A little-known prop shop manages more than $100 million of crypto. The firm's cofounder outlines his strategies for finding high-upside trades in a bear market — and how his team identifies which tokens to target.

Kari McMahon Mar 28, 2022, 7:22 PM

Bryn Solomon, CEO and co-founder of Mgnr.io Mgnr.io

With interest rates rising and inflation surging, many crypto-trading firms are feeling the pain as cryptocurrencies continue to remain in bear market territory.

One small prop trading shop, however, says it's generating record profits and has grown assets under management to more than $100 million in roughly three years.

"We don't really lose money because we're quantitative and we're market neutral," Bryn Solomon, the co-founder and CEO of crypto trading shop Mgnr.io, told Insider in a recent interview. "A lot of crypto funds have probably felt some pain in the last few months, but it's not the case for us at all, we're always going up."

The ability to find profit in any market environment comes down to Solomon's years of trading experience from working as a derivatives trader in Asia to then heading up a fixed income derivatives desk at a Chicago trading firm.

In 2019, he decided to bring his skillset to crypto, as he sensed there were opportunities in the market.

"At a glance, it seemed like a lot of inefficiency," Solomon said. "And as somebody with about eight years of professional trading experience, it's pretty easy to quantify how much money we think we could make building out these systems."

What might rub salt in the wounds of many of the struggling crypto funds is that Mgnr's returns have been secured by systems that Solomon says essentially run by themselves.

"We're at the point now where no one's really having to watch any of the trading systems," Solomon said. "There's an underlying assumption that they're always working and they're always making money and we're just doing research somewhere else."

Solomon and his team built one large trading system that is aware of a range of micro and macro catalysts.

"All of these inputs go into our pricing, and so cross-exchange pricing is naturally one of the inputs that goes into this meta system," Solomon said. "But there's also other things we look at like the interest rate curves, and what's happening with the equities markets and a whole range of other features."

A change in interest rates doesn't mean a change to core algorithms. It usually means tweaking the inputs and potentially lowering the threshold for when money is allocated.

The micro side of the system focuses predominantly on high-frequency-trading strategies that link to order books and order book features, Solomon said.

"Looking at the different volumes that are sitting in different order books and looking where people are making trades and looking where people are canceling orders out of the orderbook," Solomon said. "I don't think HFT is crazy rocket science. I think it's just the people who are good at it are very thoughtful and clever about how they use the same data that anybody could access."

Strategies for identifying trades

What makes Mgnr unique is its remote-first culture in a team of 15 distributed across Asia, Europe and the Americas.

"I think for us, what we try to ground ourselves on is objectivity," Solomon said. "We try to run a very scientific culture, in the sense that there's not a lot of room here for emotions or trying to be right or anything like that."

Trading is split into two categories, on-chain trading — which focuses on opportunities in the DeFi and NFT sectors — versus centralized venue trading. The other two focus areas are quant research and infrastructure development.

One of the biggest challenges for the Mgnr team in the last six months has been the proliferation of layer one protocols, which include the likes of solana, cardano, avalanche and terra, and the connecting bridges between layer ones, such as wormhole or multichain, Solomon said.

"That fragmentation is a blessing and a curse," Solomon said. " The amount of system maintenance and engineering that you have to do to cover all of these changes, it's increasingly burdensome. I think it's unhealthy for markets myself, it doesn't make sense that lots of people are trading very similar things but just in different locations."

"On the other hand, that becomes an opportunity, a lot of alpha in trading is just doing things that other people intellectually know they could do, but they just don't have the bandwidth or the expertise to actually implement it," he added.

Mgnr is also using their expertise in the crypto markets to make venture investments.

"Knowing what to look at on-chain to trade goes hand in hand with knowing all the projects that have been built in," Solomon said. "And so that's how we got into the venture in the first place."

Solomon attributes some of the firm's biggest payoffs to venture investments made so far.

"Monetarily, our FTX and solana venture positions are going to be huge payoffs," Solomon said. "And I suppose that's the nature of venture, it's really right tailed. So when you hit it once, it's a big deal."

Solomon says another notable trade was the purchase of the raydium token. The firm "sniped" the token from a special pool on Bonfida at a discounted cost, according to documents seen by Insider.

Securing tokens from the pool means they come with a 12-month lock-up period.

When the token launched on FTX days later, it topped out close to $15. Solomon's trade that cost nearly $1 million to put on ended up being worth close to $20 million at that point.

While Solomon referred to this as one of their best trades, he would not share at what price they actually exited the position or whether they hedged during the lock-up period using a perpetual future.

If they were to exit the position even at today's market price, which is around $3.30, it would have amassed a return of around 810%, according to documents seen by Insider.

"Something like that, which was just very low effort, but just about being consciously prepared for something we knew we would land," Solomon said.

Selecting the right tokens

A lot of the process is very scientific, but one area that is based on human judgment is the tokens to use for trading. This judgment is based on changes in market volumes and upcoming launches.

It's important to have individuals making this decision because data on trading volumes can be misleading, Solomon said. For example, there could be an accident in the volume aggregators or a special situation occurs.

Crypto trading is very different from equities, in that the price will move in the run-up to a public announcement about a particular token or project, Solomon said. This influences how traders need to think about various tokens.

"I would say like most times, most news is known by hundreds, if not 1,000s, of people before it's announced," Solomon said. "And so of course, they'll all go and trade that news and try and make money from it."

"So price tells you that there is news coming, rather than the news coming and then the price moving — like would happen in an equity market, that's a bit more regulated," he added.

Solomon can get an idea of when changes might be afoot from speaking to exchanges, trading firms and other venture teams.

But it's not completely an insider's game. Some of the best opportunities can be found by digging deeper into publicly available information, Solomon said.

This means looking for an announcement on a development team's Discord page rather than their Twitter feed, for example, he added.

Traders can also find opportunities by looking in the code repositories for crypto projects.

"If you're an at home player and you want to get some alpha, if you know how to follow people who are committing code on GitHub, right?" Solomon said. "If people commit a huge update, it's probably yet to be announced publicly, but you can tell that they're about to release a new version two, or [a] new feature."