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Apr 11 · 6 min read

Are We In A Crypto Winter? Back To The Future II

So on 12th Jan (2018) I wrote a post saying there needed to be a 'Crypto Winter': a **sustained minimum 50% haircut** on the market. I actually wanted to say 75% but compromised with the team to not sound too alarmist. Next time I won't be so restrained 😉

To recap my reasoning: it was because, there was / is too much hype / momentum trading and not enough value being created at the infrastructure layer. Without critical infrastructure all promise was just that and I felt we were 2–3 years away from successful DApp based businesses to begin to be built and sustained on top to justify these valuations.

I proposed: we needed to get back to the job of building the future aka 'Back to the Future'.

This post explores where we are 3 months on and (obviously) had to be called..

BACK TO THE FUTURE II

So firstly, when I did my post (with hindsight) it appears we were just in the process of a 71% correction from a peak of just over $825 billion (Jan 7th) to a low of $234 billion (April 1st), since recovering to the $250 billion mark.

Whilst obviously I felt long-term the market needed to correct I did not think it would happen that quickly and initially thought the dip was temporarily was simply brought on by the seasonal Chinese NY effect.

From a panel I did with Hedge Fund Weekly / Reuters a few days later (18th Jan) I reiterated to the audience of fund managers I felt we needed a winter to clear out the market but learnt a large number were still waiting on the sidelines to enter the asset, and based on conversations expected to pile in latest March (after Chinese NY).

But here we are. In reality, it seems a perfect storm hit the market much of which was down to a number of whales sharing the same sentiment and selling at the top:

- Mount Gox whale began dumping Bitcoin
- There was sustained ETH dumping from ICO Treasuries e.g. EOS (something I have consistently advocated as basic treasury / risk management)

But it was because there was a broader downward pressure from a regulatory clean up of the market (or at least the threat of it), which again **I must stress is a good thing**

- News of a no. of exchanges being shut down hit market (particularly in S Korea which was responsible for big % of global volume)
- This continued in the US & Japan and has seen a wider 'cleaning up' of exchanges inc. Binance moving to Malta & various subpoenas to both exchanges and more fruity ICOs

All this understandably spooked the market creating a shadow of regulatory uncertainty and ambiguity. Making many seriously question the very concept of an ICO and 'utility token' would hold. Based on our connections to regulators I have always said this was a misinterpretation. Such a thing as a 'utility token' definitely exists (at least as a possibility) in the minds of the major regulators, including The SEC. They simply do not have a enough data to take firm positions yet and continue to feel strong messages are required to move the market in the right direction. Almost all actions have been squarely targeted at low hanging fruit in blatant violation of existing securities laws or outright fraud.

Overall, I think the last 3 months have been great for the long-term health of the market for all the reasons in my original post but I am still undecided if this would qualify as a 'winter'. Something I believe will be very much determined by the next 60 days of trading (as of 10th April).

SO ARE WE IN A CRYPTO WINTER RIGHT NOW?

At the moment I would say no. I think the factors detailed above have just elongated that seasonal trend and with hindsight feel even more obvious now than it did back then. Furthermore, it looks like the hedgies have not gone away and were just biding their time for the bottom. Just last week both Soros and now a Rockefeller fund have both signalled they are entering the market. This is the cue to their peers and when combined with positive signals from G20 and an inevitable (at least to us) softening of tone from SEC it's likely we could see a recovery.

To add to this, I just got back from Brussels where I presented at the European Parliament and had the pleasure of speaking with MEPs and various civil servants spearheading the union's approach to blockchain and ICOs more broadly. The message I got was loud and clear: a number of members states such as Estonia and France as well as Malta, Gibraltar are looking to push ahead with national approaches to inform (and hopefully lead) a wider EU wide framework. The UK too is craving its own path in the face of Brexit. This may include regulation but only to improve standards not kill the market.

Remember in the EU we are not burdened by restrictive investor accreditation and have been world leaders in crowdfunding for sometime. Equally, we don't have China's concerns of capital flight nor India's wrestling with a cash based economy (inc. a new digital cash).

In short, regulators are getting competitive as they wake up to the opportunity and no longer leaving it to just fringe environments like Switzerland or Singapore and that's a great thing for crypto.

However, despite all these positive developments the incentives for a more value driven market sadly still aren't here yet. Or put another way the disincentives to stop focusing on momentum trading haven't fully taken a hold.. So there is little incentive to look for long-term value.

The strongest signal yet for me on this is: I am still hearing syndicates saying a 20–30% bonuses on pre-sales even for strong projects is less than they can 'could' make from an ETH recovery, and many are asking for new projects to peg to ETH.

The means rules of the game haven't fundamentally changed. And if the hedgies lift the market off the back of increasingly positive signals from regulators we could end up back on the crazy ride (and bumpy) to a Trillion dollars before we hit a real and sustained winter.

That said I think short termist syndicates are gradually beginning to be supplanted by more professionalised teams that have converted into funds or investment partnerships and are looking to take more long-term positions. But for the former to disappear and the later to flourish we can't live in a market of 10–30% daily gains.

IN SUMMARY,

- **With an increasingly competitive regulatory environment I have never been more bullish on the long-term outlook for the market. In particular tokens of genuine utility value that serve as well designed crypto-assets for open DLT technology.**
- **I would say finally with a 70% haircut the market is appropriately priced for there to be genuine value to be had 'in market', but still believe it is the new Generation 2.0 projects coming to market that offer the most upside.**
- **My preference would be the market plateaus at current price levels to shift focus to supporting new innovations get to market that have real long-term value and change its underlying dynamics away from pure momentum trading.**
- **However I fear now hedge-funds can see value in market they will pump new capital in which further distorts the market taking us on another crazy bull run towards the end of the year.**

In the meantime, it's worth stressing at Outlier Ventures we continue to make long-term investments against our Convergence Thesis, for projects building out critical web 3.0 infrastructure. These projects typically take over 12 months of token design and technical development before they are even brought to market and our holding often vests over several years alongside the founding teams. So we are about as long as you can be on crypto.

DISCLAIMER: This does not constitute investment advice. Please do your own DD. I don't need to tell you, you could lose the house on this stuff.

original post on Outlier Ventures website.