

# Crypto Fund Management Strategy Report

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## 1 Portfolio Construction

### 1.1 Approach

The objective of this portfolio is to outperform the market through a diversified mix of Layer 1 and Layer 2 protocols, stablecoins, DeFi governance tokens, and active trading strategies. By leveraging advanced trading techniques like options strategies (Iron Condor, Protective Puts, Covered Calls), staking, and hedging, we aim to generate stable returns while mitigating risk in a highly volatile crypto market. Our strategy adjusts dynamically based on market conditions such as bull, bear, sideways, and high volatility scenarios.

### 1.2 Asset Allocation Breakdown

## 2 Scenario-Based Strategy Adjustments

We adjust the portfolio allocation dynamically based on market conditions to optimize returns and manage risk. The following sections provide an analysis for each scenario, including performance metrics and rationale for strategy adjustments.

### 2.1 Sideways Market Strategy

In a sideways market, the goal is to capture yield from low volatility and range-bound movement while minimizing risk.

- **Iron Condor Strategy:** Utilize this options strategy to profit from low volatility and range-bound price action by selling both call and put spreads.
- **Pairwise Trading:** Implement pair trading in options, taking advantage of mispricing between correlated assets.
- **Staking Adjustment:** Allocate 10% of the portfolio (from stablecoin staking) into these strategies to generate yield while keeping the majority of capital in low-risk assets.

Asset Type	Allocation (%)	Key Reasons for Investment
<b>Layer 1 Cryptocurrencies</b>		
Bitcoin (BTC)	15%	Stable, low volatility, largest market cap. Beta: 1.0
Ethereum (ETH)	12%	Leader in smart contracts and DeFi. Beta: 1.2
Solana (SOL)	8%	High growth potential in Layer 1. Beta: 1.4
Avalanche (AVAX)	2%	Promising Layer 1 with strong ecosystem. Beta: 1.5
Algorand (ALGO)	1%	High transaction throughput. Beta: 1.3
NEAR Protocol (NEAR)	1%	Emerging Layer 1 for decentralized applications. Beta: 1.4
Polkadot (DOT)	1%	Cross-chain potential. Beta: 1.3
<b>Stablecoins and Low-Risk Yield</b>		
Stablecoins (USDC, USDT)	25%	Low risk, stable yields, liquidity pool. Beta: 0
<b>DeFi Governance and Yield</b>		
Governance Tokens (Curve DAO)	5%	Exposure to DeFi governance. Beta: 1.3
<b>Active Trading and Options</b>		
Options/Futures	5%	Active strategies (Iron Condor, Protective Puts, Covered Calls)
Scalping/Trading	5%	High liquidity, short-term opportunities
<b>Emerging and Venture Investments</b>		
Layer 2 Protocols	10%	Exposure to scaling solutions for Ethereum
Metaverse/Gaming	5%	High growth in virtual worlds and gaming assets
Venture Tokens	5%	High-risk, high-reward emerging projects
Protected Put Contracts	5%	Downside protection in volatile markets

Table 1: Portfolio allocation and investment rationale.

#### Analysis:

- **APR/APY:** The APR for staking in stablecoins is around 8-10%, translating into an APY of 8.3-10.4% due to compounding.
- **Volatility:** Expected to be low (5-7%) due to the stable nature of the strategies.
- **Beta:** Approximately 0.5, as this strategy is less sensitive to the broader market.
- **Sharpe Ratio:** Estimated at 1.5, offering favorable risk-adjusted returns.
- **VaR (95%):** Estimated at 3-5%, implying a potential loss of 3-5% in a 5% worst-case scenario.
- **Max Drawdown:** Likely to be minimal (5%) given the market-neutral strategy.

**Rationale:** Sideways markets provide opportunities to earn steady income from strategies that benefit from time decay in options, making this approach well-suited to periods of low volatility.

## 2.2 Bull Market Strategy

In a bull market, the strategy shifts towards maximizing gains from high-growth assets while protecting against downside risks.

- **Launchpad Tokens:** Increase exposure to tokens that participate in new project launches such as Launchpad A, Launchpad B, etc.
- **Protected Puts on Meme Coins:** Move protective put contracts to highly speculative assets like Shiba Inu, Dogecoin, Floki, and Pepe to hedge against sharp downturns in these volatile coins.
- **Layer 2 Protocols:** Shift 10% of the portfolio from BTC into Layer 2 protocols such as Polygon (MATIC), Optimism, and Arbitrum.

### Analysis:

- **APR/APY:** Launchpad tokens can offer APR of 20-30%, translating into an APY of 22-35% due to compounding.
- **Volatility:** High (25-30%), particularly due to speculative investments in meme coins and Layer 2s.
- **Beta:** Around 1.5, as the portfolio is more sensitive to the broader crypto market during bull markets.
- **Sharpe Ratio:** Estimated at 1.8 due to high returns in a bull market.
- **VaR (95%):** Higher risk, with potential losses of 10-15% in extreme downturns.
- **Max Drawdown:** Could reach 15-20% during market corrections.

**Rationale:** During bullish conditions, we want to capitalize on emerging Layer 2 solutions while still protecting against downside risks in high-risk tokens through protective puts.

## 2.3 Bear Market Strategy

In a bear market, the priority is capital preservation, so more focus is placed on risk mitigation and stable returns.

- **Protective Puts:** Allocate additional capital to protective puts across the portfolio to hedge against further downside.
- **Stablecoins:** Move the portfolio's Layer 2 and Metaverse investments into stablecoins (USDC, USDT) for stability and yield generation.

**Analysis:**

- **APR/APY:** Stablecoin yields remain around 8-10%, with low risk.
- **Volatility:** Very low (2-3%) due to the heavy allocation to stablecoins and protective puts.
- **Beta:** Estimated at 0.2, indicating low sensitivity to the broader market.
- **Sharpe Ratio:** Likely to decrease (around 0.9) as returns are lower in bear markets.
- **VaR (95%):** Minimal risk of 2-4% loss in the event of extreme downturns.
- **Max Drawdown:** Max drawdown is limited (<10%) due to defensive positions.

**Rationale:** Preservation of capital is key in bear markets, and stablecoins provide a safe haven with minimal risk while protective puts safeguard the portfolio from further declines.

## 2.4 High Volatility Strategy

In periods of high volatility, the strategy focuses on active trading and short-term opportunities to capitalize on price fluctuations.

- **Scalping:** Implement short-term trades using volume indicators, RSI, and Bollinger Bands to capitalize on intraday price swings.
- **Channel Trading:** Employ channel trading techniques to profit from repeated bounces between support and resistance levels.

**Analysis:**

- **APR/APY:** Scalping could yield higher short-term APR (15-20%) depending on volatility.
- **Volatility:** Extremely high (30-40%) due to the nature of short-term trades.
- **Beta:** Potentially greater than 2, as the portfolio is highly sensitive to market swings.
- **Sharpe Ratio:** Expected to be around 1.0 due to increased risk and reward.
- **VaR (95%):** Higher risk of potential losses of 15-20%.
- **Max Drawdown:** Could exceed 20% in case of large market corrections.

**Rationale:** High volatility markets provide opportunities for active traders to capitalize on price swings, but increased risk requires careful position sizing and stop-loss mechanisms.

## 3 Risk Management Plan

The following risk management techniques are applied to manage and mitigate portfolio risk:

### 3.1 Hedging Techniques

- **Options and Futures:** Use of protective puts, iron condor strategies, and covered calls to hedge against market downturns and profit from volatility.
- **Diversification:** Across blockchains, protocols, asset types (Layer 1, Layer 2, DeFi, stablecoins).

### 3.2 Risk Mitigation for Specific Exposures

- **Smart Contract Risk:** Limited exposure to high-risk DeFi projects and use of insured protocols where possible.
- **Counterparty Risk:** Engage with reliable exchanges and DeFi platforms with robust risk management practices.
- **Regulatory Risk:** Diversify across jurisdictions to reduce exposure to regulatory crackdowns in any single region.

### 3.3 Stress Test Analysis

We run stress tests based on a 30% market crash scenario and analyze the expected portfolio performance. With hedging and protective puts, the estimated maximum loss is reduced to 15%, while stablecoins and hedged positions (like Iron Condor strategies) will mitigate the maximum potential loss.

## 4 Conclusion

This report presents a dynamic portfolio strategy with a diversified allocation across Layer 1, Layer 2, stablecoins, and venture investments. The plan utilizes active trading strategies and options to hedge risk and capitalize on market movements, with tailored adjustments for different market conditions.