



# **CRYPTO PRAGMATIST PRO**

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<b>Name</b>	Convex Finance
<b>Market Cap</b>	\$285,554,030
<b>Fully Diluted Market Cap</b>	\$449,091,868
<b>Executive Summary</b>	<p>Convex Finance is a yield optimization protocol built on top of Curve and Frax Finance. The protocol pioneered the idea of building a treasury consisting of “vote-escrow” tokens, also known as ve-tokens.</p> <p>After starting and finishing the “Curve Wars”, Convex has shifted the great \$CRV accumulation to \$CVX tokens.</p> <p>By allowing users to unlock higher potential returns within the Curve ecosystem and creating significant amounts of DAO buy pressure, Convex was able to reach a peak TVL north of \$21 billion early 2022.</p> <p>With the complete shift in crypto and risk-on sentiment, our paper today will be focused on the <b>future outlook</b> for Convex Finance, if they can weather the bear market, and how likely it is they will reach \$21 billion TVL again.</p>
<b>Problem Solved</b>	<p>Earning yield in crypto can be cumbersome. Between high gas prices, confusing UI’s, and lockup periods, the task to fully utilize our crypto assets can be daunting. Convex takes the role of a yield aggregator, but is specifically built on the Curve ecosystem.</p> <p>Despite this, Convex did not so much ‘solve’ a problem as they did create one: via <b>the Curve Wars</b>. Curve is one of Ethereum’s largest protocols and the largest stablecoin exchange across all of DeFi. By taking quick action to accumulate as many \$CRV tokens as possible, Convex became the toll-collector to anyone wanting to participate in Curve (if that’s confusing, we’ll be covering this phenomenon in more depth in the report).</p> <p>Now, Convex has <b>51%</b> of all outstanding \$veCRV tokens locked within its ecosystem, and this number is only growing.</p>

<b>Tokens</b>	<p><b>\$CVX:</b> Convex's native token for the platform can be staked to earn a share of Curve LP rewards in the form of \$CRV. Rewards are earned in the form of \$cvxCRV, although there are better opportunities for yield within the protocol than just using \$CVX.</p> <p><b>\$cvxCRV:</b> The platform's "tokenized" \$veCRV is the backbone to the entire protocol. When users deposit their \$CRV tokens (an <i>irreversible</i> process), Convex perpetually locks these into Curve protocol for \$veCRV, and \$CRV depositors receive a liquid \$cvxCRV wrapper that trades relatively close to 1:1 with \$CRV.</p> <p>\$cvxCRV can be staked to receive a portion of Curve and Convex fee rewards in the form of \$3crv, \$CRV, and \$CVX. Users can also use their \$cvxCRV to provide liquidity on exchanges, mostly on Curve.</p> <p><b>\$vICVX:</b> In order to vote on Curve pools, users must lock their \$CVX tokens, which returns \$vICVX to their wallet. Once locked, \$vICVX holders vote on:</p> <ul style="list-style-type: none"> <li>• Convex governance</li> <li>• Curve gauge weights to earn bribes</li> </ul> <p>Users can either vote themselves, or delegate their vote to a specific address (a friend, DAO, or anyone else), Convex, or Votium.</p>
<b>Terminology</b>	<p><b>Gauge Weights:</b> Gauge weights determine how much of the daily \$CRV emissions go to which pools. These are critical to understanding how Convex is a valuable protocol because \$vICVX holders are able to vote on which pools get the most emissions. Pools with higher emissions means more people will provide liquidity to get a share of those emissions.</p> <p><b>Votium:</b> Votium is the web app that aggregates all of the bribes for different pools in Curve. Voters become eligible for bribes once they vote via Convex's snapshot page, or simply delegating the vote to Votium. Since inception, there has been a total of over \$200 million of revenue for \$vICVX holders.</p>

<b>Founders</b>	Pseudonymous <a href="#">Winthorpe</a> and <a href="#">C2tP</a> are Convex's founders, while Ben Hauser ( <a href="#">iamdefinitelyahuman</a> ) is a contributor to the Github repo.
<b>Risks</b>	<p>Aside from the usual (smart contract risk, market risk, etc.), Convex has a unique attribute that is not seen in many other protocols. Being built on top of Curve finance, Convex is inherently worthless without Curve. There is no chicken or the egg problem: first comes Curve, then Convex. Because of this, there is not only <b>endogenous</b> risk specific to Convex, but <b>exogenous</b> risk centered around Curve continuing to move the volume as it does.</p> <p>Additionally, we will cover in detail in the report, but Frax has supplied the lion's share of bribes over the past 7 months. Without it, this whole new use case of vote-escrow as a service becomes <b>significantly less valuable</b>.</p>
<b>Competitors</b>	StakeDAO has some unique properties to it, but in terms of scale, it really isn't even close. StakeDAO only has 10 million \$CRV within its protocol, so its vote power is minimal compared to Convex.
<b>Documentation</b>	<a href="#">Gitbook</a>
<b>Code Repository</b>	<a href="#">Github</a>
<b>Site</b>	<a href="https://www.convexfinance.com/">https://www.convexfinance.com/</a>
<b>Social Media</b>	<a href="#">Twitter</a> <a href="#">Medium</a> <a href="#">Discord</a>

## Intro

There are few things certain in life: death, taxes, and Twitter threadooors writing about the Curve Wars. Don't worry, we are not here to give a recycled take on how the Wars are 'changing the game' or anything like that (although we truly do see it as a required topic to understand). We want to simply evaluate the legitimacy of such wars, look at how and to what extent Convex has been able to profit, and why things may not be as promising as they seem for the crowned champion of the Curve Wars.

Check out the following thread if you need a full primer:



Crypto FI  
@Crypto8Fi



## The Curve Wars.

If you're interested in learning about how the battlefield has dramatically changed, read this:

6:38 PM · Apr 2, 2022 · Typefully

922 Retweets 110 Quote Tweets 3,237 Likes

### Money Legos

As with everything in DeFi, the topic of money legos can be confusing. Foundationally, it simply discusses the ability to create synergies ( $1 + 1 = 3$ ) across the entire DeFi ecosystem. Let's take a TradFi concept that everyone is familiar with: mortgage backed securities.

Most home-owners have acquired the means to buy their home by **borrowing funds** from a lender, typically a bank. Over the life of the loan, say 30 years, the home owner will make **scheduled payments of** interest (the cost of borrowing) and principal (the actual amount they needed to buy the home).

Well, the originator of these loans found a way by which to send off the individual mortgage, and thus the scheduled payments, to another entity **to sell to a willing buyer**. Who are these willing buyers? Anyone who needs a steady, scheduled stream of income backed by the hard working home owning Americans. These structured products created a market for jobs, fees to be earned, and products to sell. This is the basis of composability.

In DeFi, the analogy that 'everyone knows' for money legos, is none other than Convex and Curve.

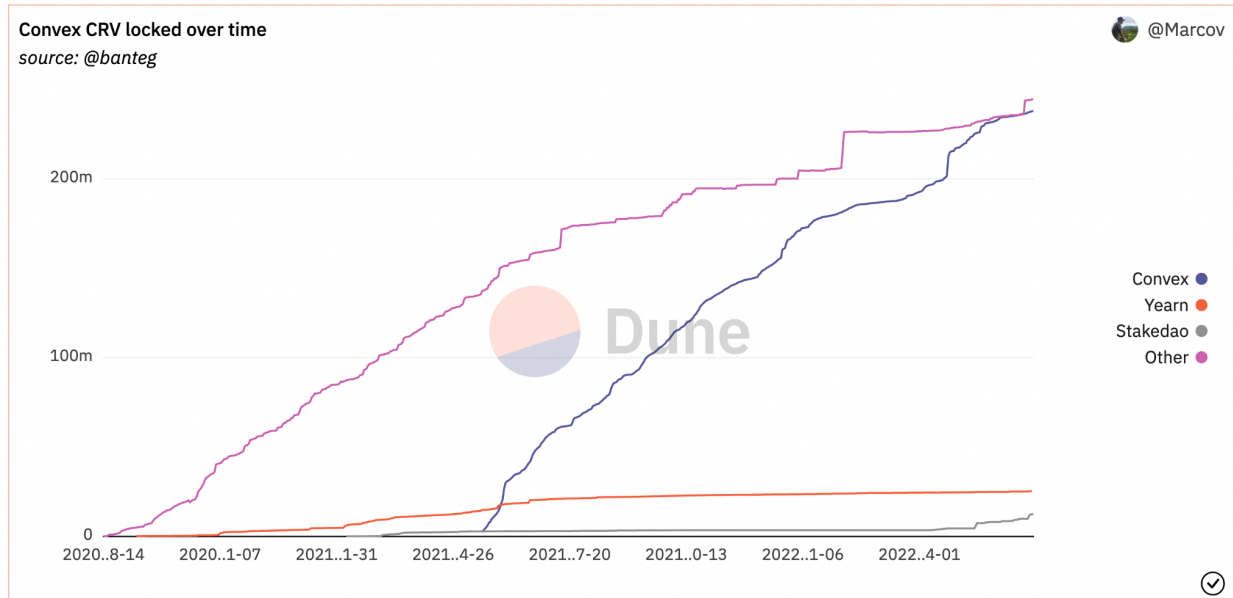
### How is Convex Built "On Top" of Curve?

This will be discussed in more places than here, but Convex lives on top of Curve and unlocks new use cases surrounding the \$veCRV token, the locked version of \$CRV that allows users to vote on different topics.

Just about the only thing that has been consistent in this bear market is Convex's relentless acquisition of Curve tokens via their locking mechanism. From April 20th to today, Convex has



increased their locked \$CRV amount by more than 17% to 237 million tokens, which is well above 50% of the outstanding \$veCRV.



Here's why this is important. As the leading stablecoin AMM, Curve relies on the same thing that every other AMM relies on: liquidity. And to draw liquidity, there needs to be incentives. In Curve's case, these incentives come via emissions. The good thing is, Curve's emissions schedule, although massive right now, is positioned well for long term sustainability. Roughly 50% of the emissions supply will have been released by 2025, and the remaining 50% at a diminishing rate over the next 300 years.

As these emissions decrease over time, there is a risk to the value of the \$CRV emission, and thus Convex. At a certain point, the value of these emissions will be low enough to not incentivize people to provide liquidity, and there becomes an effect similar to a "death spiral". This is unpredictable at the moment and is a function of the \$CRV price over time, but we should be aware of it.

### Voting on Curve Pools

And for the meat and potatoes of this report: Curve gauge-weight voting.

As we know, \$veCRV tokens are critical because they allow users to vote on which liquidity pools \$CRV weekly emissions go to. People who provide liquidity simply want more emissions because that equates to a higher yield. Here's a quick recap:

- Convex allows \$CRV holders to deposit \$CRV, locking it into \$veCRV perpetually
- \$veCRV holders decide where emissions go
- LPs provide to those pools to earn the \$CRV emissions (and traders desire deeper pools)

But the fun part of the Curve pools is just getting started. Because traders desire deeper pools and more liquidity allows for efficient trading, *protocols* with a native token will pay to incentivize votes towards their pool. Let's look at \$FRAX as an example.

Frax Finance meaningfully broke into the highly competitive stablecoin space in early 2021. As a stablecoin, the best exchange for \$FRAX to be listed on was Curve, and so the 3crv-FRAX pool was created.



*3crv is a combination of the three stablecoins of USDC, DAI, and USDT*

In order to incentivize \$veCRV voters to direct emissions toward the 3crv-FRAX pool, Frax Finance **bribed** \$veCRV holders with massive amounts of \$FXS tokens. But, how is Convex involved?

Because all of the \$veCRV locked in Convex (>50%) can only be accessed through \$vICVX, there is a sticky **demand** to own \$vICVX tokens to earn these bribes for simply voting on pools. Convex is special because it's created a real and tangible value for token owners.


### [Votium](#)

Now that we understand the general voting architecture within Convex, we can move to the application where this takes place.



When Frax Finance wants to send a bribe of \$1m for the 3crv-FRAX pool, they will post this in **Votium**, which is just a simple front end that brings bribers and voters together - think of it as a bribe marketplace. Votes are bi-weekly, and you have to have your \$CVX locked before the vote period in order to be eligible for earning the bribes.

When you want to vote for a pool, Votium will route you to Snapshot to place a vote for that specific pool. Once the incentive round is over, you can simply claim the reward through Votium.

It's worth noting that many of the bribes actually don't come in until the end of a given period, so it is important to be on top of things and make sure you are active during the vote period:

 <b>\$CVX incentive</b> for "cvxeth" pool	<b>\$CVX incentive</b> for "cvxcrv" pool	<b>\$CVX incentive</b> for "cvxfxs" pool
Total reward 15,000 \$CVX	Total reward 36,000 \$CVX	Total reward 24,000 \$CVX
In \$USD \$108,450.0	In \$USD \$260,280.0	In \$USD \$173,520.0
If you're not delegated, you can vote for "cvxeth" to be eligible for this incentive.	If you're not delegated, you can vote for "cvxcrv" to be eligible for this incentive.	If you're not delegated, you can vote for "cvxfxs" to be eligible for this incentive.
<a href="#">Vote on Snapshot</a> ⚡	<a href="#">Vote on Snapshot</a> ⚡	<a href="#">Vote on Snapshot</a> ⚡

 <b>\$SALCX incentive</b> for "alud" pool	<b>\$SALCX incentive</b> for "aleth" pool	 <b>\$SNX incentive</b> for "optimism-f-sUSD3CRV" pool
Total reward 4,000 \$SALCX	Total reward 4,000 \$SALCX	Total reward 12,000 \$SNX
In \$USD \$117,840.0	In \$USD \$117,840.0	In \$USD \$31,920.0
If you're not delegated, you can vote for "alud" to be eligible for this incentive.	If you're not delegated, you can vote for "aleth" to be eligible for this incentive.	If you're not delegated, you can vote for "optimism-f-sUSD3CRV" to be eligible for this incentive.
<a href="#">Vote on Snapshot</a> ⚡	<a href="#">Vote on Snapshot</a> ⚡	<a href="#">Vote on Snapshot</a> ⚡

### *Vote pools on Votium*

## The Numbers

Okay, that was a lot of functionality discussion. How do the numbers stack up for these bribes? Bribes end up being quite profitable for the \$vICVX votooooor (keep in mind, these bribe periods are bi-weekly).

Historically, the emissions per \$vICVX have been \$0.36. Meaning for each \$vICVX you own you will earn, on average, \$.36 per bribe period. Price action has been all over the place since Votium bribing began (back in September 2021), but the mean is \$22.9. This brings us to an **average bi-weekly dividend yield of 1.52%**. Annualized and compounded, nearly 50%.

	Mean	Median
\$/vICVX	\$0.36	\$0.39
St. Dev	\$0.04	
CVX price	\$22.90	\$27.00
Div yield	1.52%	1.55%



This is removed from everything else: price action and yield on any \$CVX token derivative. Simply cash in the pocket for placing your votes accordingly every other week. But, keep in mind, in order to access the \$vICVX, you have to lock up your \$CVX for 16 weeks. This means there is no other way to access any of the yield provided through \$cvxCRV, but more on this later.

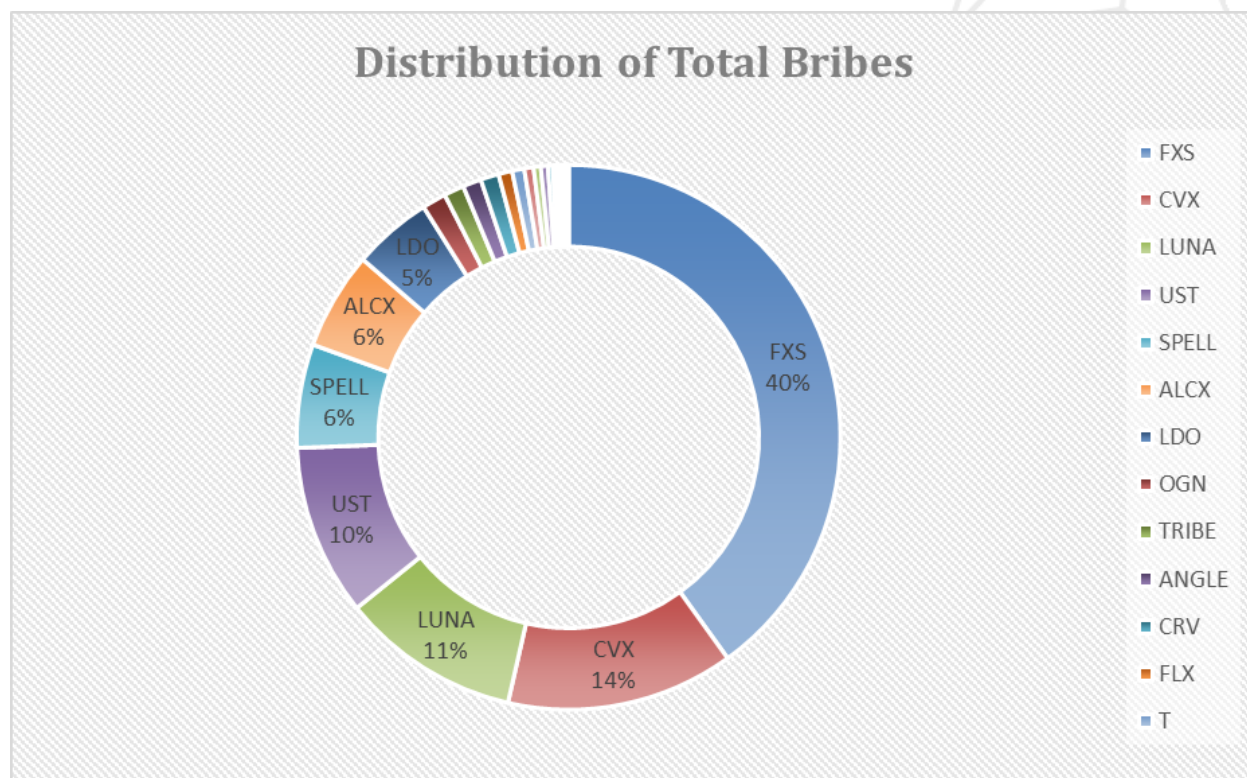
Price volatility was mentioned above, but we want to take a closer look at what happens with the dividend yields as price fluctuates. Unfortunately, there really is no method to the madness. Although we would expect bribe yield to increase in times of \$CVX price increase (bull market), that has not been the case:

Date	CVX Price	\$/vICVX	Div %
6/14/2022	\$3.90	\$0.07	1.88%
5/31/2022	\$10.68	\$0.13	1.21%
5/17/2022	\$11.03	\$0.13	1.22%
5/3/2022	\$22.45	\$0.38	1.69%
4/19/2022	\$28.15	\$0.45	1.59%
4/5/2022	\$37.05	\$0.56	1.51%
3/22/2022	\$20.26	\$0.44	2.18%
3/8/2022	\$15.60	\$0.36	2.33%
2/22/2022	\$21.88	\$0.39	1.77%
2/8/2022	\$27.71	\$0.49	1.77%
1/25/2022	\$27.85	\$0.47	1.69%
1/11/2022	\$35.86	\$0.59	1.64%
12/28/2021	\$49.14	\$0.87	1.78%
12/14/2021	\$27.00	\$0.40	1.48%
11/30/2021	\$27.05	\$0.40	1.47%
11/16/2021	\$29.85	\$0.37	1.24%
11/2/2021	\$30.02	\$0.39	1.28%
10/19/2021	\$14.62	\$0.15	0.99%
10/5/2021	\$9.79	\$0.07	0.73%
9/21/2021	\$8.15	\$0.07	0.83%

This does not leave much room for interpretation, other than the fact that we cannot try to associate bribe revenue with \$CVX price (and implicitly, the rest of the market).

### Who has been Paying the Bribes?

So if there is low correlation with the market activity and bribes being paid, let's try to figure out what is going on. These bribes are paid by protocols who are seeking to incentivize voters, which brings liquidity to their token on Curve. So, in order to address the longevity of said bribes, we need to take a look at **who** is paying them:

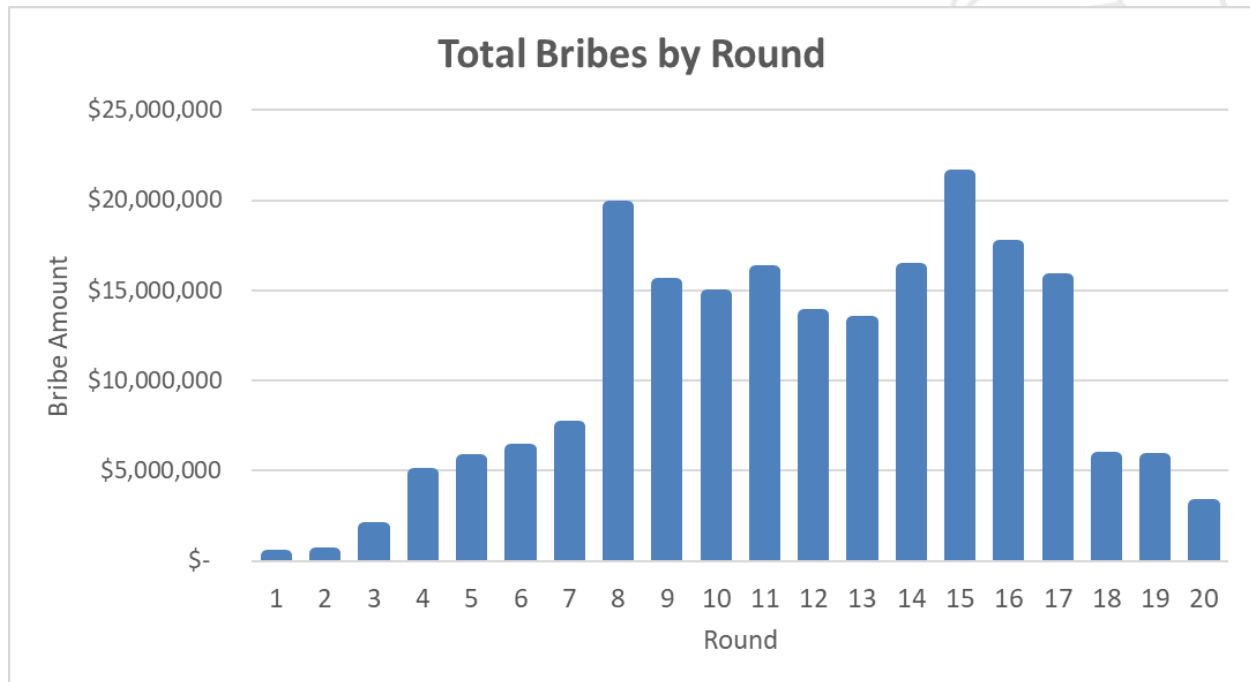


Not to the surprise of anyone who uses Convex/Votium, Frax Finance is leading the way **massively** at 40% of total bribes paid. This, obviously, is not a good thing—actually the polar opposite.

What would happen if Frax were to suddenly stop paying the bribes, say through finding a more capital efficient way to incentivize liquidity, or a worsening of their balance sheet? Someone would have to come in to fill their **\$81 million** gap.

After the Luna death spiral, no one has come in to fill their 11% share, contributing to a drop off that we will look at below. All of this is to say that the bribe income is extremely concentrated by the top 4 protocols, with the rest being pretty much negligible.

In the past three rounds (the most recent closing last Tuesday), bribes have completely fallen off a cliff to their lowest amount since last November:



*Data taken from Llama Airforce*

So, this begs the question(s): are these bribes sustainable, and when/will they bounce back to previous levels? It's hard to predict the sustainability, but we know that liquidity will **always be heavily desired by protocols**. Thus, as long as Curve can retain the title as the gold standard stablecoin and blue-chip token exchange (a BIG if), then bribes will keep coming in.

### Why Protocols Bribe

Remember, the main reason for these bribes is to drive large amounts of liquidity to the native token pool on Curve. Instead of protocols motivating liquidity by directly incentivizing the Curve pools with a native token, for example, they can instead use their funds more efficiently by bribing the \$vICVX holders. Although this has been arbitrated down by protocols, there is still \$1.16 in emissions per \$1 bribed, so it would be advantageous for protocols to use the bribing method.

If bribes begin to slow down, then we would expect the dollar amount in emissions per \$1 bribed to **increase**, which would bring in more protocols to bribe and pull that value down. This behaves like a simple arbitrage opportunity.

### Using the Tokens and Earning Yield

#### CVX:

The native token can be staked on the protocol to earn fees and a portion of 3crv rewards. Even though it is the base token for the entire protocol, there is no reason to hold \$CVX. Voting matters take place via \$vICVX, and the yield earned by staking \$CVX is a meager 3%.

### **cvxCRV:**

cvxCRV is the more interesting token for those who are looking to take a passive approach. For every \$CRV token locked into Convex (remember, that action is **perpetual**), there is a \$cvxCRV on the market. There is plenty of liquidity available to trade out of \$cvxCRV and into \$CRV, the deepest pool being on Curve with \$69 million of liquidity.

Yields earned through cvxCRV staking are amazing given the quality of assets you get in return.

*As a side note, we have become increasingly conscious of what our yield is denominated in, prioritizing assets that can be comfortably held over a long time frame. A good example of this is \$GMX, which pays out about 15% in \$ETH rewards, on top of its native token. Our report on \$GMX can be read [here](#).)*

By depositing into the staking contract on Convex, you can earn a variable APR, which at the time of writing is 35% in \$CVX, \$3crv, and \$CRV tokens. We see these returns denominated as bets that are still risky given the current market climate, but edging towards the safer side as more than half of that is denominated in stables. Keep in mind, just a couple weeks ago the incentive for staking was significantly lower at around 25%, so it can fluctuate a decent amount.

### **CRV LPs**

Another way to earn through Convex is by simply depositing your Curve LP tokens into any of the pools available on Convex. By doing this, you benefit from:

- 1) Accruing rewards in different tokens (\$CVX and \$CRV)
- 2) Access the boost provided through Convex

The downside? Convex will take a cut of everything earned and distribute it to stakers in the protocol. This is where the \$CVX emissions play a big factor, as once those go away (discussed below), people may be less inclined to deposit into Convex as there simply is no justification for letting them take a percentage cut as fees.

### **Locked Convex \$vICVX:**

\$CVX tokens can be locked for a period of 16 weeks + 6 days to earn voting rights on the aforementioned gauge weights and Convex governance. The majority of the yield here will be found in the bi-weekly bribes facilitated through Votium.

Locking \$CVX tokens will give roughly 3% APR paid in \$cvxFXS and \$cvxCRV - the Convex liquid wrapper of both governance tokens.

The supply side of tokenomics will be one of the more impactful points of this report. Based on the terms outlined in the docs, all investors, treasuries, team members, etc. are fully unlocked as of now. The two supply side sections we will be looking at are:

- 1) 50% Curve LP rewards *Rewarded pro-rata for CRV received on Convex*
- 2) 25% Liquidity mining *Distributed over 4 years. (Incentive programs, currently CVX/ETH and cvxCRV/CRV)*

The 25% liquidity mining incentives have been paid out significantly in the form of bribes, as Convex has contributed 14% of the total \$200m bribe amount thus far to incentivize the \$CVX pools on Curve.

## Emissions

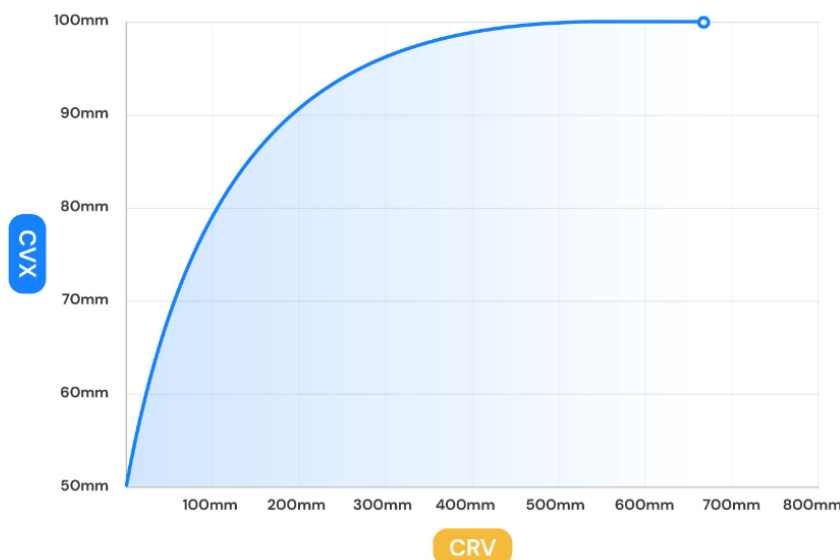
The first concern we have for the sustainability of Convex as a protocol lies in their emission schedule and the hyperinflationary nature of the \$CVX token. With the aforementioned Curve emissions, tokens are being released at a decreasing rate over time and will theoretically last well into the future. This is not so much the case for \$CVX.

When earning a yield on \$cvxCRV, it was mentioned that some of it is paid out in \$CVX. This, like many other farm rewards, is hyperinflationary on current \$CVX holders. The total supply for these emissions are the above “50% for Curve LP rewards.” It is not a fixed percentage of this 50M that is paid out like most other protocols, but a **function of the \$CRV farmed by Convex**.



## CVX minted per CRV earned

Ratio reduces over time until all CVX is minted.



Details can be observed at the [following dashboard](#), but here is a quick example:

The current CVX/CRV ratio is .45, which means for each \$CRV farmed by Convex, the protocol will issue .45 \$CVX tokens to help incentivize people to keep using \$cvxCRV (which gives Convex more Curve locked). Unfortunately, on top of this diluting current \$CVX holders and bringing down price, the runway is narrowing. With only 9m \$CVX tokens left for this part of supply, they only need to farm 20 million \$CRV tokens to run out of \$CVX supply (9m/.45). From May 16th to now is the amount of time it last took Convex to farm 20 million of Convex.

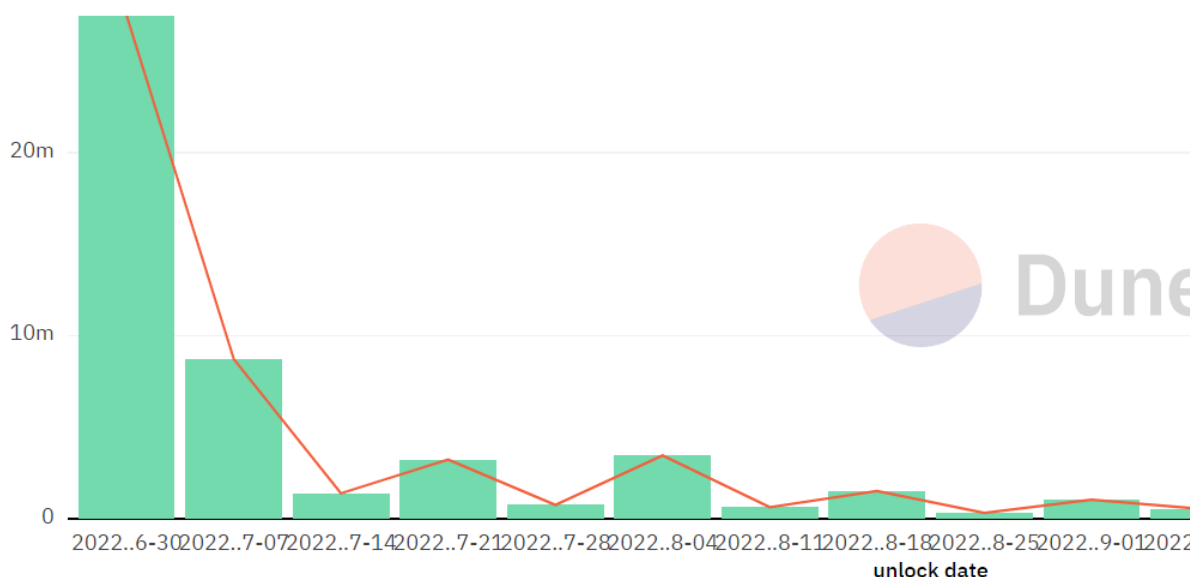
The above illustration disregards that the CVX/CRV ratio is diminishing as \$CVX supply approaches the cap, which means it will actually be longer than one month. Still, the runway for \$CVX emissions to supplement \$cvxCRV holders return (which is **one of the key incentives to people parking their \$CRV in Convex**) is running out.

Although it is not good, this has an isolated effect on the value of \$cvxCRV. The key thing to consider here is why people would want to deposit their \$CRV earning products into Convex. Because they take a percentage haircut as fees, people may be able to earn more on their own without the boost from \$CVX emissions. Without \$CVX emissions however, supply constraints may be bullish for vanilla \$CVX price, which could create a good opportunity for plain \$CVX staking.

## Unlock

There is also a **massive** unlock coming on June 30th. There is no empirical data we could find on this, but it can be very reasonably assumed that the main owners of this \$v1CVX are DAOs. Given the long term incentives of these organizations, it is hard to imagine them taking unlocked tokens to the market to dump.

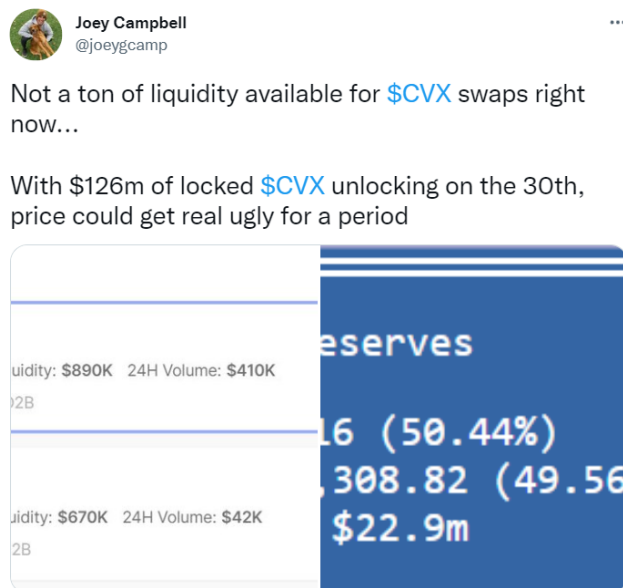
ConvexUnlocks\_TrackUnlock





But it is deeper than this. The value of \$CVX unlocking is \$126 million. Based on current liquidity available in the market, it wouldn't take all of the DAOs rushing to sell their tokens to get a hard tank on price.

We should also look beyond just the people that might be trying to immediately sell, and see what percentage of people are "re-locking" their \$CVX tokens after. Just because people may not rush to sell within the first few days, any \$CVX that is just sitting on the market could quickly go to the exchanges. This can be seen in the "Full Analysis - Relockers" section of [this Dune dashboard](#).



## Liquidity

The above thread goes over liquidity, the most of which is on Curve (\$22m worth). Aside from that, Uniswap only has a combined ~\$1.5m of liquidity.

## Market Cap Predictions

Based on the above discussion on the unlocking, it is hard to pinpoint exactly what the market cap and price action could look like on any timeline. However, because \$vICVX can be a proxy for a Curve emission vote (\$veCRV), DAOs have an arbitrage opportunity at a specific Convex price. This price is based on how much \$veCRV you access per \$vICVX, which is currently around 4.55. This means if the price of \$CVX falls below ( $4.55 * \text{CRV price}$ ), then the DAOs would have an arb opportunity and would be incentivized to scoop up \$CVX as it gives them access to \$veCRV at a discount.

**This gives us a current \$CVX floor of \$3.18.** Anything below that, is theoretically trading at a discount to its accessible value via \$CRV tokens.

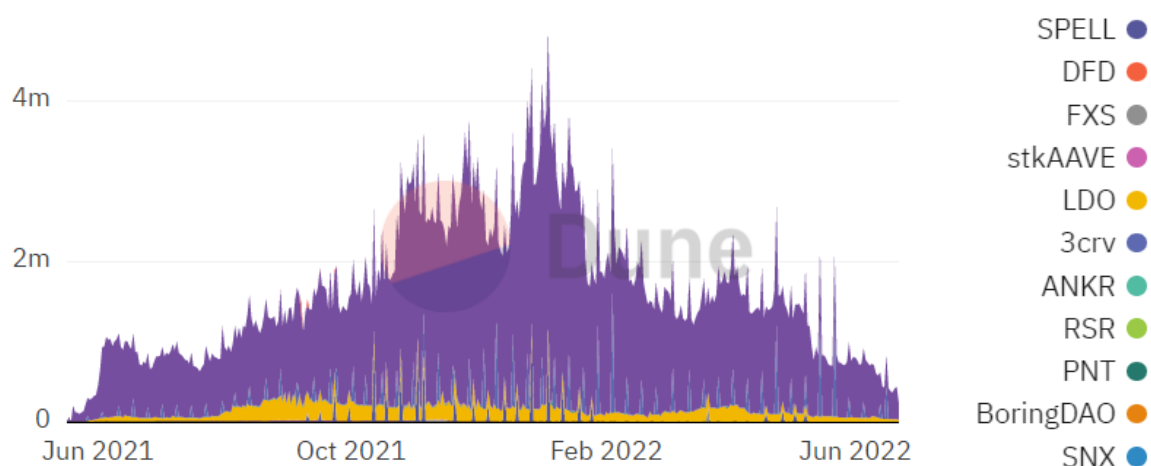
If we want to take on our classic Price-to-Sales multiple, we can look at the revenue number supplied by the Convex front page. This is important to use because it is the revenue that **Convex specifically has driven to users**. This excludes any base Curve fees earned as well as \$CVX token emission rewards.

Revenue (TTM)	159,046,000
Token Supply	63,549,977
<b>Price/Sales</b>	<b>2.5</b>

Looking at future revenue projections, again, it is hard to try to predict where things will be going from here. Convex is an inherent bet on Curve's continued success and earning a significant portion of those emissions over time. Unfortunately, the revenue graph looks quite ugly right now, and is approaching the lowest levels since inception.

To be fair, the average altcoin is down between 80 and 90%—and Convex revenues are down a similar amount. So relative to the industry, the downturn hasn't fundamentally broken anything.

### Convex Revenue Daily



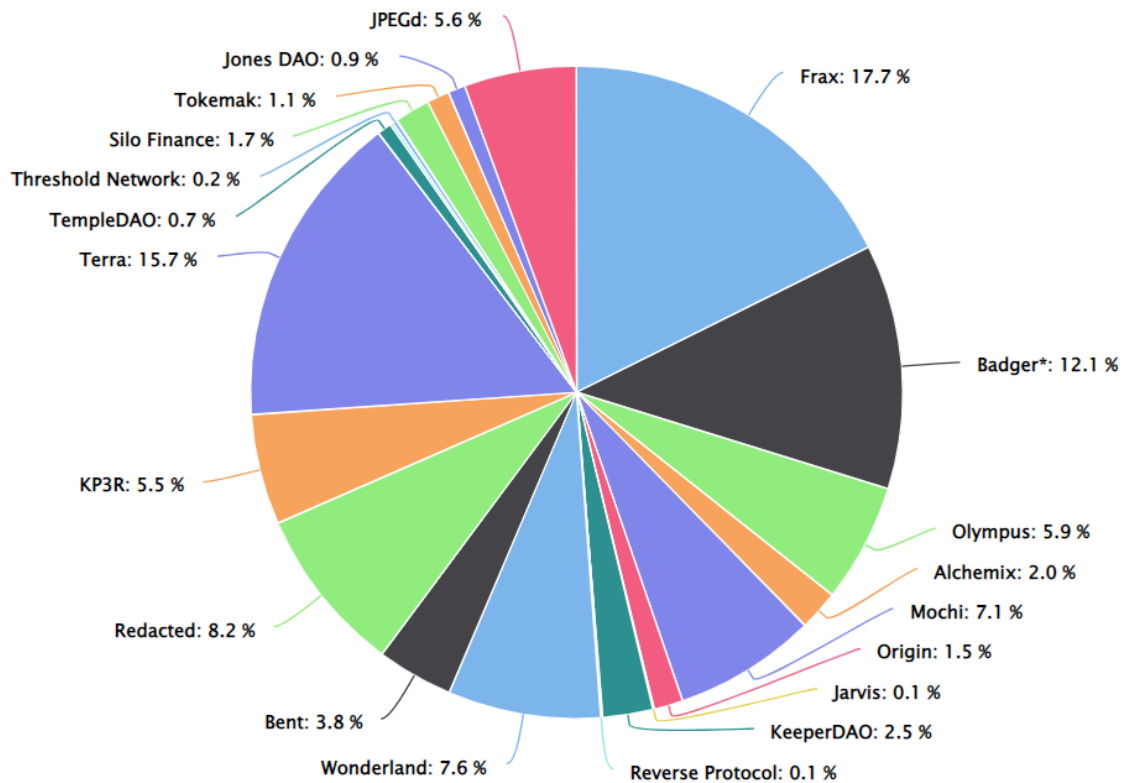
We can't play the guessing game on where this revenue figure will go, but it will take a significantly higher level of trading activity in general for it to start seeing revenue that it was early 2022.

### **Wallet analysis**

As with any asset, it's important to look at who holds it and what they may plan to do with it. For \$CVX, this is especially important because of its utility for DAOs and other protocols, it can become a significant part of their balance sheet.

There is a useful tool called [daocvx.com](http://daocvx.com) that tracks the current DAO activity around \$CVX ownership:

## DAO Owned CVX Market Share



Alright, let's address the elephant in the room: Terra still owns 15.7% of DAO owned \$CVX, or 2.3m \$CVX valued at roughly \$11m. We can't really sit here and speculate about what they might do with it, especially because regulation is becoming an unpredictable factor in the matter. But, it could easily be foreseen there would be some sort of OTC deal with another DAO. Something absolutely critical to keep an eye on in the future, but not much more to discuss for this report.

There is some large ownership by whales that is worth keeping an eye on into the future, most notably Tetranode and C2tP (one of the founders).

### Frax

Aside from that, \$FXS is a massive holder that we have not talked about much throughout this report. Frax obviously plays an integral part to the success of Convex. While we don't need to go into a full analysis here, it is important to know that Frax has built their own locking and

gauge system similar to Curve. Convex has front-run these wars as well, creating a **cvxFXS** token that functions the same as the liquid wrapper for Curve and leading to them controlling 28% of the gauge direction.

## Risk analysis

### Overweight Reliance on Other Protocols

Let us leave no doubt: Convex is massively dependent on the success of Curve and Frax. Through the skewed bribes provided by Frax, if that faucet were to shut down, we really don't know what could happen to the bribe marketplace taking place through \$vICVX tokens. It wouldn't look pretty for revenues, but simultaneously every stablecoin in the past has greatly needed stablecoin liquidity via Curve, and has been willing to pay for it.

The dependency on Curve is simply due to Curve continuing to be the premier stableswap AMM. Curve has a lot of things going for it that support this future, but it is always possible for it to be subject to a takeover from more efficient marketplaces.

For example, Uniswap is the first place anyone would go when wanting to swap from one volatile crypto asset to another. That is, until Synthetix recently updated their swapping process for sAssets on Curve. For the TLDR, what was once extremely difficult to swap between volatile assets in Curve, Synthetix has now made it possible for large volume traders to utilize both Synthetix and Curve to move from a position in \$ETH to \$USDC. See below:



**napgener OxDONE** @napgener · Jun 19

...

\$10m eth to \$10m usdc on uniswap >> 0.3% fee and slippage.

\$10m eth to \$10m seth (0.04% at curve)

\$10m seth > 10m susd (synthetix 0.25% no slippage)

\$10m susd > 10m usdc (0.04% at curve)

for large traders. **\$SNX** always gives best price.

**@1inch** router knows this.



4



3



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Volume for sUSD, sETH, and sBTC pools on Curve are exploding because of this. Read more [here](#).

### Curve Price Action:

Because a decent amount of the yield earned from Convex is denominated in Curve, then we need to be aware of what the Curve token price might do over time. Currently, \$CRV is sitting at

levels not seen since 2020. Because it is consistently farmed (the reward token for LPs), there is just consistent sell pressure that makes it hard to see price rise over time. Although it is hard for smaller wallets to consistently market sell their \$CRV rewards, we think that the ultra-inflationary nature of \$CRV token means that there isn't much to do with it other than sell, or compound back into \$crvCVX.

### Future outlook

*"Every day I check the price... bad price"*

It should go without saying that even the highest quality tokens can get absolutely rekt if \$BTC and \$ETH nuke. Oh, and if the Fed has their hands tied and must continue to raise rates. And if inflation is at 40-year highs. And, yes, even though it often is pushed out of our minds with all magic internet beans, there is still a war going on that pretty much has the world teetering on the brink of global crisis.

So, there's some justification for bad price.

But, let's take some hopium from Arthur Hayes, outlined in his previous newsletter. Hayes says that, despite how bad things feel right now, there are actually some **really valuable discounted tokens out there**. Whether fueled by speculation, Fed printing, true adoption, or some mix of the three, we can rest assured there is an actual level of justification for some of these assets.

For \$CVX, there has been nearly a 92% decline from all time highs earlier this year. This is not to say that the previous valuation of \$2.3 billion was justified and will be reached again, it may not be. But, given there was some **proof of Convex as a valuable protocol**, we can look to see if we may be able to buy at a discount to future value.

Hayes outlines the criteria for evaluating currently slaughtered tokens should be as follows:

1. They are down 75%—99% from their late 2021 all-time highs. **Check**
2. They have actual users that spend real capital to access their services. **Check**
3. They are the first projects defining how key DeFi services should be offered.

### Half-Check

Convex has gotten obliterated, yet has consistent users pay (a lot of money) to access its stack of \$veCRV. Where things get a little fuzzy is at the next bullet. While Convex revolutionized the idea of stacking these "vote-escrow" tokens, that does not grant them immunity from being out innovated (we'd argue it positions them to be especially prone to encroachment from new incumbents).

What we have gone over above highlights some of the riskiest aspects to the protocol in our eyes, and where things may be most beneficial. It is without a doubt, that even at these low

prices, some of the best yields you can get are on \$vICVX and participating in Votium bribes every other week. And that brings us to the final thing to look for in the future: pirex.

## Pirex

[Pirex is a liquid derivative](#) of \$vICVX, that allows users to not be stuck to the 4 month lockup that usual vote-locked Convex requires. Redacted Cartel has been very excited about getting this out, and while we think it has the potential to open up new capital efficiency for Convex, there should always be some extra caution when using new features of a protocol.

For starters, one of main use cases is for people to have “instant tokenized access” to their share of bribe revenue over the next year. While this is purely speculative for the user, what we have shown with bribe revenues over time is that they are extremely volatile, and pretty much impossible to predict. The tokenized bribes are fully redeemable at the future bribe, which does help address this concern.

Nonetheless, cash flows via bribes are better than nonexistent cash flows—something that the rest of DeFi hasn’t really figured out yet.

A great use for pxCVX is for people to just put their bribing revenue on autopilot, not needing to worry about checking in on a bi-weekly basis or processing any transactions and incurring fees. This is a massive benefit to small wallets, as is [Llama Union](#) (which achieves a similar thing).

## Conclusion

We all have experienced this first hand now—the crypto market is nearly unpredictable. All assets are correlated in stressed markets, and crypto has been more of the same. But, bear markets have *always* been great opportunities to accumulate quality assets at a discount.

When looking at potential investments in this bear market, it is critical to look at figures like revenues and usage. Convex is an asset that has a stream of cash flows that help justify taking a long-term position and riding out potential tumultuous price action. On top of this, with big players like Redacted, Badger, Frax, Tetranode, and others all supporting use of the project whether it be through the DAO operations or simply stacking \$CVX, the validation for Convex grows.

## Further Reading/Useful Links

- Tracker for DAOs currently accumulating Convex: <https://daocvx.com/>
- Curve risk assessment substack: <https://cryptorisks.substack.com/>
- Daily reports on current happenings in the Curve war ecosystem: <https://curve.substack.com/>
- Dune Dashboard - <https://dune.com/Marcov/Convex-Finance>
- Llama collage, ie FAQ dashboard for all things Convex: <https://llama.college/questions>
- Llama Union, a way for smaller wallets to participate in bribes <https://llama.airforce/#/union/member>