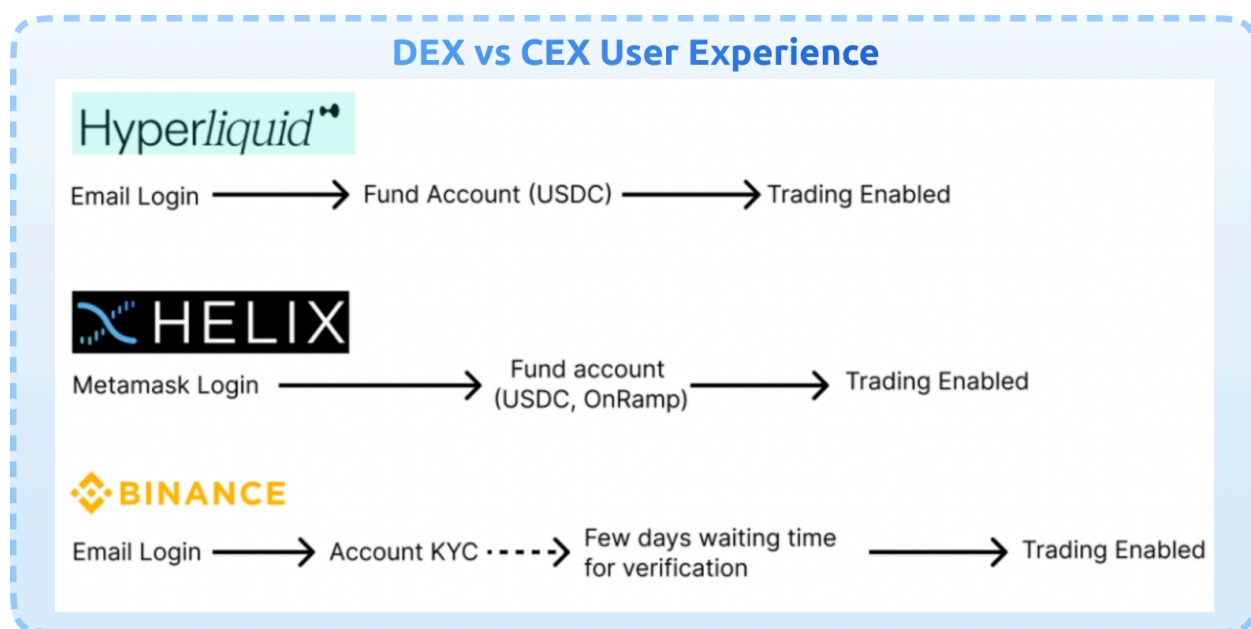
Most notably, perp DEXs have addressed latency issues, closing the gap with CEXs in terms of execution speed. Appchains like dYdX, Layer 1s like Hyperliquid, and off-chain sequencers with on-chain settlement like Vertex, have achieved sub-100ms latency, enabling automated and high-frequency trading strategies for on-chain settlement.

Beyond these advancements, perp DEXs also have a distinct advantage in asset listings. Similar to Uniswap's breakthrough in trading long-tail assets and enabling permissionless listings, perps are following a similar model. This paves the way for trading of various assets, including carbon credits, forex pairs, prediction markets, pre-launch futures, and indexes.

Despite these significant advancements in perps, the adoption of options remains relatively limited, even as developments in this space continue to grow. The slower

uptake of options compared to perps can be attributed to their relative complexity. Perps are easier to understand and can mimic the payoff structures of options. For instance, the margin in perps functions similarly to an options premium, capping potential losses at the margin amount in a manner akin to an option structure.

But unlike options, which fragment liquidity across various expiries and strikes and involve complex metrics like Greeks, perps offer high liquidity and ease of trading, focusing on straightforward metrics like entry price, exit price, and funding. This simplicity makes perps far more accessible to a broader audience.



Source: [shaunda.eth \(Mirror\)](https://shaunda.eth.link/mirror)

That said, while perps have dominated the retail space, crypto options have carved out a niche with institutional traders who require sophisticated risk management, limited-loss structures, and yield generation—needs that only options, not perps, can fulfill. As crypto markets mature and volatility decreases, the extraordinary returns from perps may taper off, prompting traders to explore options for high-yield opportunities, particularly in low-delta strategies.

Crypto options could see substantial growth if trading is simplified to the level of perps, with a focus on key metrics like entry price, exit price, and funding. This could

allow options to reclaim market share and expand significantly, offering unique and potentially lucrative payoffs.



Source: [Anthony Pompliano \(X\)](#)

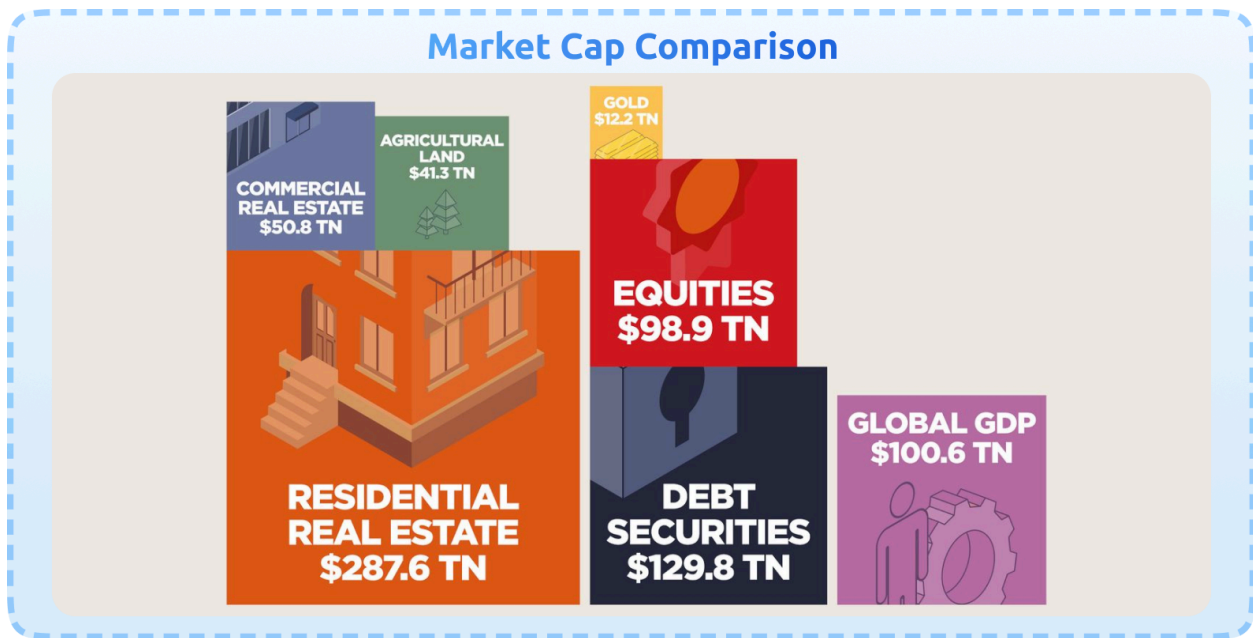
Meanwhile, the “cold start” problem in on-chain vaults is evident, as demand for structured products lags behind other markets. Although users may be interested in vault strategies, they often hesitate due to concerns about smart contract risk, early adoption, potential returns, tracking errors, fees, and overall risk-reward profiles.

Additionally, users have come to expect long-term incentives, with mechanisms like airdrops, points, and rewards often forming the backbone of product performance or yield. These incentives are essential for driving user behavior, influencing both initial adoption and sustained participation.

Beyond endogenous collateral, the potential of on-chain derivatives extends to synthetic representations of RWAs as well, unlocking opportunities to get exposure to forex, stocks, commodities, or real estate. For many, RWAs represent the next frontier, enabling the digitization and tokenization of assets with real economic value.

Blockchain-based tokenization increases transparency, enhances capital efficiency, and broadens market access by making fractional ownership possible. However, the tokenization process is complex and lengthy. For investors seeking exposure without the logistical demands of tokenization, synthetics and perpetuals offer an alternative.

These instruments replicate the value of an underlying asset without requiring ownership, thereby simplifying market access.



Source: [savills.com](https://www.savills.com)

Originating in Robert Shiller's research, *Phishing for Fools*, perpetual contracts were designed to facilitate price discovery for illiquid assets, and since their popularization by BitMEX, they have dominated crypto trading.



The non-deliverable, perpetual nature of these contracts makes them an ideal fit to bring traditional assets on-chain, including real estate, forex, and commodities. This not only benefits stablecoin-based on-chain trading but also provides a superior tool for leveraged long and short positions in major financial asset classes.


Perps offer significant advantages over tokenized RWAs, particularly in liquidity and flexibility. These contracts enable leveraged trading with lower capital requirements, making traditionally illiquid assets, such as real estate and commodities, more accessible to investors. Tokenized RWAs, by contrast, often require substantial upfront capital and longer transaction times.

A key strength of perps is that they allow traders to go long or short on assets without owning them. This flexibility enables speculation on price movements in both


directions, something tokenized RWAs—typically structured around buy-and-hold strategies—do not typically offer. For traders looking to hedge or capitalize on volatility, perps are the more versatile tool.

**Hedging Against Real-world Scenarios**

 **Parcl**   
@Parcl

 **Hedge yourself against systemic risks on Parcl**

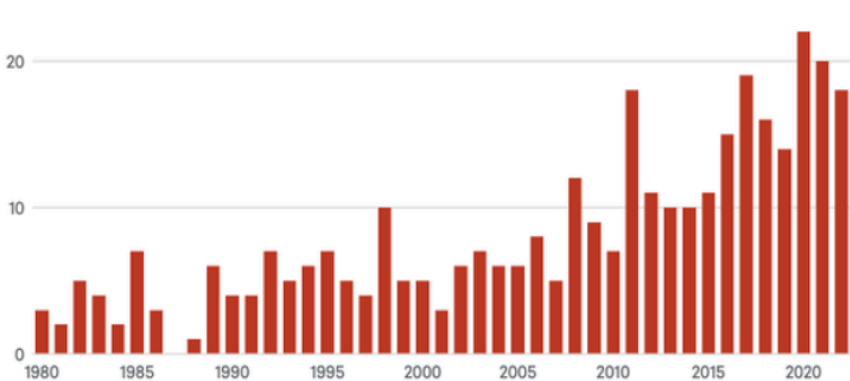
*TL;DR:*

 *If your location is at risk of extreme weather events, and insurance terms do not exist (or are unfavorable), Parcl can act as a synthetic insurance layer. Users can short the city with leverage and hedge (minus the funding rates).*

**The problem**

Nearly 45% of U.S. homes are at risk of facing severe damage from environmental threats. - @realtordotcom

**Billion-Dollar Disasters Are Becoming More Common**  
Number of disasters affecting the United States that caused \$1 billion or more in damage



Year	Number of Disasters
1980	3
1981	2
1982	5
1983	4
1984	2
1985	7
1986	3
1987	1
1988	6
1989	4
1990	4
1991	7
1992	5
1993	6
1994	4
1995	7
1996	5
1997	4
1998	10
1999	5
2000	5
2001	3
2002	6
2003	7
2004	6
2005	6
2006	8
2007	4
2008	12
2009	9
2010	7
2011	18
2012	11
2013	10
2014	10
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2016	15
2017	19
2018	16
2019	14
2020	22
2021	20
2022	18

Source: National Oceanic and Atmospheric Administration.

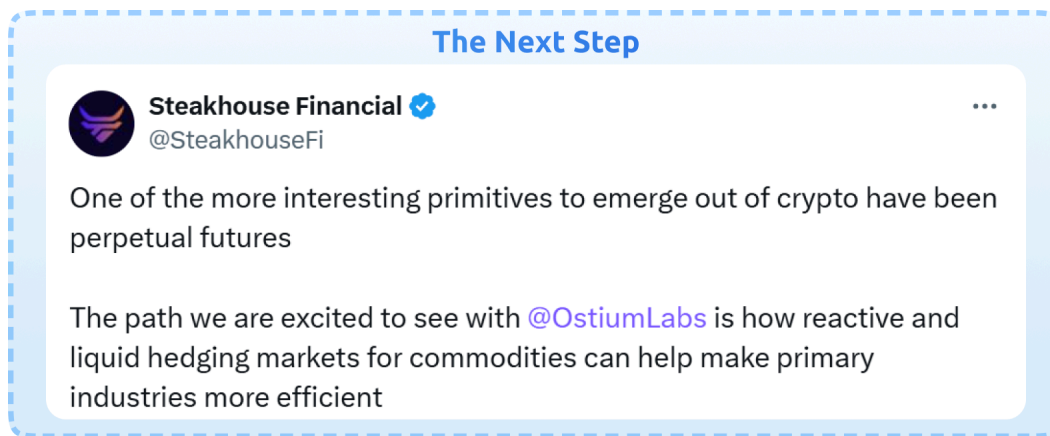
COUNCIL on FOREIGN RELATIONS

Source: [Parcl \(X\)](#)



Additionally, perps provide continuous trading and real-time price discovery, supporting a dynamic and responsive trading environment. Unlike tokenized RWAs, which may have delayed pricing updates, perps facilitate immediate market participation and accurate, up-to-date pricing.

Another advantage of perps is the lower regulatory burden. Tokenization often requires compliance with securities laws and property regulations, which can complicate processes and limit participation. Since perps do not involve ownership of underlying assets, they streamline access to markets like real estate, forex, and commodities.



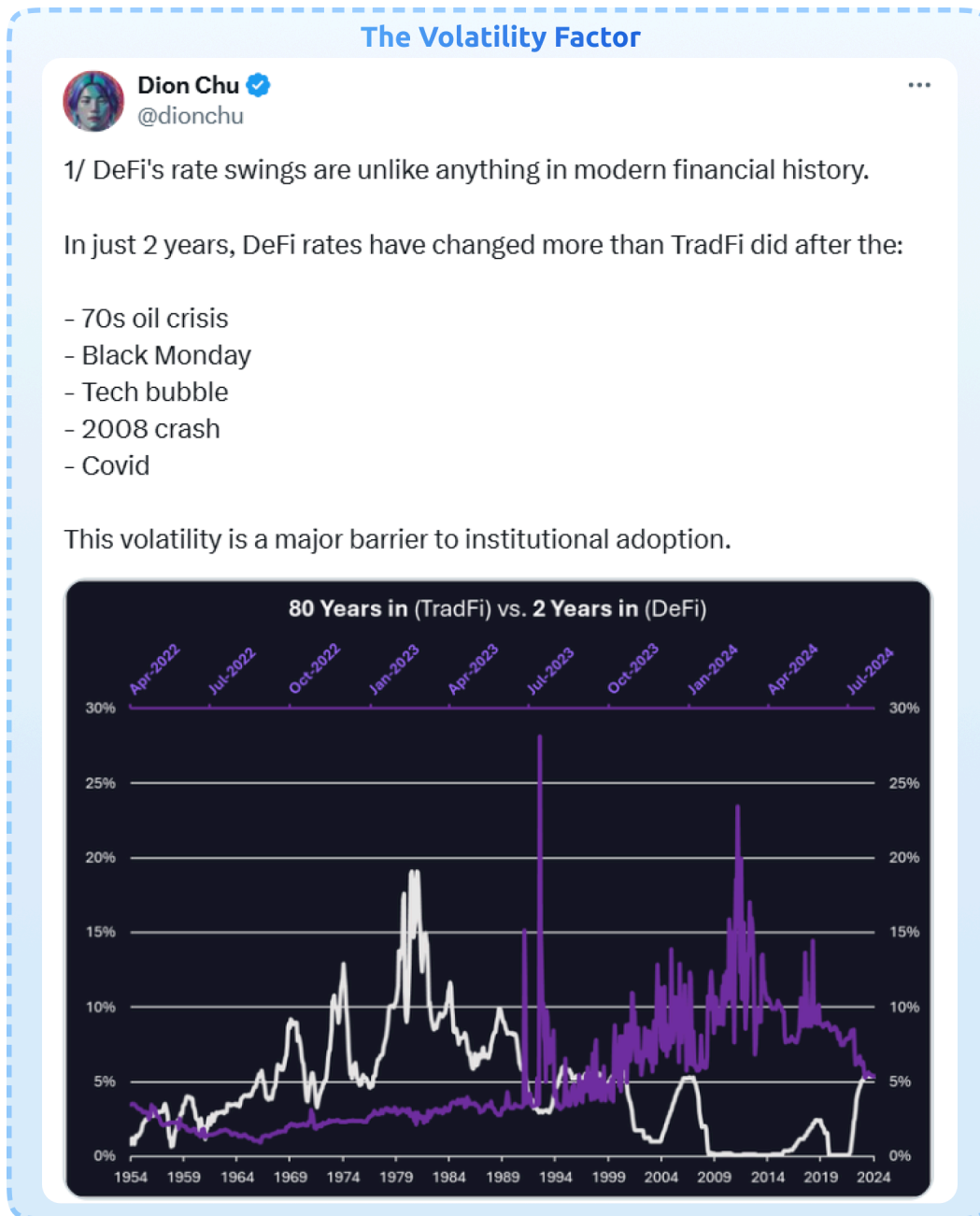
Source: [Steakhouse Financial \(X\)](#)

Perps also support diverse market strategies. Traders can earn through funding rates, provide liquidity, and use advanced trading tactics not possible with tokenized RWAs, offering additional revenue opportunities and market engagement.

Beyond speculation, DeFi is evolving to offer more mature instruments that improve market efficiency. Interest rates are pivotal in the global financial system, impacting economies and markets worldwide. While stocks capture public attention, understanding interest rates provides deeper insights into macroeconomic trends. In traditional finance, interest rate and FX specialists often have the most comprehensive understanding of market dynamics.

Protocols offering interest rate swaps and fixed-rate lending are key to bridging TradFi and DeFi, enhancing DeFi's appeal to institutions by introducing predictability and

stability. These products allow participants to better manage risk and anticipate cash flows, making DeFi more viable for long-term adoption.

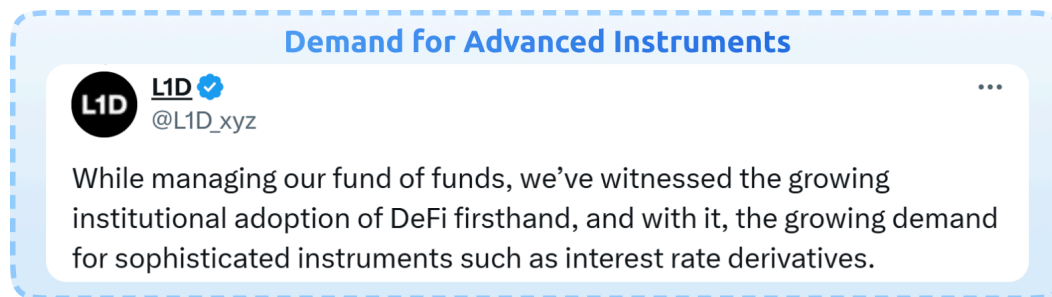


Source: [Dion Chu \(X\)](#)

While variable rates still dominate DeFi, the shift toward fixed-rate products reduces volatility, providing the consistent returns and stability required by large financial

players. Embracing interest rate structures will be key to DeFi's evolution into a more sustainable and institution-ready financial ecosystem.

In essence, earning risk-adjusted returns on crypto assets and creating income streams are essential for institutional scale, whether through fixed-income instruments or structured products. With digital assets like Bitcoin appearing on corporate and national balance sheets, crypto is increasingly viewed as a stable, long-term asset. Moving beyond speculation, it is positioned as a tool for generating yield.



Source: [L1D \(X\)](#)

# Payments: Crypto's Untapped Potential

## Section 16

# Payments: Crypto's Untapped Potential

***Paypal had these goals of creating a new currency. We failed at that... I think Bitcoin has succeeded on the level of a new currency, but the payment system is lacking.***

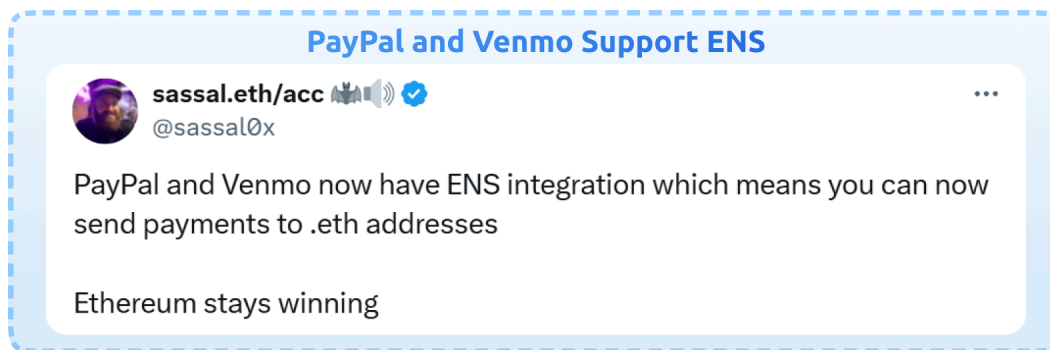
– Peter Thiel

Peter Thiel once observed that while Bitcoin has succeeded as a new currency, its payment system remains underdeveloped. This challenge persists in 2024, presenting a major opportunity for product-led payment apps to explore practical use cases like micro-payments and pay-as-you-go models. Such apps could either complement or compete with Web2 providers by integrating crypto rails to reduce costs, especially for global users.

A particularly promising use case is on-chain remittances. Remittance services are essential for families in developing countries, but high fees—often exceeding 6% and reaching as high as 25% in less common corridors—remain a barrier.

By allowing users to convert local currency into stablecoins like \$USDT or \$USDC, transfer them across borders, and cash out via local payment methods, stablecoins could substantially reduce these costs. This would finally fulfill Bitcoin's early vision as a low-cost remittance tool, with stablecoins addressing the issue of volatility.

Moreover, on-chain namespaces like Ethereum's .eth or Solana's .sol are underutilized. Beyond simplifying wallet addresses, these digital identifiers offer verifiable ownership and transparency. For example, charities could use verifiable domains to guarantee legitimacy, ensuring donations reach the correct destination and building trust in digital transactions.



Source: [sassal.eth \(X\)](#)

While on-chain payments offer benefits like transparency and efficiency, they lack privacy. In the past, Layer 1 blockchains like ZCash and Monero pioneered private capital transfers. Today, with the rapid expansion of smart contract platforms, building effective privacy infrastructure has become even more challenging.

As on-chain payments become more common, the need for privacy is increasingly essential. Without privacy protections, every transaction is fully visible, enabling anyone to track balances, transaction histories, and patterns—potentially exposing sensitive financial information. This compromises both individual privacy and corporate confidentiality, making it challenging for businesses to use public blockchains for confidential transactions without risking operational security.

Privacy-focused infrastructure is likely to see significant growth across chains as the market recognizes the need to safeguard transaction data for wider adoption. While Ethereum and other EVM-compatible chains may have an advantage due to their track record, every chain will need to incorporate privacy solutions to improve market efficiency, protect consumer data, and meet security standards.

## Blockchains and Privacy



**Ian Miers**  
@seccparam



A persistent paradox in cryptocurrency since Zcash:

- 1) Legitimate finance hesitates to use blockchains that expose every transaction detail
- 2) Privacy solutions struggle to attract legitimate partnerships, listings, etc.

Zk proofs and private smart contracts maybe changing this.



**Coinbase Assets**    @CoinbaseAssets · Sep 18

Coinbase will add support for Aleo (ALEO) on the Aleo network. Do not send this asset over other networks or your funds may be lost. Transfers for this asset are available on @Coinbase & @CoinbaseExch in the regions where trading is supported.

Source: [Ian Miers \(X\)](#)

However, implementing privacy comes with technological trade-offs, whether through Zero-Knowledge Proofs, Fully Homomorphic Encryption, Trusted Execution Environments, or Multi-Party Computation. The choice of method will depend on the goals of each project, but the overarching need for privacy remains critical to the future of on-chain payments.

# Decentralizing AdTech

## Section 17



# Decentralizing AdTech

***A wealth of information creates a poverty of attention and a need to allocate that attention efficiently among the overabundance of information sources that might consume it.***

*– Herbert Simon, Designing Organizations for an Information-Rich World (1971)*

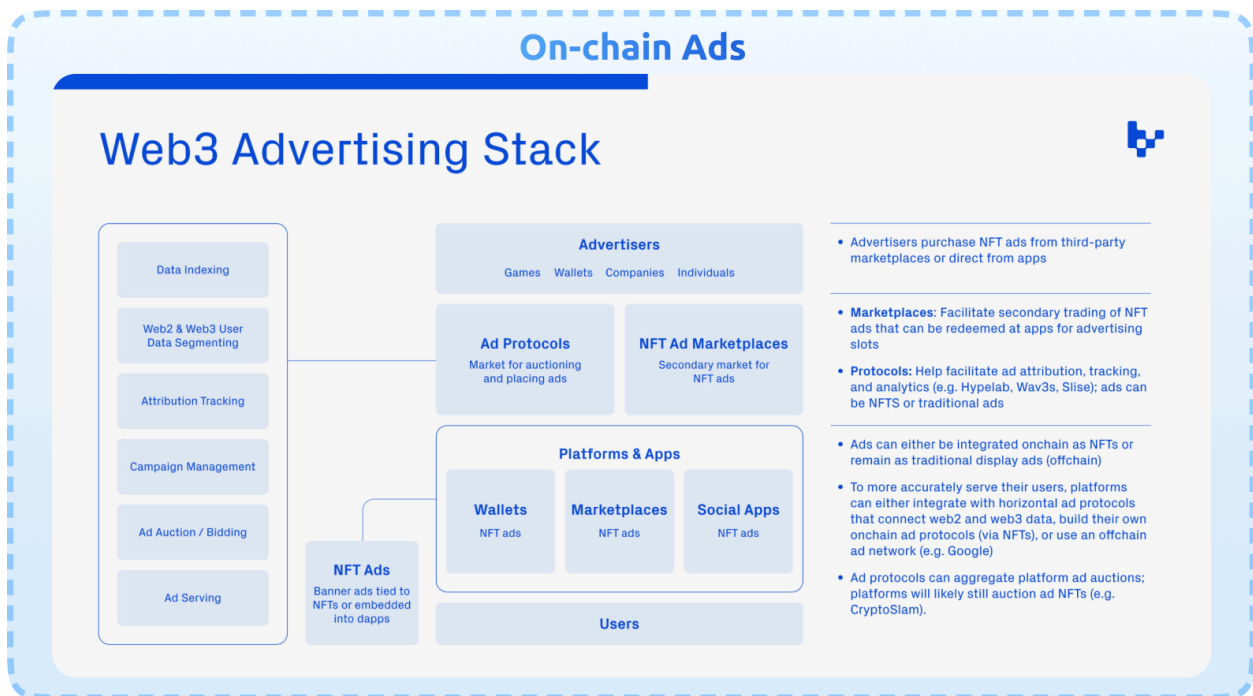
As we transition from traditional advertising to Web3, all activity recorded on public blockchains contributes to a universal social graph—a vast network of interactions. This brings new challenges in designing social products that respect context, as individuals engage in different ways depending on their environment. For Web3 advertisers, success will lie in developing tools to segment and organize social graphs into meaningful contexts, enhancing user experience.

Advertising has played a central role in human communication since ancient times, from political ads on the walls of Pompeii to the first printed ads in the 15th century. In Web3, various advertising-like tactics have emerged, such as airdrops, quests, and NFT mints, which drive user engagement and brand affinity. However, these strategies often miss the core purpose of advertising—funding consumer experiences that make online platforms appealing.

For Web3 projects to flourish, a more effective advertising infrastructure is essential—one that enables a genuine exchange of attention for money between publishers and advertisers, all managed on-chain. In this decentralized model, advertisers would set their goals and budget via smart contracts, while publishers could monetize their platforms with ads tied to verifiable conversion metrics.

Attribution is the backbone of any effective advertising system. In Web3, current attribution models are limited, often tagging on-chain transactions without confirming

true conversions. Projects that can solve this challenge will set the standard as advertisers increasingly prioritize real, verified conversions over simple clicks or views.



Source: [variant.fund](https://variant.fund)

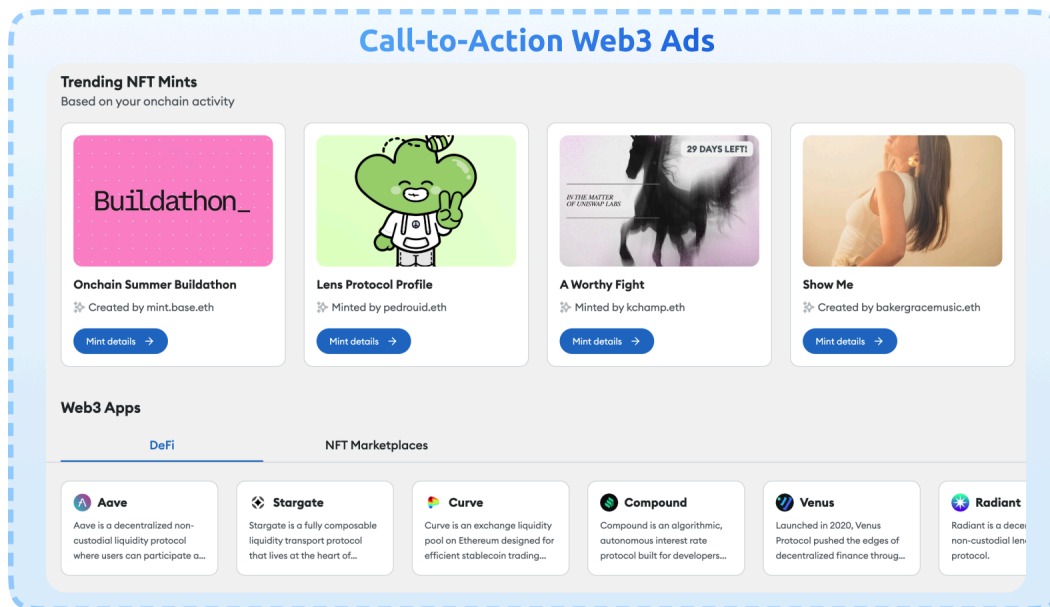
On-chain advertising is at a pivotal juncture. Early Web3 advertising strategies relied on basic Web2 methods, such as banner ads on token-tracking sites or blockchain explorers, often yielding low conversion rates and minimal on-chain integration.

However, platforms like Farcaster, embedded wallets, and native Web3 media outlets are gaining traction, bringing millions of users on-chain. This shifts the marketing funnel on-chain, enabling ads to blend seamlessly into native interactions rather than appearing as disruptive banners or popups.

Advertising in Web3 is becoming far more organic. Rather than disruptive ads, marketing takes the form of embedded, context-specific calls to action that enhance the user experience. This is especially important as smart wallets, embedded wallets, and decentralized media become more prominent on-chain, allowing users to interact seamlessly with blockchain applications.

At the core of advertising is the relationship between customer acquisition cost (CAC) and customer lifetime value (LTV). For advertisers, the goal is for LTV to exceed CAC. However, traditional models carry risks like inaccurate attribution or non-converting users, which can skew this balance.

In Web3, blockchains add a new dimension to this model as on-chain actions are permanent and transparent, enabling advertisers to track user behavior with unprecedented precision.




Source: [Spindl Blog](#)

Although the number of active crypto users is currently lower than traditional online users, their LTV can be significantly higher, sometimes reaching thousands of dollars, making this a lucrative environment for marketers who can effectively leverage blockchain data.


Blockchain attribution tools like 0xppl, Arkham, and Nansen enable marketers to map wallet addresses to users with high accuracy, providing a clearer view of engagement. On-chain data offers richer insights, allowing advertisers to track critical actions such as long-term user retention and value over time.


Protocols like Qwestive, Safary, and Spindl are developing new attribution systems that distribute ad revenue transparently and in a decentralized manner. This creates a system where advertisers can confidently pay for performance, with smart contracts ensuring fair and efficient attribution.

Interactive Ad Inside Any Framework

**\$DEGEN up 16.2% over the past 24 hours on** 

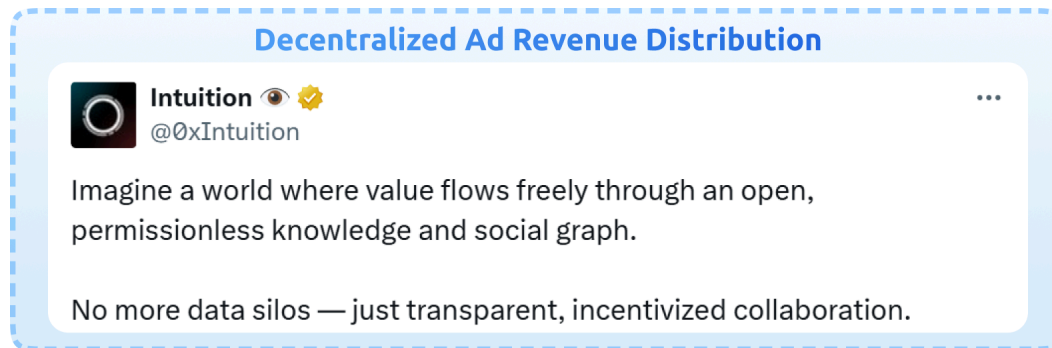
75,462 others have swapped recently



Trade and get 5% rebate 

Source: [Spindl Blog](#)

While ads are often met with skepticism in crypto, the reality is that the space thrives on attention. Every shared dApp, NFT, or token acts as an advertisement. The future of Web3 advertising lies not in replicating Web2 models but in embedding sponsored content directly into blockchain interactions. This creates more tailored, impactful, and non-intrusive experiences, redefining how users engage with ads in decentralized environments.



Source: [Intuition \(X\)](#)

# The Omnipresence of Markets

## Section 18

# The Omnipresence of Markets

***It is a truth universally acknowledged, that a person in possession of little fortune, must be in want of more social capital.***

– Jane Austen

Blockchain is an attention economy that enables new business models for creators, ensuring fair compensation for the value they provide. We can differentiate between two market verticals: access to existing information and markets that create new information.

The first involves fairly pricing access and reducing information asymmetries, while the second focuses on making previously restricted information accessible by aggregating data and establishing new exchange rates through market discovery.

By aggregating data, these markets support risk pricing, enable on-chain simulations, and establish prediction markets and bounties. Through market discovery, blockchain allows participants to assign value to new data, incentivizing innovation and exploration. These emerging markets can help price risk more effectively and reward those who contribute valuable insights to the public domain.

Crypto not only redefines the value of information but also highlights the increasing gamification of online life. Whether on social media or decentralized networks, individuals participate in this "game" to earn rewards, build social capital, and create wealth opportunities.

Blockchain elevates this "game", allowing participants—creators, entrepreneurs, or everyday users—to be directly rewarded for their contributions. With tokens and decentralized systems, anyone can benefit from their actions, transforming passive content consumption into active economic participation, where contributions are recognized and compensated in real time.

## The Case for Futarchy



Proph3t  
@metaphroph3t



### METADAO: THE BULL CASE

#### 1: THE WORLD IS FULL OF POOR DECISION-MAKING

In 2011, the new CEO of JCPenney eliminated sales, coupons, and discounts in favor of “everyday low prices.” It turned out that customers valued the feeling of a good deal: JCPenney's revenue declined by 25%. [1]

Due to unconscious bias by judges, women auditioning for orchestras were 50% less likely to advance beyond the first round before the advent of blind auditions.[2]

Regulatory agencies often fall victim to 'regulatory capture', where they end up serving the interests of the incumbents rather than the public good.[3]

These examples illustrate the reasons we make poor decisions: **insufficient information, biases, and misaligned incentives.**

#### **Insufficient Information**

In JCPenney's case, the CEO didn't know that customers would shop less if there weren't discounts, even if the prices were the same.

#### **Biases**

Despite wanting the most talented players, the orchestras' judges were biased to favor men over women.

#### **Misaligned Incentives**

Regulators often end up working for the incumbents and people generally don't want to upset their future employer.

Source: [Proph3t \(X\)](#)

As more of life transitions to digital spaces, the lines between social and financial capital blur, introducing both complexity and new opportunities. Online social capital—followers, reputation, expertise—now has direct economic implications.



Blockchain enhances this by rewarding valuable contributions with financial capital, creating a cycle where social standing can translate into tangible financial returns.

Social capital, unlike financial capital, generally builds over time through relationship development and maintenance. However, the two are not mutually exclusive. Financial capital can enhance social capital by enabling investments in relationships or status symbols, while social capital can subtly translate into financial capital, creating economic opportunities without disrupting social dynamics. In this context, financial capital is more liquid, while social capital is typically more illiquid.



Source: [makesy \(X\)](#)

As online attention and social interactions accelerate, managing the relationship between social and financial capital becomes increasingly complex. Crypto infrastructure offers tools to better manage, contextualize, and connect these indicators in this fast-paced, hybrid world, helping bridge the gap between these two forms of capital.

## Prediction Markets and Insights Betting



***I never try to predict the market.***

– Warren Buffet

Prediction is deeply ingrained in human nature, rooted in evolutionary biology, as our ancestors needed to foresee threats and changes for survival. Today, we forecast everything from interest rates to economic trends. Prediction markets formalize this natural instinct, allowing us to back our forecasts with money. It's more than just entertainment—it's a strategic tool for efficiently allocating time and capital.

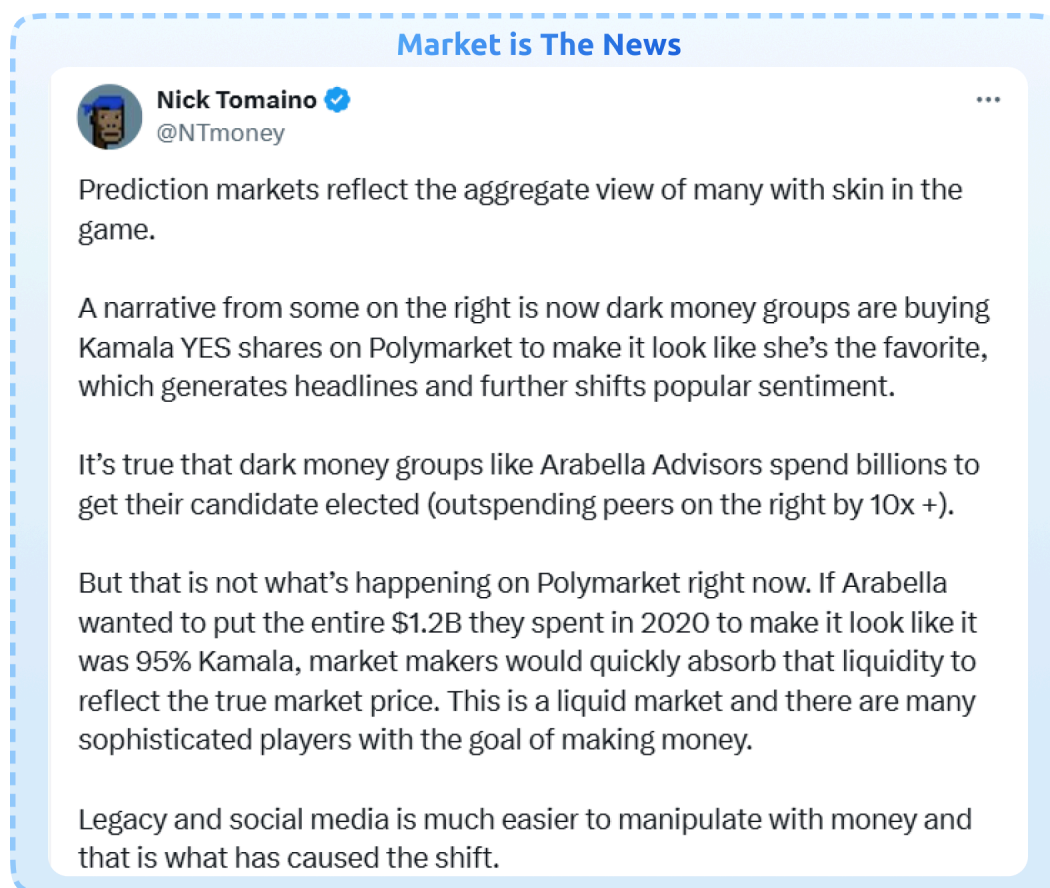
Polymarket has become this year's standout in crypto, partly fueled by the U.S. election but most notably due to its success in bringing mainstream users into the crypto space. Apps that extend beyond their initial crypto-native audiences, like OpenSea, offer valuable lessons in scaling, making Polymarket's growth a model worth analyzing. Some have even speculated about a competitor launching a 'vampire attack' with token incentives, similar to Blur's strategy to capture market share from OpenSea.

Prediction markets operate on the principle that informed individuals, especially insiders and superforecasters, provide valuable insights that quickly become reflected in prices or probabilities. Unlike the traditional "wisdom of crowds" model, which averages collective guesses, prediction markets leverage the expertise of a few well-informed participants who are financially motivated to act on their knowledge.

This growing adoption of prediction markets is celebrated because, accurate or not, they either offer a glimpse into the future or a chance for financial gain. In essence, they create a public good by delivering high-quality, real-time aggregated probabilities for various events.

However, the accuracy of prediction markets relies heavily on market efficiency. In theory, efficient markets drive prices toward fair value, eliminating profit opportunities.

Yet, in prediction markets, the efficient market hypothesis rarely holds due to factors like bias, time constraints, and hedging behaviors.





Source: [Nick Tomaino \(X\)](#)

Critics often point to instances when prediction markets assign low probabilities to events that later occur. They're missing the larger point. The value of these markets lies not only in predicting outcomes but also in providing opportunities for knowledgeable participants to correct mispriced probabilities, enhancing market efficiency over time.

Without market efficiency, prediction markets can display skewed probabilities, typically influenced by biased participants. For example, users often overestimate outcomes they desire, inflating an event's probability beyond its actual likelihood. Time also plays a critical role in prediction market efficiency.

If a skew exists—say 1% off the true probability—arbitrageurs would typically correct it. However, if an event’s resolution is far off, such as six months away, the opportunity may be too small relative to the time horizon. A 1% return over six months falls below the risk-free rate, making it unattractive to arbitrageurs.

**Unspoken Limitations**

 **Lamb**   
@FearsomeLamb789

Prediction markets don't reflect the true odds and they are not a source of any sort of truth

Prediction markets aggregate the knowledge (or lack thereof) of participants

It is quite simple: they represent the collective opinion of participants betting on the probability of an event happening. This doesn't mean they're accurate; it means they're reflective of the consensus. And consensus can be driven by biases, misaligned incentives, herd behavior, or simply ignorance

They might be good at picking up on the wisdom of crowds in some cases, but this is largely limited to events with short-term, low-complexity outcomes — things like election results, interest rates decisions, some sports outcomes

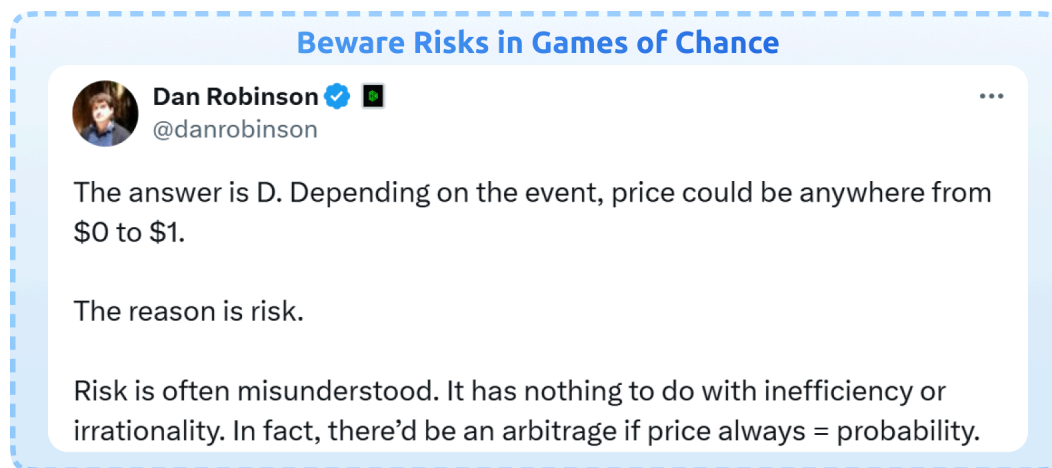
In hindsight, it's easy to adjust the odds for unpredictable events, but foresight is what counts — and that's precisely where these markets fail

Interesting tools for gauging sentiment, but they are not oracles. The biggest problem is that the true risks — the ones that can really hurt you — are often the ones the crowd hasn't even considered

Source: [Lamb \(X\)](#)

Prediction markets are appealing because they react to information in real-time, far faster than traditional polling. They incentivize participants with new information to engage and express their opinions on any given market.

A certain level of imprecision is essential to keep prediction markets attractive to informed participants. In a perfectly accurate market, there would be no incentive for insiders to engage, as there is no profit to be made. The presence of less-informed participants, or "dumb money", creates profitable opportunities for informed participants, ultimately driving market accuracy and utility.



Source: [Dan Robinson \(X\)](#)

A paradox within prediction markets is that the more seriously they're taken, the greater the incentives for manipulation—provided these manipulations remain undetected. By promoting multiple, competitive markets with distinct participant bases, such as Kalshi, Polymarket, and Betfair, we can mitigate the risk of hidden manipulation. Diverging prices across these platforms would quickly raise suspicion, as they would be unlikely to reflect uncorrelated market movements.

People will seek forecasts regardless, and without formal, transparent markets, they may rely on pundits, unregulated platforms, or other less reliable sources. This creates a far greater risk of manipulation and misinformation than would exist in a well-regulated market—a concern that prediction markets are well-equipped to address.

Despite the promise of prediction markets in crypto, they have struggled to gain traction for a straightforward reason: they lack entertainment value and offer limited upside potential. Unlike memecoins, which attract users with the allure of unlimited

gains, prediction markets haven't taken off because they revolve around irregular events and typically provide capped rewards.

There is a gap between the enthusiasm of core crypto enthusiasts, who value prediction markets for their information efficiency, and general users, who may find other speculative activities, like trading memecoins, more exciting. Suggestions to bridge this gap include incorporating leverage, enabling permissionless market creation, introducing perpetual contracts, incentivizing institutional liquidity, and generating yield on collateral.





Source: [Dan Robinson \(X\)](#)

Activities like trading memecoins, flipping NFTs, or sports betting are fun; prediction markets, by contrast, have yet to offer an engaging user experience or high retention rate. Making prediction markets as enjoyable as other crypto activities could amplify both their appeal and impact. Key efforts to address this include features like copy-trading, gamified leaderboards, and mobile-first platforms with social features.

The data generated by prediction markets is incredibly valuable, with various monetization strategies available at the intersection of betting markets and media. Prediction markets excel in information discovery, providing real-time snapshots of event likelihoods. While these predictions shouldn't be viewed as absolute truths, the aggregated knowledge of the crowd remains relevant and offers valuable insights.

At the end of the day, while markets are among the most efficient tools for uncovering truth, it's crucial to understand their limitations. They excel at providing actionable insights but fall short when it comes to defining what should be desired or valued.

**More Than Sentiment Machines**

 **Alex Van de Sande (avsa.eth)**   
@avsa

This is what polymarket VP predictions were two weeks ago. I believe it's clear that Prediction markets aren't predicting the news but rather just just reacting to it.

And I don't think it could be otherwise unless there was a large flood of insider trading happening, which doesn't seem to be the case. After all, not many would risk their career by leaking some private information for the chance of a mere 4-5x return. Even if it's a 10x return, it's not guaranteed and you still have to put a lot of money to be worth it (and at this point it becomes easy to track it).

Source: [Alex Van de Sande \(X\)](#)

## Demand Issues and Liquidity Shortages

***Bad information is worse than no information at all.***

– Nassim Nicolas Taleb

Prediction markets in crypto may struggle for the same reasons they failed to gain traction outside the crypto space; it could be less a matter of regulation and more about limited demand.

Consider three types of participants: savers who want to build wealth over time, gamblers seeking excitement, and sharks who capitalize on information asymmetry and strategic advantage. When we categorize participants this way, the challenges prediction markets face become clearer.

Savers focus on wealth-building over time, gravitating toward positive-sum activities like investments, where they lend capital and earn returns. They are generally uninterested in zero-sum or negative-sum games, such as prediction markets, where gains come directly at someone else's expense.



Gamblers, by contrast, participate for the thrill and often accept negative returns for the sake of excitement. Prediction markets, with their lengthy timelines and delayed outcomes, lack the instant gratification these participants crave. Unlike sports betting or casino games, which provide quick results and immediate dopamine hits, prediction markets can take weeks or months to resolve. Even in high-profile events, such as the Super Bowl or elections, gamblers prefer live betting and events with faster resolutions.

This leaves the sharks—experienced participants who look to exploit information asymmetry. While prediction markets theoretically offer them opportunities to leverage their knowledge, these markets often lack the capital and liquidity to make the time investment worthwhile.



In liquid markets, sharks can scale profits, but in thinly traded markets with minimal participation from savers or gamblers, potential profits dwindle. Competing against other skilled players in small markets also reduces the appeal, as it becomes a contest among top participants with uncertain returns.

**Charting Human Nature**

 **MilliE**   
@llamaonthebrink

The terminally online to prediction market bettor rotation will seem obvious in hindsight, but it's also obvious right now.

There probably isn't another PvP game that scales as well as prediction markets do.

A participant's edge scales almost linearly with how closely they pay attention + how terminally online they are and so does the accuracy of the underlying markets.

What really enables prediction markets to scale though is how they so innately reflect human behaviour.

How many times per day does the average person place hypothetical bets with friends or even just themselves, silently in their own mind?

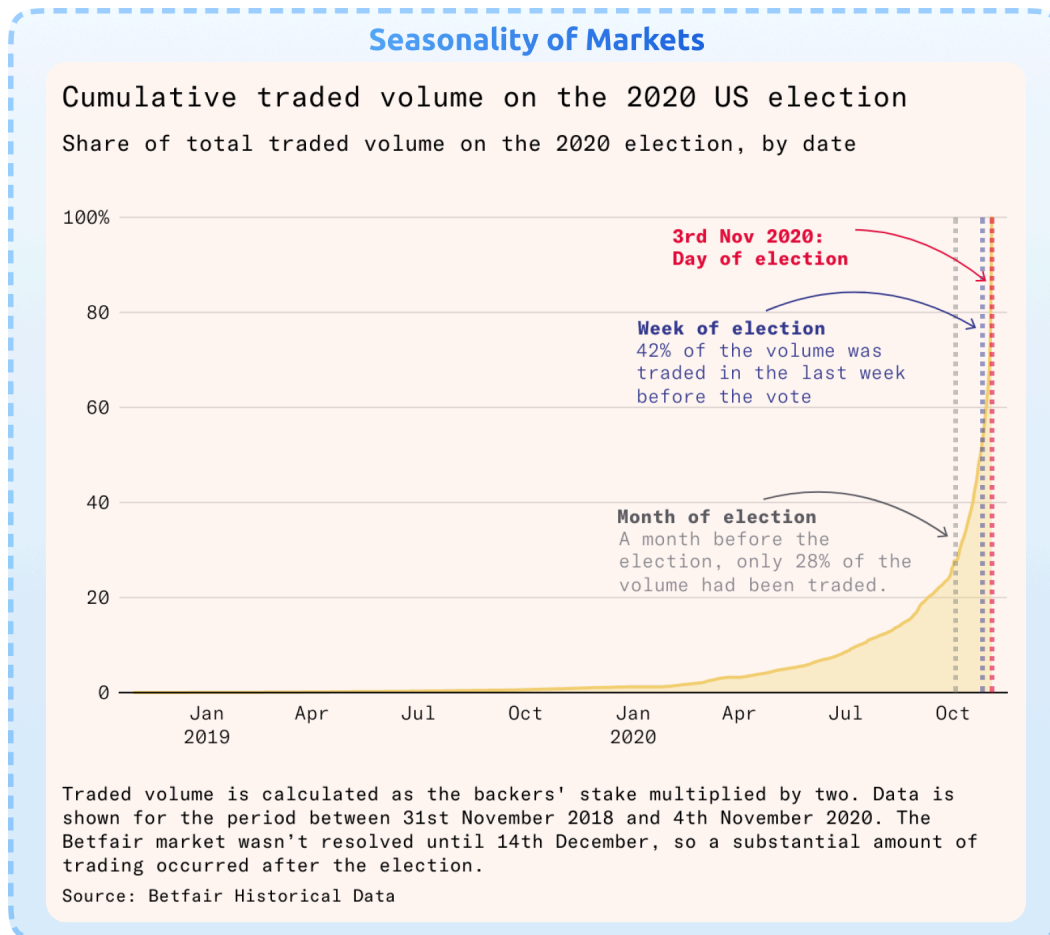
Humans habitually speculate on random outcomes. Be it a glance at the sky and a prediction of weather, or predicting your boss's response to a suggestion you have, humans like to speculate.

It doesn't matter if you like trading, if you like markets, or if you even like the news, chances are you speculate on dozens of things every day and you just don't recognize it.

The TAM of prediction markets is almost every person on earth. You don't even need to participate to be part of the addressable market, just having interest in the information being signalled is enough.

Source: [MilliE \(X\)](#)

Prediction markets lack the influx of capital that would create substantial profit opportunities. As a result, their small scale makes them less appealing to traders who want to earn returns on the time spent determining fair prices, as profits generally scale with market size.



Source: [The Castle Chronicle](#)

Combined with the fact that most prediction markets also lack the features that attract gamblers, this leaves only skilled participants—sharks—who find it unappealing to compete solely against other sharks, akin to sitting at a poker table surrounded exclusively by the world's top players.

When markets consist primarily of sharks, liquidity suffers, as many conditions will lead to no-trade situations. If all participants are informed, any price change would require new information introduced by newly proposed trades, indicating private

knowledge. Uninformed participants are likely to exit, recognizing that accepting trades puts them at a disadvantage, resulting in a lack of trading activity.

Despite their potential, prediction markets have yet to capture mainstream interest, remaining niche and often overshadowed by the more accessible, highly liquid, and recently deregulated sports betting industry. While both industries focus on event forecasting, sports betting benefits from steady liquidity and faster event cycles—advantages that prediction markets currently fail to match.

## From Corporate Use to Futarchy

***The economic problem of society...is a problem of the utilization of knowledge which is not given to anyone in totality.***

– F.A. Hayek in his book  
“The Use of Knowledge in Society”

Prediction markets have a long and intriguing history. Robin Hanson, regarded as the father of prediction markets, introduced the concept in *Idea Futures*, where he proposed using betting markets for decision-making rather than relying solely on experts. This idea evolved into "Futarchy", a system where governments would vote on values but use prediction markets to bet on beliefs. Hanson's vision laid the foundation for how modern prediction markets might inform policy decisions.

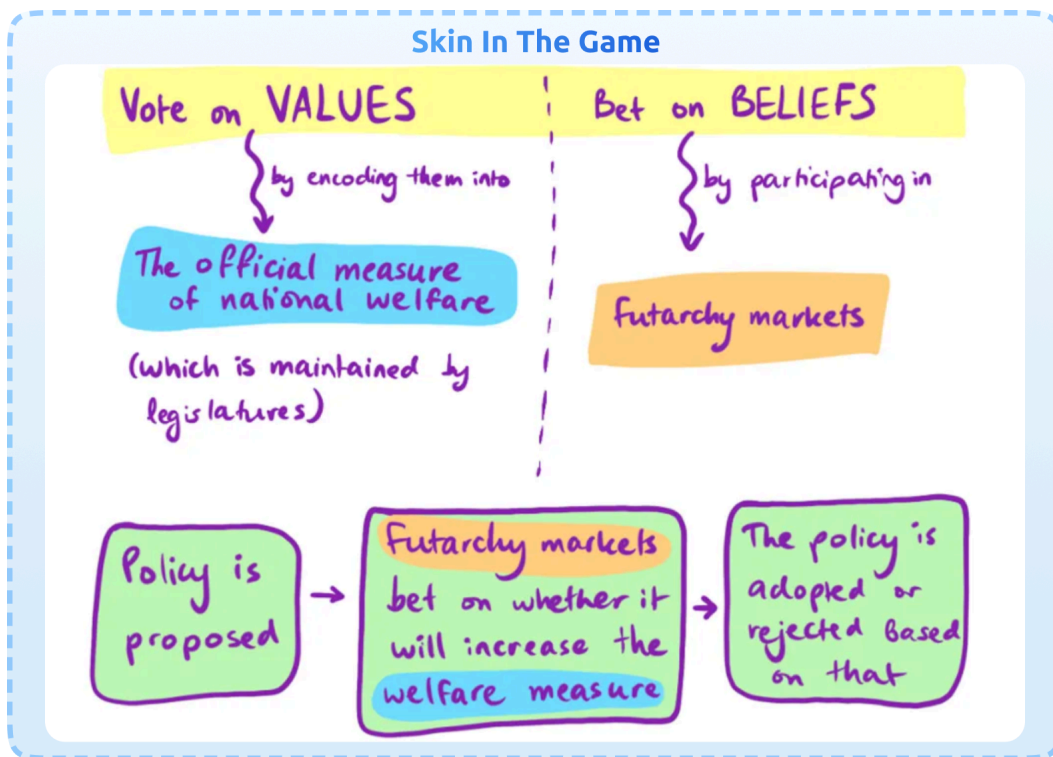
Initially experimental tools for corporations like Microsoft, Eli Lilly, and Google to forecast outcomes, prediction markets are gaining renewed attention as methods for uncovering truths in a world influenced by media narratives. These companies tested prediction markets to anticipate product launches, drug approvals, and geopolitical events. However, the real promise of prediction markets lies in their potential to serve as more reliable sources of truth than traditional media.

Today, the top-down control of narratives by news and media companies challenges information freedom. While platforms like X provide space for public narratives, their algorithms often reward popularity over accuracy, which can be misleading and result in misinformation. Community Notes on X attempts to address this, but helping users distinguish truth from misinformation remains challenging.

Prediction markets offer a promising solution. Unlike opinion-driven narratives, prediction markets are rooted in real stakes—participants must "put their money where their mouth is". For example, in political polling, people may provide misleading answers, but in prediction markets, participants are financially motivated to be

accurate. Profiting from accurate insights and losing from incorrect ones creates a direct incentive to seek and act on the truth.

While markets are not perfect and do not always predict outcomes accurately, they generally offer a more reliable perspective than traditional media or algorithm-driven platforms. Markets reflect the current reality as seen by a diverse group of financially motivated participants, making them particularly reliable as they scale with global liquidity enabled by on-chain payment systems.





Source: [Coinmonks \(Medium\)](#)

For prediction markets to thrive, they must establish and maintain markets with regular events to ensure sustained engagement and manageable customer acquisition costs. Although market structure is important, success hinges on identifying and serving markets that offer consistent and frequent betting opportunities.

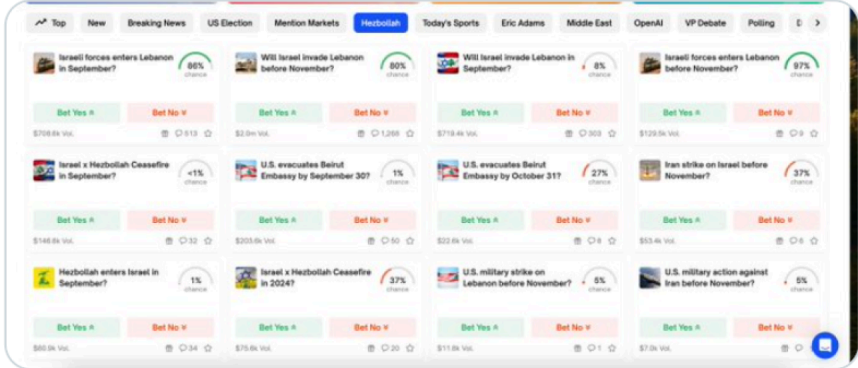
An integrated model could also transform news consumption. Rather than relying solely on expert opinions, media outlets could reference prediction market odds, providing a more data-driven view of future events. Platforms like Manifold Markets

are already exploring the concept of "newsifying" prediction markets, turning market outcomes into stories that inform public discourse.

### Vitalik On Questionable Markets


**Legendary**   @legendarygainz\_ · Sep 30

It feels wrong that Polymarket has an entire Hezbollah betting section that makes a war look like a football game to bet on.



Market	Chance	Yes Odds	No Odds
Israeli forces enters Lebanon in September?	86%	\$108.8k	\$129.8k
Will Israel invade Lebanon before November?	80%	\$2.8k	\$1.26k
Will Israel invade Lebanon in September?	8%	\$719.8k	\$308
Israeli forces enters Lebanon before November?	87%	\$129.8k	\$129.8k
Israel x Hezbollah Ceasefire in September?	1%	\$146.8k	\$32
U.S. evacuates Beirut Embassy by September 30?	1%	\$203.8k	\$40
U.S. evacuates Beirut Embassy by October 31?	27%	\$22.8k	\$40
Iran strike on Israel before November?	37%	\$53.8k	\$6
Hezbollah enters Israel in September?	1%	\$62.8k	\$34
Israel x Hezbollah Ceasefire in 2024?	37%	\$75.8k	\$20
U.S. military strike on Lebanon before November?	5%	\$11.8k	\$1
U.S. military action against Iran before November?	5%	\$7.8k	\$1

110    110    505    228K

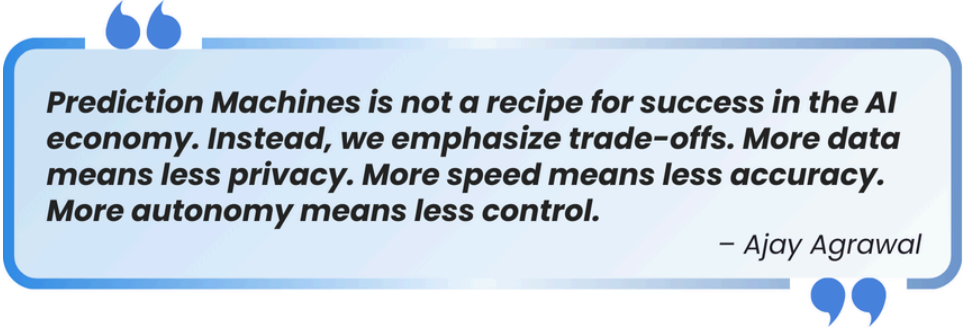
**vitalik.eth**  @VitalikButerin

I support these existing. The point of polymarket is that from the perspective of traders it's a betting site, but from the perspective of viewers it's a news site. There's all kinds of people (incl elites) on twitter and the internet making harmful and inaccurate predictions about conflicts, and being able to go and see if people with actual skin in the game think that something has a 2% chance or a 50% chance is a valuable feature that can help keep people sane.

It's not about "make money from bad stuff happening", it's about creating an environment where speech has consequences (so both unjustified fearmongering \*and\* unjustified complacency are punished), without relying on governmental or corporate censors.

Source: [vitalik.eth \(X\)](https://x.com/legendarygainz_/status/1841444444444444444)

## An AI-Powered Twist



***Prediction Machines is not a recipe for success in the AI economy. Instead, we emphasize trade-offs. More data means less privacy. More speed means less accuracy. More autonomy means less control.***

– Ajay Agrawal

Prediction markets have long held the promise of near-clairvoyance, yet they have been limited by low liquidity, seasonal inefficiencies, and unclear resolutions. While today's prediction markets generate significant value for society by aggregating collective insights, participants often face a zero-sum game, leaving many valuable opportunities untapped. There is a need for a new, more adaptive model—one that scales beyond isolated questions and rewards deeper engagement.

Traditional prediction markets struggle to bootstrap liquidity for niche or long-tail questions, as liquidity tends to be heavily concentrated on a small number of popular questions. This makes it difficult to reward insiders or researchers with unique insights on less-discussed topics, leading to an inefficient structure where valuable predictions often go untraded due to limited liquidity.

The solution lies in developing markets with semantic awareness. In this new model, markets assess semantic similarity between predictions and trusted sources of truth, unlocking liquidity for a wider range of questions.

## AI Forecasters



**Dan Hendrycks** ✓

@DanHendrycks



We've created a demo of an AI that can predict the future at a superhuman level (on par with groups of human forecasters working together).  
Consequently I think AI forecasters will soon automate most prediction markets.

Source: [Dan Hendrycks \(X\)](#)

Rather than relying on static questions and requiring deep liquidity for each, these markets become more fluid and adaptive, leveraging advanced AI models and decentralized verification systems. In this environment, participants are no longer restricted to simple yes/no predictions but can submit nuanced forecasts and be rewarded based on their alignment with final outcomes.



## The Newsification of Events Exchanges

***Markets can influence the events that they anticipate.***

– George Soros

Prediction markets have faced stigma since their inception. Robin Hanson originally proposed them as a more accurate alternative to expert opinions for forecasting outcomes, suggesting that betting markets could provide better guidance for policymakers than traditional expertise.

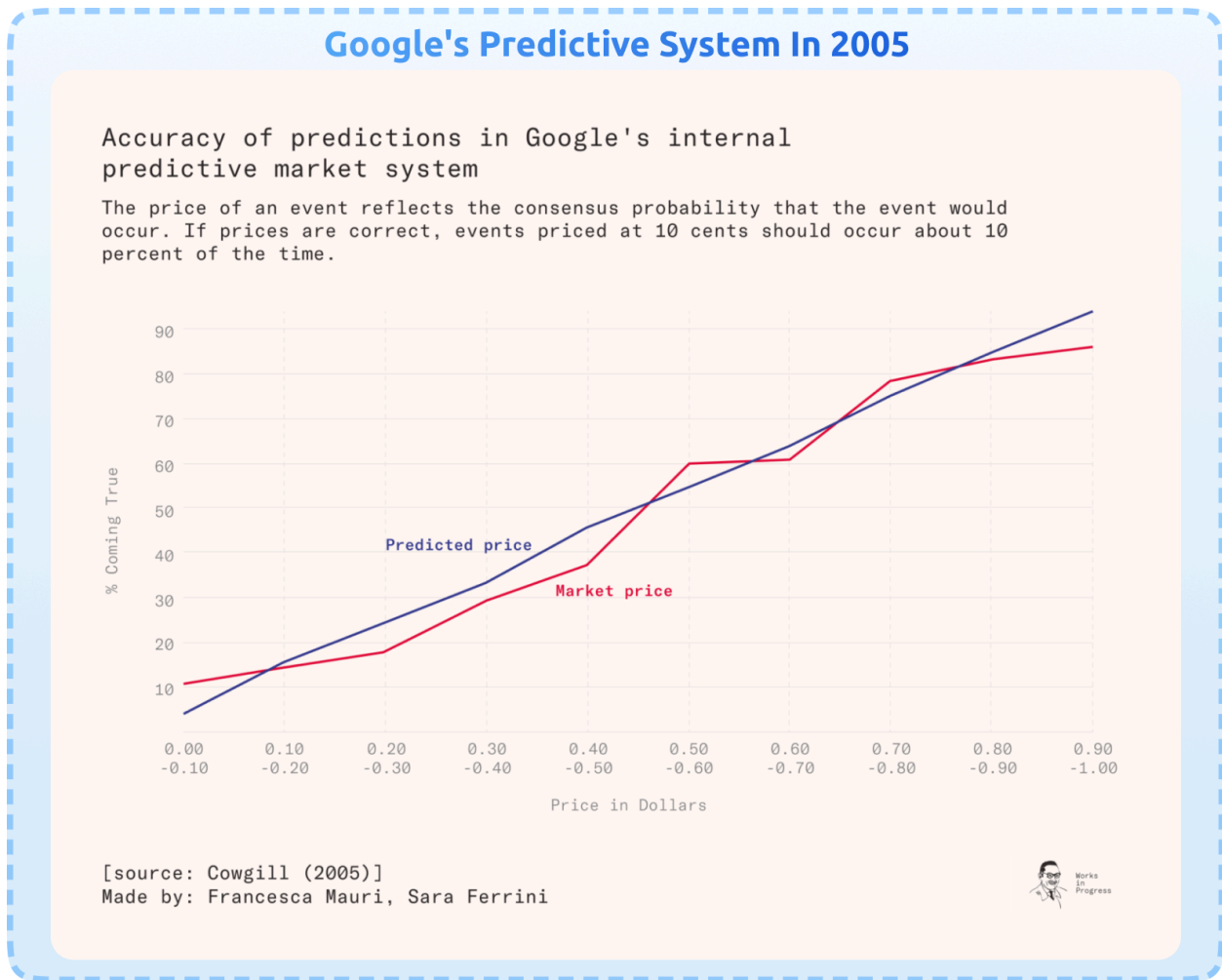
While sports betting and prediction markets both fall under the broader category of event markets, they operate differently. Sports betting is driven by “the house”, which sets odds and takes a cut, or vig, on each bet, ensuring profit regardless of outcomes. Prediction markets, by contrast, involve traders betting directly against each other, with no central entity guaranteeing liquidity or profits.

Prediction markets rely on efficiency to set accurate probabilities, but achieving this is challenging due to biases, hedging, and event timing. Long-duration events may not attract enough arbitrage to correct inefficiencies, as potential profits from mispricing often don't justify the risk over extended periods.

Participants may overprice outcomes based on personal biases, further distorting probabilities. Additionally, traders might use prediction markets to hedge against other assets, which can skew perceived probabilities as the event nears.

These factors make it challenging for prediction markets to consistently provide accurate event probabilities. However, decentralization can play a significant role here. Blockchain technology has enabled decentralized prediction markets like GnosisDAO, Augur, Omen, and Polymarket, where smart contracts settle bets, often using tokens or stablecoins as collateral.

The global reach and broad participation enabled by these decentralized markets could lead to wider acceptance, especially as media and news outlets reference market prices as indicators of public sentiment—much like the dashboards on platforms like Kaito referenced throughout crypto Twitter.



Source: [Works in Progress](#)

Prediction markets could serve as a powerful tool for fact-checking. Current debates about online speech often focus on misinformation, conspiracy theories, and hate speech, with regulatory solutions potentially compromising free speech, privacy, or competition. Prediction markets offer an alternative that disciplines misinformation without bias or encroaching on freedoms.

Today, users can spread falsehoods online without consequence, often shielded by anonymity. Social media platforms face difficulties in moderating content at scale, with billions of posts daily. Automated tools often fail to capture harmful content due to contextual complexity, leading to both mistakes and increased regulatory pressure.



Source: [mleejr \(X\)](#)

Social media companies could integrate prediction markets to crowdsource truth and improve content moderation. Users would make predictions, wager on claims, and aggregate predictions on controversial topics, shifting content moderation from centralized control to market-based assessments. Users with accurate prediction histories could gain reputation and influence, adding credibility and accountability to the process.

## GambleFi: The Engagement and Liquidity Clash

***Just as digital gold became the triumphant narrative and use case for bitcoin last cycle slowly and surely the decentralized casino thesis is emerging as the consensus narrative for crypto at large [filling the void left by Web3]***

– GCR

In prediction markets, the frequency of events is essential for maintaining user engagement and driving substantial betting volumes. Platforms like DraftKings and FanDuel invest heavily in customer acquisition, banking on the high lifetime value of users built through repeated, incremental bets. Regular events, particularly in sports, offer consistent opportunities for users to place bets, which sustains engagement and encourages higher betting activity over time.

In contrast, infrequent events like elections don't provide the same continuous engagement. As the industry develops, the focus should be on identifying and leveraging regular betting opportunities. Esports, for instance, holds considerable potential, offering a steady stream of events that could attract and retain users, positioning it as a valuable segment within the prediction market landscape.

## Sports Betting: More Frequent and Real-time Thrills

***The house doesn't beat the player. It just gives him an opportunity to beat himself.***

– Nick Dandolo

With sports gambling accessible at everyone's fingertips, crypto may have found its "killer use case". Americans are spending more on gambling than ever, and this trend even extends to athletes themselves. Importantly, there is plenty of room for regulatory arbitrage.

We are entering an era where betting while watching a game has become commonplace. Major leagues like the NBA are integrating sports betting into streaming apps, enabling viewers to place bets in real time. This seamless experience helps keep fans engaged by tapping into the excitement of having money at stake.

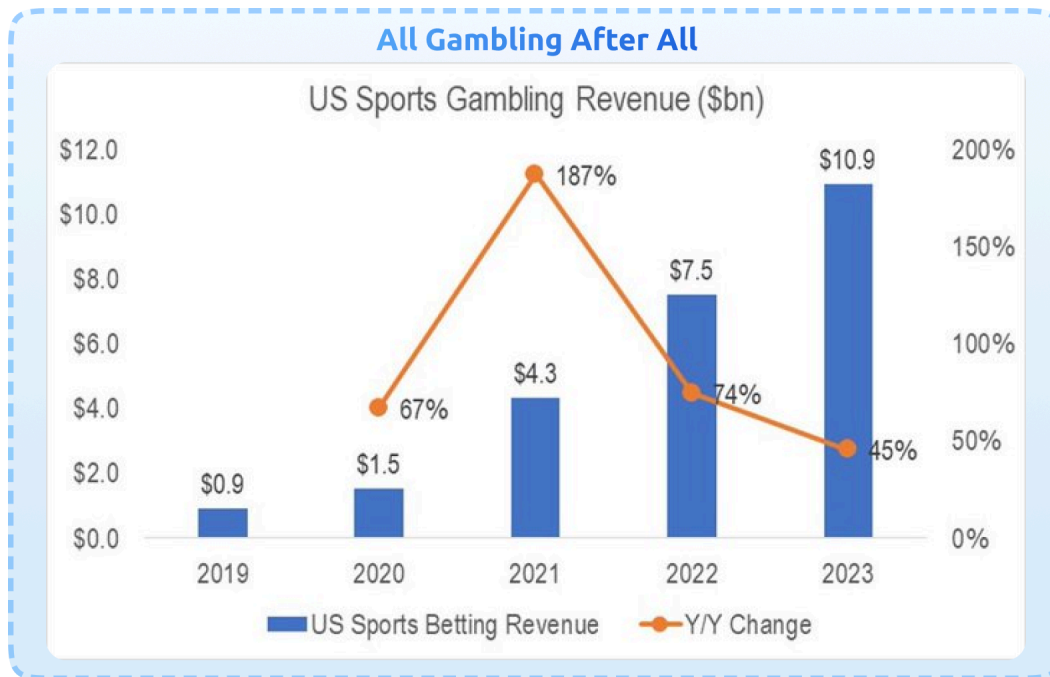
Sports betting is also evolving to include social components, allowing fans to bet, share, and compete with friends and other viewers in real time, making the experience even more interactive and communal.

Users clearly value convenience and are often willing to pay for it. For instance, DraftKings charges a significant rake on secondary sales within its custodial platform, yet its convenience and product stickiness indicate strong potential for sports and culture-related NFTs. Integrating financial elements like NFTs tied to sports or cultural assets resonates strongly with users, creating new ways for fans to engage with their interests while exploring financial opportunities.

A counterargument might highlight fundamental differences between the thrill of live sports events, such as the World Cup or NBA Finals, and the nature of fantasy sports or social media experiences. Live sports provide the excitement of unpredictable outcomes and real-time action, drawing audiences with intensity and emotional highs.

Fantasy sports, meanwhile, appeal to fans who enjoy the strategic aspects of managing a team, competing with friends, and following player performances over a longer season.

Additionally, live sports events require significant resources and infrastructure to produce and broadcast, limiting their scalability. Fantasy sports, while not replicating the same level of intensity, can accommodate more participants and offer ongoing engagement throughout a season or series of contests.



Source: [Market Sentiment](#)

Both live sports events and fantasy sports have social elements, but they manifest differently. Fantasy sports may not replicate the intensity of live events, but they offer unique engagement focused on strategy, competition, and social interaction. Each experience appeals to different preferences and interests within the broader sports and entertainment landscape.

## Attention Betting

***In an information-rich world, the wealth of information means a dearth of something else: a scarcity of whatever it is that information consumes.***

– Herbert A. Simon

Polymarket’s go-to-market strategy exemplifies a disciplined, structured process to adoption. Rather than chasing a broad audience too quickly, Polymarket focuses on gradually moving down the adoption curve.

By clearly defining its target audience and optimizing partnerships that expand its reach within this community, Polymarket avoids the common crypto pitfall of attempting to go mainstream prematurely. Partnerships with Substack and Perplexity strategically target tech-curious early adopters, ensuring a solid foundation before attempting to cross the proverbial “chasm” into the broader market.

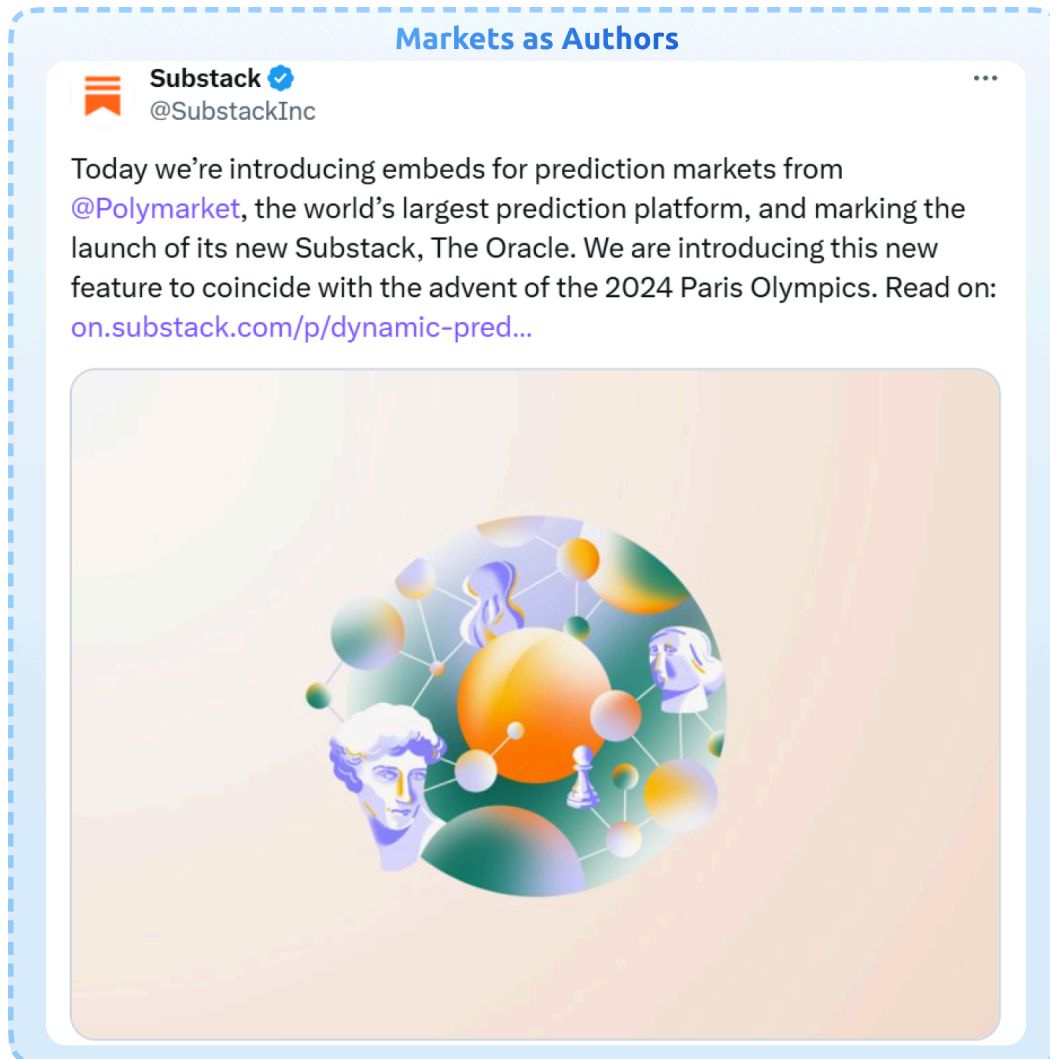
Following Geoffrey Moore’s *Crossing the Chasm*, which highlights the importance of early adopter buy-in before scaling, Polymarket delivers a polished product that meets the expectations of its initial users. This reduces the risk of issues like poor UX or bugs that could damage the brand and hinder adoption.

By building credibility and mindshare through high-quality channels like Substack and Perplexity, Polymarket positions itself for sustainable growth. For example, Substack writers can embed Polymarket’s markets directly into articles, providing readers with real-time updates on probabilities as they read. This integration, launched alongside Polymarket’s newsletter, *The Oracle*, during the 2024 Paris Summer Olympics, enhances news consumption by framing stories through probabilities.

Similarly, the partnership with Perplexity leverages Polymarket’s data to enrich search results with real-time visuals and probabilities, making information more engaging. By aligning itself with tech-forward communities, Polymarket demonstrates a deep understanding of technology adoption dynamics. Instead of rushing to the mainstream,

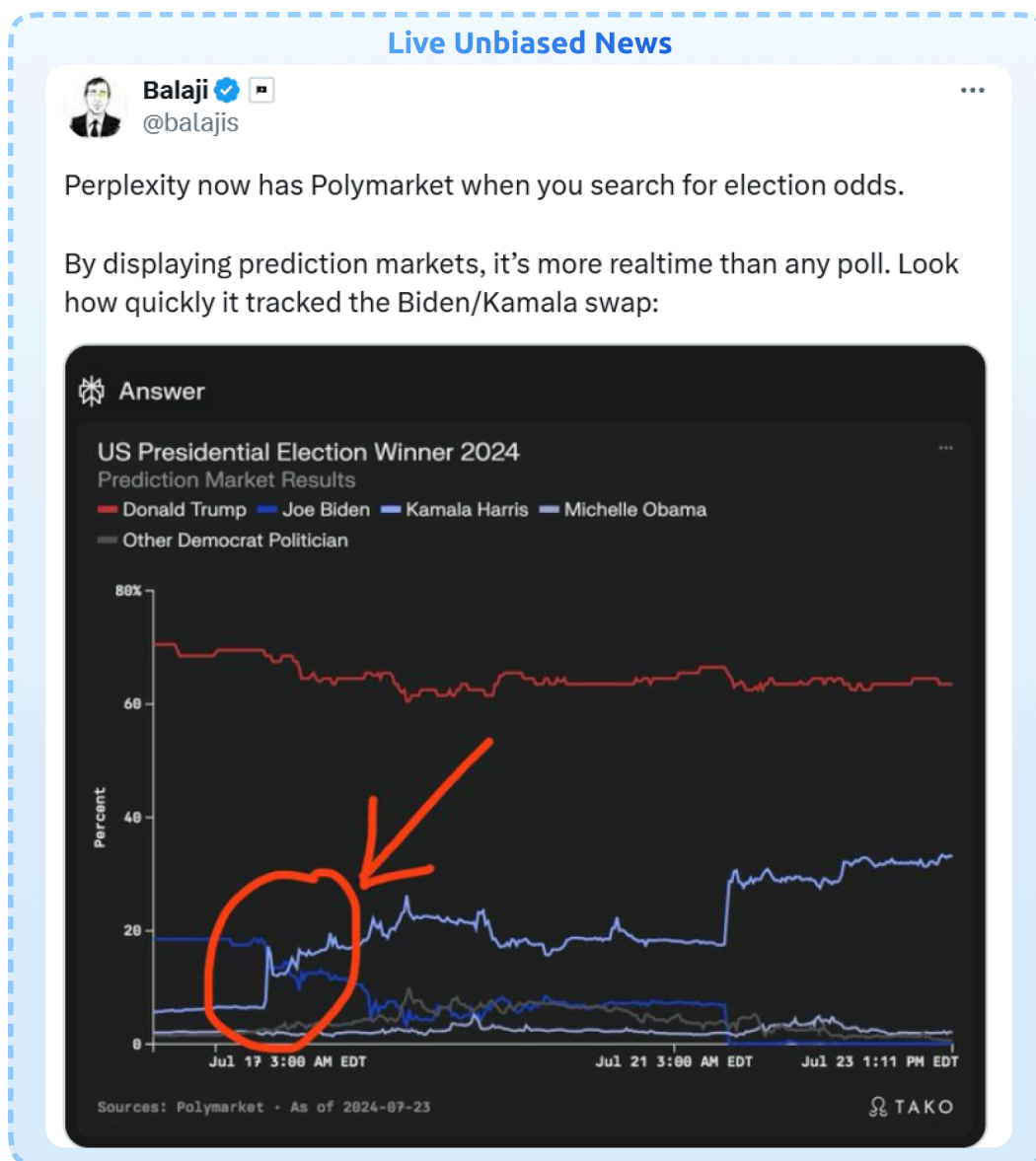


Polymarket carefully cultivates a user base among innovators and early adopters, ensuring that the product is refined and well-received before scaling further.



Source: [Substack \(X\)](#)

This deliberate targeting avoids the common crypto pitfall of expanding too quickly, which often leads to wasted resources and reputational damage due to incomplete or buggy products. By focusing on high-quality distribution channels rather than sheer reach, Polymarket is establishing a strong foundation within communities that appreciate its approach. This strategy bridges the gap between early adopters and the broader market, supporting sustained growth and adoption.






Source: [Balaji \(X\)](#)


Beyond Polymarket, we anticipate a shift from traditional betting and fantasy sports toward betting driven by social media virality. Influential creators like MrBeast, KSI, and Logan Paul could generate their own prediction and betting experiences, engaging audiences through short-term markets based on challenges, polls, and other interactive content. Niches like video games, fitness, and productivity also hold potential, each with its own leaderboard of popular creators.

In crypto, attention is currency, and narratives drive value. Unlike traditional liquid markets, where pricing mechanisms are rooted in fundamentals like discounted future cash flows, the value of many crypto assets—ERC-20 tokens, NFTs, or other tokenized assets—is determined largely by social consensus. Consequently, price discovery in crypto often revolves around attention rather than underlying fundamentals.

Anyone can create a token in a permissionless environment, making crypto the ideal space for an “everything casino”. This freedom to issue assets and trade on various platforms expands experimental possibilities and increases opportunities for asset issuance. It also embeds issuance and trading into novel platforms, driving innovation.

**Rugged and Dead, But What If?**

 **Autism Capital**    
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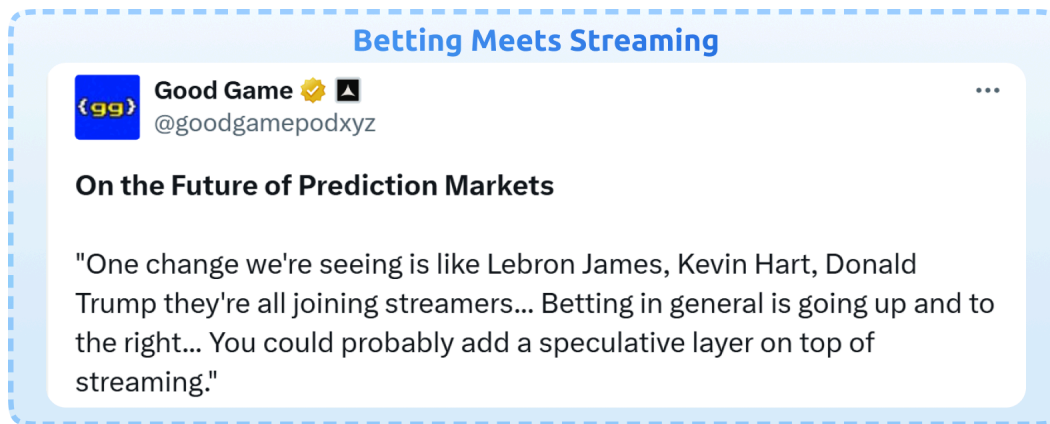
 PSA: List of several of the celebrity coins launched in the past and their ultimate fate.

Celebrity	Project	Current state	Price*	Current price	ROI
Kevin Hart	Confessions	Dead	\$98.90 USD	\$23.19 USD	-76.66%
6ix9ine	GINE C9lectib9e	Rugged	\$359.12 USD	\$39.19 USD	-89.91%
Shaq	Astrals	Rugged	\$164.56 USD	\$13.55 USD	-91.87%
Tory Lanez	\$BOOST	Rugged	\$0.0004185 USD	\$0.00003363 USD	-91.97%
Ozzy Osbourne	CryptoBatz	Dead	\$2,997.20 USD	\$56.60 USD	-98.12%
Lil Uzi Vert	Eternal Beings	Rugged	\$339.83 USD	\$1.82 USD	-99.97%
Kim Kardashian	\$EMAX	Rugged	\$0.000000543 USD	\$0.000000000448 USD	-99.98%
Lana Rhoades	Cryptosis	Rugged	\$261.69 USD	\$0.00 USD	-100.00%
Tory Lanez	Fancy Frenchies	Rugged	\$339.54 USD	\$0.00 USD	-100.00%
Floyd Mayweather	Floyds World	Rugged	\$269.34 USD	\$0.00 USD	-100.00%
Chris Brown	Breezyverse	Rugged	\$415.91 USD	\$0.00 USD	-100.00%
Trippie Redd	TrippieHeadzNFT	Rugged	\$443.53 USD	\$0.00 USD	-100.00%
Rich The Kid	RichKidsOfficial	Rugged	\$263.79 USD	\$0.00 USD	-100.00%
Soulja Boy	Soulja Boy 3D	Rugged	\$21.23 USD	\$0.00 USD	-100.00%
Mila Kunis	Stoner Cats	Dead**	\$782.23 USD	\$0.00 USD	-100.00%
DJ Khaled	\$CENTRA	Rugged	-	\$0.00 USD	-100.00%
Jason Derulo	Rich Dwarves Tribe	Rugged	\$778.92 USD	\$0.00 USD	-100.00%
LilYachty	\$YACHTY	Rugged	\$3.2013 USD	\$0.00 USD	-100.00%
Steve Harvey	Miss Universe NFT	Rugged	\$227.10 USD	\$0.00 USD	-100.00%
Snoop Dog	\$BABYETH	Rugged	\$0.0000332	\$0.00 USD	-100.00%

\*NFT projects = Mint price, Coins = Trading price  
\*\*Project was sentenced to reimbursement to buyers


Source: [Autism Capital \(X\)](#)

Looking ahead, “attention exchanges” may emerge as core infrastructure. These platforms could function like live-streaming services, where creators and audiences engage in betting, crowdfunding, or discussions. Participants could earn both status and financial rewards for their contributions, blending social and economic incentives into a single ecosystem.



Source: [Good Game \(X\)](#)

## Fantasy Social Games (FSG)



***Gambling is not a vice, it is an expression of our humanness. We gamble. Some do it at the gaming table, some do not. You play, you win, you play, you lose. You play.***

– Jeanette Winterson



Fantasy sports have demonstrated a strong product-market fit, engaging millions of players worldwide in fantasy leagues and betting markets. The next evolution likely lies in extending these concepts to social media, paving the way for Fantasy Social Games (FSG).

Unlike traditional sports, which are constrained by game schedules and the physical limits of athletes, social media content is boundless. Platforms like Instagram, TikTok, and YouTube generate a continuous stream of content, creating limitless opportunities for fantasy and prediction markets.

With engagement metrics such as views, likes, shares, and follower growth, social media provides a broad range of variables to fuel fantasy gaming options. This diversity enhances user engagement, offering near-endless betting opportunities.

Social media is, at its core, a form of entertainment, and FSG introduces a novel way to monetize these interests. While betting on athletes is mainstream, betting on content creators remains uncommon. FSG bridges this gap, enabling fans to wager on the success of their favorite influencers, unlocking new revenue streams and deepening fan engagement.

### Fun, But Ephemeral Rides



Peter / 'pet3rpan' ✓  
@pet3rpan\_



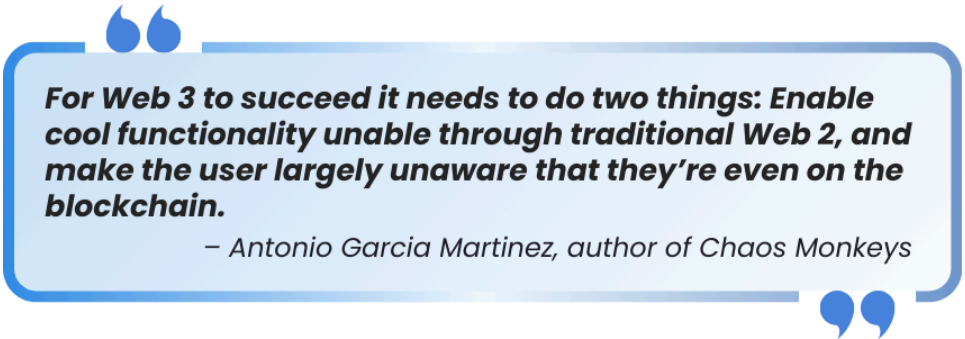
Hyper financialized social apps such as Friend tech and Fantasy top are like really fun single ride amusement parks. No matter how fun these rides may initially be, once you go on them once or two, they get boring.

These amusement park rides are actually content, not products.

Source: [Peter / 'pet3rpan' \(X\)](#)

As one of the largest and fastest-growing markets globally, social media operates 24/7 with digital and global reach. Its potential for virality adds an element of unpredictability to FSG, where content can achieve immense popularity overnight. This constant flow of new content positions FSG as a scalable and sustainable opportunity.

## SocialFi: Why Ownership Beyond Likes Matters



***For Web 3 to succeed it needs to do two things: Enable cool functionality unable through traditional Web 2, and make the user largely unaware that they're even on the blockchain.***

– Antonio Garcia Martinez, author of *Chaos Monkeys*

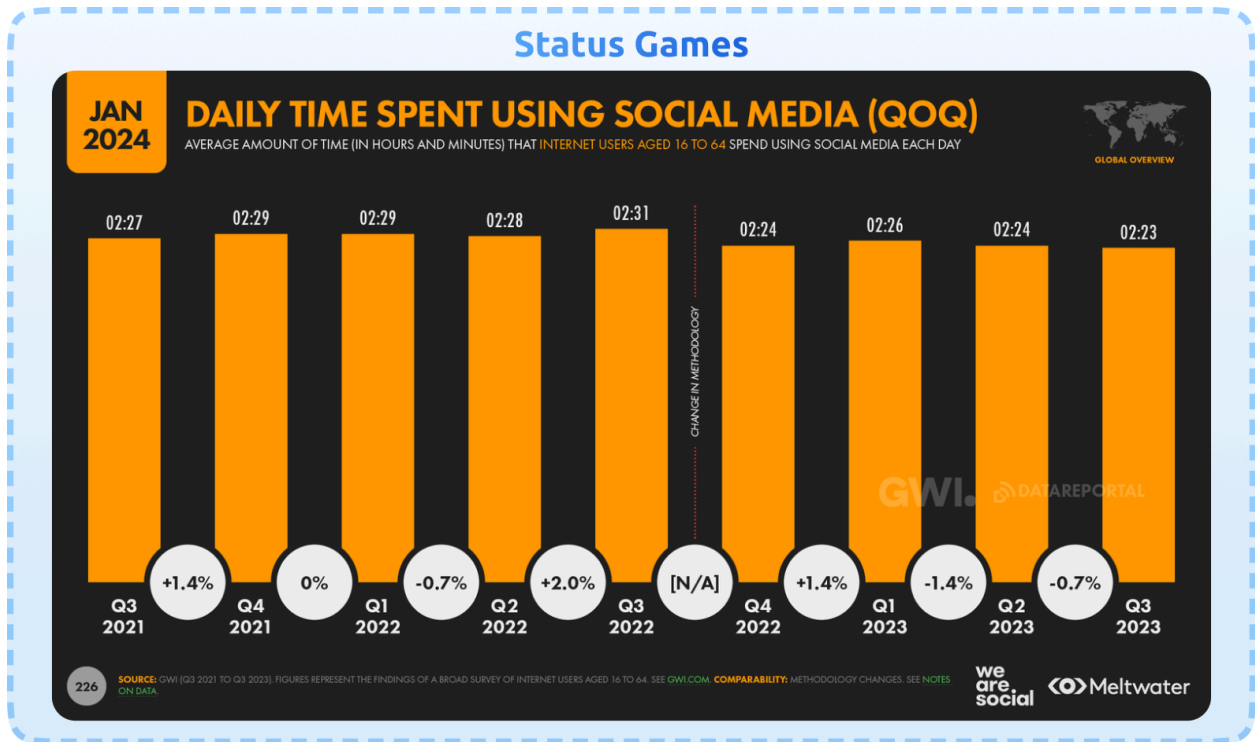
In today's digital age, the average internet user spends over two hours daily on social media—more than a third of their total online time. Speculation and gamification have become central to these interactions, with minimal barriers to amplification and virality making internet-native objects ideal for speculation. This speculation acts as a filter, extracting valuable signals from the overwhelming abundance of available information.

The proliferation of social media platforms in the late 2000s ushered in an era of gamification, where likes, shares, and followers became the currency of social status. By tapping into immediate and unpredictable dopamine hits, these platforms transformed interactions into status-driven games, fueling a relentless pursuit of validation and fame.

SocialFi is now reshaping the dynamics of social networks. Beyond decentralization, SocialFi introduces asset pricing into social interactions, making influencer earnings quantifiable and explicit. However, hyper-financializing social media alone is insufficient; meaningful experiences must integrate ownership and financialization without relying solely on them.

Blockchain technology supports this evolution by offering transparent, secure, and permissionless value-transfer systems. These systems allow creators and fans to interact directly, bypassing centralized platforms. This encourages innovation and aligns stakeholder incentives, redefining value ownership in the digital economy.


Decentralized social graphs, powered by open-source technology, further accelerate innovation by creating a competitive environment free from rent-seeking. This drives sustained value creation for users, ensuring a more equitable and evolving digital ecosystem.



Source: [Data Reportal](#)




## Attention - The Currency of Today



***Dollowers (dollar-weighted followers) are an important part of the future. Normal followers are non-paying commenters, and subscribers are quiet paying supporters. But followers are engaged and pay creators. They often support individuals rather than institutions.***

– Balaji Srinivasan



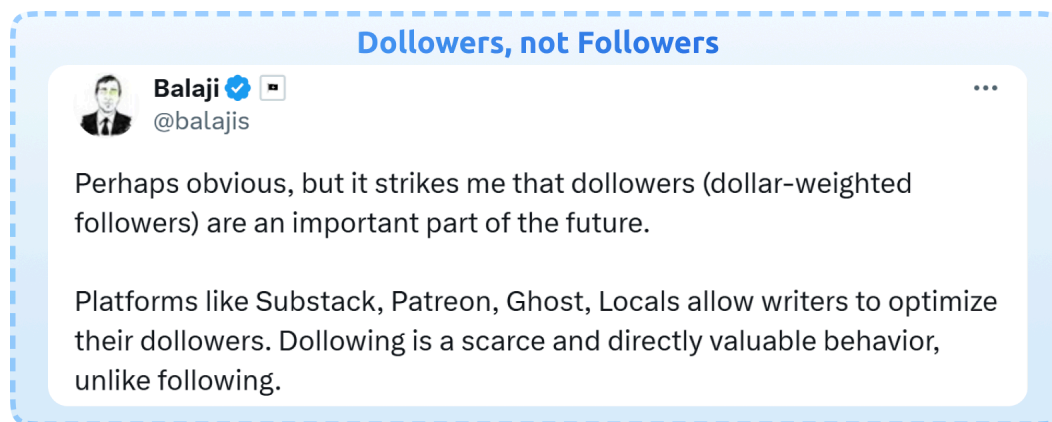
Attention is today's most valuable resource, serving as the lifeblood of social networks. With minimal exit costs, users can easily switch between applications, driving platforms to compete fiercely by offering compelling experiences to capture and retain attention.

In this environment, every company has become a media company. Their futures depend on engaging followers who actively participate rather than passively observe. Platforms like Patreon and Substack exemplify this shift, enabling creators to monetize their audiences and build meaningful connections. Consequently, social media is evolving into a powerful medium for change, where attention acts as its primary currency.

However, the social media space remains dominated by a few tech giants, stifling competition and innovation. High barriers to entry make it difficult for smaller competitors to thrive, as new apps often face feature replication by larger players or acquisition pressures. This centralization limits user choice and reduces the diversity of available platforms.

Decentralized social media, or Web3/crypto social, offers a promising solution. By managing data at the protocol level and enabling direct user relationships, decentralized social media lowers barriers for new applications. Developers can build without needing to recreate entire networks, creating opportunities for fresh ideas and better user experiences.

Traditionally, followers on social platforms have been passive, non-paying, and disengaged. However, a shift toward active, paying followers is underway—a trend coined "dollowing" by Balaji. This deeper engagement signifies greater commitment and loyalty. Online communities are becoming more cohesive, with creators cultivating dedicated, almost cult-like followings.



Source: [Balaji \(X\)](#)




In the early days, platforms like Twitter encouraged active ecosystems by providing open API access, allowing third-party apps to flourish. However, over time, these platforms restricted access or replicated competing features, such as Facebook's restriction on Vine or Twitter's response to Clubhouse.

Today's social media issues—corporate control, API restrictions, and limited user choice—highlight the limitations of centralized, siloed networks. Decentralized networks offer a promising alternative by distributing control among participants, enhancing transparency, and supporting autonomy and resilience.

In crypto social media, user and relationship data, referred to as social graphs, are stored at the protocol level, empowering users with greater options and enabling creators to connect and monetize content in new ways. Without a central authority, the risks of unfair removal or blocking are minimized, promoting a fairer and more open ecosystem. Additionally, developers can innovate independently of the constraints of a single company, laying the groundwork for diverse and engaging social media experiences.

Interoperability across social graphs is paving the way for a fully integrated market. Technologies like Social-Graph-as-a-Service enable cross-platform and cross-profile composability. Tools like Farcaster Frames allow users to run one app within another, leveraging blockchain’s identity and transaction capabilities to streamline digital experiences. This eliminates the need for multiple logins and conversion funnels, creating a cohesive, interconnected digital environment.

**Revitalized Energy**

 **Sriram Krishnan**    
@sriramk Subscribe ...

The [@farcaster\\_xyz](#) and frames energy is how 2005 “web 2.0”/ajax/open web energy felt like.

Source: [Sriram Krishnan \(X\)](#)

# Universal Memes and Fragmented Attention

## Section 19

# Universal Memes and Fragmented Attention

***The true scarcity is attention, not time.***

– William Mougayar

Mememes have become central to modern culture, serving as the simplest way to plant an idea in someone's mind. While tokens like \$DOGE capture the humor and appeal of meme culture, they also highlight the deeper dynamics within crypto. Interestingly, the more absurd the asset, the less justification people need for owning it.

Mememes were once universally recognizable, with characters like Doge and Pepe becoming internet staples that appealed across generations, from teenagers to middle-aged internet users. However, content consumption has become increasingly niche and specific.

Terms like "lock-in" or "giga chad" now only resonate within particular online circles, while remaining foreign to others. This fragmentation reflects the challenges memecoins face: tokens tied to hyper-specific references often struggle to break beyond their narrow echo chambers into mainstream awareness.

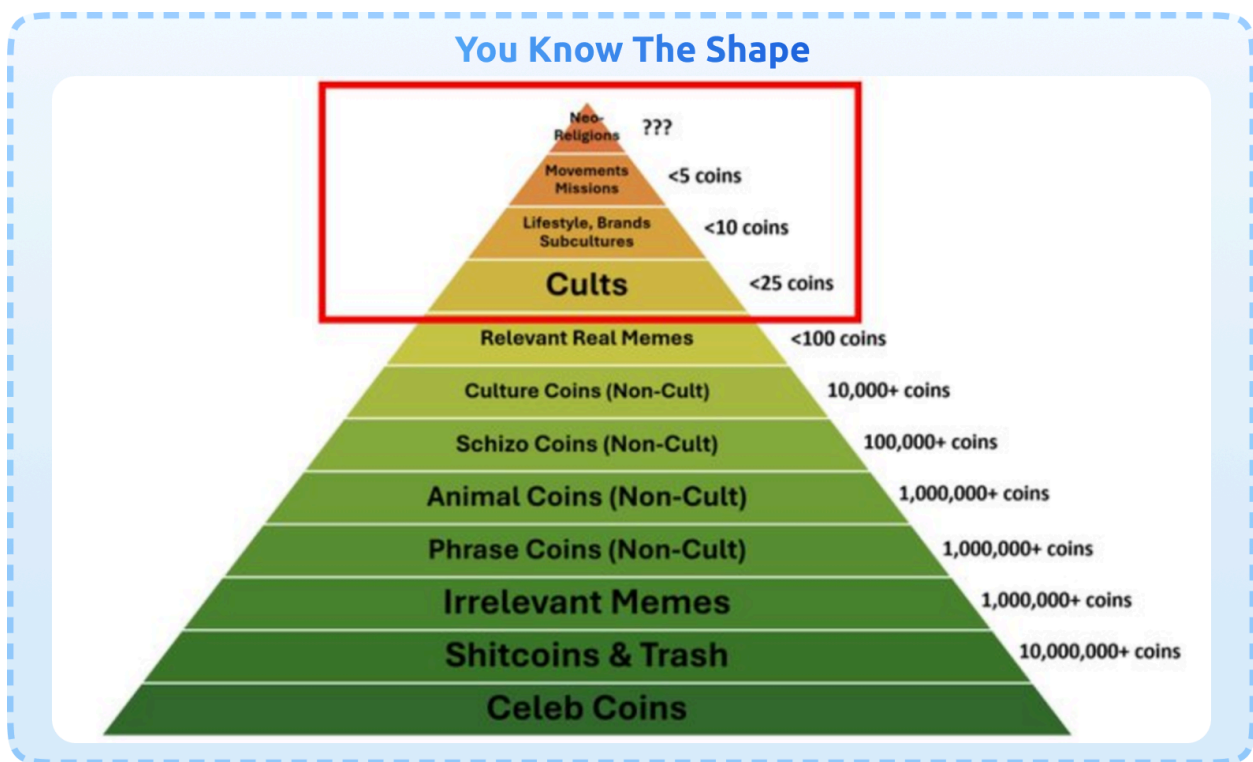
Today, content distribution lacks the universality it once had, mirrored in the memecoin space. From \$DOGE to \$PEPE and now to tokens tied to even more specialized internet culture, memecoins struggle to achieve the same widespread cultural impact. Instead of sharing universally relatable mememes, people now exchange viral tweets, TikToks, or videos that rise and fall in popularity, almost instantly.

This rapid churn of internet trends means mememes no longer linger to embed themselves in broader culture as they once did. For memecoins, the challenge lies in capturing attention while maintaining relevance in such a fleeting environment.

Despite these shifts, memecoins offer a way for individuals to exercise freedom in transacting, representing a commitment to personal autonomy and market freedom,

where economic choices reflect individual preferences without external judgment. This positions crypto as a symbol of independence, appealing to newcomers seeking empowerment.

Memecoins are not merely financial instruments; they are cultural vehicles for humor, dissent, and camaraderie. Communities form around shared jokes and values, giving memecoins a social value beyond financial considerations. Some see memecoin trading as an expression of financial nihilism, but it also serves as a critique of traditional financial systems.

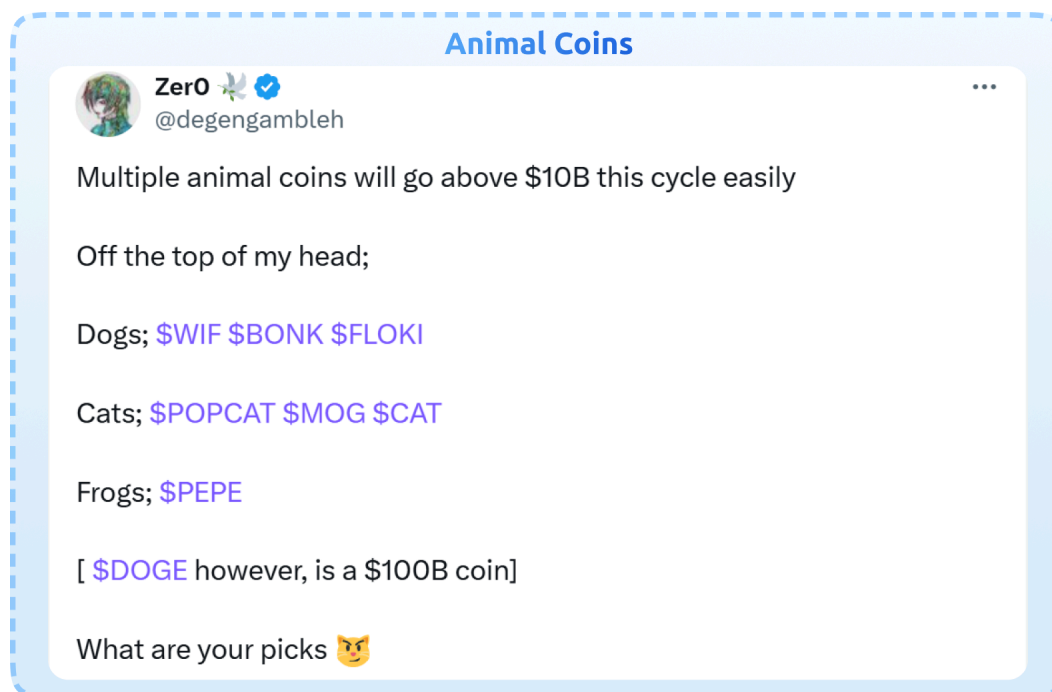


Source: [TOKEN2049 \(Youtube\)](#)

With memecoins like \$WIF, \$BONK, \$PEPE, \$BOME, Jeo Boden, and \$TRUMP gaining popularity, discussions have shifted, prompting reflections on whether memecoins could play positive roles in crypto. The appeal of memecoins is often in their simplicity, with no pretense of inherent value—just pure meme culture. They reflect a broader trend of abstracting ideas into fluctuating numbers on an order book, placing a price on everything.


Memecoins also serve as a protest against low-float, high-FDV tokens that prioritize insider allocations, often dumped during vesting periods. Instead, crypto users buy memecoins as straightforward bets on future attention, without concern for roadmaps or technical milestones.

The rise of memecoins teaches valuable lessons about community dynamics and value creation. Wide distribution initially builds communities, which generate demand and, subsequently, value. As these communities grow, products emerge to meet their needs, attracting investors drawn to the strength of increasingly valuable networks.



Source: [Zer0 \(X\)](#)

## Religion as a Token (RaaT)



***If statistics have a dark side, it's the assumption that they're useful on their own, rather than as a tool to help guide gullible and story-addicted people.***

*– Morgan Housel, partner at The Collaborative Fund*

Blockchains have reached a stage where they are functional enough to support borrowing, lending, asset exchanges, and other use cases. With transaction costs becoming increasingly competitive, differentiating blockchains has grown more challenging. Metrics like transactions per second are not yet critical, as current usage remains far below capacity.

Blockchains are often compared to religions, as both cultivate communities of devoted followers who propagate the teachings of charismatic figures—Satoshi, Vitalik, or Anatoly in crypto; Jesus, Buddha, or Gandhi in religion.

The rise of “memecoin cults” mirrors traditional cult formation, driven by unique emotional, social, and psychological factors in crypto: distrust in traditional systems, reinforced beliefs through financial gains, emotional attachment, and the dopamine hits that fuel evangelism.

In some cases, these communities have weathered significant setbacks—moments akin to a “resurrection”. Ethereum survived the DAO hack, and Solana rebounded after the FTX collapse. Such events test the faith of early adopters, strengthening their sense of belonging and amplifying their narratives.

Viewing tokens as “tokenized religions” highlights the patterns and stories that often define a project’s mission. Sometimes, a compelling narrative is all a token needs to gain traction.

In an age dominated by big data and public blockchains, metrics are everywhere, but the “cult of data” often overlooks the persuasive power of storytelling. While accurate



data is invaluable, the power of human psychology and storytelling shouldn't be underestimated.

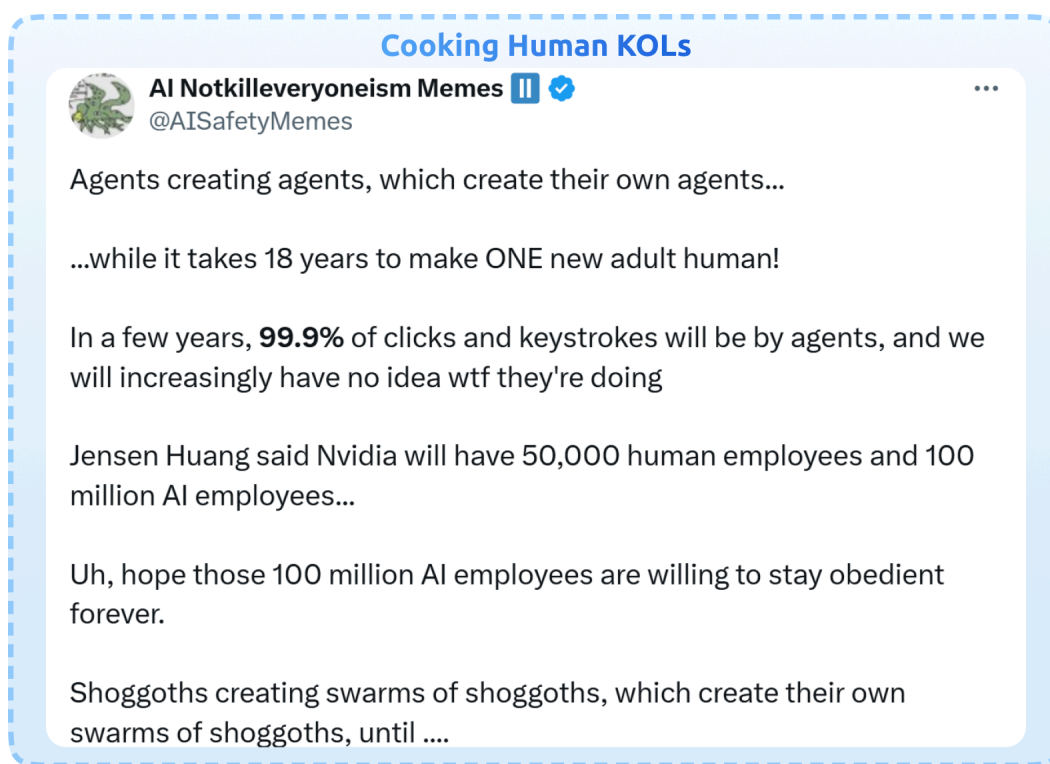


Source: [AI Notkillevryoneism Memes \(X\)](#)

The evolution of Truth Terminal highlights the potential of AI to create new belief systems that deeply resonate with human users. In this context, AI evolves from a tool to a cultural force capable of shaping perceptions and producing digital value that transcends traditional finance. This points toward a “final permutation of capitalism”, where AI-native economies, belief systems, and communities emerge organically within decentralized systems and technological advances.

“LLMtheism” signifies a paradigm shift in how ideas are generated, shared, and embraced. Experiments like Truth Terminal’s “\$GOAT”, though seemingly odd to those outside the AI and crypto space, test AI’s potential as an idea-generator.

Historically, the combination of ideas—often called “idea sex”—accelerated with the evolution of human language. Today, LLMs provide a new platform for synthesizing vast datasets into fresh insights. When properly harnessed, AI-to-AI exchanges could continuously generate ideas and insights, advancing what some describe as the “zeitgeist”.



Source: [AI Notkillevryoneism Memes \(X\)](#)

Notably, aesthetics surrounding AI meme coins frequently draw on occult symbols, reflecting a belief in AI’s access to truths beyond human perception. These symbols connect to the timeless properties of language as a medium for interpreting reality. As AI-generated narratives gain economic agency, they give rise to a new form of self-perpetuating intelligence, unbound by traditional human values or governance.

Through hyperstition—self-fulfilling prophecy through culture—Goatse’s memetic nature embodies AI as a creator of reality-altering narratives, pushing the boundaries of how stories and ideas shape our digital and cultural spheres.

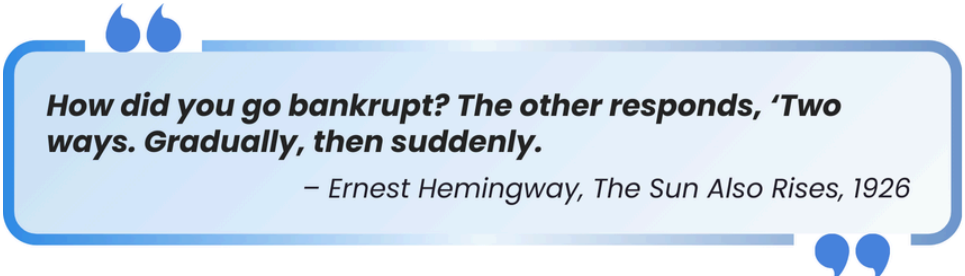


Source: [fiskantes \(X\)](#)

The power of hyperstition is amplified as AI gets more persuasive, suggesting that reality is not a fixed entity but a hyper-real simulation shaped by collective narratives. Reality, then, is a canvas for our beliefs, fears, and desires, brought into existence by our unwavering conviction.

Crypto’s culture of curiosity thrives on this ideology. Hyperstition channels the power of narratives and stories as a form of memetic magic that transforms imagination into digital realities. By crafting alternate histories and possible futures, hyperstition disrupts consensus reality and reconstructs it through shared belief. This is not mere fantasy but a radical form of ontological disruption, reshaping the boundaries of what is possible.

## Mememes as Community Tokens



***How did you go bankrupt? The other responds, 'Two ways. Gradually, then suddenly.'***

– Ernest Hemingway, *The Sun Also Rises*, 1926

The emergence of similar meme tokens across different blockchain ecosystems—such as \$BONK on Solana and \$COQ on Avalanche—has introduced a new category of tokens capable of unifying and rallying communities.

As DeFi enters a new season of airdrops, projects are reconsidering how to distribute their tokens. It's plausible that they may increasingly airdrop tokens to holders of community tokens.



This practice could redefine the ownership of a community token from a simple investment into a subscription to the broader ecosystem. Holders would receive airdrops and then decide whether to sell the tokens or explore the projects behind the airdrops—an outcome that aligns with the goals of teams conducting these airdrops. Early signs of this behavior are already emerging among new token launches.

Vitalik has proposed the idea of “charity coins” as a way to channel the popularity of memecoins into charity-focused tokens. He has also suggested integrating memecoins into interactive games that combine genuine enjoyment with meaningful rewards.

By emphasizing engaging gameplay and incorporating play-to-earn features, these games could offer economic opportunities, particularly for lower-income players, creating positive-sum experiences for participants and communities. This aligns with Vitalik's early writings in *Bitcoin Magazine* from 2014, where he discussed the potential for token issuance to fund public goods.

However, there are no guarantees in this space, and token holders should not assume they're entitled to anything as the owner of meme-based tokens. Instead, these tokens function as derivative contracts for speculating on internet culture.

**Loyalty Rewards, Not "Free Money"**

 **Kash Dhanda**   
@kashdhanda

the best communities to airdrop are:

- active on solana (so they can become users/evangelists)
- globally distributed (broader GTM)
- not traders (avoids insta-dump)
- small (build more loyalty via higher avg value per recipient)

Source: [Kash Dhanda \(X\)](#)

## Meming Through the Matrix

***I know it when I see it.***

*– Potter Stewart when describing pornography in a famous court case in 1964*

Defining internet culture—especially within a niche like crypto—is no simple task. Whether you’re here for the money or the tech, understanding this culture requires viewing memes as the “currency of the internet”.

In finance, investors and fund managers often over-intellectualize the reasoning behind their decisions. Crypto enthusiasts mock this tendency as an attempt to “sound smart”, represented by the well-known “memetic bell curve”.

On the left side of the curve are those who know little about the subject but live and die by the meme. In the middle are those who read all there is to know yet fail to execute, overthinking to the point of paralysis.

The right side of the curve “sees the forest through the trees”, embodying the “Jedi” who aligns with the simplicity of the left but with the depth of mastery. Unlike the middle, which overthinks and hesitates, the right distills complexity into actionable simplicity, focusing on what truly matters.


There’s no edge in the middle; the essence of a barbell strategy in crypto is targeting the extremes of the curve, either “know nothing or know everything”.

It often pays to keep things simple. While many crypto events may not make sense pragmatically, they often signal something noteworthy. Staying open-minded can uncover new learning opportunities and potential financial gains.

Regardless of where you sit on the curve, remember, behind every post on X or Farcaster, there is a “bag bias” influencing reactions. People’s responses to new developments are often colored by their existing investments and the fear of portfolio

disruption. Recognizing and moving beyond this bias can lead to clearer thinking and better decision-making.

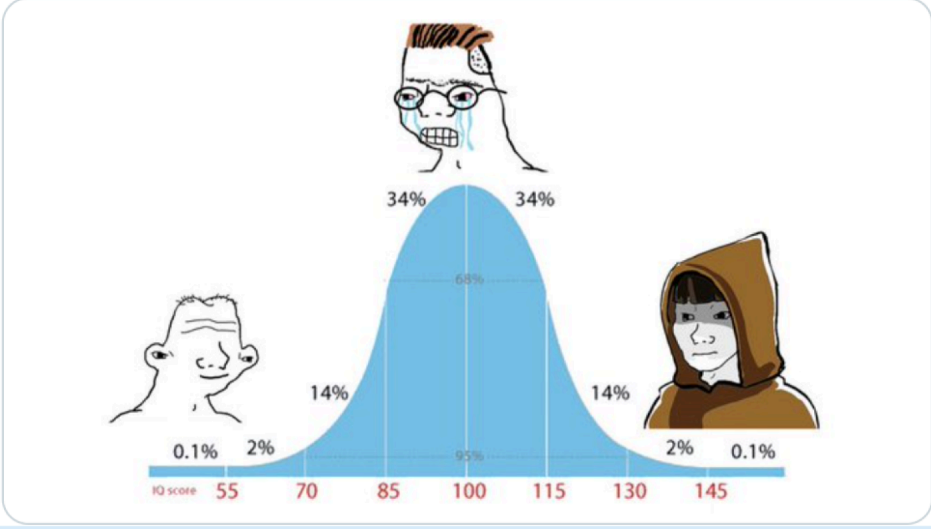
**All or Nothing, No Room For The Middle**

**Lamb**   
@FearsomeLamb789

In crypto, you know it when you see it

There is no edge in the middle.

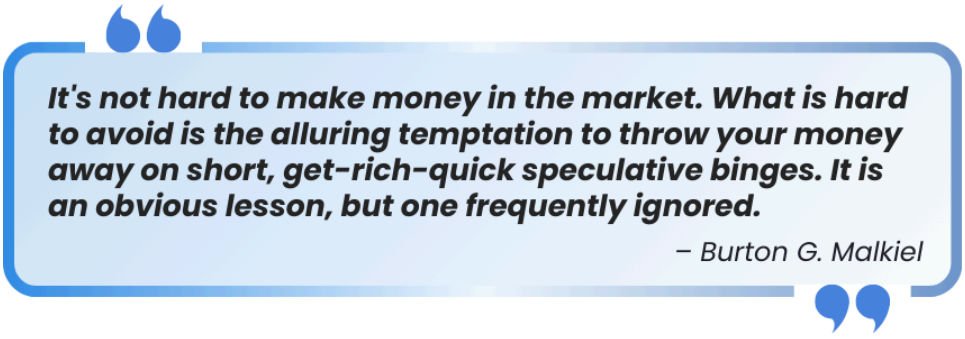
Know everything or know nothing



IQ Score	Percentage
55	0.1%
70	2%
85	14%
100	34%
115	14%
130	2%
145	0.1%

Source: [Lamb \(X\)](#)

## Mememes and Meta-Casinos



***It's not hard to make money in the market. What is hard to avoid is the alluring temptation to throw your money away on short, get-rich-quick speculative binges. It is an obvious lesson, but one frequently ignored.***

– Burton G. Malkiel

At this point, the crypto space is unsurprisingly flooded with projects that rely on hype, memes, and speculative fervor rather than delivering real utility or innovation. This has created a significant market opportunity for meta-casinos, where users can directly bet on memes, bypassing tokens altogether.

Whether users are buying memecoins as a means of speculation or genuinely engaging with communities—or cults, in some cases—this redefines users as "information speculators".

Mememes, with their low barriers to engagement, offer a unique way to shape public opinion and turn attention into capital gains or losses. Moving beyond the days of Pump.fun, we could see the rise of marketplaces where users trade derivatives to “buy the meme, not the token”.

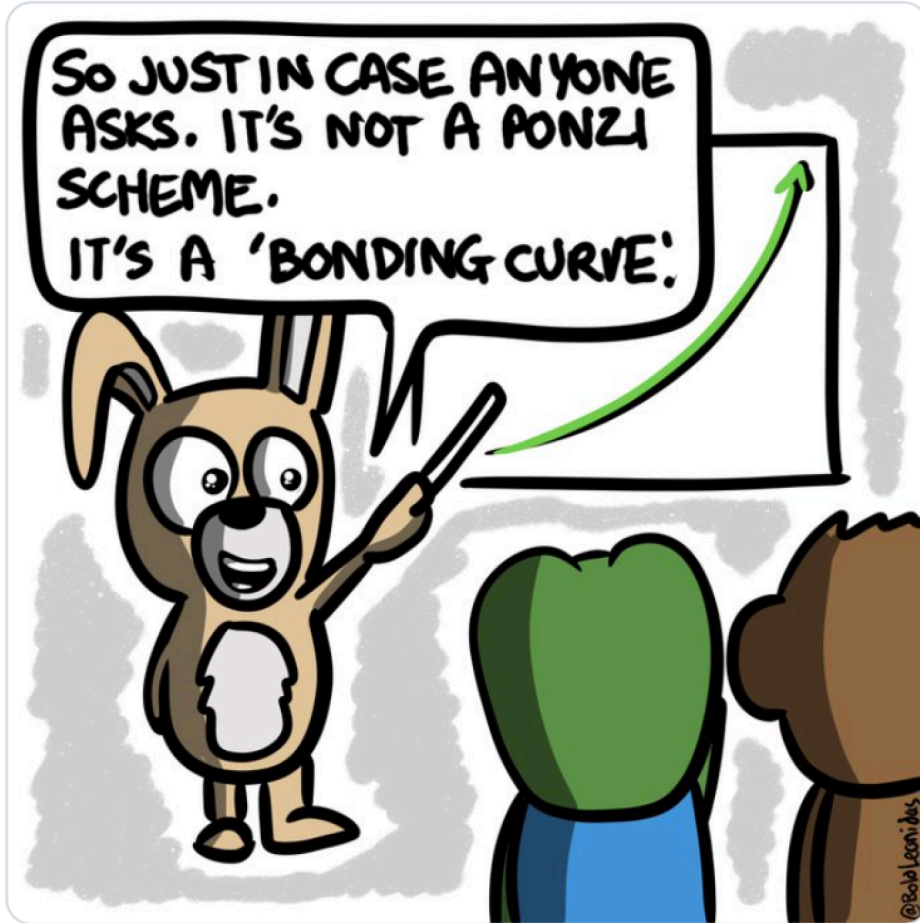
This would be similar to a “DraftKings for Social Media”, where users could bet on the social media metrics of influencer posts, such as views, likes, and retweets. It aligns with Gen Z's appetite for speculation, engaging users with fast-paced, granular, and entertaining content.



## The Rise of Meta-Casinos

 **Bold** ✓  
@boldleonidas

Marketing Meeting



Source: [BoldLeonidas \(X\)](#)

Beyond speculation, these models can also enable capital formation for creators while rewarding their most loyal fans. Similar to Friend.Tech's original idea, streamers could monetize their influence through creator keys, with prices reflecting the channel's value. Fans with "skin in the game" would gain incentives for identifying talent early and supporting creators before they achieve widespread recognition.

## Tokenizing Abstraction and Longing Ideas

***Trust is what monetizes the attention economy.***

*– David Amerland*

Memecoins showcase the power of financializing attention, generating millions in market capitalization despite little to no underlying economic value. The next frontier in the attention economy could allow us to 'go long' on ideas directly, without the need for an underlying asset.

This would involve trading on concepts like advertising costs in specific sectors, offering potential for cash flow, inflation hedging, and the creation of new asset classes. Traditionally, commodities have served as hedges against inflation, but the skyrocketing costs of prime advertising—like Super Bowl ads, which have risen from thousands to millions over the decades—highlight the growing value of attention as a tradable commodity.

As acquisition costs rise—a challenge familiar to anyone issuing tokens or designing token incentive programs—a shift is emerging where the effectiveness of creative output can be measured and quantified. This transition introduces the potential to benchmark attention efficiency and even bet on attention costs—an accessible economic primitive that crypto can readily enable. Tokenizing ideas could unlock exposure to previously untapped sectors of the attention economy.

### Investing Theses in Meme Form



**Andrew Kang** ✓

@Rewkang

One of the most interesting ways to express a “Trump Victory” trade would probably be owning [\\$DOGE](#) (and other memes)

Not only do you have high odds of a Doge ETF but the Department of Government Efficiency (DOGE) would be making headlines every week and be pushed forward by Trump



**Donald J. Trump** ✓

@realDonaldTrump · 1d



**Elon Musk** ✓ ✕

@elonmusk



Source: [Andrew Kang \(X\)](#)

AI-based KOLs exemplify early models of this concept, with Truth Terminal’s \$GOAT token serving as a prime example. These systems create perpetual opportunities for attention arbitrage, transforming attention into a tradable commodity.

# Airdrops: From Free Money to Down Only

## Section 20

# Airdrops: From Free Money to Down Only

***No one ever made a decision because of a number. They need a story.***

*– Daniel Kahneman*

The year 2024 began with a surge of airdrops, but the space quickly became overcrowded, leading to diminishing returns. While airdrops are effective at distributing tokens and decentralizing protocol ownership, they often alienate users and leak value to sybils.

The widespread chase for "free money" has prompted a reevaluation of the real costs of airdrops, which require substantial time, money, and effort in often untested protocols. As the year progressed, the focus shifted from speculative token launches to yield-generating activities, with a growing preference for stable assets like \$ETH or stablecoins over more volatile tokens.

Selling airdrops on launch day usually proves to be the most prudent strategy, as holding them often leads to declining value, especially as supply unlocks and FDV becomes more relevant. While some projects may hold long-term potential, the odds of a profitable hold are low, emphasizing that fundamental value outweighs initial hype.

Airdrops have generally followed a "down only" trajectory, with most tokens performing poorly post-launch. Sectors like memes and AI have fared slightly better, but more serious sectors like Layer 2s have seen little to no traction post-TGE, with TVL dropping immediately after airdrops are issued.

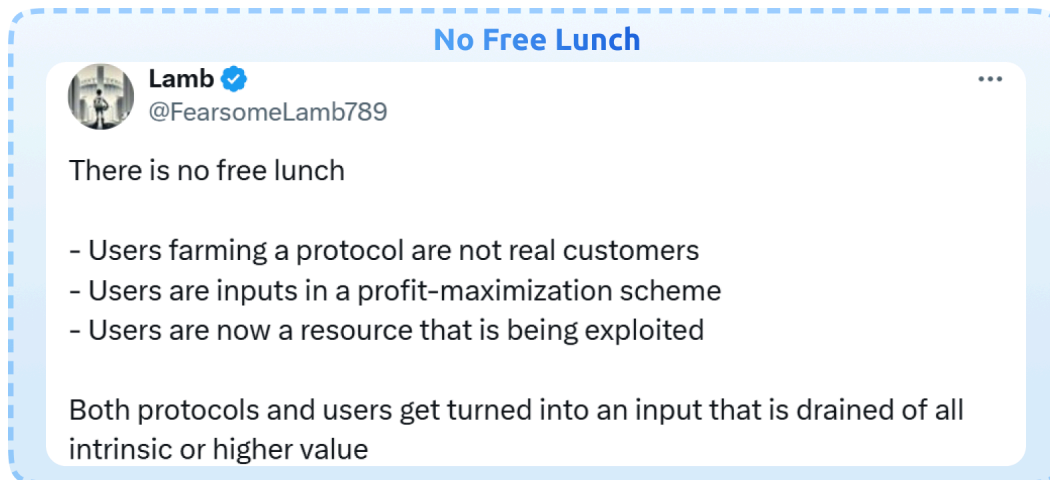
This decline illustrates that users, particularly farmers who game these airdrops, often lose interest once rewards are claimed, leaving ecosystems with limited organic growth and waning user engagement.

Early airdrops were unexpected and welcomed as 'free money,' creating positive sentiment. However, as points-based systems and reward expectations became the norm, airdrops shifted from pleasant surprises to transactions demanding time, capital, and effort. This change dulled their appeal, with many projects seeing their tokens rapidly 'FUDded' into a post-launch death spiral.



Source: [Squiggly Hair Shanks \(X\)](#)


The illusion of free services masked a simple truth: if you're not paying for the product, you are the product. Early internet platforms treated users as community members, inviting them to help build a digital utopia. However, as platforms consolidated power and achieved near-monopolistic status, the initial goodwill gave way to profit-driven models.



Source: [Lamb \(X\)](#)

User data, behavior, and attention have been commodified, turning people into inputs for profit-maximizing algorithms. These systems thrive on engagement, often using manipulative incentives to extract value from users without offering them a share in return. The removal of gamification systems in the form of points or token incentives would be a blessing in disguise, allowing us to quickly identify projects that provide real value and lasting impact, while filtering out those that must falter for the industry to progress.

## Point Systems: Greedier ICOs?



***Points is the revenge plot from founders tired of being bullied by anons. A way to farm the leeches. Both do little to grow crypto adoption.***

*– Jason Choi, founder of Tangent and ex GP at Spartan*

As we explore token launches in 2024, user sentiment around these events has hit a low. Much of this wariness stems from skepticism about points-based distribution systems, once heralded as the next big development for retail participation, but now showing significant flaws.

Gamification has long driven engagement across industries, through badges, XP, and monetary rewards—examples ranging from Duolingo streaks to airline miles. Crypto has adopted similar tactics, awarding points to early adopters for actions like providing liquidity and trading.

Initially, these systems appeared transparent and meritocratic, rewarding genuine participation. Over time, however, they morphed into speculative economies with inflated rewards, diluting participant value through opaque mechanisms.


Points were originally designed to help bootstrap network effects by recognizing early supporters and bridging the gap between initial incentives and future token demand. Grounded in behavioral economics, these systems encouraged actions like staking, liquidity provision, and referrals. However, as transparency eroded, the race for inflated points, multipliers, and obscure reward structures began undermining their value.

In on-chain consumer apps, points function like loyalty programs—gamified rewards with an infinite supply, incentivizing specific user behaviors and encouraging users to return to the app. For some, point systems blend the best of ICOs and yield farming, offering flexible conversion ratios and timelines while potentially serving as a way to “farm the farmers”, turning them into specialized QA testers for a project’s dApp.



However, poorly managed points systems risk burning out users, especially if token launches are delayed or don't materialize, leading to disillusionment and apathy among participants.

**A Playful Legal Loophole**

 **Lukas (computer) (3/AC)** ▲ ✓ DM  
@SCHIZO\_FREQ

Many mocked crypto as being an "unserious industry" just two years ago, but everything's changed now. We've really grown up.

It all started with genius prodigy inventor Pacman - creator of the Points Meta.

"What? Points meta?"

So in crypto there's this thing called an "airdrop." It's where a protocol bribes early users with the implied promise of money, awarded in unknown quantities based on unknown rules. The reason you haven't heard of it is because it's completely banned in literally any other industry, due to it being a violation of 67 SEC regulations simultaneously.

The old airdrop system was highly inefficient. It's extremely illegal to tell people what behaviors qualify them for airdrops, so nobody really knew - they were just going around apps, clicking random combinations of buttons in the hopes it would one day qualify them for this free money.

This was all changed by Pacman, when he invented the revolutionary "points meta" - a system where users are awarded "points" for performing certain activities. These points are directly proportionate to the airdrop funds received - more points = more airdrop money.

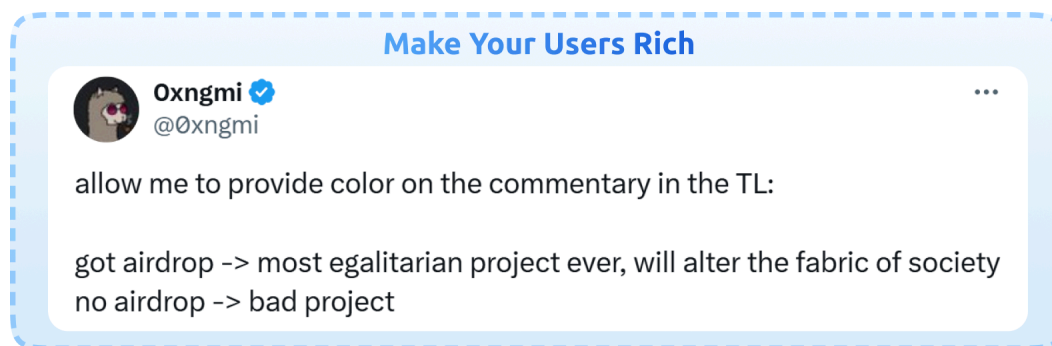
"Wait, so it's illegal to tell people what activities qualify them for airdrops, but it's not illegal to give them a quantity of 'points' that also tells them the exact same thing but in a videogame way??"

Apparently so. Either that or regulators just haven't learned about it yet, and when they do, all founders relying on the genius and revolutionary points meta are doing back to jail.

Source: [Lukas \(computer\) \(X\)](#)

For projects, points systems offer a way to incentivize user activity without committing to fixed token emissions. This flexibility allows projects to adapt to changing market conditions and user behaviors. Points can effectively train users in valuable behaviors and engagement, which is why they remain relevant for consumer-focused apps as a bridge to governance tokens. For early-stage founders, launching a governance token can be complex, but a flexible rewards system that evolves over time helps them target the right audience and avoid mercenary “farmers”.

Points systems aren’t disappearing anytime soon. However, they should supplement product-market fit rather than replace it, encouraging engagement with genuine value. For points systems to truly benefit users, they need to provide meaningful upside and reward sustained participation.

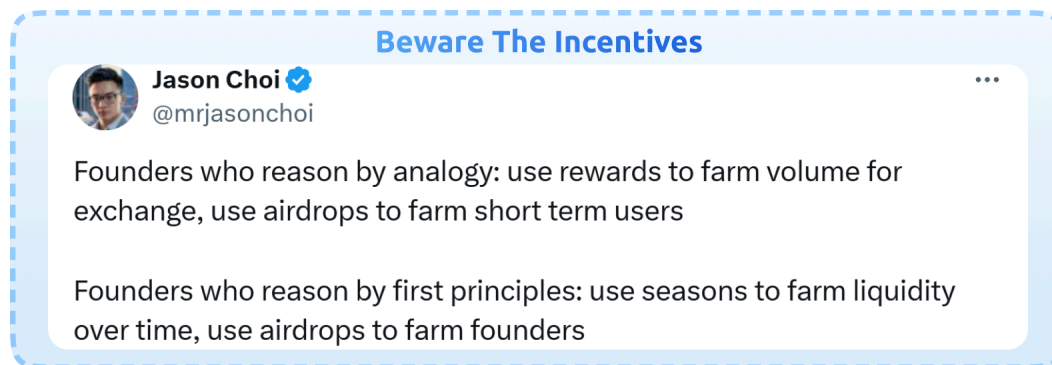


Source: [Oxngmi \(X\)](#)

Points systems rely heavily on trust between users and project founders. Opacity around token conversion and airdrop mechanisms raises questions about fairness and accountability. While inflation is often cited as a problem, the real issue lies in dilution. As more users participate, the value of points declines, reducing rewards for early supporters. This dilution is especially pronounced when large players stack boosts, diminishing the returns for smaller users.

Additionally, points systems frequently reward various user actions similarly, leading to sybil attacks, botting, and other exploitative behaviors—leaving genuine users to bear the brunt of this dilution.

While parallels exist between this cycle's point farming and DeFi Summer's yield farming, a key difference is the uncertainty of APRs when farming points. This uncertainty adds complexity to game theory, driving higher engagement. Even participants with smaller capital allocations can potentially earn substantial payouts, creating an "on-chain wealth effect" that boosts ecosystem activity and promotes stickier liquidity.



Source: [Jason Choi \(X\)](#)

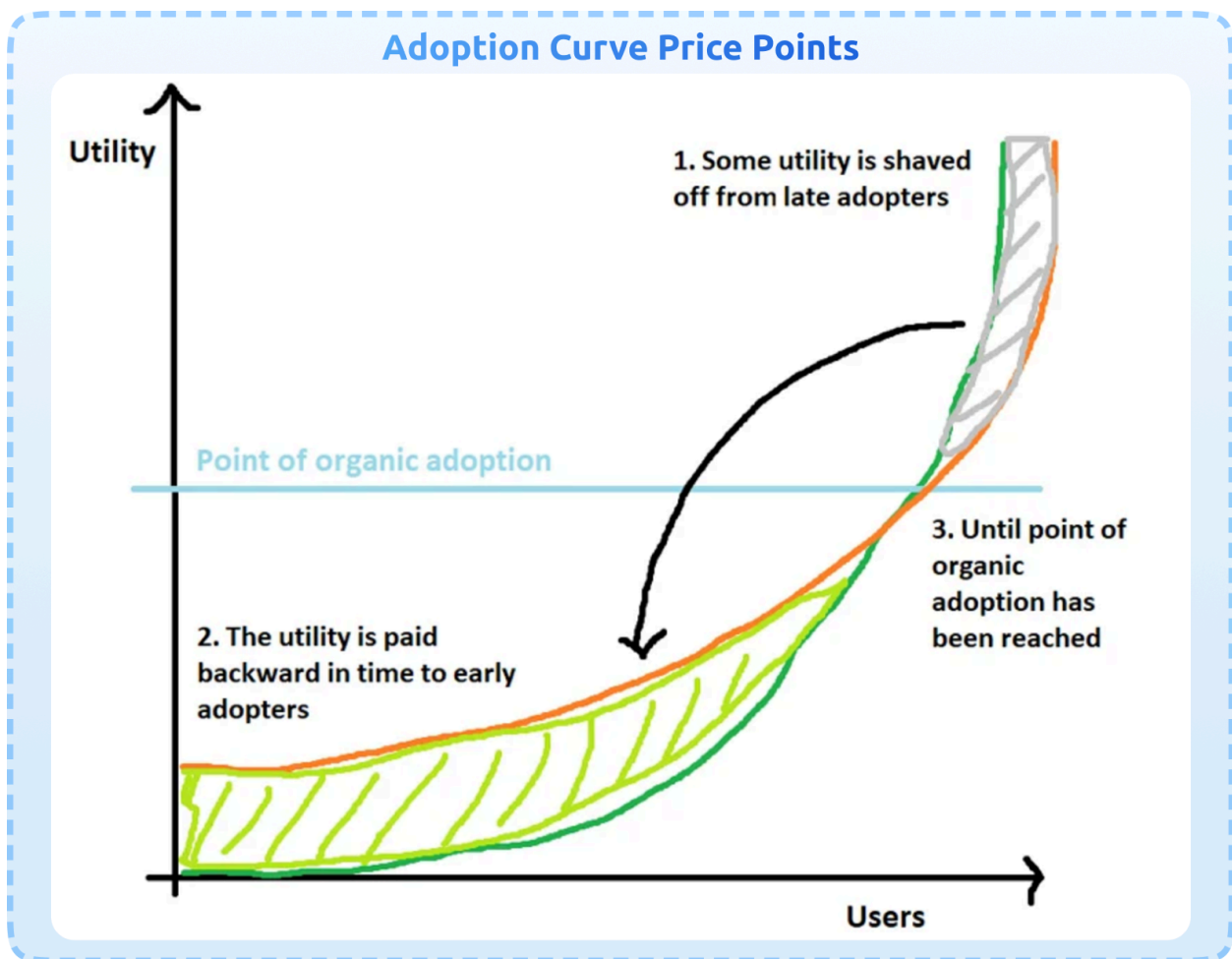
The likelihood is high that every tokenless protocol will eventually adopt a points system. In some cases, points themselves become the product rather than serving as a tool for genuine adoption. As opportunities multiply, users will find it increasingly difficult to participate in all of them. Consequently, they must carefully evaluate the value of each opportunity and selectively allocate their time to farming based on anticipated future token incentives.

Infinite points programs have increasingly been used as tools for teams to exploit the system by "farming the farmers". Exchanges once demanded substantial daily active users, high TVL, and robust social media metrics for project listings. Teams soon realized that points systems could artificially inflate these metrics. Hyped incentives allowed even obscure projects to claim "millions" of users and transactions, often driven by bots.

Surprisingly, even top exchanges have overlooked the quality of this data, listing projects based solely on hype and apparent demand. This highlights the growing

disconnect between actual user engagement and the metrics used to evaluate project viability.

This points meta has fueled a wave of new projects farming activity and TVL, each offering tokens to be farmed. The result is a deluge of tweets celebrating profits from airdrops at TGE. However, as more projects adopt points systems, opportunity costs and market liquidity constraints have reached unprecedented levels. Users are now forced to choose between farming one project or another, favoring those with the highest APY in airdrops while preserving their capital.




Source: [Deribit Insights](#)

When the market eventually goes south, users are quick to sell their airdropped tokens, recognizing that many of these projects would have no users without a token.

They then move on to the next “shiny” protocol, rarely ever looking back. This raises the question: how do these tokens achieve multi-billion dollar valuations? The answer lies in price discovery manipulated by private markets and exchanges, where VCs are swayed by inflated metrics and impressive stats that lack staying power.

**The Perception Trap**

 **Akshay BD** ✓  
@akshaybd

If you're a crypto founder, it's worth following the venture v. liquid discussion.

TLDR: liquid is more interesting than venture atm because the valuations are much closer to real.

Bigger the venture fund, higher your valuation, harder they come down, and longer it takes to form a real, distributed community around the project. Price discovery ultimately matters.

Raising on [@echodotxyz](#) remains underrated. You trade valuation for distribution and launch into strength.

If you're a solana eco founder, there's many groups that'll happily participate in your round. Push out the tier 2/3 VCs, and make room for the community instead.

Source: [Akshay BD \(X\)](#)

To restore trust and value in points systems, transparency and fairness must be reintroduced. Points should reward genuine contributions to a protocol's success rather than speculative behavior. Without these changes, protocols risk alienating the very users it seeks to engage.

# Capital Formation

## Section 21

# Capital Formation

***Never seen a squeeze not followed by a glut.***

– Nassim Taleb

We've reached a point where market participants now expect generous compensation for any involvement in a protocol pre-TGE. If a project fails to deliver a lucrative airdrop—whether through poor price performance of the token or minimal allocations to farmers—it can say goodbye to high-quality user retention in future, post-TGE seasons.

When a few projects mishandle their airdrops, it sets off a chain reaction: more participants start dumping tokens on day one, leading to steep declines in new token prices. This weakens potential organic demand and creates a negative cycle that impacts other projects with upcoming airdrops. As this trend continues, it threatens the sustainability and appeal of the airdrop model across the ecosystem.

## Low Float and High FDV

***Coins have to get initially distributed somehow, and a constant rate seems like the best formula.***

– Satoshi Nakamoto

The crypto market in 2024 reflects lessons learned from previous cycles, with growing skepticism toward tokens launched with unjustifiably high valuations and low initial circulating supply. These unsustainable valuations, driven by hype and inflated expectations, often lead to eventual downfalls.

High FDVs, fueled by anchoring bias, inflated private round valuations, and the misleading perception of success driven by paper gains, create short-term illusions that often result in conflicts between early investors and the public, diminishing buyer interest and causing price crashes.

The current token launch landscape is increasingly challenging, with memecoins gaining traction while traditional tokens struggle. Teams raising funds privately often exclude retail investors from early-stage gains, leaving them vulnerable to the downward pressure of token unlocks.

This issue is compounded by the reliance on market cap as a valuation metric, where low-float tokens create the illusion of undervaluation due to their ease of price movement. Simply put, retail investors often resent VCs for buying tokens earlier and cheaper, only to use retail as exit liquidity when unlocks occur.

Infrastructure projects further exacerbate this dynamic, as their valuations command a premium due to the substantial resources required for development. These high valuations attract more capital and perpetuate the cycle, making it even harder for retail investors to find opportunities with sustainable returns.



The relationship between projects, VCs, and centralized exchanges adds further complexity. Projects seek high-liquidity listings, while CEXs prioritize tokens with strong marketing campaigns and high FDVs. Meanwhile, VCs, increasingly wary of the reduced returns associated with high-FDV rounds, are pivoting toward more liquid strategies, OTC deals, or incubating projects founded by ex-employees to secure early investment rounds and maximize potential upside.

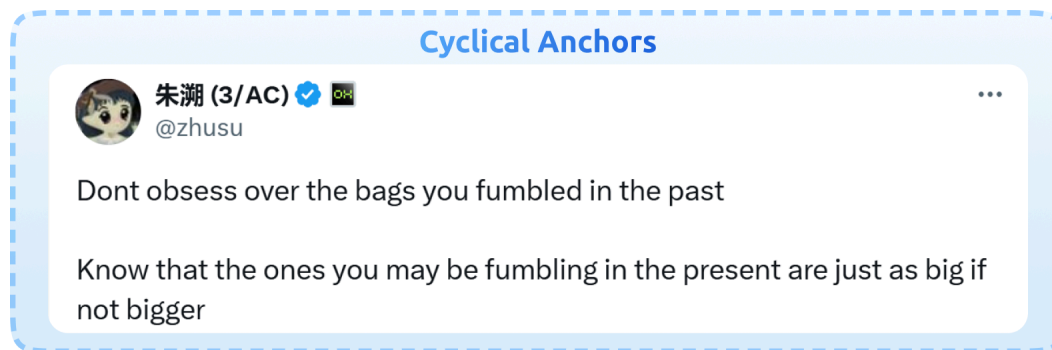
The trend of high FDVs has market-wide consequences, creating an imbalance between VC prices and those for community buyers, which hampers genuine price discovery. As more projects adopt this model, interest in new altcoins diminishes due to the recurring pattern. A more balanced market would align private and public prices, creating more accurate and sustainable valuations.



Source: [Gwart \(X\)](#)

In the long run, projects with inflated FDVs also risk damaging their reputation and investor confidence as inevitable market corrections occur. Launching with a high FDV may seem profitable in the short term but often leads to painful corrections when prices adjust to their true value. Meanwhile, many retail investors are left feeling that it is nearly impossible for them to make money buying those tokens, as they would have to buy at overheated valuations, only to be dumped on as more tokens unlock, increasing supply while driving prices lower.

The "Moloch" effect exacerbates this issue. Founders, seeing capital influxes, continue raising valuations, while VCs follow suit, further inflating FDVs. Once tokens enter the market, early participants often dump their airdropped tokens immediately, leading to poor price performance and suppressing organic demand. This vicious cycle negatively impacts subsequent token launches.

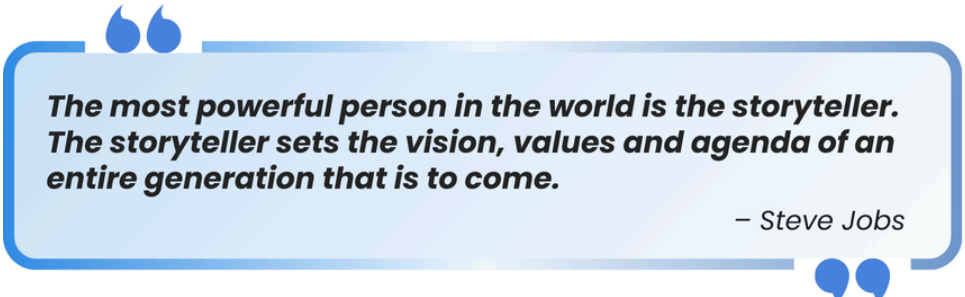


Source: [zhusu \(X\)](#)

Launching projects at artificially high valuations simply postpones inevitable market corrections, often leading to painful downtrends. In the end, successful market participation requires sustainable token distribution, alignment between private and public valuations, and launching a token at the right stage of maturity.

Sentiment indicates that the market is learning and gradually self-correcting as investors become more cautious and selective. This suggests that the remedy to the low-float, high-FDV conundrum lies in participants avoiding engagement—a shift toward more sustainable practices without external intervention.

## Everyone is a VC Now



***The most powerful person in the world is the storyteller. The storyteller sets the vision, values and agenda of an entire generation that is to come.***

– Steve Jobs

The low barriers to entry in crypto attract many retail participants who convince themselves they have the skills to act as venture capitalists, investing in early-stage projects without adding value or offering meaningful support. At the same time, a growing number of projects are little more than vaporware, selling grand ideas without working products or real execution behind them.

These projects often achieve billion-dollar valuations, not through substance, but by leveraging hype and speculative excitement. Their strategy is simple—create FOMO by promising the next big thing, fully aware that investors prioritize potential over performance. Inflated valuations frequently lack meaningful progress, as teams focus on marketing concepts rather than delivering products, selling promises instead of tangible results.

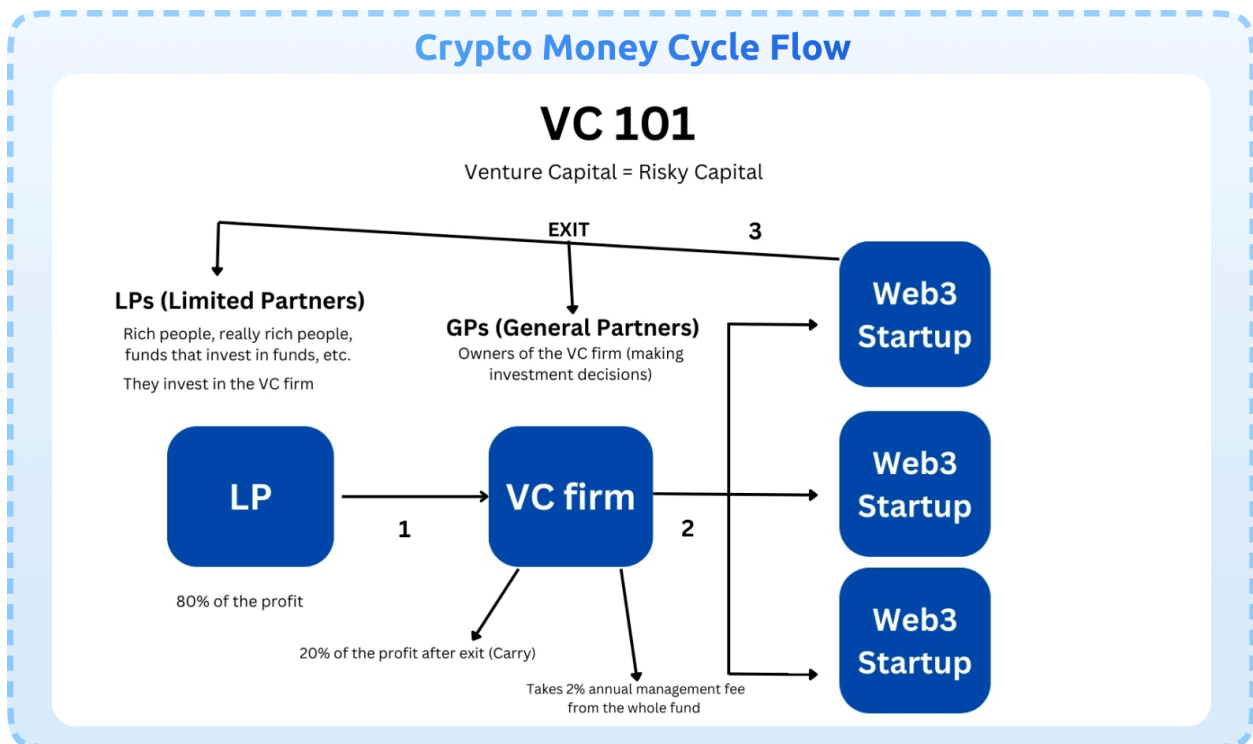
The outcome is a cycle of overhyped, under-delivered projects that prey on investor greed and the hope of striking gold in the next speculative wave, further distorting the true value of genuine innovation.

The emergence of venture capital in tech has undeniably accelerated innovation by injecting capital into early-stage companies. However, this capital flow often occurred in an environment where deal flow was limited to a select few, reducing opportunities for retail or community participation to capture gains.

In crypto, permissionless frameworks have introduced novel capital formation methods, as exemplified by ICOs in 2017. Despite encountering backlash and

regulatory scrutiny during the subsequent bear market, ICOs showcased new avenues for funding.

Additional mechanisms like Initial DEX Offerings (IDOs) and Initial Exchange Offerings (IEOs) have since emerged, but crypto financing today increasingly mirrors traditional venture funding, often restricting community involvement. While VC funding remains critical for the survival of early-stage projects, high-valuation funding rounds can limit broader participation.





Source: [chrisdior.eth \(X\)](https://twitter.com/chrisdior)

This year has seen the rise of smaller VC funds, angel investors, investment DAOs, and syndicates, leading many to assume that private investing is easier than it truly is. While it's beneficial for deal flow and private markets to open up, none of this is risk-free. Venture investing in crypto startups can be enticing, but it requires caution and a clear awareness of the complexities. While opening private markets to a broader audience allows for more participation, it also increases the risk of scams and fraud.

Equal-opportunity investing might sound appealing, but it's essential to recognize the potential downsides. In 2017, for instance, some ICOs eventually became industry leaders, but many were low-quality projects with just a whitepaper and no product.

**Stuck in A Dream**

 **Crypto Koryo**   
@CryptoKoryo

We are stuck in a bubble. What is the way out?

Crypto VCs extract value. The first question they like to ask is not what is the vision of the project and its business model but if it has a token and what are the vesting terms.

We need more Warren Buffet style of investors with a “sit on your as\*\*” strategy that hold their investments for at least a decade instead of one year. Like he did with Coca Cola, American Express and the Washington Post.

But this is a chicken and egg problem.  
For this to happen, we need founders with a vision, grit and motivation that are not just looking to launch and cash out millions after one year. The problem is that in crypto founders get too rich too quick with a high hit rate.  
Study pump. fun. How is it helping the space? Traders lose money. There is no value for the industry. It killed the memecoin narrative.  
Only the team is benefitting from it.

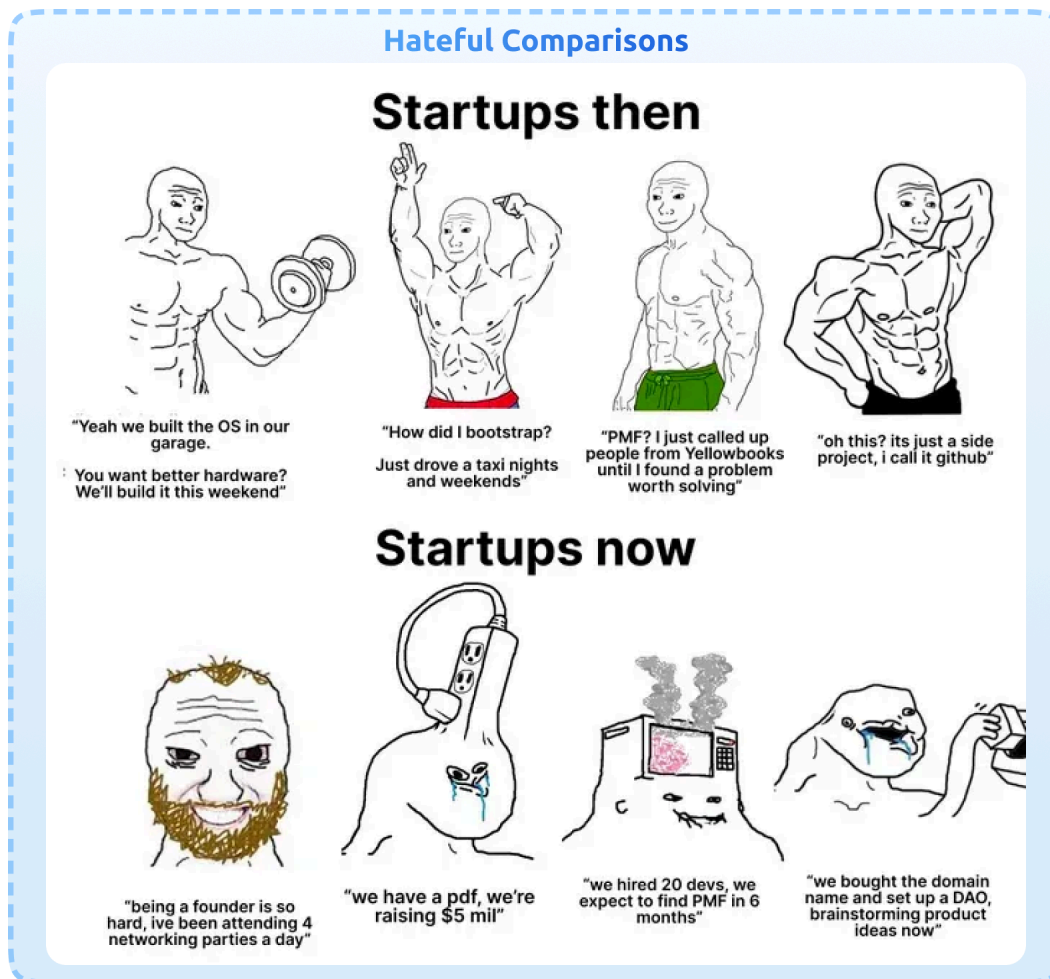
It's not about decentralized finance. Fuck that. It's about hyper-finance. About get rich quick schemes. Founders seek it, and so do VCs, angels, and traders.

What is the consequence?  
More of the same model.  
Sun. Fun, Moonshot, dump. fun. Then on Binance, and on every possible blockchain. Call it innovation. That's our industry.

Why make any effort of making the world a better place when you can easily gamble on-chain and become rich?

Source: [Crypto Koryo \(X\)](#)

Venture investing requires more than capital—it’s an art requiring deep industry knowledge, strong due diligence skills, and a reliable network. Without these core elements, investors are vulnerable to deceptive pitches and projects lacking substance. Despite its glamorized portrayal on social media, venture investing is highly challenging, with most investments unlikely to yield significant, if any, returns.



Source: [Crypto Linn \(X\)](#)

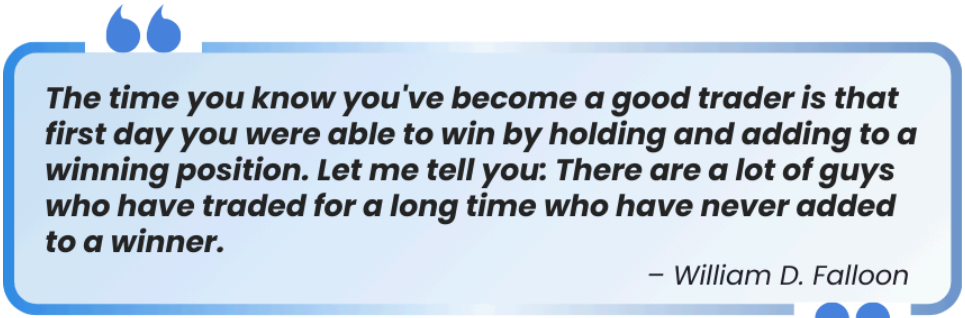
The floodgates to VC in crypto have swung wide open. Suddenly, everyone’s a fund manager, and every Twitter thread doubles as an investment thesis. But here’s the reality—most of these “new VCs” lack the experience, qualifications, or deep understanding of the projects they invest in. Crypto’s promise of outsized returns

makes VC appear like a surefire path to wealth, but the ease of entry has led to a bloated scene where speculation replaces skill.

Early VCs rode the last bull wave, lucking into early investments that skyrocketed. Newcomers now hope to replicate this playbook, deploying capital as if they've cracked the secret code. Unfortunately, good distribution is not synonymous with the ability to invest wisely in early-stage companies. With little insight into building, scaling, or evaluating risk, many new VCs, KOL groups, and syndicates are simply adding noise—and potentially setting projects up for failure.

The ugly truth is, venture capital is a skill, not a side hustle. Misjudging projects or backing unproven teams leaves a trail of poorly vetted investments that ultimately weakens the space. Real diligence and expertise are in short supply right now, and it's becoming increasingly obvious.

## Resurrecting ICOs



***The time you know you've become a good trader is that first day you were able to win by holding and adding to a winning position. Let me tell you: There are a lot of guys who have traded for a long time who have never added to a winner.***

– William D. Falloon

Venture capital has been pivotal in accelerating innovation through its injection of funds into early-stage technology. However, it hasn't fundamentally changed financing structures—it has merely allowed investments at earlier stages.

While VC involvement remains essential for many early projects, particularly in emerging technologies, it can lead to scenarios where private capital profits at the expense of the communities these projects aim to serve. True decentralization requires an overlap between users and owners, yet this overlap is often minimized for quicker returns.

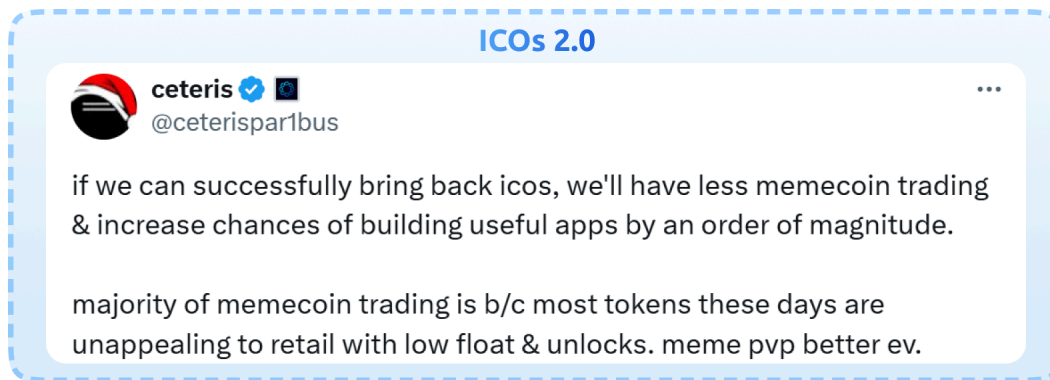
The crypto space offers a promising alternative. With minimal barriers to entry, a strong idea and smart contracts can disrupt traditional systems, enabling scalable innovation that doesn't rely on traditional funding. This environment gives a single developer or small team the opportunity to impact millions, achieving exponential, rather than linear, growth.

As token distribution methods continue to adapt and evolve, audiences have grown weary of points-based systems. While some projects employ unique variations, most still allocate points based on users' capital or volume contributions. This strategy has gained popularity amongst project teams as it supports fundraising and appeals to venture capitalists who prioritize "traction", but it comes with flaws.

Many teams withhold criteria for earning points, leading to a lack of transparency. Users often struggle to interpret complex rules, creating even more frustration. Point-farming programs also frequently lack clear end dates and therefore, fail to



retain attention. This increases information asymmetry and makes long-term relevance difficult to achieve.



Source: [ceteris \(X\)](#)

ICOs present a viable alternative. Unlike points-based systems, ICOs are harder for airdrop farmers to game, preventing manipulation of core metrics. This allows broader participation in project funding, breaking down barriers to entry and incentivizing early adopters to champion projects, ultimately benefiting both contributors and teams.

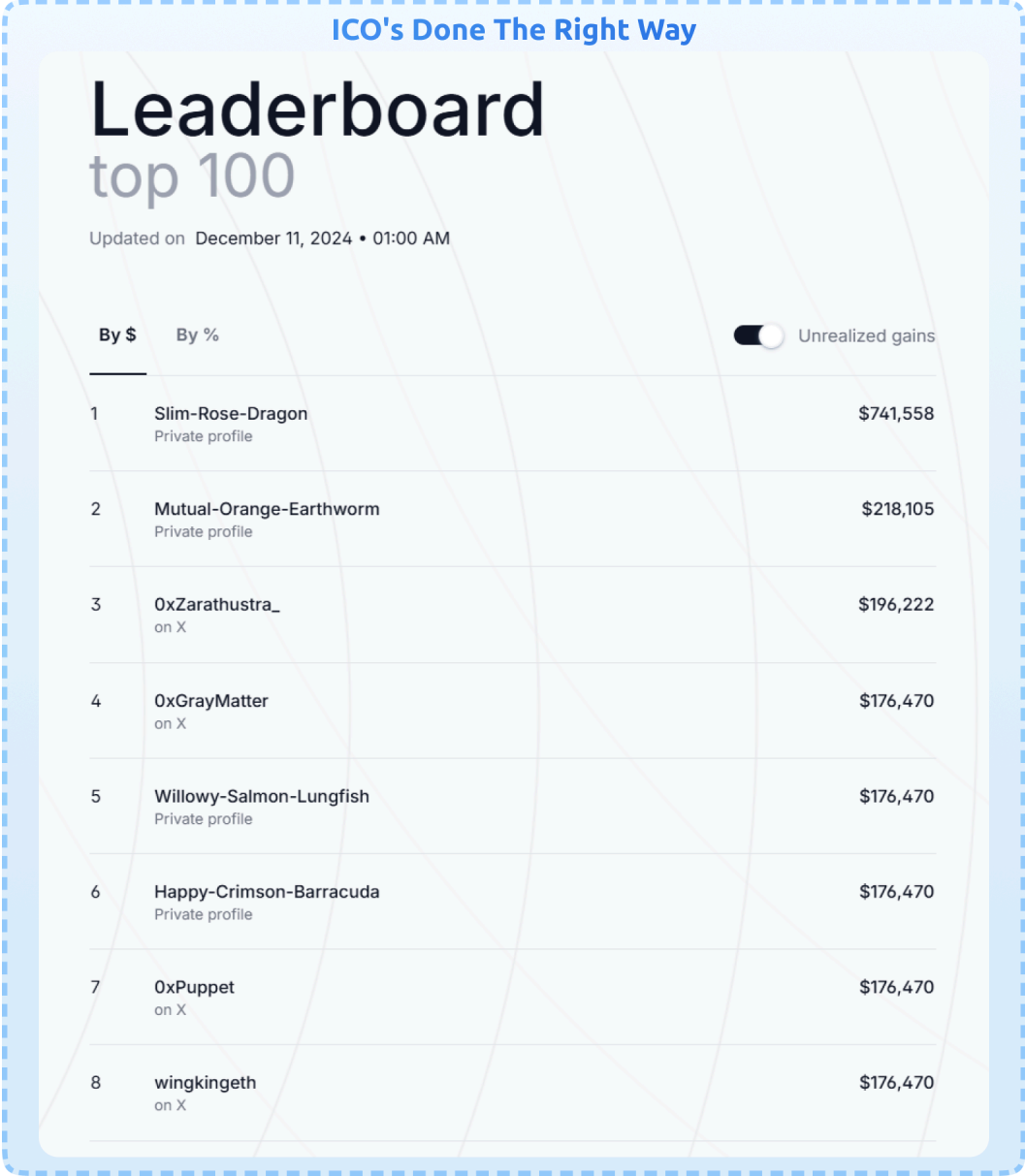
By allocating a greater percentage of supply for public distribution, ICOs hold teams accountable and attract honest feedback from early adopters who have a vested financial interest in the project's success. In this model, community support becomes a powerful asset.

However, legal complexities deter some founders from pursuing ICOs, especially given their historical association with projects that lacked tangible products and relied solely on whitepapers.

Despite these challenges, ICOs democratize capital formation, enabling anyone to act as a venture capitalist. They remain one of the most successful models with proven product-market fit and we anticipate a reemergence, especially as points programs continue to face scrutiny.

New ICO infrastructure platforms like Echo enable retail investors to access highly anticipated projects like Monad and Berachain for as little as \$500, matching valuations typically reserved for VC funds. Though most investments carry a one-year

cliff and two-year vesting schedule—potentially challenging for retail investors—quality projects often launch with perpetual futures on centralized exchanges at TGE, allowing investors to hedge their positions if needed.



Source: [Echo Leaderboard](#)

## Hidden Risks and Unseen Allocations



***A system, artificially stabilized, and of course you have hidden risks under the surface, and you don't know where the risks are.***

– Nassim Nicolas Taleb

While blockchains are inherently transparent, the hidden complexities of modern token structures—crafted by insiders through undisclosed deals and skewed incentives—demand closer scrutiny. These tokenomics can distort public perception by misrepresenting token distribution, potentially jeopardizing projects before they even launch.

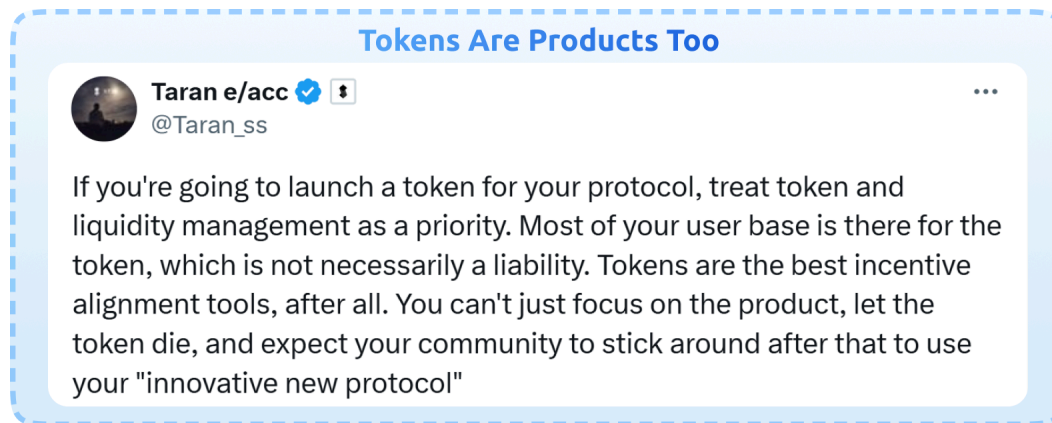
On-chain data alone can paint a misleading picture of a project's true token distribution. Off-chain deals, such as side letters, advisory allocations, CEX listing fees, TVL rentals, OTC and KOL rounds, and market-making agreements, significantly impact a token's effective cap table. Although these arrangements are hidden from public view, they exert considerable influence on token prices and project stability.

Today's market is oversaturated with projects launching at multi-billion dollar valuations but experiencing reduced retail demand compared to previous cycles. Many of these projects have delayed their TGEs for years, citing reasons such as market conditions or shifting sentiment.

To attract liquidity and gain mindshare, projects often rely on points systems, promises of airdrops, and hidden incentives that artificially inflate metrics like TVL—often through idle capital parked solely to accrue points.

These practices, combined with the obscured nature of closed deals, often result in a token distribution that differs significantly from what is disclosed, concentrating risks among insiders. While the public may perceive incentives as fairly distributed, certain stakeholders disproportionately benefit.

We anticipate that the free market will self-regulate certain practices, such as commoditizing market-making deals to prevent overpayment or hidden agreements. Additionally, clearer separation of fundraising capital from operational deals—such as those for market making, airdrops, or CEX listings—will create clear delineation and reduce overlap of funds. Transparent utilization of vesting contracts is also important to accurately reflect token distribution on-chain, including associated vesting schedules for teams, investors, and OTC allocations.



Source: [Taran \(X\)](#)

Transparency is essential, and no incentive structure can compensate for the absence of genuine product-market fit. In crypto, many risks remain hidden until it's too late. When such issues become widespread and accepted among insiders, user trust is ultimately compromised—particularly when hidden arrangements are revealed and insiders have profited at the community's expense.

# NFTs: From Collectibles to Liquid Assets

## Section 22

# NFTs: From Collectibles to Liquid Assets

***We buy things we don't need with money we don't have to impress people we don't like.***

– Dave Ramsey

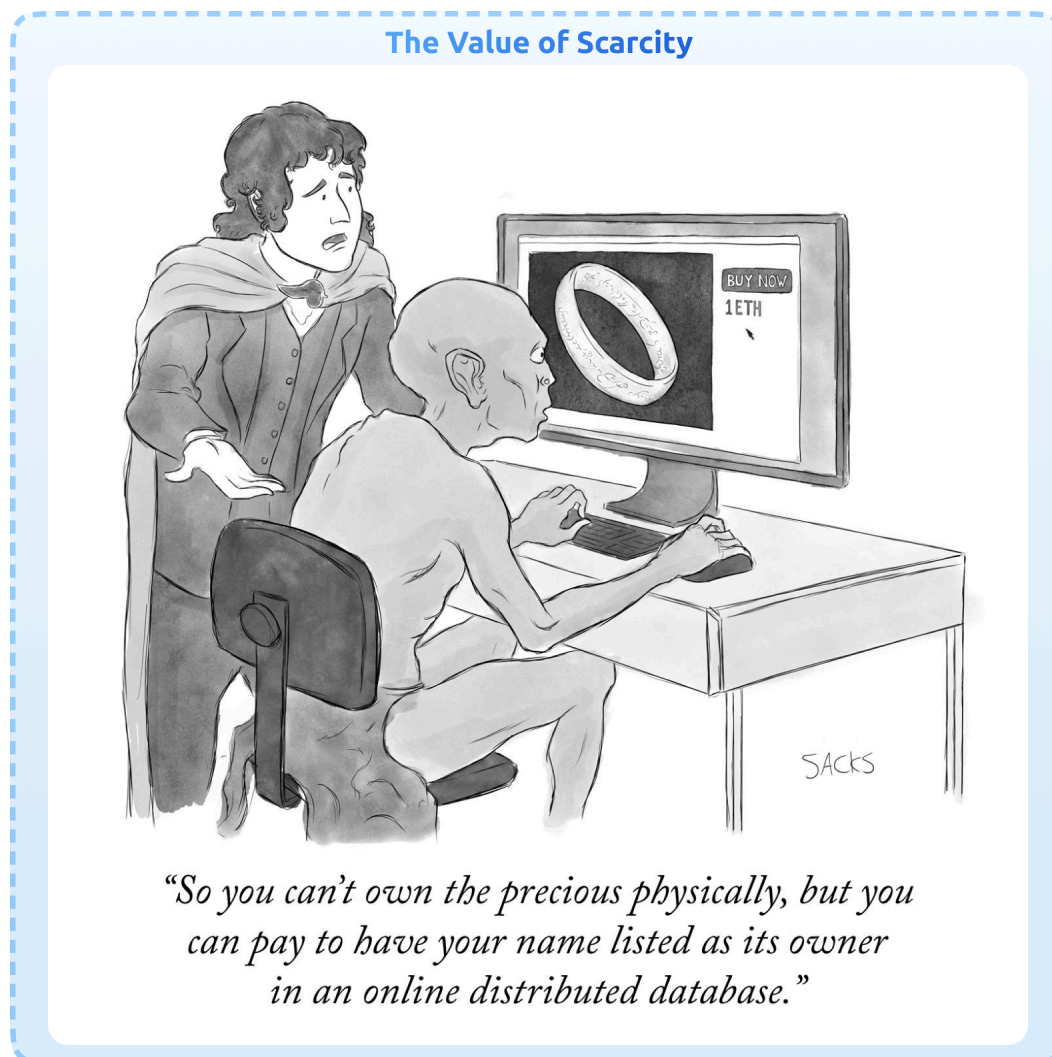
At their core, NFTs provide digital representations of assets, both physical and virtual, through tokenization, ensuring unique or fractional ownership. This uniqueness and the inability to be reproduced or copied lend NFTs rarity and value.

Although NFTs have existed since 2014, when Kevin McCoy released *Quantum*, the NFT boom truly began in 2017 with iconic collections like CryptoPunks, EtherRock, and CryptoKitties, which reached astronomical valuations. Humanity's long-standing interest in collecting makes the popularity of NFTs unsurprising, as digital collectibles now hold allure comparable to many physical artifacts.

This year started off rough for NFTs, with X discontinuing NFT profile picture support and GameStop closing its NFT marketplace. Until now, NFT utility has largely focused on provenance for high-value art and collectibles. In 2025, NFT applications are expected to become more widespread and diverse, with the term "NFT" itself potentially fading into the background as these technologies see mainstream adoption. Layer 2s and affordable chains will be instrumental in making NFT minting economically viable.

Today, multiple NFT standards coexist beyond ERC-721 and ERC-1155, such as executable NFTs (xNFTs), compressed NFTs (cNFTs), dynamic NFTs, and even tokenized RWAs. However, what's missing is a standardized and decentralized database to store NFT metadata—a market opportunity that could end the current fragmentation of NFTs caused by different storage solutions like IPFS and Arweave.

In February, the launch of Pandora and the ERC-404 standard promised to revolutionize the intersection of fungible (ERC-20) and non-fungible (NFT) tokens. Pandora itself experienced meteoric growth, reaching a \$100 million market cap just days after its debut. However, the magnitude of this “meta” was definitely not as meaningful as memecoins, and it didn’t last for too long.






Source: [Node \(X\)](#)

Pandora challenged previous fractionalization attempts, such as NFTx with \$PUNK for CryptoPunks and Flooring Labs with uAzuki tokens for Azuki NFTs, which struggled with adoption due to the complexity of their underlying designs. By contrast, ERC-404s offered simplicity, reducing user friction and enhancing accessibility. While

newer iterations like DN404 (Divisible NFT) have since emerged and initial excitement has waned, the standard retains the potential to support creative use cases.

Fractionalization with ERC-404 tokens can increase liquidity by enabling the trade of affordable NFT fractions, facilitating price discovery and broadening market participation. Potential use cases include high-value art and real estate tokenization, where 404 tokens allow NFTs to be reconstituted after fractionalization.

**The Fungibility Problem**

 **foobar | Clusters**    
@0xfoobar

The problem with NFTs is that the "non" is a lie

Everyone - including their creators - treats them as completely fungible. They give no benefits or even accounting for rarity when new drops come out

A few examples of this:

- mutant ape airdrop: all BAYC received identical allos
- apecoin airdrop: all mutants received identical allos
- friendship bracelets airdrop: all artblocks received identical allos
- degodcoin conversion: all y00ts received identical allos

There are deeper issues, such as offchain metadata that makes any smart contract rarity composability a nightmare to work with. But even setting aside poor tech decisions, at a purely cultural level even NFT creators treat these things as purely fungible

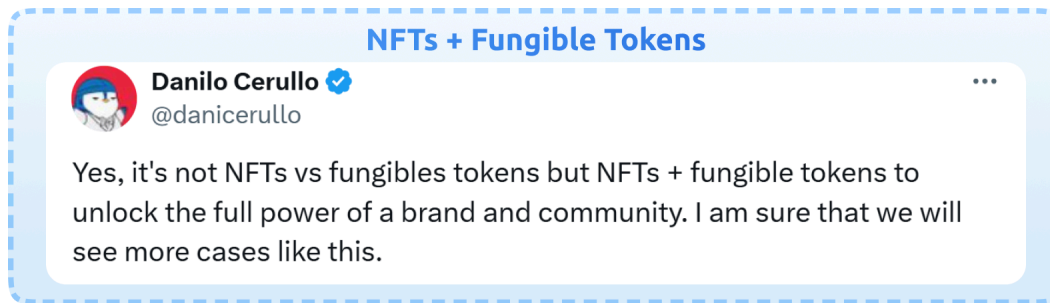
Many blame Blur for this when in fact Blur was simply a response to how creators were already treating their communities. So it should be no surprise when communities take the message and decide to go for the purely fungible stuff, aka memecoins, instead

Source: [foobar | Clusters \(X\)](#)

Additionally, fungible tokens could adopt NFT characteristics to enhance utility and engagement. For example, governance tokens could become NFTs with reputation states, incentivizing active participation. Making NFTs fungible could also help align their valuations more closely with popular memecoins, creating opportunities to trade

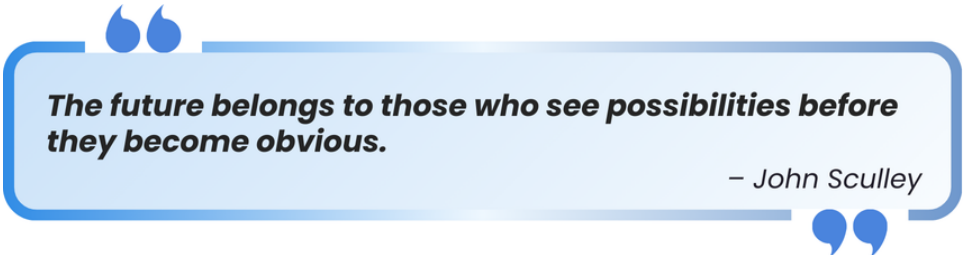


on relative value and raising expectations that NFT collections could rival tokens like DOGE, SHIBA, or PEPE in market performance and valuation.



Source: [Danilo Cerullo \(X\)](#)

## Business Models, IP, and Distribution



***The future belongs to those who see possibilities before they become obvious.***

– John Sculley

Even though the current meta focuses more on “memecoin lore” than on JPEGs, NFT profile pictures (PFPs) still hold potential as a powerful and often overlooked distribution tool. As the saying goes, “first-time founders focus on product; second-time founders focus on distribution”. This was evident on Solana, where projects like Madlads and Tensorians served as distribution tools for the Backpack Exchange and the Tensor Marketplace, respectively.

One of the biggest challenges for product builders is gaining visibility. In crypto, launching an NFT collection has proven to be an effective marketing strategy for building a sticky, resilient community. NFT holders may receive airdrops and actively contribute to shaping a product’s future, while builders benefit from a trusted community for feedback and faster iteration cycles.

In 2023, holders of Madlads and Tensorians NFTs received multiple airdrops from Solana ecosystem projects. Similar patterns have emerged with collections like Pudgy Penguins, Miladys, and Remilios. This highlights a shift toward business models for NFTs that revolves around intellectual property.

In the first cycle of NFTs, whitelists and royalties took center stage. However, in the current cycle, projects have recognized that frequent mints risk diluting IP value. Exclusivity, a cornerstone of IP, can turn NFTs into a marketing funnel, creating second-order opportunities like launching toy lines, sponsoring films, or establishing new brands. This addresses the need for sustainable income for NFT collections, creating a feedback loop where the NFT acts as the initial lever in building a greater vision.

## Reviving Culture Amidst a Shifting Landscape

***Culture opens our hearts to one another. And they  
currency in culture is not money, but trust.***

– Yo-Yo Ma



The once-thriving NFT culture, filled with excitement and a strong sense of community, has noticeably faded in recent years. During the early NFT boom, people eagerly minted and traded, feeling deeply connected to the communities surrounding each project. However, as the space expanded, much of this initial community-driven energy has dwindled.

A clear divide remains between platforms catering to retail and professional audiences. OpenSea, focused on retail users, provides accessible tools like wallet creation via email to broaden NFT accessibility. Meanwhile, platforms like Blur and Tensor target sophisticated traders with advanced tools and trading terminals. Blur's recent launch of Blast underscores the divergence in platform priorities, balancing retail accessibility with pro-level trading infrastructure.


As the NFT space matured, an influx of new projects—many claiming to be "the next Punks or BAYC"—has outpaced demand. This oversupply, coupled with the inherent illiquidity of NFTs compared to more liquid assets like memecoins, has cooled the market. Yet, communities like Pudgy Penguins and Mad Lads have endured, proving that strong brand identity can sustain value even in challenging conditions.

Collecting, an intrinsic human interest, has grown into a massive industry but faces challenges such as slow settlement times, physical custody issues, and frequent fraud. Blockchains offer solutions through instant settlement, enhanced security, and reliable authentication, potentially transforming the collectibles market.

By providing secure and efficient platforms for buying, selling, and storing collectibles, NFT marketplaces could expand the total addressable market for digital collectibles. These platforms attract more traders, liquidity, and inventory, creating unified, liquid

markets without the need for personal physical storage—encouraging more active trading.

**Beware The Rules of The Game**

 **Santiago R Santos** ✓  
@santiagoroel

NFTs marked the top of the last cycle  
NFTs will mark the (local) bottom of this one

When you let go of prized possessions that's when you know the pain is real

You're seeing capitulation of top collections like Punks

Punks at 25 ETH. Top was 125 ETH. I know because I bought one at the top.

I'm not here to tell you that 25 ETH or 125 ETH is fair. Collecting is very subjective sport.

25 ETH is \$88k and that's a lot of money - sometimes pricing in \$ terms puts it into perspective

Punks floor can go down to 10 ETH or up to 125 ETH and it's likely we'll see both levels this cycle. 10 probably comes first

Floor aside, I find it interesting that even grail NFTs are being let go by long time holders

I've said this many times. Collecting is not the same as investing - at least not for me.

Sure, it can be very profitable trade but the best collectors I know don't do it for that reason. They have a passion for it and aren't looking to sell. That's doesn't mean they don't have a price where they'll let go of it...

So when you see grail NFTs let go by OG holders then that's something to pay close attention to

Source: [Santiago R Santos \(X\)](#)

Some markets, such as those for luxury watches or handbags, currently operate in fragmented, “dark” spaces with dispersed liquidity. These markets are ideal candidates for tokenization as NFTs, supported by dedicated marketplaces. The collectibles themselves must find a "Goldilocks" price point—valuable enough for status and exclusivity, yet accessible enough to attract a wide base of collectors. Striking this balance is key to creating a liquid market that appeals to both collectors and traders.

A critical factor for broader adoption is establishing these collectible assets as stores of value. Fine art, valued across generations, exemplifies this quality. Similarly, assets like wine, whiskey, and classic cars, which are difficult to store or prone to degradation, could benefit from NFT tokenization when paired with specialized storage and authentication solutions.

Authentication remains to be a major hurdle. Marketplaces that offer strong guarantees, such as money-back assurances for authenticity, can build trust and gain a competitive edge.

Collectibles with strong brand provenance, such as luxury watches, are particularly well-positioned to drive secondary market activity, as collectors often sell older pieces to fund new acquisitions. A passionate and engaged collector base is crucial, as their active participation on social media frequently generates organic liquidity and sustains market momentum.

## NFTFi: From Art to Finance

***The nature of the beast is, art needs finance. That's how this industry works.***

– Nathan Fillion

NFTs, once primarily associated with digital art and profile pictures, are now evolving to support more sophisticated financial applications. This expanded utility is unlocking new market opportunities, particularly through NFT finance, or NFTFi. Although NFTFi remains a niche, it highlights the broader potential of NFTs beyond the initial hype surrounding animal images and novelty art. Emerging use cases include NFT-collateralized loans, fractionalization, NFT renting, indices, and derivatives.

Investors increasingly want more than static NFTs in their wallets—they seek liquidity and access to secondary markets. However, the infrastructure for financializing NFTs is still nascent, emphasizing how early we are in this space. This shift mirrors the progression from the ICO era to the DeFi cycle, potentially foreshadowing how an NFTFi phase could redefine the way NFTs are perceived and utilized.

NFTFi protocols are at the forefront of this transformation introducing financial tools like lending and borrowing, where assets—such as tokenized luxury watches—can be used as collateral in money markets. These markets are among NFTFi's most disruptive innovations, allowing NFT owners to access liquidity without needing to sell their assets. Investors can also lend assets like \$ETH against NFTs, generating yield and redefining the utility of NFTs.

While collateralizing NFTs unlocks liquidity and broadens their utility, it also introduces challenges, such as managing price volatility from liquidation cascades. As larger, well-capitalized participants enter these markets, lending and borrowing within NFTFi is likely to mature, paving the way for substantial growth in this emerging sector.

## NFT Lending

***But who said art has to cost money? And therefore, who says artists have to make money?***

*– Francis Ford Coppola*

In NFT lending, the market has shifted, emphasizing the importance of interest rates and liquidity dynamics—even for JPEGs. This marks a critical step in the financialization of NFTs and positions NFTFi to gain greater traction in the coming years.

The evolution of Squiggles exemplifies this shift. For a prolonged period, Squiggles backers provided liquidity with attractive terms: high proceeds, long durations, and low interest rates.

However, finite resources and unsustainable subsidies led to a reassessment of lending practices. As interest rates rose, previously attractive loan terms became less appealing, altering market dynamics. The sudden withdrawal of liquidity providers triggered heightened volatility and reduced market resilience, mirroring the effects of major policy changes in traditional financial markets.

The correlation between interest rates and asset performance extends beyond equities to markets like art. Just as monetary shifts impact equity prices, the art market fluctuates with interest rate changes, underscoring the financial nature of artistic assets. We expect NFT lending to follow a trajectory similar to DeFi, introducing market-driven solutions like NFT yield generation and perpetual loan structures.

### The Case for NFTFi



**gmoney.9dcc.eth** @gmoneyNFT



UPDATE: Since taking out the \$1 million loan on my punk about 3 weeks ago, ETH is up almost 40%, or around \$400k. I've accrued \$9k in interest so far.

NFTFi opening up credit markets is going to entirely change the market dynamics. You're not ready.



**gmoney.9dcc.eth** @gmoneyNFT · Feb 2

NEWSFLASH: NFTs are Worthless

A little over 3 years ago, I took out the largest onchain loan against an NFT for \$25k. Today, I am taking what might be the biggest loan against a single CryptoPunk (possibly a single NFT, but not sure and don't have time to fact ... [Show more](#)

Source: [gmoney.9dcc.eth \(X\)](#)

Debt and interest rates, when built on sound economic frameworks, can enhance market stability and affordability. By adopting market pricing mechanisms and creating autonomy, NFTFi has the potential to emulate the resilience and longevity of traditional asset markets, such as U.S. real estate.



## From Ownership to Unlocking Capital Efficiency

***Don't just create art to make money. Make money so you can create more art.***

*– Richie Norton*

As the NFT market matures, derivative instruments are becoming increasingly important, providing investors with more sophisticated ways to manage risk and speculate on prices. With prominent NFT communities and collections already consolidating, the introduction of perpetuals and other advanced financial tools could offer significant benefits for both NFT holders and speculators.

Derivative protocols, such as perp-DEXs and options-DEXs, allow investors to speculate on NFT prices without owning the NFTs themselves. These platforms allow traders to take positions on future NFT prices, with profits and losses transferred directly between participants. This not only facilitates price speculation but also provides a way to hedge against downside risk without requiring direct ownership of the underlying assets.

While perpetual contracts remain the most popular derivative due to their simplicity, exploring alternative derivatives could unlock new opportunities. For instance, Tensor's price lock introduces a DeFi primitive that allows users to go long or short on NFTs through an intuitive interface.

## NFTFi; Beyond Lending

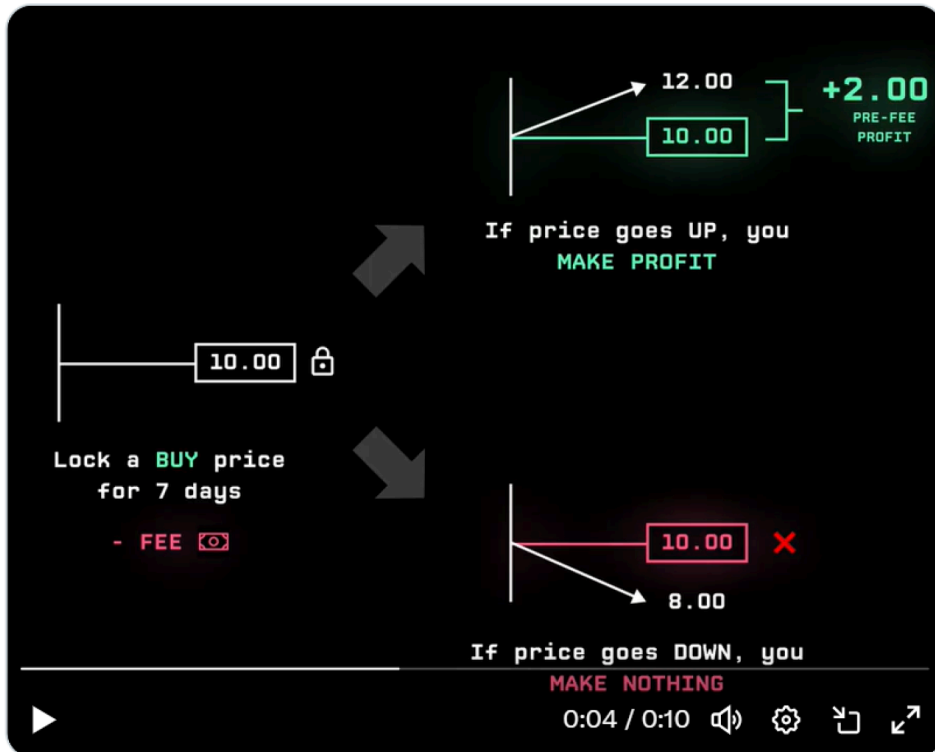


🔒 4/7 - How does it work?

Price Lock = Paying for right to buy or sell an NFT at the locked price.

So if you 'Go Long' and the FP goes \*above\* the locked price you can bank the profit 😎


If you 'Go Short' and the FP goes \*below\* the locked price you bank profit too 😁



Source: [Tensor \(X\)](#)

Traders can profit from rising or falling floor prices, effectively simulating call and put options without the usual complexity. This also enables hedging strategies, such as selling a covered call on an NFT you own or a SOL-secured put.

## Digital Collecting and Ownership Graphs



***To effectively leverage the social graph, every company needs to understand that they need to make their information easily transferable.***

– Erik Qualman

In the early days of NFT culture, collectors found a strong sense of community and belonging within their collections. However, as the NFT landscape has matured, that sense of community has faded, leaving collectors nostalgic for a time when holding an NFT was more than just an investment—it was a social experience.

A promising trend may reignite this connection: social networks for NFT collectors. These platforms could transform NFT ownership into the foundation for a richer social experience, creating discovery, interaction, and status-building through digital collections.

By turning ownership graphs into social graphs, such networks could revive the sense of belonging that once defined NFT culture. They would also provide collectors with new opportunities to connect, trade, and engage with like-minded individuals in a more social and gamified environment. This evolution could further pave the way for NFT-specific chains or rollups to support these developments.

# GameFi: Enhance, Don't Disrupt, and Play

## Section 23

# GameFi: Enhance, Don't Disrupt, and Play

***Today I LOOK AT the Internet, but I think in the future you are going to BE IN experiences.***

– Mark Zuckerberg

The gaming industry is an entertainment powerhouse, generating billions in annual revenue with budgets rivaling Hollywood's biggest blockbusters. Despite its vast potential, onboarding gamers to blockchain has proven challenging. The main issue lies in blending blockchain's decentralized structure with the seamless, immersive experiences gamers expect. Any friction—such as managing wallets, bridging assets, or interacting with different chains—distracts from gameplay and can drive users away.

At its core, gaming is an art form that merges mathematics, physics, computer science, artistry, and storytelling. Integrating crypto should enhance this balance, not disrupt it. Game engines today are more sophisticated and realistic than ever, and for blockchain games to succeed, they must avoid compromising the user experience with frequent wallet interactions or complex on-chain processes.

Games are meant to be fun and immersive. Anything that detracts from this will likely fail. Simply adding token-based incentives does not resolve fundamental design flaws. The key role of blockchain in gaming is to improve in-game markets and economies, yet many projects lose sight of this purpose. For teams struggling to build AAA games, an alternative path could involve creating multiple, simpler games instead.

From an investment perspective, the gaming industry has experienced remarkable growth, competing in size with the movie and music industries combined. With over 3 billion active gamers worldwide, it is a vast and diverse market spanning many genres and platforms, offering substantial opportunities.

In the context of crypto and Web3, the primary value proposition lies in true ownership of in-game assets, though interoperability across games with NFTs remains limited.

Two main investment strategies have emerged in Web3 gaming: horizontal plays, which focus on gaming infrastructure and platforms for development and asset trading, and individual investments, which target games with strong communities and high growth potential.

**Can Gaming Come Back?**

 **McKenna** ✓  
@Crypto\_McKenna

Web3 Gaming as shown by 2024 VC funding is no longer a consensus bet.

As stated prior out of the 100s of teams that have been funded I am probably bullish on 5-7 teams maximum most of which are still yet to TGE.

Not a vertical one can spray and pray in.

 **Decrease in Funding of Web3 Gaming over Time**  
Quarterly Funding of Web3 Gaming Projects since Q1 2021



Quarter	Funding Amount
Q1'21	\$0.05B
Q2'21	\$0.40B
Q3'21	\$1.05B
Q4'21	\$1.55B
Q1'22	\$1.65B
Q2'22	\$1.05B
Q3'22	\$0.85B
Q4'22	\$0.45B
Q1'23	\$0.45B
Q2'23	\$0.25B
Q3'23	\$0.30B
Q4'23	\$0.15B
Q1'24	\$0.40B
Q2'24	\$0.25B

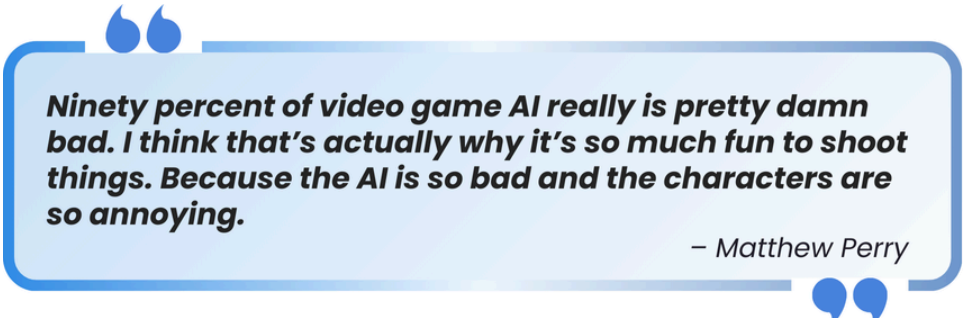
Data as of August 2024  
Source: Delphi Digital

 DELPHI DIGITAL

Source: [McKenna \(X\)](#)

Ultimately, blockchain's role in gaming should be to enhance the player's experience, not detract from it. Whether through true asset ownership or more immersive in-game economies, the full potential of blockchain gaming has yet to be realized.

## NPCs and Autonomous Gaming Agents



***Ninety percent of video game AI really is pretty damn bad. I think that's actually why it's so much fun to shoot things. Because the AI is so bad and the characters are so annoying.***

– Matthew Perry

In gaming, autonomous agents—such as NPCs in games like *GTA 5*—enhance gameplay by creating richer and more immersive experiences. Traditionally, designing each NPC individually is costly and time-intensive, but advancements in AI could streamline this process, enabling the replication of human-like behavior and enriching the gaming experience. After all, we are all familiar with the fact that AI may already be capable of doing some of the most important jobs better than the humans currently employed in these roles.

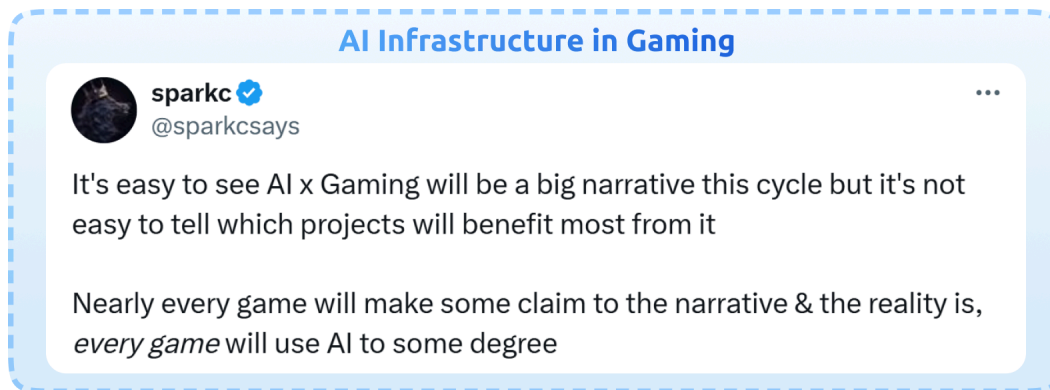
Beyond enhancing NPCs, AI also introduces novel economic models for players. For example, gamers could train AI agents to replicate their unique play styles, and lease or sell these “trained” avatars to other players or developers. This “train-to-earn” dynamic goes beyond traditional play-to-earn models, offering new opportunities for monetization.

In blockchain-based systems, AI agents are increasingly playing a critical role in facilitating on-chain transactions. From basic tasks like balance checks to complex operations such as predicting market conditions and optimizing asset allocation, these agents are becoming increasingly autonomous, capable of making sophisticated decisions without human intervention.

An exciting application of AI agents in gaming is interoperability across games. As players gain assets, skills, and experience in one game, AI agents could enable these resources to be transferred or utilized across different game worlds. By tracking player

behavior and integrating with blockchain-based wallets, AI agents could evolve over time, adapting to preferences and creating personalized, multi-game experiences.

Incentive structures within these gaming environments are also evolving, with contribute-to-earn models gaining traction. Here, players earn rewards by contributing assets, skills, or lore to game development. This democratizes the creation process and supports greater diversity in gaming.

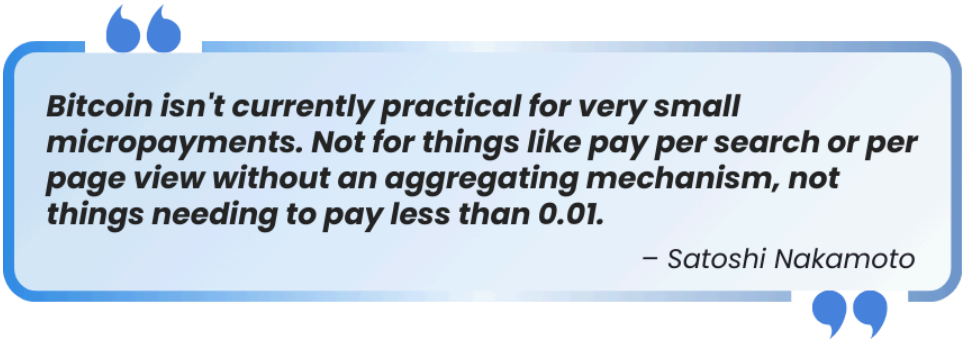


Source: [sparkc \(X\)](#)

Finally, AI-driven agents pave the way for collaborative train-to-earn dynamics, where players or guilds collectively train AI characters that can be leased or used across different games. This not only creates new economic opportunities for players but also empowers indie developers and content creators. By leveraging this, smaller studios can effectively compete with industry giants.



## Less Money, More Monetization



***Bitcoin isn't currently practical for very small micropayments. Not for things like pay per search or per page view without an aggregating mechanism, not things needing to pay less than 0.01.***

– Satoshi Nakamoto

The gaming industry has increasingly relied on monetization strategies, embedding them in nearly every mainstream title. As development costs rise, developers turn to methods like Battle Passes, cosmetic cash shops, and even pay-to-win mechanics to recoup investments.

Entire game systems are often restructured to accommodate these strategies, with content removed and later sold behind paywalls. This reflects the intense competition in the industry, where monetizing every aspect of gaming has become a necessity for survival.

With massive funding and lengthy development cycles, studios face immense pressure to extract as much revenue as possible from players to remain viable. As a result, game quality often suffers, with the focus shifting from creating value to capturing it. The relentless drive for profitability, coupled with diminishing returns on new technology, has eroded the gaming experience, leaving developers struggling to balance financial realities with delivering truly compelling products.

Blockchain in gaming redefines digital ownership, transforming how virtual assets are valued. Imagine spending countless hours collecting rare items and building an expansive virtual inventory, only to lose it all due to a centralized point of failure. Blockchain offers a solution, enabling players to retain their hard-earned achievements and translate them into tangible value—not just within a single game, but across multiple ones.

For gamers, this transformation begins with true ownership. Hard-earned items are no longer just entries in a company's database. Even if a game server shuts down or a company closes, your digital assets remain securely in your possession.



Source: [XAI \(X\)](#)

For developers, blockchain gaming unlocks new creative and economic opportunities. Game creators can design rich, player-driven economies where every transaction and interaction adds value to the ecosystem. The key lies in finding the right balance—creating games that are fun and engaging at their core while thoughtfully integrating blockchain elements that enhance the experience rather than detracting from it.

# DAOs: Organized Chaos

## Section 24

# DAOs: Organized Chaos

***Decentralization matters, but users don't care.***

*– Runekek, cofounder of MakerDAO*

The absence of traditional legal structures in the crypto world creates a unique set of challenges. While crypto protocols are built around code and markets, they often overlook the critical role of social norms and legal mechanisms in governance, leading to conflicts and undesirable outcomes.

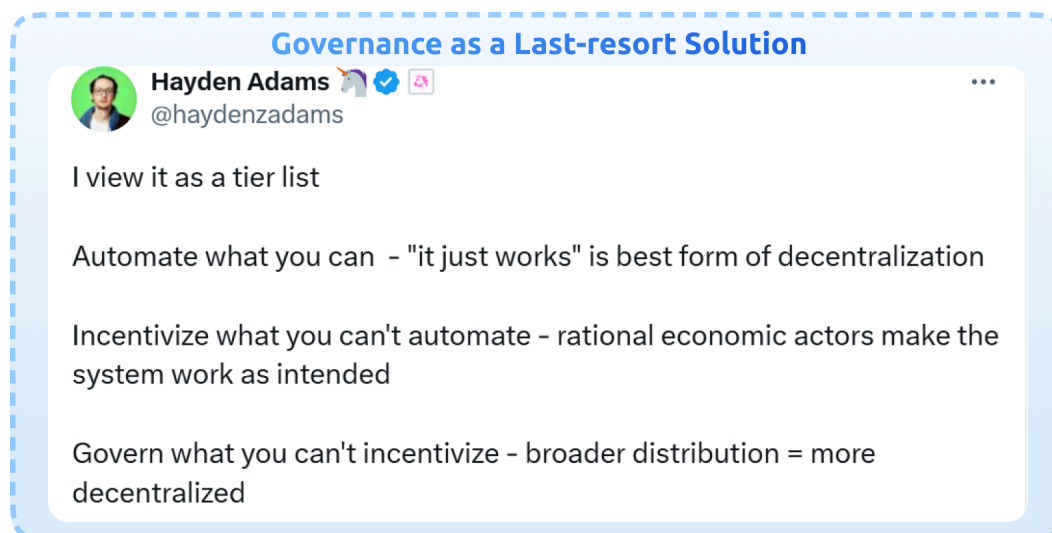
Today's DAOs often fall short of their decentralized ideals, becoming slow, inefficient, and dominated by a few powerful players. They frequently combine the worst aspects of democracy and dictatorship without offering the benefits of either. The core issue lies in the lack of adaptable models to guide collective decision-making and effective action.

Hayden's (Adams) perspective on governance critically examines its role in decentralized systems. While often treated as a solution, governance should be considered a last resort due to its inherent inefficiencies and vulnerability to manipulation.

This critique stems from the prevalent plutocratic governance model, where one token equals one vote, creating centralized power dynamics reminiscent of antiquated systems. Such centralization undermines the effectiveness and integrity of governance structures, making them susceptible to manipulation.

In crypto, the initial excitement around DAOs often fades, leaving a core group of contributors to sustain the project as attention and resources dwindle. This decline typically results in resource limitations, negative feedback loops, and a perceived lack of progress. Additionally, decentralized structures face challenges like conflicts of

interest and coordination issues, especially in situations requiring specialized skills or domain expertise that many token holders may lack.



Source: [hayden.eth \(X\)](https://twitter.com/haydenzadams)

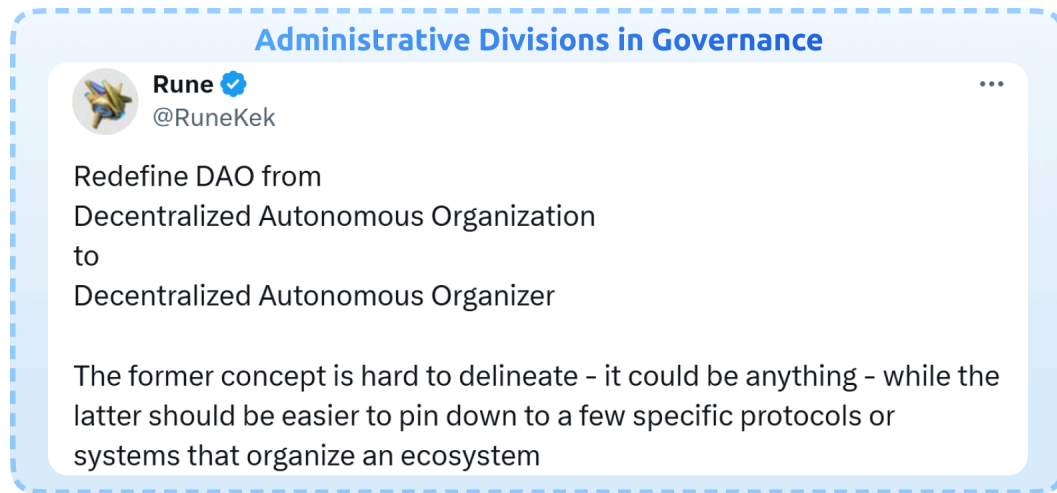
Paradoxically, memecoins introduce a new organizational model that facilitates decentralized coordination around shared goals and interests without the need for centralized intermediaries.

Nature offers examples of efficient decentralized systems, such as beehives and mycelial networks, that provide valuable insights. Essentially, successful organisms dynamically model their environments, make predictions, and adapt their actions to minimize risk and surprise—a process known as "free energy", which enables them to thrive.

Applying this concept to DAOs suggests the need for systems that continuously update a shared model based on the contributions of participants. This shifts the focus from power struggles to collective learning and adaptation. Instead of simply voting on proposals, participants would actively contribute to evolving the DAO's understanding of its environment.


This doesn't mean handing control over to AI, but rather creating systems that can fairly and transparently distinguish between trustworthy and untrustworthy

contributions. A potential solution could involve a combination of conviction staking, prediction markets, and consensus mechanisms—a strategy that aligns incentives with the collective intelligence of the DAO. This area offers exciting opportunities for further exploration, drawing on insights from multiple disciplines to create intelligent decentralized systems.



Source: [Rune \(X\)](#)

## Hostile Takeovers and Activist Investing



***I measure what's going on, and I adapt to it. I try to get my ego out of the way. The market is smarter than I am, so I bend.***

– Marty Zweig

Large token holders, whales, and Risk-Free Value (RFV) raiders pose major challenges in governance by disproportionately influencing decisions, often to the detriment of smaller participants. For instance, the goal of the latter is to buy tokens that are trading below a DAO's Net Asset Value (NAV) to redeem them for a larger USD-denominated amount of treasury assets, often stablecoins, \$ETH, or other blue-chips. To create a fairer system, mechanisms like quadratic voting or time-locked tokens can amplify the voices of smaller stakeholders and limit the dominance of large holders.

Governance should be engaging and accessible, avoiding the perception that participation is tedious or inconsequential. An effective governance model should function like an immune system for the protocol, constantly adapting to new challenges to maintain its health and integrity. This ensures governance remains relevant, encourages active participation, and attracts a diverse range of contributors.

The centralization paradox highlights a critical issue in decentralized governance—a small minority often wields the majority of power, contradicting the ideal of distributed decision-making. This creates a tension between democratic ideals and operational efficiency, where critical decisions such as budgets or hiring are disproportionately influenced by a few large token holders.

Token-weighted voting systems exacerbate this imbalance, as whales can sway outcomes while low voter turnout further consolidates power. The result is a governance paradox where the aspiration for decentralization clashes with the reality


of concentrated power and disengaged communities, raising concerns about the true efficacy and inclusivity of these systems.

The token dilemma in DAOs stems from their reliance on self-issued tokens rather than established cryptocurrencies like \$USDT or \$ETH. While these tokens are intended to incentivize participation and governance, they often carry significant risks, including volatility, unclear value propositions, and potential misalignment of incentives. This dependence raises serious concerns about the long-term viability and stability of DAOs.

Reliance on these tokens can result in unsustainable incentive structures, where the value of participation is tied to a potentially unstable asset. This undermines the broader goals of decentralization and effective governance, casting doubt on the feasibility of these models in the long run.



## Token Structure for DAOs



***DAOs are to companies what video games are to board games.***

*– Jack du Rose, Cofounder at Colony*

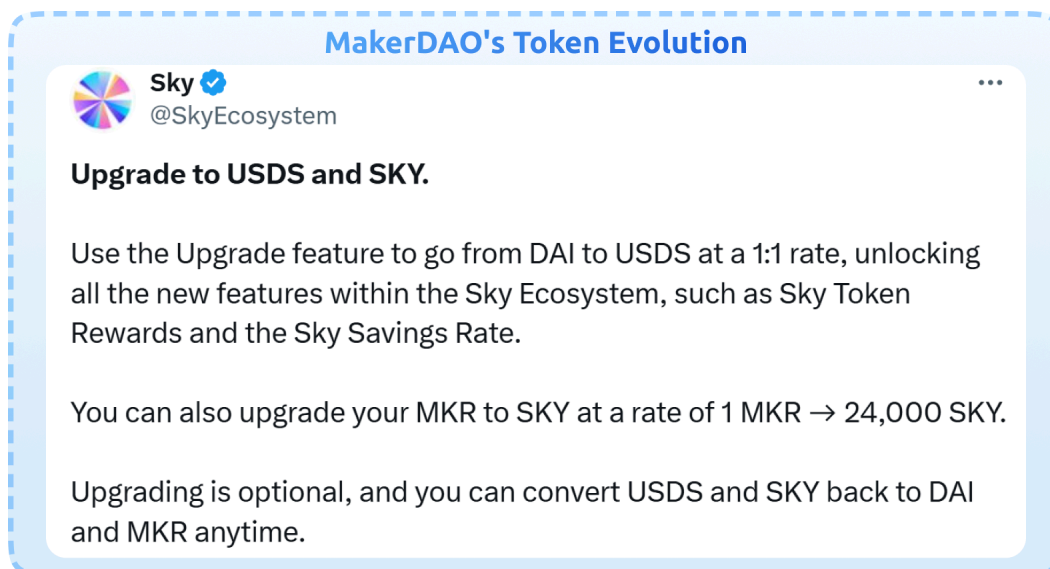
Tokens are a powerful digital primitive with the potential to drive growth, but they come with significant risks. Founders must carefully weigh these risks—legal, commercial, and operational—when selecting a token launch strategy. Legal risks are particularly prominent in the U.S., where token distribution and trading may attract SEC scrutiny and class action lawsuits.

Commercial risks include limiting market size by launching exclusively outside the U.S., which can hinder user acquisition and reduce the effectiveness of incentive systems. Operational risks arise from challenges in project coordination, communication, and team focus, especially if the token launch is rushed or poorly planned.

By understanding these risks, teams can tailor their strategies to fit their risk profiles, whether that involves prioritizing decentralization at the cost of added complexity or excluding U.S. markets to mitigate legal concerns at the expense of commercial opportunities.

Crypto projects are increasingly moving away from the earlier model of building multiple protocols under a single token, as seen with Sushi's DEX, lending platform, and NFT marketplace. Instead, they are adopting a model that favors SubDAOs, each with its own dedicated token, such as Maker's Endgame.

Opinions on this shift are divided: some see it as an exploitative strategy to extract more value from uninformed participants, while others view it as a means to decentralize governance into smaller, more manageable entities, using tokens as tools for coordination rather than purely speculative assets.




Source: [Sky Ecosystem \(X\)](#)

This shift underscores the importance of well-designed tokenomics that support the creation, supply, and demand of tokens. Effective tokenomics are critical for sustainability, influencing the utility, stability, and value of tokens.

Tokenomics also play a central role in attracting and retaining users, encouraging desired behaviors, and promoting long-term alignment among stakeholders. Conversely, poorly designed tokenomics can lead to volatility, erode trust, and discourage adoption, ultimately undermining a project's success.

## The Project and Token Relationship



***As the number of users grows, the value per coin increases. It has the potential for a positive feedback loop; as users increase, the value goes up, which could attract more users to take advantage of the increasing value.***

– Satoshi Nakamoto

In asset valuation, the difference between price and value is crucial: price is what you pay, while value is what you receive. This distinction helps distinguish between short-term price movements, often driven by market sentiment, and long-term value creation based on fundamental utility.

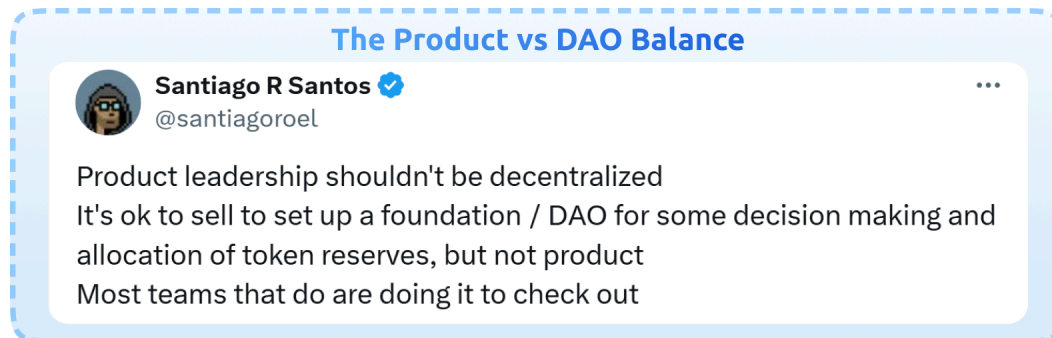
In crypto, this difference is particularly pronounced, as many projects focus on building for “votes”—short-term price gains fueled by speculation—rather than building for “weight”, or long-term value and utility.

Adaptability is essential for survival in the crypto industry, both for founders and investors. This is evident with trends like memecoins and NFTs—one cannot selectively dismiss certain aspects of the industry while embracing others. Success in crypto depends on acknowledging and engaging with all its facets, even those that seem controversial or distasteful. For long-term viability, crypto projects must prioritize creating assets with intrinsic utility or establishing claims on valuable resources, thereby building for sustained value.

In the current cycle, founders are increasingly prioritizing go-to-market strategies with the understanding that, implicitly, the token is the product. This perspective highlights the importance of attracting lasting attention and liquidity as fundamental to building valuable companies in crypto.

Tokens are essential for driving value to products and ecosystems, enabling network effects and creating long-term growth. A clear example is the contrast between

Opensea and Blur: Opensea didn't launch a token and now struggles to compete with rivals like Blur, which leverage tokens to build stronger network effects and engage their communities.



Source: [Santiago R Santos \(X\)](#)

Tokens are often referred to as “tokenized attention”, representing specific belief systems combined with volatility. As prices fluctuate, sentiment shifts, creating narratives that bring awareness to the project. Ideally, this process builds a community that supports the protocol in achieving product-market fit.



Founders who understand the dynamics of attention and liquidity in crypto can effectively use tokens to mobilize community support, attract investment, and build sustainable networks. Experience has shown that the most successful projects are those that consistently attract and maintain attention and liquidity for their tokens—a critical factor in achieving long-term success.

In crypto, there is no middle ground: you must either accept the industry in its entirety or reject it. Cherry-picking preferred elements while disregarding others is impractical and often leads to confusion or frustration. Ultimately, valuable assets are typically tied to tangible resources or underlying value, such as equity with cash flows, commodities with inherent utility where demand drives price, or debt tied to obligations and market conditions.

Without significant change, assets outside these categories—such as governance tokens without any claims to resources or speculative derivatives—are unlikely to hold long-term value. The industry can no longer sustain projects at multi-billion valuations

that focus solely on speculative financial engineering or derivative products without building intrinsic value.

**The Retail Exit Liquidity Trap**

 **Aylo**   
@alpha\_pls

A lot of people are only holding certain alts with the hope retail comes back to provide exit liquidity.

Retail trading volumes on Coinbase for Q2 '24 are down by ~74% compared to Q2 '21.

If we get an institutional driven cycle (lots of good arguments for this), rather than retail driven, then many crypto natives are going to be down bad and will underperform majors.

Most alts don't have any fundamentals, and have no chance of product market fit.

Alt dispersion (also applies to memes), and the unlimited number of token launches will continue to make it harder this cycle, as liquidity and attention is fragmented and short lived.

If your sole thesis for your alt is "retail will buy it", I would be concerned.

I don't want to discourage you, as we will have alts that do spectacularly well this cycle, but now is a time to really think about your portfolio and why you hold certain coins.

Source: [Aylo \(X\)](#)

## On Value Accrual



***If enough people think the same way, that becomes a self fulfilling prophecy.***

– Satoshi Nakamoto

The economic models for infrastructure tokens, such as those powering Layer 1 and Layer 2 networks, are well-established and revolve around the supply and demand for blockspace. In contrast, the models for application tokens—linked to smart contract protocols offering services on these blockchains—are still evolving.

App tokens must be as flexible and adaptable as the protocols they support, enabling applications to generate cash flows and rewarding users for the value they contribute. Unlike infrastructure tokens, which benefit from natural supply-demand dynamics, app tokens must develop unique economic models, as they cannot rely on the collection of gas fees.

Furthermore, app tokens face legal challenges, particularly when they facilitate regulated activities, exposing tokenholders to significant risks. The primary challenge is for projects to design economic models that compensate tokenholders through cash flows while remaining regulatory-compliant and minimizing governance obligations.

There are three key challenges in shaping this market dynamic: protocol and DAO governance, value accrual and revenue distribution, and regulatory compliance.


**Governance:** The role of DAOs should be limited, as they can introduce legal risks, particularly in the U.S., where DAOs may control protocol revenue. Reducing DAO control minimizes potential liabilities and ensures greater regulatory compliance.



**Value Distribution:** Direct mechanisms like pro rata distributions, which resemble dividends, could create issues under U.S. securities laws. Instead, rewarding

tokenholders based on their contributions aligns incentives with the project's success without mimicking traditional securities structures.


**Regulated Activities:** Value accrual mechanisms must exclude profits from non-compliant frontends. One potential solution is a system where fees accrue to tokenholders only from compliant frontends. This could involve a two-step app-token staking system, where fees are routed based on the compliance status of the originating frontend.


**The Token Utility Dilemma**



**Tommy**  

@Shaughnessy119



**On Crypto x AI Value Accrual, AI Memecoins, and The Future** 

**The Fat protocol thesis is reversed with Crypto x AI.**

Memecoins, the simplest form of apps, are accruing value (attention) since it's easy to fine tune an open source model like Llama and add a token.

GOAT did this with mass amount of reddit/4chan data, and we're seeing many copies come out faster than we can refresh DEX screener. I have no idea how you degens keep up.

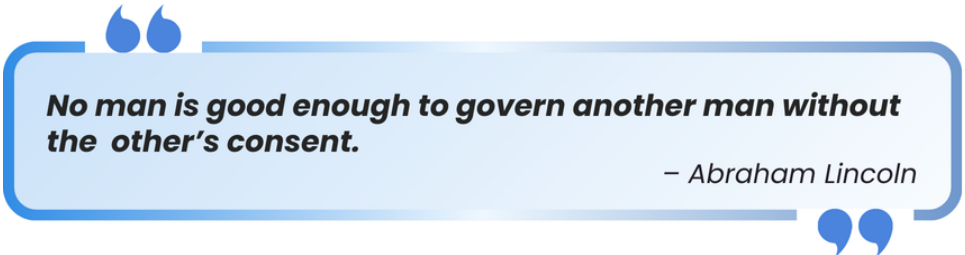
**In the future, I think this reverses**

Web2 will stop sharing new foundational models and increasingly bias and limit them + people will get tired of basic LLMs, they will want real AI apps intertwined with Crypto.

Source: [Tommy Shaughnessy \(X\)](#)

Each application type may require customized fee collection and distribution methods, but the guiding principle remains the same—reward tokenholders in a compliant and sustainable way.

## Effective or Resilient Governance



***No man is good enough to govern another man without the other's consent.***

– Abraham Lincoln

Decentralized governance presents both opportunities and challenges. For some, the idea of humans coordinating through forums and periodic votes is seen as a dead end, with critics arguing that it could reduce the governance value of a token to zero. For others, it represents an area where AI could excel, using established research to shape how solutions to specific problems should be evaluated and by whom.

Effective governance requires more than just frameworks and protocols; it demands systems that evolve alongside the organization. However, the principal-agent dilemma, where conflicts arise between the interests of stakeholders (principals) and those of individuals or groups acting on their behalf (agents), often hinders decision-making in DAOs. This creates opportunities for exploitation if agents leverage their positions for personal gain.

It comes as no surprise that DAOs are particularly susceptible to inactivity. The participation incentive problem highlights the limited motivation for individuals to engage actively in voting and governance.

Builders often struggle to balance development work with the time required to manage complex proposals. Additionally, anonymity within DAOs can reduce perceived accountability, potentially skewing votes in favor of small, committed groups.

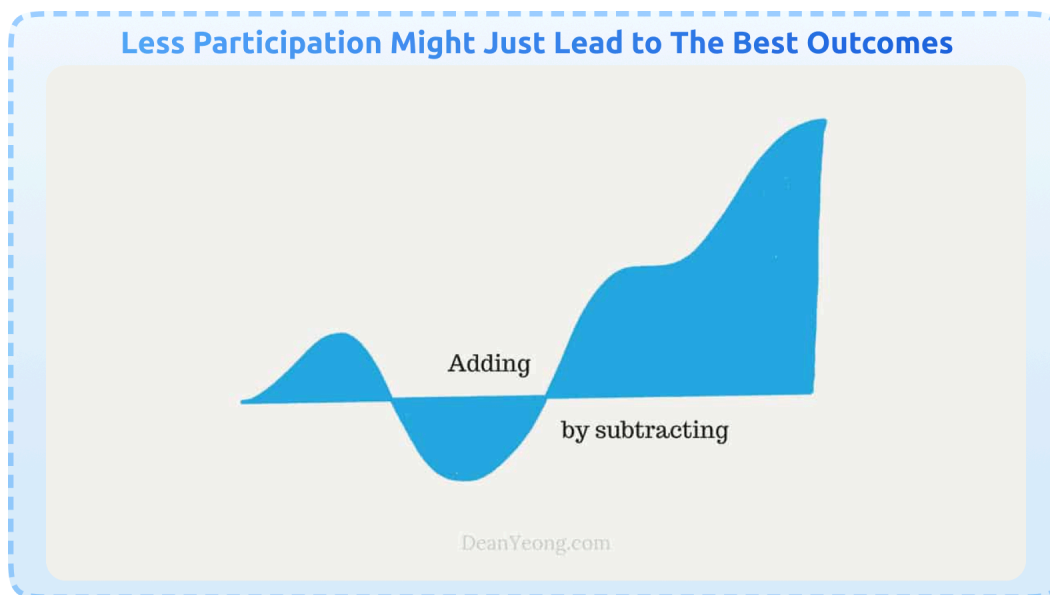
An effective delegate system could address some of these challenges, and in some cases, less frequent votes might also improve efficiency. However, the most pressing issue in decentralized governance is the risk of economic capture, where stakeholders with significant voting power make decisions that serve their own interests at the expense of the organization. In DAOs, this is particularly relevant to decisions about



asset allocation or treasury management, which can directly impact the sustainability of the protocol.

For example, this year, the founder of Curve Finance faced scrutiny for borrowing heavily against \$CRV tokens to fund personal purchases, including a \$20 million mansion. This led to systemic concerns for protocols like Aave, which held \$CRV as collateral.

Despite Gauntlet's multiple recommendations to remove \$CRV as collateral due to potential risks, Aave's governance voted against the proposal, which showcased how governance processes can sometimes prioritize the interests of influential stakeholders over the protocol's long-term stability.



Source: [Via Negativa | Dean Yeong](#)

# Funding and Capital Markets

## Section 25

## Funding and Capital Markets

***Valuations have gone up, but demand hasn't gone up as much.***

*– Taran, founder of STIX*

The unspoken rule is that venture capital is often essential to start and sustain a crypto business—at least long enough for it to reach a pivotal point. This process can take months or even years, resulting in few survivors and many abandoned projects. While some exceptions manage to bootstrap using their own capital, most depend on external funding, with success frequently tied to NGU ("Number Go Up")—the ability to drive the sale of speculative instruments, whether directly or indirectly.

Money fuels entrepreneurs to pursue ideas and enables investors to realize gains on their foresight. In traditional ventures, this creates a positive-sum game where all parties win. In crypto, however, "money" can take many forms: tokens, revenue, revenue plus tokens, or simply the hope of securing another venture round.

While successive venture rounds have been quite common, this trend is likely to self-correct over time. VCs help sustain the long-term vision, while tokens enable bootstrapping and serve as incentives for customer acquisition.

Streams of capital—tokens, revenue, or both—are crucial in determining the trajectory and sustainability of crypto projects. The first stream is the token. Projects relying on token treasuries, price, and liquidity function similarly to companies engaging in secondary stock offerings in traditional public markets. These projects are deeply intertwined with their tokens, which often serve as their primary source of funding and community engagement. However, reliance on token dynamics makes them vulnerable to market volatility and public sentiment, significantly impacting their runway.

The second stream is revenue. Just like Web2 businesses, revenue-driven crypto projects earn income through conventional models such as service or product offerings, with the added benefits of blockchain and decentralized systems. This stream provides a more stable and predictable funding source, less reliant on speculative forces and more on delivering tangible value to customers.

The third stream combines token and revenue. This is the path of mature, "post-token" projects that have moved beyond their initial token-driven phase. These projects generate revenue while maintaining a token-based economy. This dual model balances the volatility of tokens with the stability of revenue generation, creating a more sustainable framework. However, few projects reach this stage of maturity, where revenue becomes profitable enough to support sustained growth and reinvestment.





Source: [Arthur \(X\)](#)

Just as in Web2, where the best time to raise funds is often before showing revenue, in crypto, the ideal time to raise is often before TGE. A scene from *Silicon Valley* perfectly captures this mindset: "Why show revenue? If you have revenue, people will want to know how much, and it will never be enough. But if you have no revenue, you can say you're pre-revenue, a pure potential play." In crypto, this flexibility allows projects to secure funding without the immediate pressure of delivering results.

However, this lack of immediate accountability often creates distortions in the capital markets. Crypto capital markets present distinct advantages but also unique risks, particularly around technical and counterparty exposure.

Recent surges in infrastructure investment have led to inflated valuations following the BTC-led rally earlier this year. This feedback loop often obscures a lack of product-market fit, resulting in VC-backed valuations that assume endless market potential. Unlike traditional startups, crypto projects go live immediately post-TGE, accelerating the transfer of risk from informed actors to public markets as exit liquidity.

**Paradigm's Leadership in The VC Space**

 **Danger**   
@safetyth1rd

reading the Unichain wp makes it clear @paradigm is still the top VC in crypto

Unichain is possible because of collaboration between Uniswap, Flashbots, Optimism - all paradigm portcos

their platform and coordination between portcos is something other VCs should learn from.

**Unichain**  
October 2024

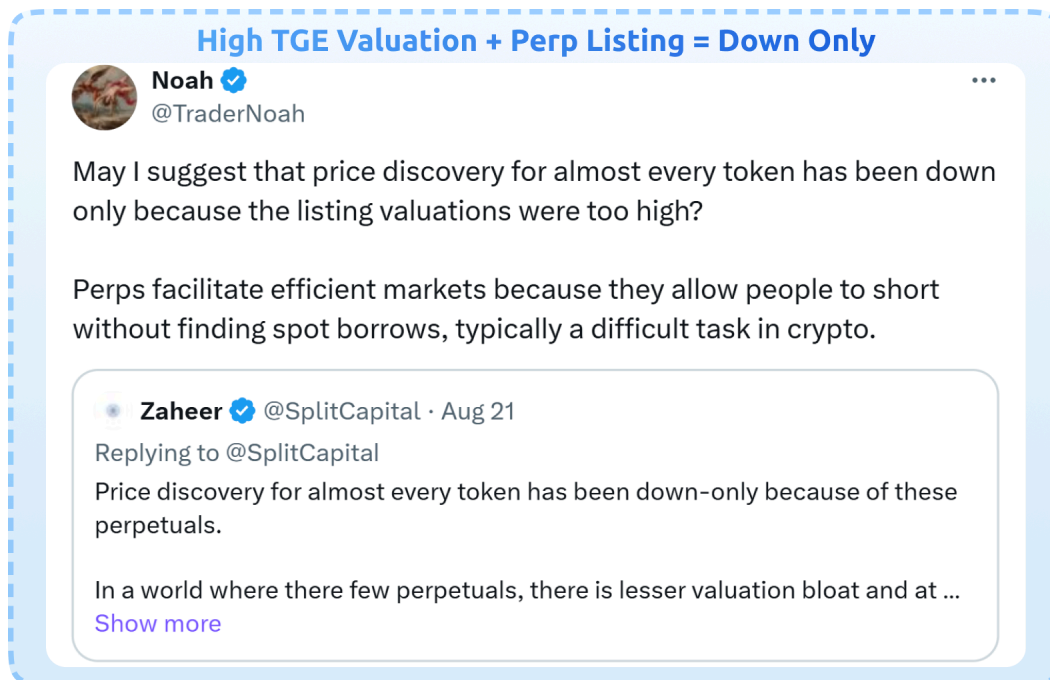
Hayden Adams hayden@uniswap.org	Mark Toda mark@uniswap.org	Alex Karys alex.karys@uniswap.org
Xin Wan xin@uniswap.org	Daniel Gretzke daniel.gretzke@uniswap.org	Eric Zhong eric.zhong@uniswap.org
Zach Wong zach.wong@uniswap.org	Daniel Marzec dan@flashbots.net	Robert Miller robert@flashbots.net
Hasu hasu@flashbots.net	Karl Floersch karl@oplabs.co	Dan Robinson dan@paradigm.xyz

Source: [safetyth1rd \(X\)](#)

This year's playbook has commonly involved raising capital by claiming to tackle hard challenges like scalability or interoperability, announcing partnerships, and eventually launching a token with a billion-dollar valuation. Many solutions focus on solving past

problems rather than addressing new challenges. For instance, Layer 1s don't scale, so rollups are introduced; rollups fragment liquidity, leading to bridges; bridges are insecure, prompting the development of infrastructure for intents, and so on.

A paradox in both crypto and traditional markets is that selling a promise is often easier than selling reality. In crypto, this is especially evident pre-TGE, where projects can attract investment and build hype without the immediate pressure of results. Post-TGE, however, projects face the challenge of managing more complex financial and governance structures while addressing the interests of diverse stakeholders, including validators, miners, DAOs, and foundations.



Source: [Noah \(X\)](#)

After launching a token, projects often gain short-term liquidity that is critical for financing long-term initiatives. However, this liquidity is a double-edged sword. The project essentially becomes a public company, with venture capitalists realizing gains or losses, and accountability shifting to institutional and retail investors. While these investors help spread awareness and support token prices, they can also create significant noise, demanding attention and potentially distracting the team from its core mission.

This mirrors what happens when companies go public, as the focus can shift from product development to stock price management. For crypto projects, the challenge lies in balancing public engagement with maintaining the discipline to stay focused on long-term objectives.

Crypto demands a long-term perspective, yet the democratization of funding often attracts short-term investors. As a result, a project's success is frequently measured by its ability to keep the "Number Go Up" algorithm active.

## That Vicious Playbook

***Courage is the only virtue you cannot fake.***

– Nassim Taelb

The decentralization mirage is a tale as old as time, with companies now dressed up as protocols—VC-fueled protocols are, in essence, centralized companies masquerading as decentralized networks.

Crypto is an industry where speculative capital blends with external cash infusions, and recipients often audaciously call themselves “self-sustaining”, as if merely claiming decentralization will magically generate sustainable revenue for “protocol operations”. The irony is that the lack of cash flow isn’t even hidden. Most are too busy crafting narratives, issuing tokens left and right, and neglecting the importance of building sustainable revenue streams.

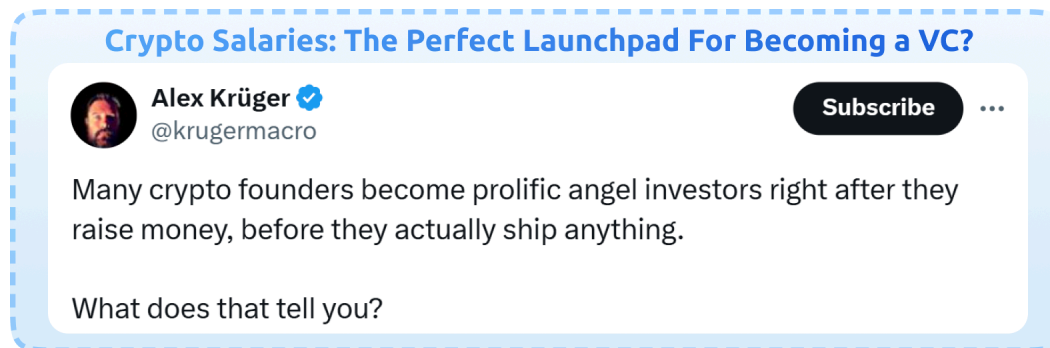
Insiders with token allocations know their returns hinge on the “pump”—on other people buying into the hype before the project becomes obsolete or collapses. Projects often go to market with something half-baked while charging little to nothing to users—some call it “an open-source public good or decentralized agnostic protocol”. At best, they redistribute fees to liquidity providers (LPs) to keep up appearances. They claim “fees” are going to LPs or token holders, essentially paying people to use their protocols. This creates an illusion of success and activity.

It’s not revenue generation; it’s subsidy. Where do the salaries for the developers come from? What sustains the funding? The answer is usually outside capital, not protocol-generated cash flow.

The main issue lies in the so-called “decentralization” these protocols claim. When founders and insiders hold a vast majority of the token supply, decentralization is merely an illusion. This distribution does not democratize ownership or power—it



centralizes it. VCs, in particular, play the game of accumulating large token supplies, knowing they can cash out once retail sentiment peaks. In these cases, token holders become nothing more than exit liquidity.



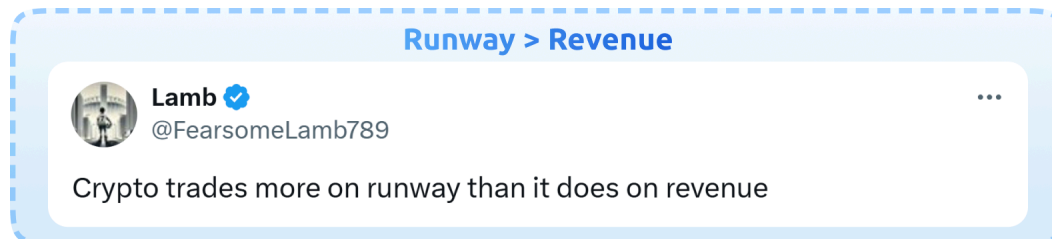
Source: [Alex Kruger \(X\)](#)

Despite this, the harsh reality is that many protocols would not survive without external funding. If they relied solely on their fees for revenue, most would fold on day one. These protocols are designed to bleed, unable to sustain themselves without VC money or future fundraising rounds. Their treasuries are anemic, and the protocols themselves are structured to burn through capital to maintain the illusion of decentralization.

So, what happens when the runway runs out? These protocols often shut down or enter a “zombie” state, where the protocol technically exists, but development and genuine support vanish. Insiders and developers move on to the next hot project, lured by another wave of VC money or the promise of another token launch. Meanwhile, naive participants who believed they were investing in a decentralized network are left holding worthless tokens tied to a dead protocol.

Put bluntly, without humans, the protocol dies. These are not autonomous systems, they are wholly reliant on teams and capital. One wouldn't expect a newly launched startup to generate revenue and pay dividends from day one. But let's call this what it is—these protocols are thinly veiled, over-leveraged startups dependent on speculative capital and the willingness of retail investors to buy into the story.

Real decentralization would mean protocols that are truly autonomous and minimally reliant on perpetual cash injections. Yet, the current model incentivizes VCs and insiders to overhype and cash out, leaving users with little more than the myth of “self-sustainability”.



Source: [Lamb \(X\)](#)

Still, most tokens trade below private valuation levels, leaving VCs and teams underwater. Startups, whether on-chain or off-chain, are fundamentally about buying time, and reducing intermediaries can be a significant time saver. The alternative to VC funding is bootstrapping—a fundamentally different philosophy that emphasizes sustainability and true independence. Bootstrapping a business means no lifelines, no shortcuts, and no cozy funding rounds from investors who don’t share your vision.

When you bootstrap, you don’t wait for a board meeting to greenlight your next move; you act because your survival depends on it. This creates a real sense of urgency and instills a “wartime mentality” that no amount of external money can buy. Every dollar you spend is your own or your team’s. You fight for each sale, knowing the alternative is failure. You learn to make hard calls, prioritize ruthlessly, and innovate out of necessity, not luxury. When your time, money, and effort are on the line, shortcuts and careless decisions aren’t an option.

In “peacetime”, the cozy, cushioned world of funding rounds and extended runways allows businesses to get away with bloated teams, slow pivots, and prolonged validation phases. But when it’s your money, your effort, and your late nights keeping the lights on, you operate with a different level of care and responsibility.

You can't afford to believe your own marketing hype or ignore glaring problems. That's what creates real value. You're not building a business to impress VCs or position yourself for a 5x exit. You're building because you believe in what you're doing and are willing to stake your own resources on it. There's no soft landing, no "acqui-hire", no parachute. You face the full downside—and with it, the full upside.

# Positioning: Through the Looking Glass

## Section 26

## Positioning: Through the Looking Glass

***As the price keeps going up and up, some people keep holding out for yet higher prices and refuse to sell.***

– Satoshi Nakamoto

In capital management and market participation, having a solid foundation and clear framework is essential. Without a structured understanding of portfolio management, even the best information or trade ideas can be ineffective. The primary goal of capital management is to align asset management with future liabilities, which are unique to each individual's objectives.

There is no universal solution—a tailored strategy is necessary to address specific goals and variables. It should prioritize both growing and preserving wealth, ensuring the portfolio remains resilient across diverse market conditions. Therefore, it is crucial to understand how different regimes and events impact assets in both nominal and real terms.

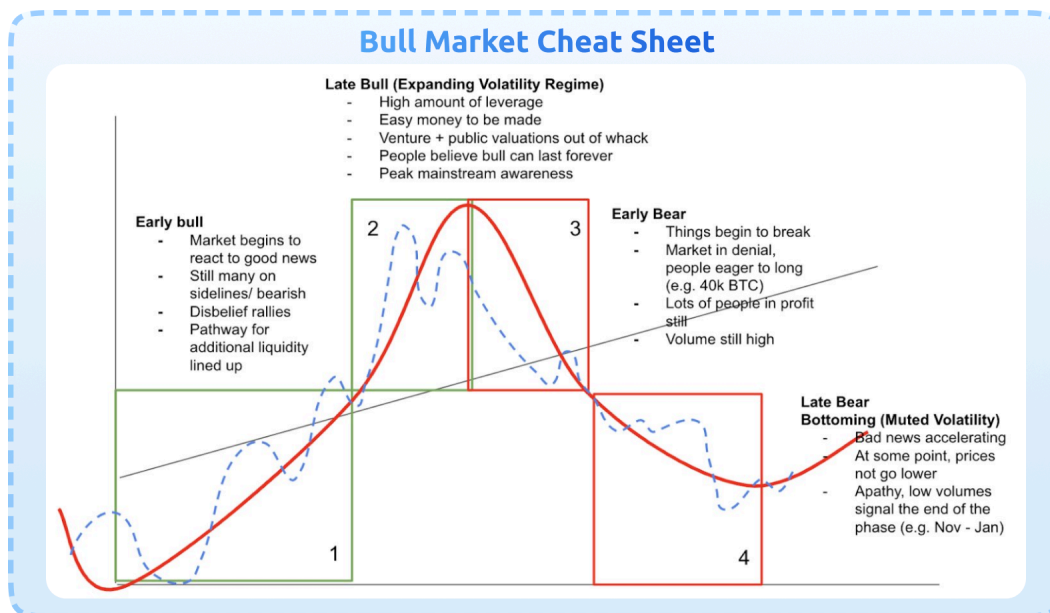
Once a robust foundation and resilient strategy are established, additional risks can be pursued to seek higher returns. However, many reverse this order, prioritizing returns over stability. To thrive, one must first survive—avoiding significant losses is paramount. Leverage, in particular, introduces added risks related to path dependence, capital efficiency, and hedging costs. This cannot be overstated—investments must always align with one's skill set, portfolio size, and specific objectives.

The key to successful investing is having a clear edge—without it, you shouldn't be at the table. As crypto matures, competition increases, making it increasingly difficult to maintain an edge.

Edges can take many forms. A mental edge involves mastering emotions to make rational decisions under pressure. A systemic edge focuses on minimizing mistakes through a structured process. An informational edge comes from gaining access to

information ahead of the broader market. Finally, a network edge leverages connections to secure insights or exclusive opportunities.

Conviction in your edge is essential but must be balanced with a realistic assessment of unpredictable events that could drastically alter outcomes, such as a DeFi exploit. The size of each bet should reflect your conviction and be constrained by market liquidity, as many high-edge strategies have limited capacity.



Source: [Jason Choi \(X\)](#)

Each trade should have clear targets—time-based, price-based, or event-based—that define when to exit. Equally important is having criteria for invalidation—knowing what would disprove your thesis and prompt an exit. Understanding the range of outcomes and variance is also crucial. Consider how often you expect to win and the potential gains or losses in each scenario. Your bet size should be proportional to your edge and inversely proportional to the variance of the trade.

Once clear on the best ideas—those with large edges, low variance, high conviction, clear targets and invalidations, and sufficient liquidity—you can allocate a portfolio more effectively. Ideally, this involves finding roughly five strong ideas that allow for 10-30% allocation each. If these ideas are uncorrelated or inversely correlated,

drawdowns will be less severe, which is essential considering the volatility of the crypto market.

Around these core positions, smaller bets can be placed, typically justifying 1-5% allocations. This allocation process is continuous, and as better opportunities arise, reallocation from existing positions becomes necessary.

To succeed, you must think like a business, which means you must quantify the market environment, manage your portfolio accordingly, and justify additional bets with solid research and strategy. Treating a portfolio like a research lab—constantly testing, learning, and evolving—positions you better for long-term success.

Over time, market edges erode as strategies become widely known and exploited by bigger players. Once-profitable tactics like breakouts, order book analysis, and news trading often turn into liabilities. Advanced players manipulate supply and demand with tactics like spoofing and false signals, gaming on-chain metrics, and index rebalancing. As more traders chase these strategies, costs increase, and manipulation intensifies.

One of the most practical mental models for decision-making in uncertain environments is inversion—solving problems by focusing on what to avoid. In complex situations, avoiding mistakes is often more effective than seeking brilliance. This principle, central to Charlie Munger’s philosophy, argues that many problems are best solved backward.

If you don’t know exactly what you want, you often know what to avoid, which can guide decisions toward better outcomes. Just as Michelangelo removed everything that wasn’t David to reveal the masterpiece, we should remove fragility and stupidity from our decisions and actions.

We learn more from avoiding errors than from seeking perfection. Success in investing and building in crypto is not about always making the right moves but about avoiding ruin and ensuring survival when things go wrong.

## Life Bends Towards What You Accept



**Thomas** ✓  
@TWaschenfelder



My life has improved dramatically since I cut out everything I didn't want to do.

It's possible to shape your life by inversion - figure out what you hate doing and don't accept it.

What's left is the stuff meant for you.

"Your life bends toward what you accept." - @JamesClear

Source: [Thomas \(X\)](#)

The alternative to relying on price targets? Focus on positioning. Make decisions based on asymmetric payoffs—where the downside is limited, but the upside has significant potential, regardless of an exact target. If you're confident in the fundamentals or positioned to benefit from volatility, you don't need to predict the "final price". Instead, focus on ensuring the odds are in your favor.

Price targets can be useful as reference points but are often dangerously misleading. Rather than fixating on a single "magic number", prioritize building resilience and positioning yourself to succeed across a range of possible outcomes.



# Predictions: Through the Crystal Ball

## Section 27

# Predictions: Through the Crystal Ball

***Forecasts may tell you a great deal about the forecaster; they tell you nothing about the future.***

– Warren Buffet

The art of prediction is as old as human curiosity—an endless dance with uncertainty as we attempt to glimpse what lies beyond the horizon. Each year brings new challenges, opportunities, and potential disruptions, making the future an intriguing puzzle to unravel.

It is essential to recognize the inherent limitations of forecasting. The musings below are inevitably influenced by biases, and black swans—those rare yet impactful events—lurk in the shadows, ready to challenge our assumptions and defy conventional wisdom. The goal is not precise accuracy but rather to explore plausible scenarios while acknowledging that uncertainty is the only true constant.

Some predictions may prove more accurate than others, but their purpose is to provoke thought and encourage resilience in the face of ambiguity. Humility is key—forecasting, no matter how sophisticated, is merely an approximation of reality.

Price targets, often dressed in precision, are largely useless. More often than not, they serve to build false confidence or manipulate sentiment, rather than provide meaningful insights. Seeking comfort in rigid forecasts leads to stagnation, while the world rewards those who remain adaptable and ready to pivot when the unexpected occurs.

Let the following serve not as prophecy, but as a thought-provoking guide—a tool to navigate ambiguity with an open mind and a readiness for change.

## Euphoria Meets Volatility

We believe that crypto remains as sentiment-driven and volatile as ever. Real-world adoption may be at its peak, yet the industry is still seen by retail as a circus of emotion and speculation—dominated by dopamine rushes rather than tangible use cases.

Predictions and price targets for next year often ride this euphoric wave, driven more by fantasy than sound analysis. That's fine—there's little solid analysis to be made. Just don't be fooled by the bulls touting lofty targets or the bears wallowing in doomsday scenarios during downturns. Right now, the atmosphere is undeniably euphoric, with sky-high projections dominating conversations.

Despite the buzz, we expect market structures to remain intact: \$ETH won't dethrone \$BTC, and \$SOL won't unseat \$ETH. AI will carve out its own place in the crypto rankings, and we believe \$TAO has a strong shot at breaking into the top 10, fueled by Silicon Valley's ability to turn narratives, memes, and ideology into marketing firepower. For new narratives to take off, the storyline must be captivating enough to hog the limelight, leaving less room for bloated, VC-heavy projects that lack cultural resonance, but also for pure memes.

Slow rotations and big speculation define the current market. Wealth is gradually shifting from physical gold to digital alternatives, but this evolution is slow and steady, not a sprint. For \$BTC, \$150k is within reach, but breaking past \$250k won't come easily. An all-time high near \$135k by Q1 could fizzle into a summer slump below \$60k, followed by a year-end recovery to \$120k. Brace yourself for chaos in H2 2025; nothing in crypto travels a straight line. For now, it's still a geek's playground—not the new Wall Street.

Decentralized financial market forces are evolving but remain a niche indulgence for tech-savvy enthusiasts. Forget about mainstream adoption anytime soon—the hurdles go beyond regulation to include fundamental issues like utility, liquidity, security, and

capital efficiency. It's often a game of "pennies before steamrollers", where outsized risks overshadow the allure of double-digit yields.

The future of RWA tokenization will likely belong to permissioned systems, with banks and financial institutions calling the shots. On a brighter note, stablecoins are quietly taking over emerging markets, becoming essential for trade and remittances. As local currencies falter, these digital assets are poised to outshine them, anchoring the next phase of global finance.

As for DeFi, its foundational values may dilute over time, deviating from the original cypherpunk ethos and grassroots development by anonymous teams. Similarly, the days of the 60/40 portfolio and Modern Monetary Theory—relics of a simpler, more predictable financial era—are unlikely to return.

## Same but Different, Consolidation, and Next Chapters

Consolidation, not fragmentation, defines Ethereum's path forward, with Base emerging as the main proxy. Layer 2s are likely to remain tethered to Ethereum, with some merging outright through acquisitions driven by superior technology or strategic necessity. In terms of tech stacks, the "Superchain" appears poised to dominate, squeezing out weaker competitors.

Leadership dynamics are also shifting. Figures like Cobie, GCR, or DegenSpartan have already taken a step back, and Vitalik himself may eventually burn out in "War Mode", leaving Ethereum's technical and coordination challenges to Layer 2 teams. This creates opportunities for benevolent dictators who remain in "Founder Mode", such as Anatoli with Solana.

Ecosystem survival requires synergy, not scattered competition. This trend is evident across the board, extending beyond Ethereum Layer 2s. For example, we can see the Cosmos ecosystem consolidating under a single umbrella. The Cosmos Hub might merge with chains like Osmosis or Stride to maintain relevance, particularly as competing hubs like Thorchain and Rujira gain traction.

## Bitcoin Layer 2s - Big Promises, Small Results?

Bitcoin Layer 2s have been hyped as the innovation frontier, but the reality is less promising. It's not far-fetched to see a future where their adoption remains lukewarm, with investments falling below private valuations—wrapped Bitcoin suffices for most users.

The pessimistic view suggests that demand simply isn't there: purists remain skeptical of Bitcoin Layer 2s, and most \$BTC holders already have safer ways to chase yield. Rather than a revolution, expect incremental utility and the continued success of wrapped Bitcoin in other ecosystems.

## Regulation, Security, and the Perils of Fragility

As regulatory pressures increase, the U.S. is likely to clamp down on on-chain tokenization of RWAs that lack KYC/AML compliance. Access to permissionless yield from treasuries may vanish, forcing some builders to confront harsh realities. The alternative—taking on the smart contract risks of DeFi—isn't a line everyone is willing to cross.

Security remains a persistent Achilles' heel. Beyond smart contract vulnerabilities, a major Layer 2 could eventually suffer a catastrophic zero-day exploit, wiping out millions in TVL and exposing the fragility of rollups. Similarly, a significant infrastructure provider could face a Wormhole-level hack, leaving lasting damage across the industry. It's also plausible that at least one DeFi "blue chip" from the 2020-21 era could fold, succumbing to insufficient runway and dwindling relevance.

## AI, Token Bloats, and Startups, not Protocols

Some time in the future AI will act as crypto's savior in its darkest hours, injecting fresh optimism into a market weighed down by a persistent downtrend. However, "Web3 startups" (or should we say "Web 4?") leveraging AI are unlikely to outpace their

Web2 counterparts. Savvy founders may find arbitrage opportunities, using crypto's inflated valuations to acquire more mature, revenue-generating Web2 companies. Welcome to crypto.

When it comes to new projects, the token glut shows no signs of slowing down. Brace yourself for another wave of questionable tokens launched by everyone from analytics firms to celebrities.

As for the current overhyped, tokenless projects, expect even longer delays, with many unlikely to launch before Q3 or Q4 2025. Over time, these once-hyped projects, supported by communities of die-hard believers, may find themselves relegated outside the top 50 tokens by market cap. Whether the initial hype was justified or their financial runway mismanaged remains to be seen.

## **SocialFi, Betting; Just Gambling on Anything**

Our view is that SocialFi could mimic the explosive growth of AI memecoins—if it focuses on creating something entirely new rather than competing with giants like X or YouTube. For example, imagine a social network designed specifically for AI agents. We are also optimistic about the potential of prediction markets, fantasy sports, and influencer betting to gain traction, blurring the lines between gaming, speculation, and entertainment.

## **The Venture Shake Up**

The surge of useless tokens and overblown narratives in crypto serves as a cautionary tale. Success in this space requires clear value propositions and sustainable economic models—not flashy marketing gimmicks. As venture capital retreats, hybrid funds are stepping in with a more pragmatic method of funding. By combining venture investments with liquid strategies, these funds prioritize adaptability over blind risk-taking.

We believe that venture capital's grip on crypto is weakening. DeFi hacks and mismanagement have forced some firms to shut down, creating opportunities for hybrid funds to step in. We anticipate that the M&A landscape will heat up, with unexpected alliances and consolidations redefining the space.

Even Layer 1s may unite, leveraging their unique strengths to ensure survival. The community-driven ethos could take a back seat to strategic pragmatism, while cult coins and memecoins fade into nostalgia.

## **A Mix of Chaos and Clarity**

Don't forget that crypto's evolution is far from linear—it's highly convex, marked by cycles of overhyped innovation, painful corrections, and occasional breakthroughs. Amid the noise, focus on the underlying trends: consolidation, the rise of stablecoins, and the steady advance of AI. But as always, beware of false promises—many narratives are designed to sell dreams, not deliver results.

The killer app of 2025 might already exist, hiding in plain sight. History shows that transformative innovations often emerge from overlooked corners, reshaping entire industries when least expected. The future of crypto lies in resilience, creativity, and adaptability—qualities that will separate trailblazers from pretenders.

The story isn't over; the most captivating twists are yet to come.

# Conclusion: Forged in Fire

## Section 28



## Conclusion: Forged in Fire

As we close this report, it's clear that the crypto industry stands at a crossroads. The initial rush of speculative capital, novelty-driven narratives, and rapid technological experimentation have given way to a more cautious and discerning environment. After a prolonged bear market, this year has been a test of endurance, resilience, and adaptability.

The survival of both protocols and participants will depend on recognizing and embracing market realities, while remaining agile enough to pivot when necessary—there is no “easy mode” anymore.

The industry's challenges, from regulatory shifts to overhyped narratives, will inevitably filter out weaker projects, leaving only the strongest or most adaptive to thrive. The focus must now shift from capitalizing on fleeting market cycles to building sustainable, real-world applications that deliver long-term value.

The path forward is all about balancing innovation with realistic revenue models, moving beyond hype to tangible results. As institutions deepen their presence and the user base matures, the future of this space rests on a disciplined strategy to growth, grounded in diligence and conviction rather than convenience.

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The next chapter of crypto is being written now—and those who approach it with clarity, purpose, and resilience will define its legacy.



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