

## IP Blockchain Show 2

### What is the primary trend and what makes for a successful company in this segment?

This is Investor Perspectives. I'm the host of Investor Connect, Hall T Martin, where we connect startups and investors for funding.

In our new Investor Perspectives series entitled "How to Understand Blockchain", you'll hear about primary trends and what makes for a successful company in this segment.

As the COVID pandemic passes, we emerge into a new world. The blockchain space has made tremendous progress in setting up substantial networks and meaningful applications. Blockchain continues to drive change in the tech space in particular fintech. We have investors and startup founders describe the changes coming up.

Our guests are:

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I hope you enjoy this episode.

*Our first guest is David Johnston, Managing Director at Yeoman's Capital. Yeoman's Capital is David's personal family office investment arm which acts as an early seed-stage investor. Yeoman's investment thesis is to only invest in Dapps where the Yeoman's team of experts can have a significant positive impact on the project. In the same vein, Yeoman's only advises projects in which it deploys its own capital. David, thank you for joining us.*

[00:13:27] **Hall Martin:** So what do you see is the primary trend in the segment today?

[00:13:31] **David Johnston:** Well, at the beginning of 2020, I was really talking a lot about DeFi, decentralized finance. And we saw that cross about a billion dollars in assets locked in DeFi contracts at the beginning of 2020. And I think that's now past \$20 or \$30 billion in contracts. And so, there's been an explosive growth in people mostly on Ethereum locking up their value in order to receive an interest, in order to use decentralized exchanges, in order to stake in protocols. In a world where everybody's searching for yield, and banks really aren't offering that anymore, 6, 7, 8% annual yields sound pretty good. And so, with the growth of Stablecoins in the last few years, people don't necessarily have to take currency risk, they can hold the stablecoin of their choice, say USDC, which is issued by Coinbase and Circle, and have a US backed instrument in which to do these decentralized, smart contracts. And so they can take that interest, or if they're bullish on Ethereum or Bitcoin, they can get interest in those tokens as well. That's probably the biggest trend. The other one that's really coming up is non-fungible tokens have sort of exploded. You've probably seen the headlines about this artist or that artist is offering some NFT and showing it to the public. And so, that's going to be a whole another area, but I think they're all sort of moving in parallel.

[00:14:57] **Hall Martin:** So what makes for a successful company in the blockchain area?

[00:15:01] **David Johnston:** Well, we don't primarily invest in companies, but rather in decentralized applications, and we're defining those as open source projects that have their own token, that use a blockchain and incentivize people to do some behavior. So in the case of something like Uniswap, the popular decentralized exchange, they incentivize people to provide liquidity to the exchange pools. And that was sort of a big breakthrough a few years ago, and now they're \$10-\$20 billion project. And so, we look for those type of projects that we think can impact a billion people over the coming decade, and that's sort of our main criteria.

*Our next guest is Dave Hendricks, CEO and Founder at Vertalo. Vertalo is a cap table, compliance, and investor onboarding platform utilizing blockchain to connect and enable the digital asset economy. A chain-agnostic pioneer in "direct custody" and secondary liquidity, Vertalo supports the ongoing asset management needs of private companies and broker-dealers. Dave, thank you for joining us.*

[00:06:05] **Hall Martin:** So what do you see as the primary trend in the segment today, blockchain and crypto has come a long ways in even the last few years, but what are we seeing now?

[00:06:17] **Dave Hendricks:** Well, first, I think you see not quite mainstream adoption, but you see, kind of, a little past early adopter kind of activity in Bitcoin and cryptocurrencies. But what you are seeing within the adopters is an expansion past the use of the technology to the use of the technology as money to provide an alternative financial system. And the most interesting part of that alternative financial system is something known as DeFi or decentralized finance. And this is basically the business, it's called yield farming, where you take your digital assets, your Ethereum or Tezos and you loan them out, you stake them, and you get paid an income stream back known as APY. That was in early 2020, it was about a \$71 million kind of business, it is now somewhere in the \$40 billion business. So the DeFi market increased dramatically, much better than the increase in value of Bitcoin, the increase in the amount of money that is under management and DeFi protocols using cryptocurrencies has grown dramatically.

[00:07:56] **Hall Martin:** Great. So what makes for a successful company in this DeFi segment?

[00:08:02] **Dave Hendricks:** Well, first of all, they probably have a very strong meme game. So if you want to be – so a meme is maybe a picture or a symbol that tells everybody that you are cutting edge iconoclast, and it's a form of branding. So once you get into cryptocurrencies, your appreciation for memes is not far behind, and so you might see Pepe the Frog or you might see the Doge, the Shiba Inu dog. You might see pictures of Elon Musk riding a Shiba Inu. So if you want to get into this, not only do you have to have a sense of humor and also a high risk tolerance, but you also probably need to know a little bit about smart contracts and cryptocurrency wallets, because you have to do very interesting things with technology and this money, if you want to become the ultimate job to have in 2021. And you want to know what that job is?

[00:09:22] **Hall Martin:** What is it?

[00:09:22] **Dave Hendricks:** A yield farmer. So this is something that your kids when you're sitting there helping them with their algebra or their geometry or probably their differential equations, this is what they really would want to apply it to is to actually becoming a yield farmer. And that way, if you teach your kids that they should study comic books and learn about memes and then learn how to be a yield farmer, then when you're old, they can buy your house and make a great old age for you. So that's what you want to do with your kids, more comic

books, more video games, more collectibles, study calculus and math, and then learn how to be a yield farmer. This is it. I'm telling you. This right here, in two years, you're going to wonder why you didn't take my advice here Hall.

[00:10:22] **Hall Martin:** So would be a past analog to yield farmer, if you had to put another name on it from the past, what name would you put on that?

[00:10:33] **Dave Hendricks:** Well, there's two things, either gold miner in 1849, or a guy who sells tools to gold miners, one of those two. You can play both. You can either create a protocol or create one of these DeFi offerings. Or what you can do is you can say, I'm going to go mine the interest that working these DeFi protocols pays me. And so, there's a lot of choices. If we're talking about investors today, a lot of investors are investing in DeFi projects, because they get some of the initial coin that's created by these DeFi projects. They don't care about the equity in the company. They want this other thing which is kind of like a – it's like a bonus coupon that these investors get from these projects. These projects basically can't be sold for equity value. They don't have enterprise value. What they do is they have technology that enables people to leverage them to make money. And so, investors today invest in DeFi projects to get some of the coin that they invent that people work to get from mining. So your viewers, some of them are going to have heard about this, and they're going to say, okay, wow, this is really cool, others won't have heard of this. So if you're listening to this, and you are still confused, and you probably are, you should go look at something called Yearn Finance, you should go look at something called SushiSwap, or you should go look at something called Maker. Those are some of the protocols and projects in decentralized finance. This area right here, what I'm telling you is similar to telling you about Bitcoin in 2015 or '16. It's small now, but it's a very, very big thing coming up.

*Our next guest is Christian Kameir, Managing Partner at Sustany Capital. Sustany Capital is a blockchain venture fund headquartered in Newport Beach, California. Aside from investing in blockchain-related projects, the firm lends its expertise to existing companies interested in 'security token offerings'. Christian, thank you for joining us again.*

[00:07:57] **Hall Martin:** So what is the primary trend in the blockchain segment today, what's really driving it forward?

[00:08:03] **Christian Kameir:** Yeah, I think one word that probably describes this the best is acceptance. So there was a lot of pushbacks in the early days from government agencies and traditional financial players and so forth against these technologies, and they are specifically the implementation of obviously cryptocurrencies. And now what we see, and we talked about this on a separate podcast, we see the vast majority of countries working on their own central bank digital currency, so digital bearer instruments. So the larger trend is really that these governments and corporations and enterprise and everybody within the ecosystem has accepted this as a foregone conclusion that finance and then larger than that technologies will run, will be facilitated on decentralized solutions.

[00:08:58] **Hall Martin:** So what makes for a successful company in the blockchain segment today, who's going to be a winner?

[00:09:04] **Christian Kameir:** Well, so given the fact that this space is largely driven by open source development, so if you think of Ethereum, this is entirely community driven development. Community is what we look for. So if you look towards large fundraisers that didn't actually produce any useful solutions, it's typically because there was no community supporting it. Right? So on the Ethereum blockchain, specifically, you got all these developments, and it's not necessary at this particular point in time of a very useful implementation, it's really slow, it's really cumbersome and so forth. But you get enormous amount of projects running on that because of the community supporting, and a lot of vested interest, not only in terms of putting money behind it and making money from it, but also just intellectual interest, intellectual interest in seeing this paradigm succeed. And then the two things you want to add to that is specifically both in our space of, quote-unquote, blockchain as the interest alignment, and we'll talk about that probably a little bit more, because that really what sets it apart from companies before that. So we think about this more in the way of you got projects that can either be run by a company or by a network of interesting parties. So you want to align the interest of people that participate in the network. So we already see the nascent developments of things such as decentralized Uber, decentralized Airbnb. So \_\_\_\_\_ the interests of all the stakeholders that participate in network are aligned, and there's no external entity that is just extracting value.

And then lastly and probably most importantly, for long term viability of the solution, is the long term thinking and looking towards what makes up this new development stack, what makes up Web 3, what are the missing pieces that we actually haven't developed that people are working on, i.e., how to get real world assets into the ecosystem; because for the most part today, a lot of the trading, a lot of the activity is limited to what I call digitally native assets; it's the cryptocurrencies, it's Bitcoin, it's other assets that were born online that don't, at the moment, have a digital world or a real world paradigm attached to that.

*Our next guest is Jake Ryan, CIO at Tradecraft Capital. Tradecraft Capital manages a macro/thesis-driven crypto fund with the objective of delivering asymmetric returns by investing in the emerging asset class of crypto assets. The firm's investment thesis focuses on the next long-wave economic cycle, which the firm calls the "Age of Autonomy". Jake, thank you for joining us again.*

[00:06:09] **Hall Martin:** So what's the primary trend in this segment today?

[00:06:13] **Jake Ryan:** what's going on with fiat currencies and central banks around the world, sound money principles are bringing in more and more investors who are worried about the purchasing power of US dollar. So around the world, you're seeing less and less countries like

China and Japan investing in treasuries, they're really diversifying; and we're seeing a sea change a bit in how people look at bonds and treasuries. We were in the 40-year bull cycle with bonds since probably 1980 or so, and now we're seeing a shift in that. So people are responding with different investment plans to maintain their purchasing power.

[00:07:26] **Hall Martin:** Great. So what makes for a successful company in the segment today?

[00:07:31] **Jake Ryan:** Well, I think if you're looking to build a blockchain project you have to have several key components, you've got to have a great team, like any other early stage or venture style investment, people are looking at the same things, you know, do you have a moat? Is there something technologically important that you're bringing to market? The thing that's different about crypto a bit is network effects and the importance of building a big ecosystem and for everybody to be properly incentivized to act in everyone's best interest. And so, people and crypto projects that really build good incentive systems, within their crypto projects really have a chance to do very well. We've seen that with things like Uniswap or Compound or some of these DeFi projects where they incentivize investors or people to provide liquidity or to vote or to do various things. And those projects that really have good monetary policy and good incentive systems are doing really well within the crypto space.

*Our final guest is Rashad Kurbanov, CEO and Co-founder of iownit.us. iownit.us is a digital asset securities platform that powers tomorrow's private markets by providing the end-to-end digital infrastructure to issue, manage, buy, and sell digital asset securities. Rashad, thank you for joining us.*

[00:06:37] **Hall Martin:** So what's the primary trend you see going on in blockchain today?

[00:06:42] **Rashad Kurbanov:** If we look back at the technology, and what was going on in the media, there was an expectation that blockchain is going to solve everything, every problem in the world. I think now it's much more realistic, much more in-depth understanding of where it works, and where it actually doesn't, what it can and cannot do. So now we're getting probably to a much more exciting phase in development of the technology, where we're going to start seeing concrete real world applications, whether, again, in the payments industry with central bank currencies, whether it's in transportation, logistics, and other areas that can benefit from distributed ledger technology.

[00:07:55] **Hall Martin:** Great. So what makes for a successful company in the segment today?

[00:08:01] **Rashad Kurbanov:** I think the answer is basically the same whether you're in the blockchain space or not, right? The successful company is the one that is solving a real world problem, and solving in a way that is more efficient than any available other technology. I think we should always keep in mind that incumbent technology and incumbent process has an inherent advantage, because nobody needs to switch. So a successful company is either the one

that has the offers and advantage that is not available anywhere else, or, is able to create a new market, and that's what everybody kind of needs to look at. Just simply saying that we're using blockchain doesn't really make it a success, right? The valuation is pretty much the same as for any other technology, any other business, any other investment.