MODULE 6 UNIT 3
Video 1 Part 2 Transcript

IN COLLABORATION WITH getsmarter™

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How did crypto algorithms fare during the initial stages of the COVID-19 pandemic?

NIKITA FADEEV: During COVID, it was really interesting. The system went under a severe stress because in crypto liquidity is fractured so there are – well by now – probably 10, 20 exchanges that have a good amount of liquidity in them. But frankly, the market makers and liquidity providers between them, the intersection is like really high. When the crash on the March 12th happened last year, it was a big panic attack for many of the traders and Bitcoin crashed over 50% in just one day from peak to trough and the algorithms, they were really well-positioned to take advantage of the price dislocations.

But what we found first-hand is that it's so much about collateral management in those moments where you just want to have access to your assets because the infrastructure just doesn't really allow this to happen because exchanges would suspend withdrawals and other aspects are preventing you from really making the most out of the opportunities. And so, I think during the COVID, again like in crypto the algo strategies performed well. But similarly, to I think other asset classes, but what was there the small peculiarities of the infrastructure, which always seems to be somewhat a limit due to a huge adoption and market just needing more time to mature.

And so, during the COVID crash, we've been really tight on our risk management, and we've been really careful with all the risk-taking. So, we've been fortunate to stomach that really well and not incur any losses in coming from many of the exchanges and the ethos of the funds, where we are really trying to be extremely buttoned up on the risk management and frugal on risk-taking, kind of always protect the bottom line. So that worked out pretty well for us while we've seen many of the quite established players being completely wiped out on that move. And so in that case, it paid off to be tight and risk management.

How do you see blockchain technology impacting the future of algorithmic trading?

FADEEV: I think the blockchain technology has a big role to play and the intersection of algo trading and blockchain will, I'm pretty sure, prove to be a big force of nature. And that, we already get a glimpse of what it can look like through decentralized finance where there are all sorts of different protocols, which allow you to get access to liquidity, to market make on some of those or protocols, and thereby generate some yield from that or lends some of your coins and be compensated for it. So that infrastructure is keeps on growing by day, this doesn't come without inherent risks and that's what we've seen a lot across the board that, whenever the market gets overheated so much money is chasing the deals and the valuations get overheated and people just optimize for their investability. And so, they get big investments and from VC and quite often, badly under perform and under deliver on the promise by rushing too fast to the market.

So in my view, it's a balanced projection that it has a big potential but then one has to be a weighing that by the likelihood of success and all in all, it just means, you know, time needs to pass for this to get some maturity.

What advice do you have for those starting out in the crypto trading space?

FADEEV: And so, when joining Fasanara Capital in 2018, we've been really fortunate to be in position of really high responsibility, but at the same time, not knowledge of how to do the job. We were kind of coming out of university and was the idea of a building out a fund from scratch kind of getting the investments, crafting the investment strategies, risk managing it, and well, growing it. And so, the first 6 months were pretty challenging for us in terms of just getting started. It took a while to get the first seed capital because everyone was excited, but not many people wanted to be the first one to pull the trigger. And so, after a full year, we finally got our first investment and started really small.

We started kind of building up from there quite aggressively and constantly trying to rethink every step of the life cycle of our trades. So, pre-trades, analytics, then during the trade execution and post-trade evaluation, and that proved to be extremely impactful in the longer term. And so, since then, we've expanded our assets under management within 12 months by over tenfold and traded billions and billions and billions of notional of crypto. And we've been, I think, one of the biggest factors that helped to evolve and adapt and grow so fast, was that we've been like extremely focused on just doing one thing, driving the value for our investors. And it's kind of always thinking from their perspective, how can we maximize the value and crypto landscape. It always kind of tries to lure you into doing more than potential you should be doing and that's quite often in a short run is beneficial, but in the longer run, losses, severe losses and blow ups come around.

Our lesson from all this is that, it's really, really important to craft your set of principles and philosophy that is driving the funds because in the moments of biggest stress and doubts and uncertainty, that's what you can come back to and make the right choice.

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