As discussed in the white paper (which I’ll update when we get more advanced with more recent information), the fund will track the performance of “Large-Cap” cryptocurrencies which have a market capitalization of $**500M** or more in an unweighted manner – which means that we’ll invest the same amount in each coin (if there are 15 coins that are ‘Large-Cap,’ and we receive $5M in funding, each coin will receive a $5M/15 investment).

**Step 1**: Filter universe of coin to include only those with Market Cap ≥ $500M.

**Step 2**: Allocate capital (C) by dividing it in equal amounts into each currency, where n = number of currencies: C/n = CC (coin capital)

*How will we proceed to invest it? Following that initial market-cap filter, we will invest following a dollar cost averaging strategy, a momentum strategy, and technical analysis tactics – in order of importance. I’ll discuss these briefly in the footnote.*

**Step 3**: Dollar Cost Averaging:[[1]](#footnote-1)

First, divide the capital each coin will receive into little tranches: CC/30. Each of those tranches gets invested about 2 weeks apart from one another (taking into account momentum, see next step). After 30 periods, or 30\*2 weeks = 60 weeks or about 1 year, the full CC will be invested and total C will also therefore be invested.

**Step 4**: Momentum:[[2]](#footnote-2)

If price is going down for a time period (2 weeks), wait another week. If price is going up for a time period (2 weeks), buy immediately. Again, this is the **price** of the currency.

Momentum considerations **can** make it so that it would take more than 60 weeks to invest the total capital if markets are not being particularly conducive.

**Step 5**: Technical Analysis:

I would like to implement a modified resistance/support system but I don’t think we have the expertise to. Instead what we should do is basically monitor the bid-ask spread. Since cryptocurrencies can be illiquid to trade, the bid ask spread can be large. We have to choose some spread at which we refuse to trade because the price is just high for us to buy.

Calculation uses the **Lowest** ask price and the **Highest** bid price for the day.

If the bid price is 18 and the ask is 20, the bid ask spread is 20-18 = 2. We can express that in % by: 2/20 = 10%.

So, DO NOT trade if bid-ask spread is ≥ 15%.[[3]](#footnote-3) This could also back up our investment schedule.

**Step 6**: Frequency trading.

Our order may be too large to execute in one go. Hence we should divide it more into smaller – more manageable orders.

So, CC/30 = Investable Capital (IC) for this 2 week period.

To execute the trade, IC/15, and plug those orders in over the 2 week period.

**Step 7:** What happens next?

**Three things happen.**

**First**, currencies move in and out of our ‘**investable universe**.’ Ethereum does poorly and now its market cap is $200M – well we have to sell. Or, some other coin does well and now its market cap is $800M, so we have to buy it. Since we’re not getting additional capital, that means we need to rebalance our investments.

There are two scenarios, the first where we still have cash we have no invested yet, and the second where we have all our cash invested, and we need to sell off some of our assets.

**A. Cash not yet invested.**

We simply go back to the original formula: C/n and because n is larger, we reduce the total amount going to each currency and allocate the correct proportion to the new one.

**B. All cash invested.**

We go about Step 3-6 again. Except this time, we’re trying to sell – not buy.

So, sell in tranches, not all at once (Dollar averaging)

If price is going down for a time period (2 weeks), sell immediately. If price is going up for a time period (2 weeks), wait another week. Again, this is the **price** of the currency.

For Bid-Ask spread, same thing, don’t trade if it’s greater than 15%.

**Second, we take a fee**

This is the exact same process as above. We can take our fee from the cash remaining or by selling off assets. Our fee is 1% of Assets under management:

(Cash not invested + value of currencies held)\*1% = our fee. If we need to sell assets, see Step 7.b.

**Third**, we pay back our clients. Because we’re sort of operating a unit investment trust, we’ll pay back our clients at some point. In order to do so, we’ll have to sell off our investments (same as Step 7.b.)

1. Dollar cost averaging means that we are not investing in the various cryptocurrencies as “lump sum” investments. Instead, we invest in patient intervals which minimize transaction costs, increase flexibility, keeps us from crossing the bid-ask spread due to large transactions, and allows us to buy more of an asset when it is cheaper. [↑](#footnote-ref-1)
2. Momentum means that assets which are increasing in value tend to continue increasing in value and vice versa. While it has not been studied for cryptocurrencies, this factor is probably the most accepted factor in every market. The time period which determines if an asset has ‘momentum’ is typically 6 months to 2 years, which has to be tweaked a little for cryptocurrencies which move faster than those markets and for Dollar Cost averaging. [↑](#footnote-ref-2)
3. https://hackernoon.com/introducing-token-spread-simple-bitcoin-crypto-spread-monitoring-for-arbitrage-67ca0cb88358 [↑](#footnote-ref-3)