

Chainalysis' Chief Economist on Mining Blockchain Data to Understand the Cryptocurrency Markets

Philip Gradwell is Chief Economist at Chainalysis, the blockchain data platform. He is also the product lead for 'Market Intel', which provides on-chain data to inform research and investment in cryptocurrency markets, and he writes the weekly Market Intel Report, which is now available on subscription. Chainalysis was founded in 2014 backed by venture capital with a view to supporting the then widely anticipated dramatic growth in cryptocurrencies and other digital assets. The thesis being that detailed, near-forensic analysis of market transactions would be needed to build and maintain the credibility and trust of the investing public. Accordingly, Chainalysis set about its vision of creating compliance, regulatory, and investigative software that detects and prevents activities on the blockchain such as money laundering, terrorist financing, child exploitation, ransomware, and more. Today, US-headquartered Chainalysis has therefore become a major global component in building trust between the key players in this space - between law enforcement bodies, regulators, cryptocurrency businesses, financial institutions and investors - so that the digital assets industry can continue its remarkable growth. The reality is that numerous major investors - the 'whales' of the expanding cryptocurrency universe - have been buying into this market, and only by understanding and tracking their activities can investors hope to attain a real picture of the evolution and then make informed investment decisions. Hubbis met recently with Philip to learn more of his views on the world of cryptocurrencies, and most importantly, what data he and colleagues track in order to properly understand market price movements and liquidity. This report is also in anticipation of our Hubbis webinar on October 6, in which Philip will present his views to delegates, who will also enjoy a panel discussion amongst other experts. Philip's insights are remarkably acute, as they are based on real blockchain data, and a short time spent with him proves the thesis that delving deep into this multi-trillion dollar market is vital to boosting confidence in and understanding of this dynamic cryptocurrency universe.

GET IN TOUCH

[View Philip Gradwell's LinkedIn Profile](#)

[Find out more about Chainalysis](#)

Philip first explains that Chainalysis is now some seven years old and actually started by helping law enforcement investigate crimes involving cryptocurrencies, offering forensic style analysis on the flow of funds, and basically pointing them in the direction of where the money might have been laundered and where it might have ended up.

“Our data powers investigation, compliance, and market intelligence software that has been used to solve some of the world’s most high-profile criminal cases and grow consumer access to cryptocurrency safely,” he explains,

“Without the right lights shining on the road ahead for this market, investors are really at risk of stumbling around in the dark.”

adding that Chainalysis today provides data, software, services, and research to government agencies, exchanges, financial institutions, and insurance and cybersecurity companies in over 60 countries.

Strategic and independent partner

He reports that Chainalysis today serves as a strategic partner to financial institutions, governments, and cryptocurrency businesses around the world, providing data, software, and expertise on sophisticated cryptocurrency crime and market intelligence. And he explains that the firm has built rapidly on its core offering, evolving into a much larger company providing compliance solutions to crypto businesses such as exchanges, payment service providers, investment firms, any company dealing with virtual assets, and also providing data and solutions to government

agencies, very regularly to central banks, and so forth.

“But we are not an intermediary or a brokerage of any type,” he says. “We believe we are 100% objective, as our opinions are based on real data, not rumour or speculation that as we know has been rife in this digital currency universe.”

Painting and disseminating the real picture

He reports that a core mission of his today, and as manifested through its Market Intel Report, is to disseminate truly

well-researched and incredibly accurate and insightful data to help the investment community take a really professional approach to these assets. “And as part of that, we want to get the word out in Asia’s wealth management market about both Chainalysis and also the research we can provide,” he says. “Without the right lights shining on the road ahead for this market, investors are really at risk of stumbling around in the dark.”

He remarks that the information Chainalysis offers is driven by data they mine from the blockchain and other sources and is trusted by the governments, regulators, crypto businesses and financial institutions Chainalysis counts as its clients and partners globally. “Armed with such outstanding source data, investors of all types and sizes can identify opportunities, from short-term

trades to long-term strategies, with decisions supported by the most detailed and accurate dataset available,” he reports.

Elevating the vision of the private wealth community

As such, Philip maintains that Chainalysis is right at the leading edge of professionalising the whole data delivery and analysis in this industry so that investors are properly educated and informed, and when looking at investing in cryptos, they can see the true supply and demand and make properly informed decisions.

“In the APAC region, as elsewhere, investors such as hedge funds, family offices, wealthy private clients and the advisors from private banks and other asset managers need a much more complete picture of events.”

He also observes that specifically for the wealth management community, from private bankers, advisors, HNWI and all the way to UHNW family offices, he tends to focus their attention by looking at the types of cryptocurrency journeys that they might have embarked on to date.

Real-world experiences

“We like to put this in the context of their own experiences,” he says. “Some of them might have got in very early, as far back perhaps as 2016, and entirely speculatively, and that would have been really successful if they have held on. And then there’s the next wave of people who have come in much later, perhaps as prices started to rocket, and they might potentially be wondering what to do next, with Bitcoin, or with other cryptos. They might be questioning how



PHILIP GRADWELL
Chainalysis

they can engage with this industry in a more regulated and safer way because those people who are slightly later to the game will typically be more cautious.”

Philip also explains that a key area of interest today is the whole topic of decentralised finance, known as DeFi, which is essentially the next wave of cryptocurrencies, championed most visibly by Ethereum, and also supported by a cast of cryptos such as Solana and Uniswap and Aave.

Looking around the next corner

“Bitcoin has gone up significantly and other cryptos such as these DeFi names might have underperformed relative to bitcoin, so people are increasingly interested in assets such as Ethereum or other decentralised finance assets,” he reports. “They really want to know more about this new frontier, even if this is a more speculative area.”

He also observes that the private wealth community has tended to question whether crypto is the start of a broader trend in asset management. “Will we see more

The keys to this universe

“The key is there is real data, and it is genuinely accurate because we at Chainalysis mine that out of the blockchain,” he states. “And what we know for sure from that is real money is going in, big investors are putting their investments behind this. The exchanges are executing the deals, and we can see this as clearly as you might see the oil supertankers waiting to fill up in the Middle East, to offer an old-world analogy. When you see that type of data and that type of activity, you can kind of trust that there’s something going on, there are some actual real signals in this market.”

He draws the discussion towards a close with the comment that this is precisely what Chainalysis provides. “We know very well that investors, obviously including those advisors and investors in the private wealth community, don’t want to invest on rumours and news. They want a more fact-based, and data-driven perspective,” he comments. “And there is a real and substantial gap in this regard, which we are filling.”

assets move on to the blockchain, and what does that enable?” he ponders. “What are NFTs, or non-fungible tokens, and why are people putting money into those, and will they become mainstream? In short, what is outside the world of Bitcoin and Ethereum that will emerge as more important, potentially more mainstream in the coming years? Even bigger picture, people are wondering if the blockchain is the place to go to in the future to acquire more and more assets.”

He explains that this can be boiled down to phases. “Essentially, the shorter-term aspect is more Bitcoin and where the price is heading,” he comments. “Then the short- and medium-term is what other cryptocurrencies could people speculate on. And then in the longer term, what would it mean for private clients to allocate more of their investible wealth into digital assets?”

Setting the virtual world in the mainstream context

Philip also says it is also important to set all this within the context of the wider mainstream financial markets, central bank activity and the rise of inflation.

“We saw that from March last year, during the nadir of the mainstream public markets after the arrival of Covid-19, up until around May this year, people have shifted from those publicly traded capital market assets to Bitcoin in particular,” he reports. “That is clear from the data and explains why Bitcoin has performed so well in the last 18 months. As we see it, people have been reacting to the rising risks around inflation, the expansionary monetary policy of the central banks and governments due to COVID, and therefore shifting into Bitcoin as there is a finite supply of it, being more akin to digital gold. That is



certainly one big structural story playing out.”

From the US outwards

He adds that these movements were largely driven by North American wealth and doing so through prime brokerages that make it very easy for people to play cryptocurrency. “They are essentially holding these assets as a longer-term investment because they want to hedge against the broader economy, inflation and central bank activity, and so forth,” Philip elucidates. “And more recently, our research demonstrates that in the last few months, more people have been buying into decentralised finance, as I mentioned, assets such as Ethereum, Solana and others.”

“We know very well that investors don’t want to invest on rumours and news. They want a more fact-based, and data-driven perspective. And there is a real and substantial gap in this regard, which we are filling.”

He explains that the key difference around DeFi assets is that investors can swap them, lend them, and therefore earn a rate of return on them. “Bitcoin you buy and hold and is more of a macro hedge, more like gold, as I said, and these are the longer-term investors. And then there are also those playing the price volatility, such as hedge funds and others. And then you have more of the venture capitalist type investors who are trying to invest in this growing DeFi industry and want to catch the businesses or assets that are really growing.”

Philip explains that in his view, the key to building investor confidence in this nascent but

dynamic industry is to understand the very convincing argument that so many large investors have been buying in.

Trust the crowd

“With so many large players already involved, there is a real risk of being left out in the cold,” he says. “That is why we analyse the activity of what we call the ‘whale’ type investors, using our expertise to extract it from the blockchain. You might be cynical about the fundamentals, but you can’t be cynical about all the demand that these other significant investors are generating. This demand is chasing limited supply, and that in turn means the likelihood of growth is now much higher than

it was even two years ago. Don’t doubt the crowd is what we so often say.”

The digital finance revolution

Philip also points to a seismic transition taking place as the technology and algorithms have now created the potential and opportunity for people outside of traditional finance to create and distribute new digital financial products.

“Whenever you see that type of transformational change, when major disruptions are taking place, you always want to be in at the ground floor for that transformation. So, we have

the ‘trust the crowd’ argument, and we have the argument around a fundamental change in the economics of creating financial products, creating new investment opportunities. Do we know exactly where this will all lead? No. But we do know it will lead to a lot of opportunities.”

He comes full circle back to the role of Chainalysis, remarking that where there is so much misunderstanding, so many ‘dodgy’ rumours and

misinformation - much of it deliberate - and often such cynicism, it is vital to centre decisions on the real activity taking place in the market.

Mission-focused

His very final observation is to remind our readers that Chainalysis is not a brokerage, indeed not an intermediary of any kind.

“Our mission is information and analysis, genuine data and insights,” he reports. “The more we

can help governments, regulators, authorities, and private market participants to institutionalise, professionalise and advance this relatively new but rapidly expanding market, the better it is for all parties concerned. The type of rigorous and disciplined approach we apply to data allows us to form the insights we can then share with the key participants, and for investors, this really helps guide them towards the best-informed decisions.” ■

