## $LINK Has Underperformed In The Past Year; Is It Undervalued?

### Intro

For those who aren't familiar, LINK is the token for Chainlink, an oracle network. Oracles provide off-chain data to smart contracts to allow them to execute functionality that they otherwise would be incapable of. For instance, Chainlink oracles can provide price feeds to help keep decentralized exchanges' prices in line, random numbers to allow NFTs or games to offer random mints or outcomes, and a variety of other data.

Chainlink's oracle network helps secure over [$59 billion] worth of assets, and it is currently the most prominent oracle network that exists. New partnerships are constantly being added. This, of course, means that it is very important to many crypto applications, including Aave and Compound, and use cases; it's a vital piece of infrastructure.

Despite this, the LINK token has underperformed recently. BTC is down around 34% in the last year as of February 22nd, 2022, but LINK is down almost 60%. Let's take a look at a chart to visualize this underperformance (see bottom of the page - BTC in green/red, LINK in orange).

As you can see, LINK, during BTC's May drop, managed to perform a bit better. But, in the back half of the year, LINK has consistently underperformed BTC. This is also telling because many alt coins outperformed BTC heavily over the past year, including ETH (+34% YoY), AVAX (+101% YoY), and Solana (+665% YoY). Of course, it's hard to compare these directly to Chainlink since LINK was already a relatively

high market cap token to start the year off, but it should still be concerning to LINK holders. Why is it underperforming? Is the market simply failing to value Chainlink's services correctly, or is there a deeper issue?

## The LINK Token

As of right now, the main use case for LINK is to pay for oracle services. If your smart contract needs outside data (price feeds, randomness, etc.) from Chainlink oracles, a fee must be paid in LINK. Chainlink oracles operate on multiple blockchains. This does provide some demand, but it does *not* necessarily require the LINK token price to go up; it just needs to stay at an "okay" price to be enough to incentivize nodes in the network to fulfill requests (the fees earned on LINK payments should exceed costs paid - gas costs - to submit responses to requesters).

The LINK token has a market cap of about $6.5 billion and a fully diluted valuation of about $14 billion. Just under half the total supply is circulating at the moment, the rest is controlled by Chainlink (hard to find *exact* info on this, but I believe this is the case).

Now, part of those tokens belong to the team, and they (up until around mid November) had been selling around 500,000 LINK tokens per week. This was increasing the supply of LINK in the market. The team *does* need to do this to fund development and continue solidifying Chainlink as the premier oracles solution (through various methods, one of which has been *subsidies* for node operators). Bootstrapping the network has required this supply growth and some subsidies; they've been a necessary evil, if you will.

## LINK's Future

There are significant updates coming to the Chainlink network that should directly affect the supply/demand dynamics for the LINK token. These updates are estimated to be coming sometime in 2022, according to Chainlink CEO Sergey Nazarov.

Chainlink will implement LINK staking, which will help improve the security of the network by requiring nodes (those who serve data) to lock up a certain amount of LINK for the right to participate in the network and earn future fees. There are incentives to report bad behavior, and bad behavior can result in slashing (removal) of a node's staked LINK. Overall, this should reduce the supply of LINK in the market and allow the Chainlink network to rely less on subsidies over time. Regular LINK holders may be able to stake as well to earn some percentage yield, though I was unable to confirm that 100% (shoot upnowcrypto@gmail.com an email if you can!).

Chainlink is also looking to release CCIP, a cross-chain protocol. This will allow cross-chain communication and token bridges that utilize the Chainlink network to be created; with the high reliability of the Chainlink network, this match (Chainlink's oracle network + cross-chain technology) appears to be a great one. Additionally, Layer Zero, a separate project working on a highly-anticipated cross-chain communication method, will be relying on Chainlink nodes to facilitate some of their transactions. Both of these likely up the need for LINK since applications using these services will need it to pay for data. But, as stated before, this does not necessarily have to translate to higher LINK prices.

Chainlink does face competition from the likes of Pyth Network and API3. However, competitors make up a far smaller share of the oracle market than Chainlink, so I don't view this as a huge worry. Reliability is what you want in oracles, and it will take time for any competitors to be able to match Chainlink's track record. I'm not ruling out any of these competitors, as the market for oracles is large and can support multiple winners. I'm just saying that, for LINK holders, I wouldn't lose sleep over them.

## Summary

Overall, crypto markets are still heavily reliant on narratives to drive price spikes. The alternative layer 1 narrative propelled Solana, Avalanche, Luna, and others sky-high in 2021, just like the DeFi 2.0 narrative did for Olympus, Tokemak, and some other projects. It seems like "infrastructure" has yet to catch a narrative like this.

LINK's fundamentals, especially considering their market dominance, value secured ($59 billion+), and coming changes (staking and CCIP) look very solid. Many current and future blockchain applications do/will require oracles to run; it's hard to envision Chainlink's network usage *not* growing. However, technically, the LINK price does not really need to increase 5x (or whatever you hope for) to fulfill the role that it needs to in securing the network. Token price growth is more reliant on investors seeing Chainlink as the premier oracle solution and finding value in that. Some things that may help here: staking/CCIP implementations driving attention to LINK (narrative) and reducing circulating supply, traditional investors continuing to move into crypto and wishing to buy "value", and maybe, in the future, LINK being included in an publicly-traded ETF or something like that.

Whether you consider LINK to be undervalued likely comes down to your time horizon. Are you a shorter-term trader who keeps up on the market pretty frequently, is perhaps less risk-averse, and seeks to outperform? LINK is probably, for now, not the token for you; the opportunity cost of holding LINK over other assets is probably too high and, even if we get an "infrastructure narrative", other lower market cap assets *may* outperform if you know where to look and time it right. If you're more of a long timeframe investor who simply wants to own a key piece of the growing blockchain-based ecosystem, LINK may be undervalued to you. I know this is somewhat of a cop-out answer, but it's true (in my opinion).

For more information (though keep in mind these sources may be a bit biased towards the "pro Chainlink" view), check out @ChainLinkGod on Twitter, Chainlink's v2 whitepaper, and this podcast. Despite any biases these sources may have, the information is solid, and @ChainLinkGod, specifically, posts frequent updates on his views regarding the token and overall Chainlink network.

## Disclaimers

**The writer of this piece does not own any LINK.**

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