

Decentralization Reigns Supreme

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Dear Figment Capital Friends, Family & Community,

The events of the past two weeks in crypto have been shocking to observe and monitor. Before sharing our thoughts about what transpired, and the impact to the market and our industry, we want to extend our sympathies to everyone impacted.

Decentralization Reigns Supreme

Last week, FTX International (“FTX”), the world’s 3rd largest centralized cryptocurrency exchange, imploded. FTX was discovered to be insolvent after using customer deposits to cover losses at its sister company, Alameda Research. The news came as a total shock. The company’s founder and CEO, Sam Bankman-Fried (“SBF”), seemingly could do no wrong; he was one of the industry’s shining examples of success, featured on the cover of Forbes magazine.

These events left countless individuals and institutions speechless and questioning not only whether they will be made whole, but whether they still believe in crypto.

However, FTX’s fall was just like others this year. Misuse of customer funds, lack of transparency, and insufficient regulation were key reasons for the collapse of not only FTX, but 3AC and Celsius as well. These are not “blockchain problems”; they are traditional problems that will always exist without transparency, guardrails or enforcement. We believe our industry has answers: decentralization, verifiable on-chain data, and self governing protocols.

The Vision Has Not Changed...

The decentralized vision of trust minimization and transparency — a vision born out of the 2008 financial crisis — has come full circle. In the wake of the fall of another trusted, centralized actor that failed to manage its risk and protect its customers, the need for decentralized protocols, trust minimized and transparent by design, is more apparent than ever.

These antifragile and open source building blocks will be the foundation for the next generation of the internet, an internet that will create fair global markets and put ownership of data back into the hands of individuals.

But these building blocks still need to be dramatically improved upon in order to compete with their Web2 counterparts, which is why our focus is on scalability, interoperability, privacy, and better UX. These core infrastructure verticals are essential to the goal: global Web3 adoption.

...But the Headwinds Are Strong

While FTX’s failure is ultimately the failure of a CeFi exchange grossly mismanaged by its executives, the decentralized protocols that have operated seamlessly throughout the chaos may suffer the consequences. The collapses of this year will slow adoption, and we will likely see regulation, both good and bad, sooner than anticipated.

All types of market participants are affected: retail investors, funds, institutions, trading firms, and protocols. Liquidity in the ecosystem is likely to be substantially reduced for the foreseeable future, and both retail and institutional sentiment may remain low for some time.

It will take work for us to rebuild trust with the masses, but we believe the washout that we are witnessing now will only benefit the idea of a truly decentralized internet moving forward. From the ashes, flowers grow.

What to Expect

Despite the short-term impact FTX’s collapse will have on the space, the development of a more accessible, antifragile, and decentralized internet will continue unimpeded. The best founders and most interesting technology will continue to be well funded.

The path forward is non-custodial, segregated custodial, and transparent centralized custodial solutions that allow individuals and institutions to interact with public, decentralized protocols. This vision of decentralization is what Figment Inc. has been building toward since it was founded in 2018; Figment Capital exists to invest in and support the infrastructure that can make it a reality.

Outlook

While our vision and thesis for the decentralized internet has only been reaffirmed by FTX's collapse, we recognize that the investing landscape may be different for some time.

We expect some founders may delay launch until they have regulatory clarity or the industry's outlook improves. We are in touch with the teams we've invested in and are helping them navigate this new reality.

Deal flow may slow down to some extent as founders do not want to raise in a difficult, low-liquidity environment. However, opportunity will persist.

Full Steam Ahead

The events that transpired last week have reinforced our investment thesis and long-term views on the future of Web3. Although we sympathize deeply with the countless people who have been affected by the collapse of FTX, we are as optimistic as ever about the decentralized future.

Our team is fully dedicated to the long-term success of this industry and we do not plan to slow down any time soon. We appreciate everyone who is on this journey with us and we are excited for what's next.

[If interested in connecting, our doors are always open](#)

Best,

Figment Capital