

Jake Ryan (Book Review)

[00:00:04] This is the Investor Connect podcast program. I'm Hall Martin and the host of the show in which we interview Angel Investors, venture capital, family offices, private equity, many other investors for early stage and growth companies. I hope you enjoy this episode.

[00:00:24] Hello, this is Hall Martin with Investor Connect. Today, I'm here with Jake Ryan, author of Crypto Asset Investing in the Age of Autonomy.

[00:00:31] Jake, thank you for joining us again. Oh, thanks for having me here. Right. Can you give us a recap about your background?

[00:00:38] Yeah, let's see. Know I came from a technical background. I got a degree in computer science and spent the first 20 years of my career doing custom software development. I started a consulting firm out in the West Coast in Santa Monica. I had a concentration in school in artificial intelligence and had published a paper that got seven hundred Google scholar citations. And then, yeah, really mostly spent in software development in about two thousand fourteen. I started to do early stage stage investing in equity, venture capital and in equity. In 2015. I started to invest in my first few companies and that again still equity seed stage and I think about twenty sixteen I started to buy bitcoin. I think my first bitcoin, first bitcoin were like one hundred fifty five dollars. And so in twenty seventeen I wanted to make a career switch. I had a lot of passion in investing, I had a lot of experience in venture style investing and I had a big background in building systems. And so I started a crypto fund in twenty eighteen and then recently I've just had a book out this December called Crypto Asset Investing in the Age of Autonomy.

[00:01:57] Great. Well, I've been reading the book and enjoying it greatly.

[00:02:00] It did a good job in describing the history of monetary theory and the challenge with fiat currencies and then looking at the what drives the short term and long term economic cycles. But I'm now to the crypto asset investing part of it. Can you describe for the listeners what is your investment thesis for the book?

[00:02:20] Yeah, I think the first part you alluded to, which is that the short wave economic cycles are typically driven by those five or 10 year credit cycles.

[00:02:31] But the longer economic cycles are driven by technological revolution. We've had five in the past two hundred years. Carlota Perez has a great book called Technological Revolutions and Financial

Capital about that history. And as she was doing work that was built on top of Joseph Schumpeter and Kondrat to back in the 20s and 30s, what's interesting now is that I think a new long wave cycle has begun. We've seen evidence in the past decade that automation has begun. We see it everywhere with A.I. and IoT and robotics. But it's not transformational that it doesn't just alter how business is going to get conducted. The last piece of that puzzle is cryptocurrency. And it's because we can store process and transfer economic value without human intervention.

[00:03:28] And so as these four technologies converge, companies are going to be able to build autonomous operations and businesses that do not have autonomous operations simply won't be able to compete with those that do because autonomy is the ultimate competitive advantage. And so our interest in our investment thesis is that most value is going to accrue in this new public financial infrastructure that is going to drive the decentralized and the new digital decentralized economy. And so that's where block chain and crypto assets.

[00:04:07] So you talked about the 10 year cycles in which is short term and then the longer term cycle is driven by the technology.

[00:04:15] Where are we in those cycles right now? Yeah. So over the past two hundred years, I think we started with the industrial age, you know, in the seventeen hundreds and eighteen hundreds. And then we had. Electrification, I think, went on, and the entire electrification of buildings and grids, and then we went to railroads, I think kind of in the early nineteen hundreds and these are, again, 50 year cycles of 50, 60 year cycles.

[00:04:46] The last one was the age of the Internet and where we saw just analog communications and paper communication being digital or electronic. In my opinion, we're in the maturing phase of that cycle and some of that evidence is looking at just naming the FANG stocks compared to the S&P. You could just see they are in their golden age. They are investing and really getting a lot of money for investment dollars and they're just absolutely outperforming. And so I think we're in the end age of the age of information and we've begun that new age, what I call the age of autonomy.

[00:05:24] And so what inspired you to write the book in the first place?

[00:05:27] Well, I was really I really loved Carl Peress book and I loved her framework. And then I've been following the Austrian School of Economics where there has to be a cost to printing money. And ultimately, if there is if the cost of production of money, if there's no real cost of production, if you just. Push a button and have a trillion more dollars, that is going to get manipulated at some point. And we've

seen that time and time again in history. And so at the intersection of these economists, I really saw something with crypto assets coming into the poret. And so I wrote an article on Hacker News and I think in twenty eighteen called Crypto Cryptos Role in the Age of Autonomy. I think it was. And I thought it had legs, I thought it could make it look, and so I had, I think, two other times trying to get a the line failed. And so this is about my third or fourth year and trying to get a deal different topics. But I finally got a deal. I had two offers, one with Wiley, one with another. I took the WELI deal. Yeah, I was really excited.

[00:06:42] You think the timing of it made a big difference, the market coming to a place where Bocchini is coming out with real applications and the monetary system starting to show even more strange that it has before?

[00:06:55] Or was it just your right to work in late? Eighteen mostly. Mostly started right in late 19. And I mean, who would have known how much has changed from from November of twenty nineteen to now? I mean, with the pandemic, with everything, with how the Fed has responded. I mean it just it couldn't have been written out better. So your skill. I don't know. I'd rather be lucky than good any day. So I think I got lucky.

[00:07:24] So who's your primary audience you're targeting?

[00:07:27] I want to look at somebody who's technical or an investor, somebody who's been curious about crypto assets that don't really know why. I want to give them the why there's so much value here. But I mean, I think we've done a good job of explaining the idea of a store of value and why Bitcoin has value. I think we've done a somewhat mediocre job explaining what smart contracts are and what the what the value of those are. But we've only come at it from the context of financial capital. We're talking about trying to mimic traditional finance in a decentralized world with collateralized loans, exchanges, insurance and things like that. And I think there's a bigger and more compelling story to tell, which is the idea of production capital.

[00:08:18] If you think of the agrarian age and production capital being farms and livestock and the industrial age being factories and raw materials and the age of the Internet being domain names and intellectual property, we have a new set of production capital that really is going to be used by every single business and really transform how the world is conducted all around. So I think there's just a massive transformation that still people aren't quite getting their heads around. And I hope to tell that that story is but less great.

[00:08:53] So how do you think readers will benefit from reading the book?

[00:08:56] I think in part one of the book gives a good basis of economic theory. Part two of the book gives a good understanding of the Bitcoin block chain, why those are valuable and the entire age of autonomy thesis. And ultimately, I think people want to know how they can apply that. So part three of the book is How to Invest in Crypto Assets. I want to give readers an idea of a few frameworks on how to think about where value might be accruing. Ninety eight percent of crypto assets are worthless. And so how do you find the ones that are going to accrue value over time? And I think this book is a few frameworks to figure out where the value really lies.

[00:09:41] And what was the most important takeaway you found from writing?

[00:09:44] It was the first time I've been able to put a whole thought together in eighty eight thousand words and really tell the whole story. So it feels good to get that thought expressed. I hope that makes a difference in people getting into investing crypto.

[00:09:59] That's great. I deal with a lot of startups and look at business models every day. And of course the recurring revenue model is one of the best ones that are out there, especially if something built in is sticky and doesn't is not easily changed.

[00:10:13] And I've always been wondering what is the next stage after just a recurring revenue SaaS business.

[00:10:18] And when I read it, I thought, well, that's the answer in an autonomous system, is that only you putting some software in place. You're putting a whole network in place that is continually running by itself. And that is the ultimate stickiness. You're never going to take something down that's running well in order to replace you with something that's just two percent better, you're going to only replace it if it is greatly different. And so I thought this is going to be revolutionized startup business models, because this is the new gold standard for investing in a business as if they can actually build something with autonomy built around it.

[00:10:54] I agree. I mean, we're going to have some part of that new production capital. We're going to have a new formation of how people grouped together with an investment goal or production goal in mind and to be able to govern a block chain as they want to to achieve their goals. That could be akin to a corporation, right. It's the same, the different if it's decentralized and run entirely in the crypto networks sphere. What's interesting about building something like autonomous protocols, again, one of

the advantages you get in crypto networks are their permission. You don't set up an account and then ask for permission and then you may have to get KYC or do some of that to get your money in. But ultimately, you don't need permission to get smart contracts. And so you're able to build autonomous protocols that.

[00:11:46] Run forever.

[00:11:48] And the interesting part is this idea of governance tokens, where ultimately the people that hold the governance tokens are the ones that can govern the block chain. If they want to take 10 percent or 20 percent of the cash flows and distribute that into the token holders, they can vote on that and do that. And so this is going to be a new form of something that is equity like, but something totally different and a way to govern and control if we get exposure to Castro. And so building these are going to be incredibly valuable. I suspect, in the next 10 years somebody will build an autonomous protocol that will be valued much higher than any factory that's ever been ever been used.

[00:12:35] And so how does this book change the way you think about early stage technology investing?

[00:12:40] Where you putting your investments in the future?

[00:12:43] Yeah, I like the liquidity of the coins intelligence over early stage venture. I think venture is is good and it serves its purpose. But with with crypto investing, the projects are coming online earlier. So you aren't getting as much value. You're not going to get a thousand x return from a small investment in seed stage necessarily because these are coming online faster. You can buy those into those networks earlier and still get a lot of the upside. So the risk reward profile is a little bit different. You have to factor in when you can get liquidity. So I think that's important. One of the thing is just the idea of store of value, which I think everybody is pretty familiar with. We've heard about hedges against inflation and and Bitcoin and how that can be a store of value over time. If you're talking about long term investors, a store of value is a logarithmic function. Right. So as you get more and more of the total store wealth, you can only have all of the stored wealth. And so it has an account to it, which is the amount of store wealth. And thinking in it long term, what's interesting is any time you are building companies or building cash flows, that is more of an exponential curve, right? There is no cap that you can continue to build things and generate more and more cash flows as an exponential function. So in thinking about decades, you're going to have want to have exposure to store of value, but you're going to also want to be investing in things that are generating cash flows. And so that'll be important if you're a long term investor, to not just stay with crypto assets that are focused on store value.

[00:14:34] So is accruing value actually put it on the same scale as Moore's Law?

[00:14:38] It can be Metcalfe's law, right? These are networked goods and have network effects. And so Metcalfe's law really does apply here.

[00:14:46] Ok, right.

[00:14:48] And so the investment thesis is that you describe here that steps in your fund, is that right? Yes.

[00:14:55] Yes, I run Traidcraft. It's a macro thesis driven fund with multi-strategy long biased but really fundamental and systematic. So we lay out in the book what our investment thesis is and it really is around these these autonomous protocols.

[00:15:13] So what do you plan to write next?

[00:15:15] I need a break. Yeah, it was fun to write, but writing under a deadline, that's hard. I mean, I think next time if I were to do it, I would. I would write the book first and then bring it to the publisher so that I have an idea of an advanced version of this book.

[00:15:33] Oh, looking forward to it. The last few minutes that we have here, what else should we cover that we haven't?

[00:15:38] Yeah, I mean, I think we've done a good job. I hope people see the opportunity and at least this is peak interest. And if so, the best thing an investor can do is just really educate themselves. That's really what I'm up to, is helping people educate themselves into this new market, investing in innovation is really where asymmetric returns, so it takes that conviction and innovation before you can really invest in it. And so if we can get more and more educated on it, I believe more people will be investing in innovation like this.

[00:16:13] Right. How best for listeners to get back in touch with you.

[00:16:16] But see, through my site aims of autonomy, dot com or I'm always on Twitter at Traidcraft, Jake.

[00:16:23] Right. We'll put those in the show notes. Want to thank you for joining us today and hope to have you back for a follow up soon.

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