

Tsunami Finance venture capital investment memo by Ian Miller

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Executive summary:

[Tsunami Finance](#) is a margin trading and spot exchange powered by [Aptos Network](#). It lets users trade and swap with 0% price impact, enter and exit positions by accessing optimally priced liquidity.

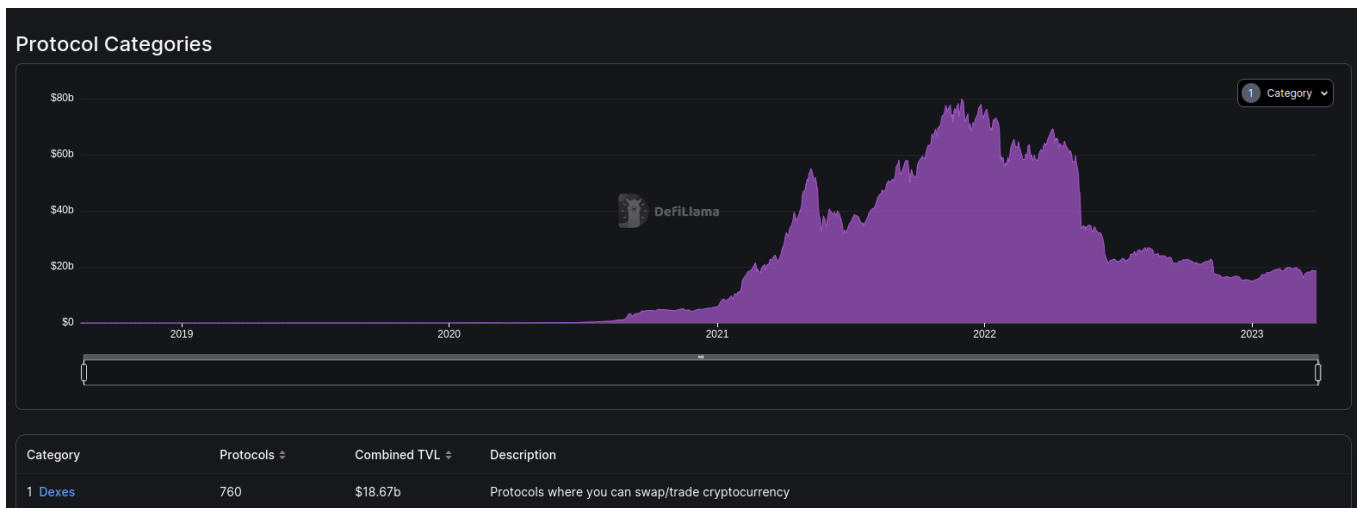
Moreover, DEXes are cryptocurrency exchanges that operate on a decentralized network, allowing users to trade cryptocurrencies without the need for a central authority. In other words, users can trade cryptocurrencies peer-to-peer (P2P) without the need for a centralized intermediary. DEXes use smart contracts to facilitate transactions and offer greater transparency, security, and privacy compared to traditional centralized exchanges.

Derivatives, on the other hand, are financial instruments whose value is derived from an underlying asset, such as cryptocurrency. DeFi derivatives are smart contracts that allow users to trade financial instruments, such as futures, options, and swaps, without the need for a central authority. DeFi derivatives offer several advantages, such as increased accessibility, transparency, and security.

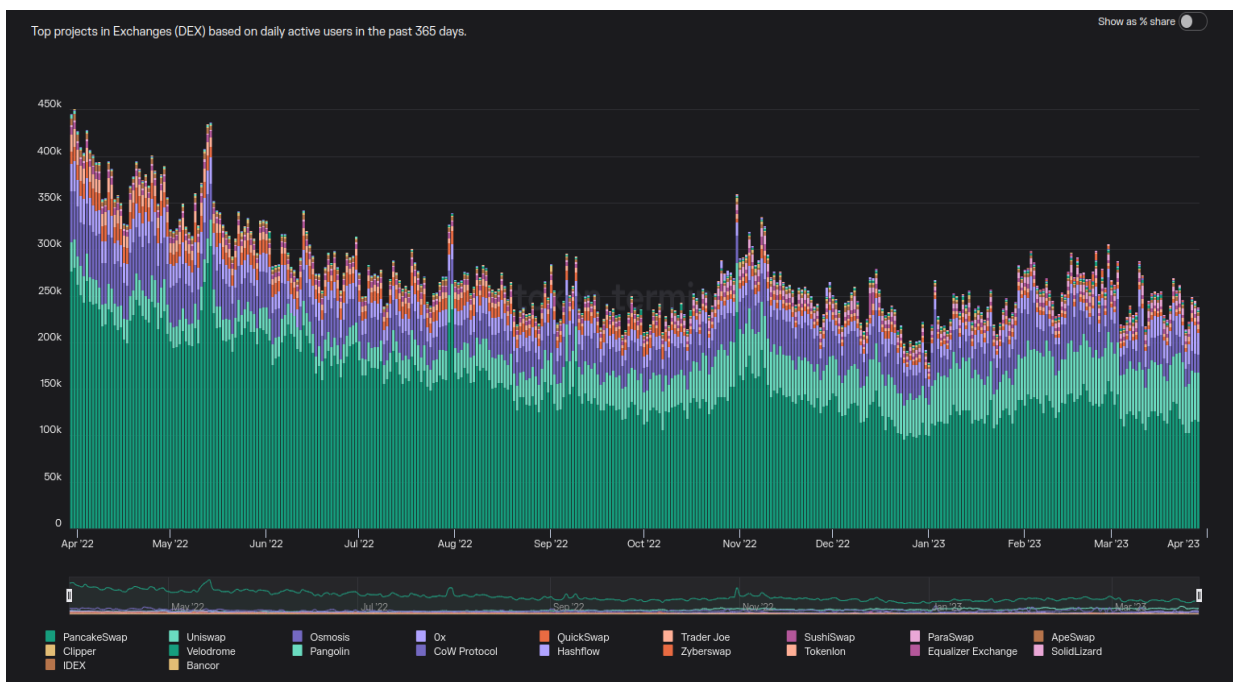
Both DEXes and derivatives have become popular in DeFi due to their decentralized nature, offering users greater control over their assets and transactions. However, there are also risks associated with these DeFi protocols, such as smart contract vulnerabilities, liquidity issues, and market volatility. It is important for users to carefully research and understand the risks involved before engaging in any DeFi activities.

Problem:

- 1) The problem the Tsunami Finance is solving is big because the market size of dexes in DeFi is equal to TVL \$18.67b



- 2) The problem is real and validated by users. As a fact, there are average 250k daily active users in dexes



- 3) It's fantastic painkiller in this niche because thousands of customers every want to use different solutions in dex category and implement their financial strategies and use market vulnerabilities and also easily safely cheaply and quickly buy cryptocurrencies in a decentralized manner
- 4) But there is no understanding about how well-placed are founders of this company

Solution:

- 1) The founders are very happy to have fantastic partners and players across [Aptos](#) that make the onboarding experience of both users and capital extremely intuitive

- 2) As for Tsunami's Finance customers, there are official data on their site and it has following metrics:
- TVL (Total Value Locked) = \$1,717,166,528
 - Total volume of trades = \$526,495,079,486
 - Total users = 63,264
- 3) There are some reasons why Tsunami Finance is faster and cheaper by at least 50% than its competitors:
- Tsunami Finance is built on top of Aptos that claims to have a high TPS rate of up to 10,000 transactions per second, which is significantly higher than most blockchains: Bitcoin (7 TPS), Ethereum (15 TPS), Ripple (1,500 TPS), EOS (4,000 TPS), Tron (2,000 TPS)
 - Tsunami is solving the trader's problem with slippage and frontrunning incentive like on AMM dexes
 - Tsunami is solving the LP's problem that LPing is unsustainable and destroying the capital of LPs because LPs are often arbitrated by MEV bots and it leads to situation that LPs sell their volatility profit too cheaply
 - There is not a sustain a not-so-impermanent loss on AMMs
 - Also, Tsunami is solving the problem with Virtual AMMs that has Uncertain exit liquidity, Uncertain exit price, Slippage and LPs cannot participate on VAMMs
 - Moreover, Tsunami is solving the problem with keeping Character Large Objects (CLOBs) data like spot, futures, and options trading, central limit order books. The problem is that CLOBs are very expensive to run on-chain and they are almost entirely inaccessible for the public to become market makers in any profitable function
- 4) The unique solution of current problem from Tsunami Finance:
- Dynamic Liquidity Pricing that protected LPs with increasing and decreasing fees in different market situations like high volatile time and low volatile time
 - Tsunami offers a pooled LP token (TLP) that minimizes risk from impermanent loss through diversification of blue chip cryptos and stablecoins, while maximizing rewards by generating leveraged trading fees on top of swap fees
 - Oracles allow Tsunami to offer 0% price impact regardless of trade size but require the assets we support to have deep liquidity on centralized exchanges in order to prevent manipulative trading that hurts the TLP pool.
 - Tsunami provides a way to trade with 0% price impact, known exit liquidity, low funding fees, a low spread, and collateral that grows in value over time



- 5) Potentially, the product can be scaled by adding L2 solution on top of Aptos blockchain and expanded by adding new functionality of cross-chain activity and money market landing

Market:

- 1) The target market is big enough to enable Tsunami Finance to grow because Total Value Locked in dexes is equal to \$18.67b and this despite the fact that now is bear market in all blockchain industry.
- 2) The dynamics of this market is fast growing because according to DeFi Lama in 2020 the TVL was \$27m and now in 2023 the TVL is \$19b despite the fact that all time high of dex market was \$76b during bull market
- 3) Obviously, right now is a good time to build the product and go to market during bear market because defi now is resetting and it has good chances to blow up in next bull market
- 4) Go to market strategy of Tsunami Finance is to get into margin and spot trading like the fastest dex on Aptos and get many customers that will have a solution to the trader's problem that will be discussed above

Business Model:

- 1) Swap trading fees:
 - 0,04% for stable swaps, with another variable 4bps for punishing
 - 0,3% for all other swap types with another variable 30bps for punishing
- 2) The perps position fees in 0,1% to open or close a position

- 3) The funding rate fees in size of variable based on utilization using a linear fee progression starting from 30% APY and going to 70%

Current round:

The round was passed successfully and potentially we would be interested in investing in Seed round

Fundraising Round	Date	Amount	Announcement	Investors
Tsunami Finance - Pre-Seed	2/23/2023	\$1,300,000	https://medium.com/@TsunamiFinance/1-3m-in-pre-seed-funding-raise-d-by-tsunami-finance-44c307c0d308	Mirana Ventures, Big Brain Holdings, Brilliance Ventures, Builder Capital, Marin Digital Ventures, RNR Capital, Coral Defi

Value creation:

- 1) Nowadays, Tsunami Finance built a huge community of early adopters having [twitter account](#) with 73,3K subscribers and big discord channel with 72K users
- 2) Tsunami Finance now in testnet phase having [MVP](#) with all functionality we have discussed above

Competitors:

- 1) All in all there are 762 protocols in category of dex according to DeFi Lama
- 2) If we talk about protocols that have built on top of Aptos, there are 11 dexes:

Project	TVL
PancakeSwap AMM	\$29.5m
LiquidSwap	\$9m

Project	TVL
AnimeSwap	\$210,802
Houston Swap	\$141,258
BaptSwap	\$124,924
Cetus	\$104,76th7
AUX Exchange	\$96,029
Aptoswap	\$56,000
AtoDex	\$34,000
Obric	\$22,500
Jujube Finance	\$9,586

Risk profile:

- 1) Tsunami Finance is exciting project that have more than \$1,7m TVL during its testnet phase and it's fantastic
- 2) Right now, Tsunami has TVL more than 9 competitors without officially going to mainnet and it's actually incredible results
- 3) But there is a risk connected with understanding how well-participated the team, in particular founders. Because we don't have official reliable information about previous experience of the core team and founders. In the part of the team I have a struggle to give a mark how good or bad the team of Tsunami Finance. We need to have a call with them in order to recognize the skills and experience of people.

Team:

- 1) There is no open official information about founders and core team of Tsunami Finance
- 2) But it's the [fact](#) that they are having a communication and network with Aptos Labs
- 3) As for short term team's future plans:
 - They are going to use both Pyth and Switchboard price feeds in order to protect the protocol in case one of the providers goes down.
 - Team wants to create a referral system. Users will earn 10% fee rebates and other incentives from Tsunami for inviting high-volume users to the platform.

- Also, they will be releasing NFTs that are integrated with our core product in novel ways.
- Create a Tsunami Profile, link your socials, and earn rewards for trading on Tsunami through our points system.
- They are planning to create Trading Leaderboard Competitions
- DAO Migration The release of the NAMI token will come at the start of the Tsunami DAO, which will manage the protocol moving forward.

4) As for long term team's plans:

- Limit/ Take Profit/ Stop Loss Orders
- External asset collateral
- Risk-Adjusted Pools
- Removal of Keepers
- Omni Nami Swaps (Utilize cross-chain liquidity to swap between different assets on different chains. Ex: Use USDC on Aptos to buy SOL on Solana)
- Omni Nami Perps (Long or short assets across different chains, enabled by baskets on different ecosystems with asset composition overlapping)
- Omni Nami Yield (Implement cross-chain money market lending)
- Omni Nami CLOB (Implement a cross-chain price discovery mechanism.)
- Side Note on Cross-Chain Liquidity Pools (Ex: A trade wants to swap USDC to SOL. SOL on Aptos may be bought but has a spread fee of 30bps, while SOL on Solana has a spread fee of 5bps. A trader who may be comfortable waiting for the cross-chain transaction to occur can do so and save 25bps during their trade.)

Exit strategy:

Our best case for Tsunami Finance is that it will become as large (in terms of trading volume) as Uniswap or Curve Finance is today. This coupled with the fact that Tsunami will launch Tsunami LP token and it would bring meaningful market cap appreciation from where Tsunami is at today.

Final conclusion:

Overall, we believe that Tsunami Finance is building the right product at the right time and if the team executes and the category grows like it can, the outcome potential is massive. While there are some other well-capitalized teams that will be competing for talent, mindshare, and potentially customers, we think that by staying nimble and fast-moving in this nascent market, Tsunami Finance can create a strong consumer brand with help from Aptos Labs and defensible moat and ultimately bet the winner in the category.