jlabs digital

The Token Ratings Manifesto

The Token Ratings Report by Jlabs Digital

We at Jlabs Digital believe that tokens, specifically tokens native to a network, are commodity money.

As such, network tokens follow basic principles that are applied to other circulating and more traditional currencies, such as dollars, pounds, yen, and so forth. This includes things like velocity and supply.

That, however, is only half of it.

The public layer-one networks from which these tokens are created represent economic financial layers that support businesses, organizations, and households. And the network is able to maintain consensus in a permissionless manner thanks to these network tokens.

This gives it similarities to traditional economies where laws provide a framework to foster business and commerce within and between nation-states.

This tokens-as-money mindset allows Jlabs Digital to apply a fundamental framework for evaluating tokens in relationship to one another (i.e., what token is exhibiting strength or weakness) much like analysts do when forecasting GDP, inflation, rate expectations, and currency strength for various economies.

What is unique about Jlabs Digital research is that we don't stop at just creating a framework. We develop the models using granular onchain and offchain data to better forecast price changes. This includes data which support questions such as:

- What is the rate of change in how network tokens are being used?
- How leveraged are the tokens that are in lending protocols?
- Are transaction fees pricing out users/wallets from the network?
- Is a certain wealth demographic accumulating or distributing supply?

Jlabs Digital models streamline more than a billion data points for the ratings that drive this report. This is done by ingesting onchain and offchain data, using Big Data indexing and compute techniques to generate metrics, and applying machine learning techniques to deliver our end ratings product.

It's a culmination of computer engineering, data science, and economic theory into one report to help better understand the future price movements of a token.

Who is Jlabs Digital

Jlabs Digital (previously Jarvis Labs) began in early 2018 and quickly gained attention for the comprehensive wallet tracking system which predicted price movements—one of the early inputs that powered our autonomous trading system J-AI.

J-AI has expanded its capability to where it now operates for trade desks, VCs, family offices, and HNWIs to manage their accounts.

Over the past six years, JLabs has expanded its research team to build metrics that find signals synthesising data from tradebooks, orderbooks, technicals, DeFi, wallets, macro, options flow, and more. The aggregated data is then analyzed by the Jlabs quant team who focus on automation and execution of the signals.

While you may not have heard of Jlabs Digital, our market commentary is followed by the largest names in crypto, Wall street, and high frequency trading firms.

And now, for the first time, the Jlabs Digital team is publishing research on some of its in-house signals in a formal research report.

We call it the *Token Ratings Report* by Jlabs Digital.

What is The Token Ratings Report

The Token Ratings Report (TRR) is a real-time and ongoing set of ratings for each token derived from the synthesis of three main categories (monetary policy, network systems, and technicals) of analysis, steeped in domain theory.

These signals are not for trading in and out in the same day, but rather curated for portfolio managers who intend to hold and actively manage a basket of network tokens over time, and perhaps find ecosystems that are well positioned to foster growth for smaller projects and dApp (decentralized applications) tokens.

The industry lacks the development of analytics and quant-driven research focused on price movement and token fundamentals, which is why Jlabs Digital developed this report.

Methodology

Jlabs Digital's approach for the TRR framework is rooted in the fundamental principles of the Quantity Theory of Money (QTM), which the team borrowed from to create what is known as the Quality Theory of Tokens (QTT).

Through this framework the team breaks metrics into supply and demand to better forecast price changes.

On the supply side the metrics assess the supply of the token, the usage of the token, its distribution among protocols and wallets, and movement of the token.

The demand side of the TRR framework analyzes user behaviour, including how tokens are used as collateral, and the network's demand, measured by the transactional load and the cost of block space, which reflects the real-time value users place on the protocol's services.

These metrics help generate Jlabs Digtial's TRR, which analyzes and synthesizes three core areas for each network—Monetary, Network, and Technicals.

Monetary Metrics

- Token Usage: we compute the on-chain monetary supply of a token, using our proprietary M2 metric, which reflects the token's liquidity and utility within its ecosystem.
- Leverage: we measure on-chain leverage, such as lending and borrowing activities, to gauge whether we are nearing a minsky moment.
- Diversity: we compare the token's usage across the different protocols of a network using various Gini coefficients. However, a "fairly" and equally distributed tokens does not equate to a better rating in our metric. Rather on the contrary, we want to see capital (tokens) being amassed prior to price movements, a trend typically seen in developing nations prior to a rise in GDP.

Network Metrics

- Network Demand: we measure the price level of the network akin to how inflation is measured in an economy. This gives a view into the cost to transact for goods and services on a network in a native currency basis, relative to itself.
- Demand Shock: by breaking down gas fees, we track sudden changes in token demand. We can think of this as causing short-term supply chain disruptions that change commodity prices.
- Users: we track the number of active onchain users along with balance sizes to better understand if the network is pricing users out.

Technical Metrics

- Price Strength: Track the momentum of a token's price movements provides insight into market confidence.
- Accumulation: Wallet analysis can signal long-term holder confidence and potential supply constraints.
- Sentiment: Gather sentiment data to translate token-specific internet chatter to improving or worsening sentiment. This helps anticipate the end of price movements or beginning of a movement.

Rating System

Jlabs Digital proprietary rating system aggregates and synthesizes the nine prior metrics and assigns each token/asset a specific rating from 1 to 10 each day for each category. These ratings then get combined and calculated again to offer a better understanding on longer term trends that can be broken down into a monthly report.

The TRR is a product the Jlabs Digital team has been working on for well over a year, and is excited to share the findings with you.

Sincerely,
The Jlabs Digital Team