IP Blockchain 2021- Show 4
Changes Expected in the Blockchain Sector in the Coming 12 Months

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 changes expected in the coming 12 months and our guests' final thoughts.

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.

[00:18:31] **Hall Martin:** so what else do we know about the blockchain segment that we haven't covered so far?

[00:18:36] **David Johnston:** So I think people tend to underestimate how many areas blockchain will disrupt. So money, obviously, was the first use case, and then smart contracts, and now finance more broadly. But anything where there's an intermediary today, that takes a disproportionately large amount of the revenue versus its content creators, let's take a YouTube, for example, sort of ripe for disruption. If you can build the network effect and provide a lot of the same utility as a YouTube, but remove the _____ percent drag of profits that YouTube takes from all the creators, all of a sudden you're going to have a very, very powerful network. And so, we're seeing projects sort of explore the edges of what they can disrupt. Helium, for example, is disrupting internet provision for IoT devices.

[00:19:34] **Hall Martin:** Great. And so, what changes do you expect to see in say, the next 12 months?

[00:19:43] **David Johnston:** _____ and so that's a use case where you're disrupting old internet providers. Right? And so, I think that's really the key is to find those areas that are or haven't been disrupted yet, but can with the technology.

[00:20:00] **David Johnston:** I think we're going to continue to see it go mainstream. You've seen Tesla and a few other players really dive in with converting a couple of billion dollars of Treasury into bitcoin. But then you're going to see more and more of that behavior from corporates, especially, if inflation continues at the rate that we've seen lately with large stimulus and large government spending. So people are looking for a hedge, and I'd say, at this point, crypto is sort of a viable hedge value. And so, I think we're going to see that trend continue to accelerate.

[00:20:36] **Hall Martin:** Great. What else should we covered that we have it so far?

[00:20:41] **David Johnston:** Well, I think one thing that needs to be emphasized is the international nature of DLT and blockchain more broadly. Most of the big protocols are not in the United States, they're in Europe, they've gotten a lot of funding out of Asia. Those are really two of the big centers. I like to joke that blockchain has been in North America technologists, housed in friendly European jurisdictions, and funded by Asian capital. And that was sort of the

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[00:21:23] **David Johnston:** _____ regulatory and legal barriers and ended up going to Switzerland. And then after Switzerland, I spent a lot of time in Asia, building the community. So it's really an international and global industry. So people have to sort of think global and act in their partnerships pretty globally in blockchain.

[00:21:43] **Hall Martin:** Great. Well, thank you for taking time to join us today, and hope to have you back for a follow-up soon.

[00:21:48] **David Johnston:** Sounds great.

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.

[00:16:06] **Hall Martin:** So what else should we know about this segment?

[00:16:09] **Dave Hendricks:** Well, let's see. It's unregulated. There are questions about regulations related to borrowing and lending systems. It is very, very exciting. It's not dissimilar from the Robinhood craze. You have a lot of people who were in the GameStop and AMC kind of craze who also are traders in this. It's a super interesting space. But it was also kind of the thing that set up the other thing, which is super interesting right now, and I know you wanted to ask about this, NFTs. What's an NFT, right, and why should I care about this? Well, all NFTs are is another form of using things like Ethereum to produce assets which can be bought and sold on these networks. And that's what NFTR is, it's a piece of art that can be traded using these blockchain networks.

[00:17:16] **Hall Martin:** And so NFTs are just kicking off now, but where do you think that's going to go, is that going to become pervasive and everything will have an NFT and it can throw off different ownership and revenue characteristics to it that gives art another dimension, or do you think it's going to be limited to very specific things like trading cards and basketball shirts and those type of things?

[00:17:39] **Dave Hendricks:** NFTs are very, very interesting. Not only do they democratize the creator class, because it's very hard to get a gallery show, it's even harder to get people to go to a gallery show, even if you give them free wine. But with NFTs, a marginal artist or underrepresented artist can find a market for their art, and that's very interesting. But it's not limited to just super amazing dunks or cartoon art, NFTs can also be used as a form of certificate of authenticity in what's known as a digital pair. So imagine buying a real world asset, like you buy a pair of Yeezy sneakers or something kind of new and expensive, and as part of buying that very expensive consumer good, you get a digital representation, it's a one of X number of this digital art. You pair those things together, and you've got a pair of shoes, and you've got the

certificate of authenticity. You can imagine that the certificate of authenticity, the digital pair strategy is going to be a big thing in the future, because counterfeiting is a big deal. So NFT has actually worked very, very well for potentially fighting counterfeiting.

[00:19:08] **Hall Martin:** Great. Well, so what do you think is the biggest change we'll see in the next 12 months in this space, what new thing may come up that will be even bigger than NFTs?

[00:19:18] **Dave Hendricks:**Some people think that there's going to be a central bank digital currency, meaning that there's going to be kind of a blockchain dollar. That is one of the things that people think about as a possible next big thing. It's not something that I particularly love, quite the opposite, but what you see is the fad, you see big banks adopting this technology and this way of thinking. And so, I think that you're going to see some interesting things coming out of the SEC and Treasury and the Fed. And so, I wouldn't put a digital dollar out of question.

[00:20:24] **Hall Martin:** Where is the SEC today on it – several years ago we looked at it and they were fighting it tooth and nail and everything was security and everything was regulated, and then you mentioned regulation is really not an issue anymore, but where is the SEC today on these topics?

[00:20:38] **Dave Hendricks:** Well, I would say that what I said was that there are regulatory issues around DeFi. It's definitely an issue. As you know well, there are two laws or two crimes which have no statute of limitations. One of them is capital murder, and the other one is securities fraud or violations. So with those two things in mind, anyone who thinks that they got away with it, they should probably think twice. Gary Gensler, the incoming SEC chairman, has taught and teaches blockchain at MIT. He knows quite a bit about this technology. His chief of staff at the CFTC, Rohit Chopra, also knows quite a bit about this. I think that we can expect to see the SEC continue to rationalize. They did do a lot of positive work in 2020 on digital securities, which is where I spend most of my time. I think that you can see legislation that will both be pro Bitcoin and cryptocurrencies and anti, coming out of this Congress, and it's early. All bets are off for what these guys are going to do. But I still think the regulator's going to regulate.

[00:22:17] **Hall Martin:** Right. One of the _____ against Bitcoin is that it is anonymous, you don't know who owns it, you can't trace it, and governments just have a hard time with that. They just want to know where everything is and who owns what and there are benefits to knowing that, I guess. But what's your take on that, you think that's a plus or a minus or what would you say about that?

[00:22:37] **Dave Hendricks:** Bitcoin is one of the most traceable moneys in the world. It's so traceable that when people trade large amounts of Bitcoin, the people buying it, diligence, the provenance of the coins themselves. So what you have are they could see every wallet that Bitcoin or fractions of Bitcoin have ever inhabited. And so, it's very easy to trace who has had this and when and where it came from. So I don't see the government shutting it down, because I think that's actually impractical, impossible to do. Regulating it, they've already called it a currency. So they've already, you know, they've done _____ with it. So the thing about

Bitcoin is it's just not that anonymous, and one of the things that we do here at Vertalo is to help people maintain their anonymity of the securities that they have digitized by creating new wallets. The government, meaning the Treasury and FinCEN has sought to implement new rules related to wallets and transferring digital currencies between wallets, and there's something called an uncovered and a covered wallet. And so, they're definitely looking at this because so much money is at stake now that people can circumvent the regular financial system, the Swift, the payment system and just use digital wallets. And so there's a lot of – some people are concerned about that.

[00:24:32] **Hall Martin:** Great. Well, back in 2017, the world was filled with ICO fundraises, Initial Coin Offerings and white papers and there are plenty of ideas around. There weren't too many working systems around, but there are plenty of ideas. Where are we today with that blockchain world for enterprise applications and the non-DeFi applications?

[00:24:54] **Dave Hendricks:** I think that in between 2015 and 2018 there were a tremendous – there's a tremendous amount of excitement and interest in enterprise blockchain alliances and IBM putting 1500 people on this and all kinds of applications. Well, just like in startup land, 90% of these things peter out, and I think we saw that enterprise blockchain adoption, the practicality never met the hype. And now while there are great supply chain applications for blockchain, most of the enterprise blockchain implementations are where they should be in financial services, because essentially what you're talking about is a ledger of money and sure you can use smart contracts to do a lot of other interesting things, but I think now that the market with a lot of smart people who have been building things they've found that the blockchain is good for certain things and is not good for every single thing. And so, in my area which is digitizing private assets, we have basically Reg D Reg S, real estate funds, those sorts of things. Blockchain's a great application for that because we create ledgers of ownership and the blockchain's a really, really great database for immutable ownership or something, and it's got an audit trail built in, etc. If you're trying to track a banana from Honduras to the United States, blockchain is probably not the right thing for tracking bananas.

[00:26:48] **Hall Martin:** Great. Well, I want to thank you for joining us today and hope to have you back for a follow-up soon.

[00:26:53] **Dave Hendricks:** Hey thanks for having me Hall, this is great, always great to catch up, talk to you soon.

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.

[00:19:37] **Hall Martin:**Well, what else should we know about this segment?

[00:19:40] **Christian Kameir:** Yeah, I think coming back to what I said earlier, a lot of people think, hey, it's already too late, already missed the boat in terms of allocating things like Bitcoin or Ethereum, but we are still at the very, very beginning. You didn't miss anything, right? If anything, the opportunities in our space are exploding now, because now we finally have the building blocks to actually create what people have been asking for decades, which is adoption, because in the past, and still today, I get these emails of cryptocurrency adoption, blockchain adoption. Well, the user out there your mom, your uncle, they don't adopt cryptocurrencies or blockchain. So people didn't adopt Voice over IP, they adopted Skype. So the point being that ultimately and the ultimate value that's being created is on the application _____. And so, now we see the early applications that are decentralized, things like an open sea, like a compound and so forth, emerge, but they are still very much limited to digital native assets. But think about in the near future, if and when we will have CBDCs, Central Bank Digital Currencies, this is not a question of if we will have, this is simply a question of when.

So when you, when your mum _____ has a digital wallet, that makes it easy to interact with that space, and she doesn't have to think about it, she doesn't have to think about what is a non-fungible token, she just gets this asset under her own custody, under her own control that's accessible to her 24/7, that doesn't mean that we do away with all the logos of the past like I call them the JP Morgans and so forth, they will exist – they have certain functions that they will retain, but they will just exist to a lesser degree and to a lesser degree be able to restrict access to your assets in that way. So anybody who has not put any attention on this and has not bought at least a tiny fraction of Bitcoin, needs to do so now, specifically, if you're not in the United States, if you're in a country with a higher inflation. So the larger point there being is just familiarize yourself of the paradigm. It doesn't have to extend to the fact where you learn all the cumbersome language that we have, but it extends to you understanding that we are about to experience a paradigm shift that's inevitable. You can't uninvent this technology, and more importantly, you can uninvent the technology paradigm.

[00:22:34] **Hall Martin:** What changes do you expect to see in the coming 12 months?

[00:22:36] **Christian Kameir:** Yeah, so it seems a foregone conclusion that China will launch their CBDC. And so, that will force other countries to catch up and make their own economies more efficient albeit that's probably not the main objective that China is having. But the discussions that we've seen have very much intensified around these topics for the obvious reason, and then attached to that, and that's part of the externality of the recent health crisis. There will more likely than not be a financial crisis fall on its feet, because you don't solve anything really by printing money. You actually have to address the underlying inefficiencies that we kind of uncovered when COVID hit, like, the supply chain issues that all of a sudden certain things were simply not available, because we didn't decentralize the systems, there was opaqueness within these systems. And so, within that paradigm you see a large push – right now I have a lot of papers sitting here around health data, quite obviously, so a lot of companies and a lot of countries will require their employees, their customers, their users to certify and testify to the

fact that they're vaccinated, that they're healthy, that they have the capability and the right to enter a building, enter a plane, enter a country; and to that extent, when I got my vaccine shot, which is sad and tragic and funny at the same point in time, as I don't know about you, but I got a _____. So that is just, at this point in time in technological history, it's really, really sad. Right?

So that should have never happened, so there we see a lot of efforts of solutions they are trying to address that and make this a portable and, at the same point in time, protected technology; as in, if at any point in time you commit your biometric data or your health data to a system that's insecure, it's very, very, very hard to ever roll this back. So I think we might have touched on that in a previous discussion, but we see efforts of lawmakers around the world, specifically in the United States, to pass a lot more consumer protection laws, like the CCPA. So we've got four or five states right now in the United States passing similar regulation as California, the consumer protection right act, and then also biometric protection rights and so forth. So the point here being as with the laws driving technology, technology is also, and actually more importantly, driving loss – meaning, if and when and where you got new technologies available that make the protection of consumers more efficient, then those legacy systems will, in some cases, become illegal. What I mean by that is the current scenario of you having to provide and divulge your whole personal identity stack that you have today, a slew of personal identifiable data that are being committed to a database if you enter a bank and establish a bank account, so that's mostly next analogy of legacy technology. Right? So governments have deputized commercial private companies to kind of spy on you for under the pretense of preventing money laundering. But probably, if you look at your last 1000 transactions, there was no money laundering involved, and it didn't need to have personal identifiable data.

So the larger point, your _____ if I can provide you digital technology that does that, that protects the bank from actually being abused for money laundering, so we'll only attach personal identifiable data to a transaction when it was needed, well, at that point in time, the legacy way of doing it, and the legacy technology should no longer be illegal. So at that point in time, it might actually be considered illegal search and seizure if you still do that. Anyway, so larger point of being what I expect to see is that we see more and more enlightened governments realizing that these kind of battle cries of rights to be forgotten, what kind of _____ in the context of the technologies that are being developed right now. So the rights that we need to ask for is the right to not be observed. That's the large appointment.

[00:27:20] **Hall Martin:** Great. So what else should we cover that we haven't?

[00:27:24] **Christian Kameir:** Well, there's so much happening, it's really unbelievable, but I think the most important thing, and we'll cover that a little bit _____ everybody should be aware that the financial system is under large scrutiny and stress, and you need to have an alternative, right? So you can't rely on the value in your house, you can't rely on the value in your stock, you can't rely in the value of your fiat currency. So if you do not have exposure to the decentralized space, you're exposed, you are definitely going to see a drawdown of these overinflated assets that pertains to the housing market, that pertains to the stock markets, and

that definitely pertains to fiat currency. We haven't actually done an honest account of what this money printing has done to the overall economy in granularity. We just talk about this kind of very vacuous term of inflation, so what's really happening is that we're inflating these assets, like, how's the sense of loss, I think we talked about that before. And then people that are coming out of school now, that had an over inflated education, where there's no value in that education in terms of the job market that they're entering, because the job market they're entering, they're looking for very different skills than what's being taught in school. And that's kind of the last thing I want to take listeners to is, like, we need to radically change education. It's about a decade, probably more like two or three decades behind what we as a society need. I'm being exposed to that space on a weekly basis. So A, because I do a lot of teaching, and then, B, also have a lot of interactions with students and academia itself.

[00:29:30] **Hall Martin:** Well, great. I want to thank you for joining us today. Hope to have you back for a follow-up soon.

[00:29:36] **Christian Kameir:** Sure.

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.

[00:11:35] **Hall Martin:**And so, what else should we know about this segment that we haven't covered so far?

[00:11:41] **Jake Ryan:** Well, open finance, yeah, we're just getting more and more products to it. So I think just looking at the growth, one thing that's really interesting is liquidity in and of itself is an asset. So you're able to provide liquidity into open finance in the form of providing assets, it could be Ethereum to some other of the tokens. You provide those as collateral or you provide liquidity as a liquidity pool within these systems, and you're able to generate interest. And so, it's interesting to think of liquidity as an asset.

[00:12:22] **Hall Martin:** That's interesting. And so, what changes do you expect to see in the coming 12 months in this space?

[00:12:27] **Jake Ryan:** Well, in decentralized finance, I think we're looking at just more and more adoption. Again, I think we'll have something like $250 billion in total value locked or in collateral in Openfi systems, in the open finance systems here in, what is that, six-seven months now. I think we're going to see big, big growth to it.

[00:12:49] **Hall Martin:** Great. And any final points we should cover that we haven't already?

[00:12:55] **Jake Ryan:** I think some other themes that are very interesting to invest in is the idea of governance tokens. These are different than cryptocurrencies, as most people think of them. This is a distinct crypto asset class, and it's the idea that if you own the token, if you hold the token, then you get a right to participate in the voting. Many of these crypto projects have on chain governance, and so people will bring up proposals on how to update or maintain or manage various parts of the crypto project or of the blockchain and its software; and any token holder then has the right to vote within these systems. It becomes really interesting because monetary policy can be set at this level, and you can even get to how much of the revenue stream is going to be allocated to token holders. And so, if you think of equity, as being a right or claim to cash flows, after all expenses are paid of a business, equity really is just a claim or a right. And if you look at that from the context of crypto, these governance tokens are almost like equity, in that there _____ claim. Now, there are different _____ claim, but I assert it might almost be better. Right? You have the right to vote and to really participate within this whole ecosystem. And so, when I think of how do some of these tokens accrue value, I think the idea of having a right to vote within them is critical, and it's something that people should really look at – these governance tokens are an innovation.

[00:14:47] **Hall Martin:** Have you seen those in action yet, and who's actually working with them?

[00:14:51] **Jake Ryan:** Yeah, so most of these DeFi tokens and projects, most of them do have governance tokens. So you can look at compound, right? This is a financial service in open finance, and it allows you to lend or borrow any of these crypto assets that they provide, and you generate an interest rate. You can get paid in compound tokens, right? And so, as you lend your assets, maybe you lend Ethereum and get an interest rate, maybe you get paid back in compound tokens. Now, this would be a different investment risk in getting paid in the underlying crypto asset. But then you're able to vote and participate within the whole compound system. I think it was last May, maybe in 2020, Uniswap, which is a decentralized exchange, came out with its token, and one of its very first _____ was paid. I think 5% of the revenue streams should go to the token holders. It wasn't passed, but it was, I think, one of the first times we ever saw monetary policy or adjustment being made from token holder into the software that some of the revenue streams should go to the token holders. So at some point, I think we're going to see something like that mature out of the system.

[00:16:11] **Hall Martin:** Do those require smart contracts or other facilities, or are they intrinsically built into the system to provide that service?

[00:16:21] **Jake Ryan:** Yeah, so this is all – you're right, so it's all smart contracts that are doing this. It's also software upgrades. So what will happen, some systems want you to write the software first, then vote on it; and then upon the vote it automatically gets inserted into the updates that go to the miners, so it automatically happens. Some of them want you to propose the idea, then if it passes, it gets developed. A certain amount of money gets allotted to that software project update, it gets developed, and then it gets out, and just how they deploy

software to the miners, the upgrade happens through the updating of the software into the miners. And so, it's very interesting and becoming more and more autonomous.

[00:17:58] **Hall Martin:** Well, thank you for joining us today.

[00:18:01] **Jake Ryan:** All right, thanks a lot, Hall.

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.

[00:11:05] **Hall Martin:** And what else should we know about the blockchain segment that we haven't covered so far?

[00:11:11] **Rashad Kurbanov:** There's one key thing that I always emphasize is that blockchain is a technology, the same as mobile, the same as internet, the same as many, many other technologies _____ AI, really kind of everybody needs to start thinking about the application of that technology will kind of move past the stage of where there's excitement about the technology itself, and there should be a lot more excitement about application of the technology, and the possibilities that it creates, rather than the technology itself.

[00:11:50] **Hall Martin:** Great. So what changes do you expect to see in say, the coming 12 months?

[00:11:55] **Rashad Kurbanov:** I actually expect even wider adoption now. I'll put the kind of capital markets aside, so what's going to happen with Bitcoin, etc., put that aside for a second. I think there's going to be a lot more specific use cases, and the industries where the technology is going to start getting adopted, and the implementations of that. I actually think that the government, if I can call the Federal Reserve or kind of central banks, they are going to start looking at the technology a lot more seriously. I think the competition is going to heat up in this space, and I believe we're going to start seeing fairly exciting applications of technology outside of cryptocurrencies. So broadening the base outside of cryptocurrencies is I think that's something that is going to happen over the next 12 to 24 months, and then we're going to get to the point where blockchain is probably going to slowly fade away as the term into the background, and there's going to be a lot more focus on the businesses that are built on it, rather than the ones that talk about it.

[00:13:10] **Hall Martin:** Great. And what else should we cover that we haven't? What else would you like to add?

[00:13:16] **Rashad Kurbanov:** The key thing that I want to add is there's hype, and then there's a reality. Don't confuse Bitcoin with blockchain. Cryptocurrency is not the only application of the

technology. And as long as we all kind of keep that in mind, I think then the level of understanding and general adoption and acceptance is going to increase. So that to me is the critical thing that we need to do and still continue to do both at the private sector level as well as in the government.

[00:14:38] **Hall Martin:** I want to thank you for joining us today and hope to have you back for a follow-up soon.

[00:14:43] **Rashad Kurbanov:** Thanks. Thank you, Hall.