2021 Wrap Up & 2022 Predictions

Our team put together our personal thoughts and did not collaborate on a format. We wanted this report to be authentic and for each of us to have a sense of freedom on how we approached laying out our theses/predictions. This is the reason for the separation between write ups. We hope you find this valuable in some way!

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Five Personal Holdings

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Definitions to know
Layer 1: The "base layer" blockchain that handles consensus, data, and execution. These include blockchains like Bitcoin, Ethereum, and Solana.
Layer 2: Third party solutions that integrate with a layer 1 to help scale, reduce fees, and/or add other features for users. These include things like rollups and side-chains. Basically, just know that they're "add-ons" to layer 1s to help them scale.

Note: None of this is financial advice. These are all predictions that may be way off, and you should do your own research before acting on anything discussed here. Some predictions are purposely a bit far-fetched – I didn't want to just say things like "layer 1s will continue to go up!" or "DeFi will get hurt by regulations!" - the point of this is to provide insights into some *potential* narratives that have not massively caught on yet. You'll also notice I don't mention Bitcoin here once. BTC is perhaps the least risky/volatile crypto asset, and I do have some that I'm holding long-term, but these predictions are focused elsewhere and seek outperformance.

Intro

2021 was a year of rapid change in crypto markets. Bitcoin dominance (as a % of overall crypto market cap) went from over 70% to around 40%, Ethereum went from holding over 95% of TVL to under 65% as non-Ethereum layer 1s took off, "DeFi 2.0" projects came in strong and outperformed blue-chip DeFi projects by a wide margin, and NFT prices went flying. There's more that I'm forgetting, but the point is that crypto markets, and where the attention of most participants points to, are rapidly changing as the space grows and matures. To quote Cobie (@cobie on Twitter, a well-known name in the crypto space):

"You'll notice that it was possible to win the 'crypto video game' by ignoring this changing metagame altogether. You didn't need to be early to [specific] coins to have made good investments in 2021. But, to play at the highest level and maximize wins, you had to identify and exploit the hot-ball-of-money rotations between assets at least a few times."

Before outlining some predictions for 2022, let me say this: regardless of how well these theses stack up to what actually happens, one thing that I'm sure of is that 2022 will also be a year of rapid change. Regulators are looking at laws that will affect the space, more and more institutions are looking at getting involved, the macro picture for global markets is uncertain, and, perhaps most importantly, blockchain and blockchain-related technology is evolving at a rapid pace. Timelines in crypto are notoriously hard to predict – look no further than the multi-year delay of Ethereum 2.0 or the quick rise of the metaverse trend to see this – so being able to adjust on the fly is key. Having some predictions and a thesis is one thing; being able to understand when you're wrong and adjusting your thesis is another. With this in mind, here are some predictions for 2022; in each section, I'll list some tokens to watch… but these will likely change as the year progresses, and new tokens will be added.

Macro Concerns Will Continue To Tug at Crypto Markets Broadly

As mentioned above, macro concerns around inflation, a tightening monetary policy in the US and abroad, Chinese real estate issues, supply chain congestion, Covid, and potential crypto regulations are all at the forefront of global markets as we move into 2022. The S&P 500 is up about 30% on the year. In fact, four of the last five years have seen the S&P 500 increase by more than 15%. The combination of all of this looks like it *could* be setting us up for a pullback and/or recession, but the question is: When?

There's also a possibility that persistent inflation, which certainly helped asset prices, combined with central banks (like the Fed) actually reversing course on tightening monetary policy, continues to prop up asset prices. Global macro is obviously a very nuanced subject and is sensitive to a countless number of factors, but, overall, crypto has behaved like a very risk-on asset and has shown correlation to broader market volatility and equity prices, especially as more traditional market participants enter the space. A selloff in equities would almost certainly hit crypto even *harder*, price wise, than it hits equities.

My prediction is that these fears will be realized at some point in 2022, and we will see a large selloff that could either begin a (likely short) crypto bear market or prompt central banks to reverse course and "save" markets. It's impossible to predict when, but watching what Jerome Powell says, how the central bank balance sheet moves, and how traditional markets move, among other data points, can help predict this. If I had to take a wild guess, I'd say this could begin as early as February, but that's a total shot in the dark and I'm by no means a macro expert. Regardless, de-risking on market pumps may not be a bad idea, *depending on whether or not you agree with this point*.

This also means that comparing current crypto price action to previous cycles is, in my opinion, a futile exercise. The broader landscape has changed, major market participants have changed, and the technology and its adoption has changed. Overall, I think that macro, over the course of 2022, will play an outsized role in crypto price action; though, just as was the case in 2021, specific sectors of crypto will continue to outperform even if most major tokens take a dive.

A final note here: 2022 may also very well be the year where governments and centralized exchanges start *requiring* you to link your private wallet to your personal information. It can still be anonymous to others, but I would not be surprised to see this requirement put in place by regulators and enforced by centralized exchanges and other fiat on/off ramps. This may even lead to higher discrepancies in prices (for smaller market cap tokens) between centralized and decentralized exchanges as it becomes harder for arbitrageurs to keep prices in line, though I find this less likely.

Tokens to watch: Stablecoins, *maybe* FTT

The Layer 1 Trade Gets More Complicated & a Cross-chain Future Begins to Prosper

Layer 1 trades, specifically tokens like SOL, AVAX, LUNA, BNB, and FTM, dominated in 2021. These tokens, and even some "layer 2" tokens like MATIC, majorly outperformed Ethereum as Ethereum failed to scale in a meaningful way and priced out smaller market participants due to fees. Will this outperformance and rotation of attention/money between layer 1s continue into 2022? I think it will, for the most part. However, many layer 1 tokens that have had huge run-ups in 2021 will obviously find it harder to sustain that outperformance in 2022. NEAR and ATOM are the two whose ecosystems, in my opinion, have the most potential upside currently due to not having *heavily* caught narratives in 2021 while still having significant developments occurring.

Many market participants are already looking towards what the future could hold. Scaling solutions like ZK-rollups, which implement a "modular" approach to blockchains (execution, data availability, and settlement are separated) have been touted as the "true future" of blockchain scaling. Interestingly enough, we're on schedule to get usable ZK-rollups from the likes of Starkware and ZkSync in 2022. Celestia, Polygon Matic, and Loopring are also working on modular rollup approaches. This narrative could catch fire depending on speed of adoption from users and developers, but it's hard to predict; my gut says we don't see mass adoption of this technology until at least 2023, but 2022 could still be a good year for rollup tokens as the market is forward-looking.

Some other underrated potential layer 1 and 2 related narratives are liquid staking, cross-execution layer architecture, cross-execution layer dApps and games, and consolidation of settlement layers if a modular approach to scaling does take off (again, I find this unlikely to happen in a major way in 2022). The transition to Ethereum 2.0 is expected to happen in the first half of 2022, and this will make Ethereum a proof of stake blockchain. Since ETH will be able to be staked for yield, it would make sense for liquid staking (basically, you can stake your ETH and receive the equivalent amount of a yield-bearing token that can still be traded/moved around) projects like Lido, pSTAKE, and Rocketpool to see increased adoption. Whether this adoption translates to better token prices for these projects is dependent on tokenomics and token utility, but we could very well see liquid staking tokens play a much larger role in DeFi ecosystems leading up to and after Ethereum 2.0.

Cross-execution layer architecture refers to projects like Layer Zero and Composable Finance (and perhaps even Cosmos and Polkadot apply here) that allow applications to facilitate transactions across a variety of chains/execution layers and potentially even pay gas fees in a variety of tokens. Rollups can accomplish much of the same, but this architecture layer will still be very important in creating more seamless user experiences in (at least) the medium-term. This is the next evolution of simply bridging tokens between blockchains, which is often not very user friendly. Keep in mind that many of these projects are currently in development and do not yet have tokens. Wallets may play a role here too.

Cross-execution layer dApps and games refers to dApps and games that can take advantage of multiple blockchains and/or rollups, potentially using some of the infrastructure projects mentioned above, to create a simpler or, in the case of games, more entertaining user experience. Applications and games that are early to this party should be in a good position to see major token price increases. DeFi Kingdoms' multi-chain plans and Sushiswap's multi-chain deployments resemble this idea, though leveraging cross-execution layer architecture or rollups to make the experience more seamless is more of what I had in mind.

Finally, although we've seen a wide variety of layer 1 tokens take off in 2021, there's a chance, depending on how much adoption rollups and a modular approach to blockchain scaling get, that the money moving around different layer 1s eventually consolidates into just a few while the rest experience declining usage and token prices. Since, in a modular scaling approach, the settlement layer is responsible for securing all proofs of transactions and, depending on the approach, transaction data, the most decentralized and secure chains (like Ethereum) could take the lead here. However, this is one that I have very little conviction on, mainly because the level of decentralization needed for settlement layers is not really known yet, and there is also a good chance that a modular approach does not really take off in 2022. Again, it's hard to calculate exact timelines in crypto. New execution and data layers can capture value here too.

Regardless of the modular vs monolithic debate result and on what timeline that whole thing plays out, infrastructure will continue to get better and enable much better user experiences. We're obviously still not to the point where crypto is *easy* to use (bridging can be a mess, different tokens are needed to pay gas for different chains, separate chains confuse new users, finding truly valuable use-cases is hard for new users, etc.), but we are certainly moving towards a future where it *is* easy to use. I don't think 2022 is the year we make it there, but things will continue to heavily improve. Some examples of improvements we should see over time are: abstraction of separate chains via wallets and other infrastructure (mentioned above), specialization of parts of chains (modular approach), app-specific chains and/or wallets, and pre-built products that make it easy for non-crypto users to interface with crypto. Honestly, I think we're severely underestimating how different things will look, UX-wise, in 5-10 years. Infrastructure-building teams of extremely smart people combined with an influx of great Web2 developers who will get access to better tooling will result in improvements that many of us may be unable to imagine right now.

Tokens to watch:
Layer 1s: ATOM (staked), LUNA, NEAR, ETH, AVAX, SOL
Liquid staking: LDO

Infrastructure: ALEPH, AKT, AR, POKT, unreleased tokens (Layer Zero, Celestia, Starkware, ZkSync, etc.)

Ce/DeFi 3.0: The Derivatives Explosion

“DeFi 1.0” includes protocols like Compound, Aave, Maker, Synthetix, and Yearn. “DeFi 2.0”, which includes protocols like Olympus, Convex, and Abracadabra, was a 2021 development characterized by protocol owned liquidity, increasingly powerful governance tokens, partnerships and interoperability (“B2B” focus), easily obtainable and more capital efficient leverage to satisfy increasing risk appetites in crypto, and cross-chain deployments. It also has pushed many DeFi 1.0 protocols to adopt new tokenomics or seek out ways to expand cross-chain or via partnerships.

I predict that “DeFi 3.0” will show up in 2022 and be characterized by protocols offering exposure to a variety of derivatives including options, perpetual futures (already somewhat here), and new derivatives that allow users to bet on things like NFT prices or the volatility of a major token like ETH. Projects like Opyn, Ribbon, Gearbox, and Dopex come to mind, but newcomers will likely emerge and current projects will play a role as well. The use-cases for options, specifically, in DeFi are far-reaching.

Despite this high growth in on-chain derivatives, I see centralized derivatives (specifically options) growing at an even faster rate as more options (pun intended) become available and more players are allowed to participate. Additionally, financial institutions and fintech companies who want to stay relevant will add in crypto services (buying/selling, loans, yield, stablecoins, etc.), and companies currently offering crypto services will expand their offerings. This will continue to bring new money into crypto. New crypto listings on Robinhood may also spark large rallies in the tokens that get listed.

Another possibility here is that protocols like Aave and Compound, who have been working to allow institutions to come into DeFi in a more controlled environment (KYC’d participants and all that), succeed in this and we see these tokens take off, prompting DeFi 3.0 to look more like a revolution where centralized entities are able to interface with DeFi in a more controlled setting. I don’t find this quite as likely, but it’s a possibility especially if harsher regulations show up.

Tokens to watch: RBN, DPX, PERP, FXS, GEAR, COMP, unreleased tokens

Bad Token Design Will Be Brought to Light

FDV, or fully diluted valuation, has thus far not been an *extremely* important or talked about data point when evaluating investments in tokens. However, in 2022, this could change. There are many projects, specifically many Solana projects and game-fi projects, that are on schedule to have massive amounts of tokens released into their circulating supply through token unlocks or other means. In most cases, this means dilution for current holders and increased sell pressure. I predict that investors will become much more conscientious about FDV, most projects with high token emissions will see token prices decline in a major way, and new projects will be forced to think very hard about token unlock schedules due to this. We may even see more projects move to metric-based unlocks, such as “early investors get 30% of their tokens unlocked once the project reaches milestone x”, rather than simple time-based unlocks. Cobie, the same person I quoted earlier, has a good article on why most, but not all, large token unlocks are harmful to the token price.

Further, good token design will be rewarded. Projects that do not dilute holders but rather provide actual value to holders and/or have sustainable revenue, cashflows, and a moat will do well as these projects are recognized for their medium/long-term sustainability (or so I predict). As more traditional players enter crypto, they likely aren’t going to go buy the next OHM fork or the new dog coin; they’re going to buy tokens that actually have sustainable models and capture real value.

Tokens to watch: YFI, CVX, FXS, ETH, OHM, ALCX

NFTs Markets Consolidate, Crypto Gaming Gets Real

I predict that "profile picture NFTs" will continue largely dying out, while certain projects with strong historical relevance (Crypto Punks), strong communities and incentives to hold (Bored Ape Yacht Club), or "real" art (Fidenzas) stay relevant, especially among the core/wealthy NFT community. Profile picture NFTs and similar "cash grabby" projects can only scam new participants for so long, and we're reaching the point where more and more users understand that these are probably going to lose them money unless they quickly sell them or there's an NFT bull market underway.

NFTs will likely continue to see a big year, however, through gaming. NFTs in crypto games that come with utility such as the ability to earn high monetary rewards, perform specific tasks, enter a contest, or show off to your friends in popular games should continue to do well. NFTs with real-life utility, such as the ability to redeem them for something valuable, are obviously good candidates as well. Overall, market participants will demand more from their NFTs, for the most part, than just a picture stored on the blockchain. Gaming is one such way to realize this utility.

Overall, crypto will need better infrastructure to be able to provide gaming experiences that rival traditional popular games. Imagine Rocket League with the added ability to put money, in the form of tokens, on games or to compete in tournaments for prizes - that's pretty much impossible to do in a decentralized way right now, given the technical challenges. In-game betting, in-game randomness, privacy, seamless UX, and decentralized hosting all need better tooling to enable crypto gaming to reach the next level. DeFi Kingdoms (JEWEL) and other games will be able to add PvP in a "turn-based" way, but to go even further we'll have to wait for better infrastructure to appear. In the meantime, simpler games should dominate.

Tokens to watch: JEWEL, CRA, unreleased tokens

Honorable Mentions

Privacy tokens, *some* algorithmic stablecoins (UST, FRAX, others)

Errett

Five Personal Holdings

1. ETH – With the increased interest in smart contracts and DeFi, I continue to believe Ethereum will do very well, especially with upcoming release of ETH 2.0
2. Stablecoins – Used to hedge and allow you to earn yields higher than anywhere else. Considered a safe investment and a way to stay "liquid"
3. BTC – The grandfather of crypto, I view BTC as an investment in adoption
4. GRT – I struggle with this one a little as its quite volatile, but I really like investing in foundational projects of the crypto space and I believe The Graph is one of them
5. Small holdings and possible buys – ATOM, AVAX, YFI, RBN, MATIC, KLIMA, OHM, GEAR, ENS

Intro

2021 was an insane year for the crypto space. It had many ups and downs but did not fail in teaching us some key lessons on this ever-evolving asset class. The market exploded in early 2021 driving us across the $3T total market cap mark. According to a CNBC, 13% of Americans are currently invested in crypto and for comparison, 24% of Americans are invested in stocks and bonds. This was driven by many factors.

Inflation became a big concern creating demand for investing options that acted as a store of value. The public's general familiarity with crypto and blockchain continued to expand rapidly. The ease of access to investing and purchasing crypto increased. Ethereum outperformed Bitcoin as interest in smart contracts began to skyrocket. The

DeFi sector saw massive growth as tokens started showing signs of utility. Smart contract protocols became the birthplace of NFTs sparking an entirely new and huge market within the already revolutionary crypto market.

Volatility and corrections also played a big part in 2021 as well. Government interest and involvement continues to be a key inhibitor to industry growth as many countries like India and China began banning mining entirely. Environmental concerns over energy consumption were brought to attention, although more than half of the blockchains out there are proof of stake and do not use energy like bitcoin mining. Lastly, we saw what seemed like weekly protocol hacks causing fear in the markets.

Before getting into my 2022 predictions, I believe 2021 was a very defining year for crypto. Yes, there were some major speed bumps along the way, but I truly think 2021 will go down as a historic year. It's important to not get distracted by the lucrative returns crypto investing produces and pay attention to the development of the market as a whole. 2022 will be another action-packed year as laws begin to form, more institutions get involved, technological advancements occur, and outcomes of mass adoptions will be brought to light. Crypto investing, in my opinion, is investing in a movement. If you can fix the money, you can fix the world.

Decoupling Of Cryptos Will Slowly Continue

Decoupling means assets will stop following Bitcoin's price actions. Today, many cryptos are heavily correlated to the price of bitcoin. As the market matures, and protocols begin to produce actual value, this will change. This is considered a good thing as market volatility won't be felt as wide in crashes. Decoupling has been happening slowly for years but was really accelerated in 2021. Now, different crypto sectors have different value drivers. It's no longer enough to be a token with an exaggerated white paper. Value and produced value are being highlighted more. Investors are increasingly applying fundamental analysis to trade around unique growth drivers. In my opinion this is an extremely important development. This is where private investment funds will continue to have a huge competitive advantage compared to their generalist competitors. The huge asymmetry in protocol "reporting", steep learning curve, and limited risk management infrastructure keeps the barrier to crypto investing high. Crypto funds will likely perform well this year and for many years to come.

NFTs Drop In Value But Stay Very Relevant

This one in my opinion is easy to tell. Many NFT projects will slowly bleed out due to manufactured prices. This was done via "wash trading" making it seem like a particular project has a lot of volume or "hype". The one NFT sector in particular is the "Profile Picture" NFT's. Projects with no community or utility will most likely fall to worthless as people begin to realize there is no intrinsic value. Celebrity NFT projects fall into this category as well. Just recently, Floyd Mayweather posted on Instagram promoting an NFT project that ended up being a scam. This doesn't mean the entire NFT market will collapse, it's just working itself out. Where I see NFTs performing well is in gaming.

NFTs will play a huge part in helping gaming companies transfer to block-chain technology. I believe gaming companies are the most equipped to adapt Web3 technology. Using NFTs, gaming companies will be able to deploy in game marketplaces that use blockchain technology pretty easily. You have seen examples of it today with "skins" on Fortnite, except this time the skin is yours and proof is recorded on the blockchain. Even though this sector is still heavily in the development stage, it has some of the biggest potential. Simpler games with well-designed mechanics should perform well. I will also be looking to invest in NFT infrastructure as it presents good long-term investment opportunities.

Possible Tokens: JEWEL, CRA, ENJ

DAOs Will Be Put In The Spotlight

There recently has been a lot of talk around DAOs being "the new corporation." Governments tend to love to regulate those as fast as possible. Most importantly, this year is when DAOs will be tested. Truly decentralized DAOs will be able to one degree or another, ignore regulation. The ones who are faking it will most likely get shut down hard. I truly think 2022 will be the year of the DAO, everyone will be starting one or joining one. Crypto in general is super community based and a DAO encompasses this perfectly. In theory, any organization can become a DAO, so they are relatively easy to start up. The only issue is that DAO tooling must improve significantly in order to beat centralized competitors. In order to capture this trend, I will probably look for investments in DAO creation infrastructure.

Possible Tokens: Tally (when released), ANT, COMP, GTC, ENS

Turkey Will Collapse As More Nations Adopt Crypto

As Turkey's inflation climbed to a two-decade high in December it's only a matter of time before the Lira crashes. The country's plan is to urge residents to keep their money in Lira instead of buying outside assets. Unfortunately, this is not working as Bitcoin traffic continues to surge. If Turkey continues making foolish decisions, they are going to wind up with a foolish outcome. This could be a great case study on the effects of hyperinflation to a nation. On the other hand, this gives crypto currency the opportunity to step in and save the day. Countries like El Salvador have fully embraced crypto (although going at it in an immature manner) leading the charge for other countries to do the same. I'm curious to see where this will take them as the outcome could be quite defining for crypto.

Possible Tokens: BTC

Layer 1 Diversity & Block-Chain Interoperability

2021 was a killer year for layer 1s like SOL, AVAX, and LUNA. User interest for real and powerful applications across an array of blockchains was a big theme last year. Personally, I think this will carry on into 2022 as competitors all take a stab at the "scalability dilemma." ATOM and NEAR are two great layer 1s that have some great upside.

Vitalik Buterin, the founder of Ethereum, and core developers have already got behind the idea of ZK-rollups as a solution to the scaling issue. In summary, a ZK-rollup is a smart contract that takes hundreds of transactions off the main blockchain (i.e., Ethereum) and bundles them into a single transaction. In theory, this reduces the amount of data being sent through Ethereum's main layer 1 chain, enabling faster and cheaper transactions. Polygon and Looping are two examples of protocols taking this approach (i.e., layer 2).

By now it's also abundantly clear that we will be living in a multi-chain world. Currently, there are 15 blockchains holding about $10B assets in each. With layer 2s coming around, it doesn't look like this number will get any smaller. However, blockchain ecosystems remain divided. There is no true secure and decentralized way to transfer data and value between chains. Luckily, a few projects like Cosmos (ATOM) and Polkadot (DOT) have been working to solve this. Blockchain interoperability will be a huge win for whoever can get it right first.

Possible Tokens: DOT, ATOM, MATIC, NEAR

Crypto (Regulation) Winter

Now, I'm not saying we will have a crypto winter in 2022 but there is always potential with new technology such as this. I think the main driver of a pull-back will be regulation. The FED will issue a batch of new restrictions and enforcements causing frustration across the market. This should eventually end as clear regulation will further drive crypto into the mainstream. Personally, I think flat or down markets will be extremely interesting in crypto. All the noise from the bull run will disappear and developers will be able to focus on the task at hand. During this time, you will see many people lose millions and turn their back on crypto for good. It's important to stay strong and not lose sight of the long-term potential for crypto.

One change to keep an eye on in 2022 is the proposed US infrastructure bill which could impact cryptocurrencies by changing definitions and requirements for brokers.

Pandemic Ends

I think this Omicron COVID-19 variant will end up doing more good than harm. Due to the highly contagious nature of the variant, it has infected tons of people worldwide. The key here is that it isn't killing people. This allows us to build up more immunity faster than any vaccine. I predict that this year, the COVID-19 shot will be just like a flu shot and we will once again continue normally. I honestly don't think the pandemic will have any impact on the crypto market, I think COVID-19 accelerated many projects and allowed for innovation.

Note: I think we will experiment with recording vaccination status on the blockchain which could open the door to a whole new health sector in crypto.

Meme Coins Die

If you have paid attention, you have seen all the news around dog coins. Yes, crazy returns will still be highlighted in the news, but I think this meme coin investing fad will slowly burn out. As the market matures and actual value is brought into the light, coins that have no use case will zero out (or so I hope). If this is the case, tokens that are sustainable and provide holder value will begin to appear. This will allow for more traditional investors to enter the space, furthering adoption.

DeFi 3.0 – Derivatives

I think 2022 will be home to a huge wave of DeFi protocols offering a variety of derivatives such as options and futures. I could also see there being some new derivative that utilizes the NFT market. Then again, this all depends on regulation as derivatives add another element of risk. The correct implementation of derivatives in Defi will be huge. It'll get us one step closer to rivaling our current financial system. Decentralized derivative protocols is how I plan on investing in defi in 2022

Potential Tokens: RBN, YFI, COMP, GEAR

Random Hot Takes

- Tokenized investment funds will be the next scam
- Elon Musk will continue to impact the markets and may have to answer for it
- Augmented reality will come to light
- Facebook's metaverse will crash and burn
- More BTC mining bans will occur
- Cardano and XRP finally die out

Andy

Five Personal Holdings

1. ETH – Long-term hold
2. ENS – Believes it will correlate with ETH
3. Stablecoins – Still uncertain about the current state of the market, but I have these ready to deploy at any moment
4. DPX – Staking and waiting to see how the Curve Wars play out
5. Smaller holdings – AVAX, FTT, FREE (memecoin and got in at seed round), CRA, GRT, XMON, MINA, KLIMA

Intro

Well, the time has finally come for an end of the year analysis coupled with a prediction thread for the upcoming year. 2021 has been extremely fruitful for most of everyone in the crypto space (or so it seems) and fingers crossed we carry this momentum into the new year. Memecoins, NFTs, layer 1 platforms surging, and many more concepts made up the incredible 2021 bull run. We saw Bitcoin and Ethereum hit all-time highs and retail consumer markets finally adopting the coins as valuable investments. Blockchain gaming began to make waves in the space with Axie Infinity going parabolic to lead the play-to-earn charge. The overall crypto market cap surpassed the $3 trillion threshold, which is obviously a major milestone for the community. To put things into perspective, the market cap for the US stock market is above $48 trillion. Now, I am not saying that crypto has some catching up to do with the stock market, but with the transition from the World Wide Web and Web2, to the new, innovative Web3 crypto compatible idea, there is a chance that the crypto market as a whole can slowly diminish the $45 trillion gap. I personally (and I'm sure the majority of crypto community members agree) that the cryptocurrency market cap will never surpass the tradi markets, but it will definitely inch its way closer as retail investors adopt the asset class as a mainstream source of investing.

2022, the Year of Layer 2's and Rollups

This topic has been discussed by so many big named crypto influencers, although I very much agree with the optimistic sentiment. In 2021, we saw the rise of quick, low-cost blockchains like Solana, Avalanche, Terra, and more, as well as the layer 2 scaling solutions using the optimistic and zero-knowledge technology for rollups. Solutions that allow the migration off of L1 Ethereum are concepts that I am exceptionally bullish on, due to avoidance of high fees, quick transaction speeds, and security. Although a lot of these protocols launched their mainnet in 2021 (zkSync, Optimism, StarkNet Alpha, Immutable X, Arbitrum, Boba, and many more), the upcoming year looks very bright as adoption becomes more prevalent with users, and integration with exchanges and wallets come to light.

The emergence of layer 2 solutions on Ethereum, Solana, Avalanche, and even Near, are things that I am very much looking forward to seeing blossom in the upcoming year. 2021 was the year for layer 1s, and in 2022, it is all about layer 2s and especially rollups. Zero-knowledge rollups are a concept that I am bullish on *for the end of 2022*, but not necessarily the first two quarters. ZK-rollups have the more sophisticated (and in some cases better) technology than Optimistic rollups, however, I personally believe Optimistic rollups will outperform ZKRs in the first half of the process. Why? ZKRs should expect to see delays and issues with the technology. zkSync (a prominent player in the ZKR sector) launched their mainnet in August and the concept is still fresh on chain. If history stays parallel, this new technology is bound to run into issues during the beginning stages. In my opinion, 2023 will be the year for mass adoption, but 2022 will be the year that users understand and realize how effective and important rollups are for the blockchain.

As stated in the previous paragraph, 2021 was the year for layer 1s. Solana went up over 7,500%, Avalanche up nearly 3,000%, Terra up over 13,000%, and… well you get the point. These major layer 1's had an explosive year, and that **could** imply that the protocols built on top of them should follow… especially the ones in the top tier. As more and more users begin their journey on these layer 1 protocols, they will find that in some instances, they may be difficult to afford in some instances. Rollups help with this issue and allow an easier entry into the relatively complex world of crypto.

Tokens to watch: METIS, HEZ, IMX, unreleased (zkSync, Optimism, Starkware)

Subsidies for Crypto Users

This will be a rather quick topic in this report, but that should undermine the impact that this potentially has for 2022. A major prediction that I have for the crypto markets for this upcoming year is that protocols will distribute subsidies for users of that certain protocol. Why? There are multiple reasons. An influx of venture capital money has been injected into the cryptocurrency industry this past year, and it does not look like the surge in funding will stop either. The VC money coupled with the incredibly rich ecosystem funds that are receiving these investments are going to have to put that money to use. As layer 1's compete against each other, it seems as if each will have to incentivize the users to participate. How? Money. We have seen this in 2021 with the increase in airdropped tokens for users. So how is this different you may ask? Well, we are starting to see many more layer 1 ecosystems receive funding (Oasis Network, Avalanche, etc.). We have also seen many layer 1s create funds (Harmony, Avalanche, NEAR, etc.) to help expand their ecosystem by incentivizing developers to build on their chain. **I think because of the influx in money and high valued war chests, the protocols will have to spend a sizable portion of it on user growth, and it will be more explicit than 2021.** One way to incentivize protocol involvement is to airdrop "free" tokens to the wallets that have interacted with the protocol. It is going to pay heavily to be a user in crypto, and we can't wait!

Derivative Trading Protocols

Wall Street Bets (WSB for short), the notorious degenerate trading subreddit, brought on many retail traders/investors into 2021. The users primarily used advanced trading strategies, especially options, with the intent of generating enormous profits from various stocks. Options are a form of trading that is very risky, but allows the user to generate higher returns. Now, WSB was primarily focused on the Tradfi markets, but it most certainly exposed this way of "leverage" trading to many normal, retail investors. Who is to say they don't carry these strategies over to crypto markets, where the **real** money can be made? In today's society, it seems as if the "get rich quick" scheme is very prevalent. For some (if not the majority), it is easy to capitulate to the thought of generational wealth. The desire to be rich is in almost everyone, and crypto has definitely created an abundance of multimillionaires. I do, however, believe the market is changing (which I will go into later), but the swarm of retail investors joining in on the crypto craze is something to note. The growth in crypto options trading should not only be due to retail investors, but it should also provide an increase in institutional adoption as well. Hedge funds and financial institutions are looking for investment strategies to generate yield for their investors. The crypto market is a new area to utilize the investment strategies they already use in their operations currently. Per **Figure 1**, the combined trading volume of BTC and ETH options increased by 443% in 2021. At the current moment, cryptocurrency derivative trading is in its early stages and only looks to grow. The reason for these large institutional service companies getting into this sort of market would be to hedge against current risk (the "hedge" in "hedge fund" is supposed to reference this) or take on additional investment market exposure.

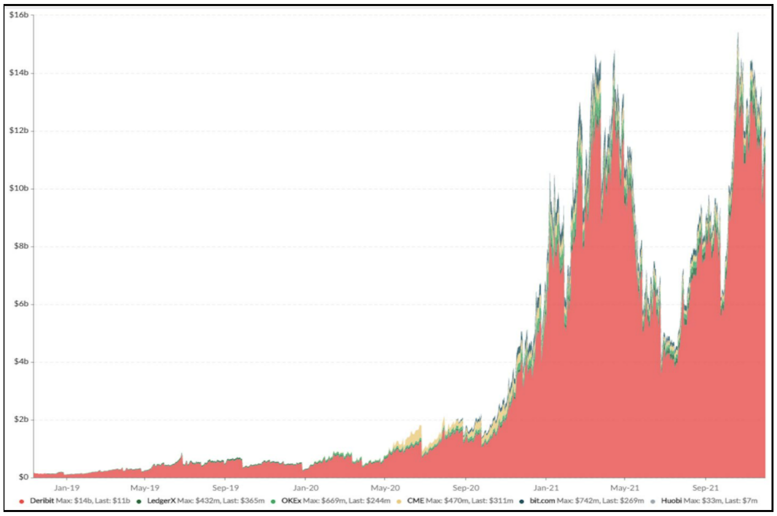

Figure 1 *taken from the twitter article: https://twitter.com/tedtalksmacro/status/1477149431405236225*

There are many different platforms that deal with derivatives/options trading, such as: Deribit, FTX, LedgerX, and more. There have been a number of decentralized protocols revolving around the topic of options trading as well such as: Ribbon, Dopex, and Lyra. Similar to how Robinhood made it easy for retail investors in Tradfi, Ribbon Finance is utilizing a similar tactic to make the capability of entering this industry more feasible. Ribbon's first product is essentially creating an automated option strategy service. According to the front page of their website, it states that the protocol is "Sustainable Alpha For Everyone" which shows that they aren't trying to find a target demographic, but rather portray that "everyone" can participate in this protocol's services. This shows how the crypto industry is starting to enter a new phase of targeting different market participants. As retail and institutional exposure increases, this has the potential to bring on a bear market (more on that later).

Perpetual futures (perps for short) were introduced to crypto in 2016 and are only somewhat prevalent in the crypto space today. They essentially provide investors exposure to assets but without an expiration date like options. Power perps, basically perp trading on steroids, provide the investor with even more leverage which can allow them to have exponential payoffs. For instance, in the case of ETH^2, if ETH doubles, the ETH^2 power perp is up 4x. It's a dangerous game to play if you do not have a strong understanding of the background concept, but with the high risk/high reward capability, I firmly believe that institutions will bring their quantitative strategies and use these derivative trading protocols to try and generate profits. There is a very wide DeFi derivative landscape and new protocols are entering the field every month. As derivative trading becomes more popular in 2022, time will tell which protocols die, and which ones prevail.

Tokens to watch: DPX, RBN, PERP, FST

NFTs Evolving in 2022

In Q3 of 2021, NFT exposure exploded like the industry has never seen before. In **Figure 2**, the visual shows the yearly volume for the entire NFT industry in 2021. Everything from profile picture concepts, digital images from world renowned artists, gaming NFTs, and so much more were the root cause of this enormous volume spike. With the revolution of digitization, there is only a matter of time for things to evolve into things we never could have imagined five years ago. In my personal opinion, I think the NFT space will get even larger in 2022 for a few reasons.

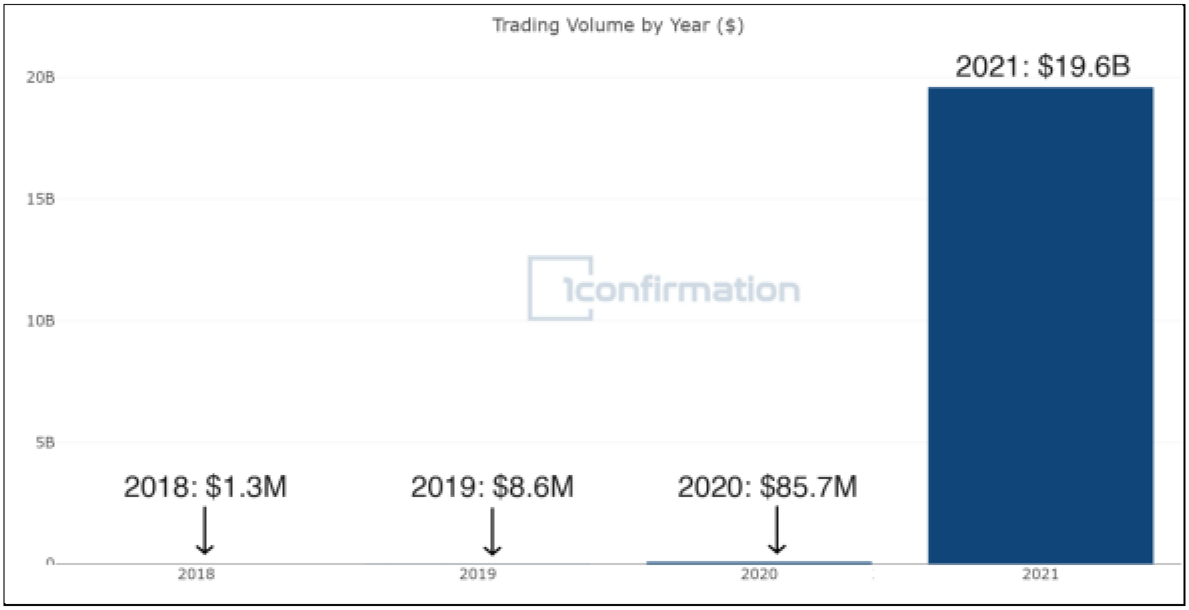

***Figure 2** taken from https://drive.google.com/file/d/1l9deH7XuGsNbltAtir6C9LvR7FAbeZ5R/view*

The first being due to how the crypto market as a whole is evolving. People all around the world are starting to invest in crypto. For many, it is no longer considered a ponzi scheme, but rather a new form of legitimate investing. Investing in cryptocurrencies and investing in NFTs are two different phenomena, but they correlate hand in hand. There is a large portion of the NFT investors that do not invest in cryptocurrency coins, and there is also a large portion of cryptocurrency investors that do not invest in NFTs. I believe that the two communities will intertwine (even more than it already has) and the group of cryptocurrency investors that did not invest in NFTs in 2021, will do so in 2022.

The second reason for my thesis on why NFTs will grow to record levels is due to the realization from mainstream consumers that NFTs are much more than just a piece of art (or a profile picture of a monkey for that matter). The entire premise of an NFT is to show digital ownership. So, theoretically, anything digital that has value can be turned into a non-fungible token to show possession. The multi-billion dollar music industry has already shown promise within the NFT space. In 2021, musicians such as Tory Lanez and the band Kings of Leon have already released exclusive albums for collectors to purchase and mint as an NFT. Mainstream adoption is coming, and in my opinion, 2022 will be the year it truly pops. Not only will music thrive, but virtual property NFTs, gaming NFTs, and photographs will draw an immense amount of attention as well. In the future (but not in 2022), I believe NFTs will be used for more utility actions such as sports and airline tickets, unlocking your home by verifying the blockchain contract on your smartphone, and so many other ideas that are yet to be thought of. NFTs are not just to show social status, but they can advance the world into a more digitized space one step at a time.

The third reason for why I believe 2022 is set for the massive year for the NFT space is because along with the mainstream adoption, the large centralized exchanges will realize that NFTs are another avenue for profit. In October, Coinbase announced a waitlist for the launch of their NFT marketplace and just last week, Kraken, another popular exchange, released a plan to create their own NFT marketplace as well. There are predominantly two sides to crypto. The cryptocurrency token side, and the NFT side. If these major centralized exchanges recognize how important it is to bring in the other side of crypto, they would generate millions (and in the future, possibly billions) of additional dollars in revenue. Coinbase is now a publicly traded company and shareholders really only care about one thing, and that one thing is money. This is a route that they should, and I believe will take in the near future.

The fourth and biggest reason for NFT growth is due to how marginally small the market cap is relative to the entire cryptocurrency industry. The global cryptocurrency market cap is roughly $2.3T, while the total market cap of NFTs is roughly $31.6B (**see Figure 3**). That means that NFTs are just 1.36% the total market cap of cryptocurrencies. There is so much room for NFTs to grow and the possibilities of digital ownership of utilities, artwork, music, media and other things, is uncapped.

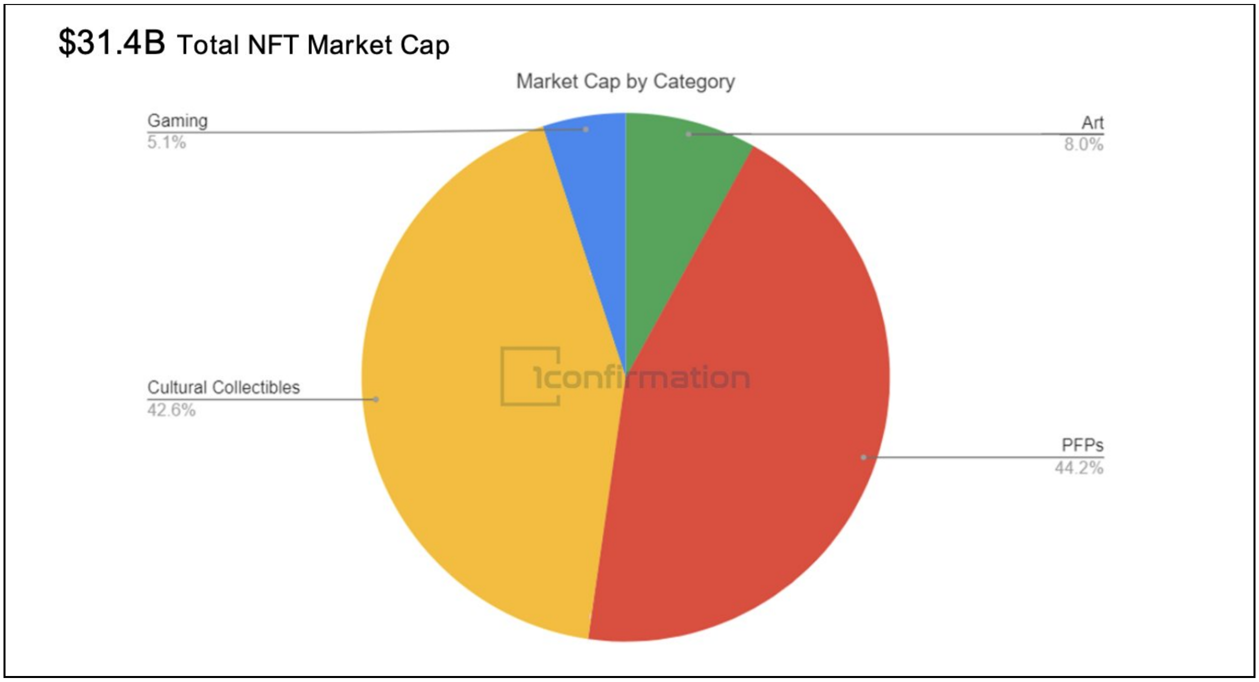

Figure 3 *taken from* https://drive.google.com/file/d/1l9deH7XuGsNbltAtir6C9LvR7FAbeZ5R/view

Tokens to watch: CRA, ENS, MAGIC,

Outlook on the 2022 Market

I struggle with my prediction for the 2022 crypto market because it seems that I flip my opinion on it quite often. I see reasons for both bullish and bearish markets and to put it bluntly, I have no idea which side I associate with. I will present to you my bullish case first. The crypto community has come a long way from the investors who "hodled" and continued to buy the dip. The industry now has institutions, billionaire investors, countries, and other highly credible people and organizations that are investing into crypto. The space has grown a colossal amount since the inception just 13 years ago, but crypto is going mainstream which inevitably has its pros and cons. Now, here is my bearish case. As mainstream media draws attention to crypto, experts in the crypto community can potentially exploit and frontrun the new investors which would cause these new investors to lose money. This would in turn cause them to continue to sell and leave the market and view the entire industry as a ponzi scheme, just like they were told before investing. Not to forget, the experts are also extremely rich from being in the crypto space for years now. There are theories that these individuals are bored of constantly trading and making money. Yes, bored of making money. How could someone become bored of making money? Well, when you mentally drain yourself for years by trading the volatile coins with real, hard earned dollars, it can take a toll on some people. But that is not the main point. These people may be looking to retire and have one more bang before they sell and leave the market for a period of time.

Another concept that I want to bring up has to deal with macro concerns. I will not go into this topic with too much detail, but the overwhelming concerns about inflation, the tightening monetary policy within the US, and the potential for harsh crypto regulations in the future, are reasons to believe the bearish market is right around the corner. These reasons, among many others, have the potential to set the markets into turmoil and spiral in an aggressive downward motion. The crypto markets would feel the abrupt turmoil and money from the markets would be removed. Crypto prices would be sent straight down and due to having smaller market caps than traditional stocks, the price percentages would be most certainly more significant.

So, the question is, what is my outlook? Well, by no means am I a macro expert, and there are so many factors that would play into my thesis, but if I had to choose a stance, I believe we enter a bull market in the beginning stages of 2021 and go bear by the start of Q2. This will all be of contingency of how the Tradfi markets are doing and if inflation is still crossing record highs. I have started to take on a more short term side of investing and taking profits when I seem fit. De-risking on certain token pumps does not seem like a bad idea, regardless of if you have similar beliefs about the market.

Random Thoughts

1. In the future, there will only be two major layer 1s as opposed to the five or so we currently have. This theory comes from the reasoning of twos. iPhone vs. Android, Apple vs. Microsoft, Coca-Cola vs. Pepsi, Ethereum (?) vs. (?)
2. 2022 will be the start of credit within the crypto industry. Credit enables DeFi to be more than a collateralized market and offer products that are still “owned” by Tradfi.
3. NEAR Protocol breaks out and enters the top 15 coins due to its unique sharding technology and intense focus on user experience.
4. There will be more and more cryptocurrency indices to be listed which will allow exposure to a number of different tokens. The DeFi Pulse Index (DPI) is a large index and I firmly believe that there will be more and more as we progress in 2022.

<u>**Disclaimer**</u>

The opinion and commentary herein is provided for general information purposes only and should not be construed as investment, tax or legal advice, and does not constitute an attorney/client relationship. Such information is believed to have been obtained from sources deemed reliable but is not guaranteed. Past performance of any market results including crypto currencies and such related assets is no assurance of future performance. Investing is risky, and you can lose what you put in.