Decrypting the Crypto Economy - Making Sense of Crypto Token Categories and their Investment Value

Christian Hsieh is Co-founder and CEO of Tokenomy and offered delegates at the Hubbis Digital Assets Forum in Singapore on November 30 a fascinating talk on crypto asset classification and value, based on utility and function. He drilled down into the implied investment value in each token category, and then looked beyond tokens to other forms of crypto investment exposure. "I am a believer in crypto assets," he declared to delegates, and gave a remarkably detailed and insightful overview of the 'why' and the 'what' he actually believes in.

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Christian Hsieh
Tokenomy

Tokenomy is a licensed digital asset platform that offers a wide range of crypto-based financial services. It was created in 2018 on the premise that Bitcoin and the blockchain revolution are changing three fundamental infrastructures: money, financial services, and the next generation of the Internet (Web3).

Christian Hsieh, co-founder and CEO of Tokenomy, believes crypto finance and the blockchain will have a fundamental impact on all our futures and sees a core role for the Tokenomy platform in the evolving financial revolution.

He sees his mission as essentially leveraging the future of money infrastructure to build a financial services platform that will become an integral part of the future of finance, centred on a state-of-the-art crypto investment platform offering spot and margin trading, yield-enhancing products, crypto loans, and custody services.

"My name is Christian Hsieh, I am a crypto believer," he told delegates. "I believe there is no better time to talk about cryptos than in the middle of a bear market. But what I want to do today is try to demystify or decrypt the Crypto Economy and try to make sense of the expanding universe of crypto tokens, and understand how they have investment value."

Christian is also a leading thinker about the evolution of digital assets in general. In his highly readable, succinct and yet detailed report titled 'Decrypting the Crypto Economy: Making sense of the token categories and their investment value', he surveys the digital assets journey to date and plots some of the future landscape ahead.

Armed with a short and concise slide presentation to support his talk, Christian explained that one of the most common questions from crypto investors is how to differentiate one crypto asset from another.

"Among thousands of crypto assets currently available, it is a daunting task to understand all of their functions and purposes," he observed. "This confusion can often keep investors from participating in this emerging asset class and cause them to miss out on the exponential growth potential in their investment portfolio. This has been further exacerbated by the global asset sell-off and the phenomenal rise in a number of what we call 'zombie coins' that virtually never trade. Shockingly there were a mere four of them in 2017 and today, more than 12,000."

The revolution is underway

But Christian maintained that just as the Internet has transformed our everyday lives in the past 30 years, so too blockchain technology is opening up a host of crypto asset investments, which need to be classified into categories in order to be better understood.

He told delegates how he separates them into Type A - crypto assets whose value is mainly driven by utility and network effects, and Type B - crypto tokens with values linked to real-world assets.

"Although critics often focus on Bitcoin's high price volatility in the short term, its historical long-term price appreciation has been remarkable. A recent CFA study highlighted that a 5% allocation of Bitcoin in a traditional portfolio (from 2014 to 2020) could boost the total returns by as much as 50%, while the risk-adjusted return (or Sharpe ratio) can increase by 0.36."

Value founded on utility and adoption

In the first category – Type A or those whose value is founded on utility and adoption – they can be further split into four segments, representing store of value, smart contracts, payment coins and meme coins.

Bitcoin is the classic store of value decentralised peer-to-peer

cryptocurrency, running on the most secure and widely distributed permissionless blockchain payment network.

"Like commodities, the value of Bitcoin is driven by supply and demand, so its value has a direct correlation to its adoption," Christian explained. "Although critics often focus on Bitcoin's high price volatility in the short term, its historical long-term price appreciation has been remarkable. A recent CFA study highlighted that a 5% allocation of Bitcoin in a traditional portfolio (from 2014 to 2020) could boost the total returns by as much as 50%, while the risk-adjusted return (or Sharpe ratio) can increase by 0.36."

He elaborated on this, noting that with inflation becoming a global concern in the post-pandemic economy, and with money supply in US dollars having surged by 14% per annum since the global financial crisis of 2008, investors are looking for alternative assets to maintain their purchasing power, with more and more leading institutions linking Bitcoin to gold as a digital store of value.

He noted that Bitcoin rose by more than 46% per annum from 2013 to 2022, while even the most dynamic stocks such as Apple could not match that, even though that had risen by a remarkable average of 25.6% per annum from 2008 to 2022.

Institutional weight

"I certainly think crypto should be treated as an emerging new asset class like venture capital, so we shouldn't allocate too much, but with a certain allocation in your portfolio, it can help protect and also boost portfolio returns, as data shows," he stated.

He added that this is the reason why many financial institutions, including pension funds, insurance companies, and sovereign wealth funds, have been reporting increased allocation to this digital asset class in recent years, and its price is expected to increase over time with its finite supply and growing demand. "If one assumes the total value of Bitcoin reaches the market capitalisation of gold at around USD11 trillion, one Bitcoin could be valued at USD400,000," he remarked.

Smart contracts and payment coins

In the smart contracts segment, these are crypto assets that are programmable money that can enable decentralised and immutable smart contracts with specific purposes. They usually have an infinite supply, but the network effect and utilities can be powerful, and leading examples include Ethereum, Cardano, Stellar, Polka Dot, MakerDAO, and Filecoin.

He noted that while Bitcoins have fixed supply [only 21 million Bitcoins will ever be available] as people use more Ethereum, for example, there will be more coins minted. "It's like a fuel of the infrastructure," he stated.

Payment Coins are cryptocurrencies designed to provide alternative payment solutions to the traditional payment network. These transactions are usually fast with low fees, but more people prefer using stablecoins instead, and examples include Litecoin, Bitcoin Cash, Ripple, Monero, and Zcash.

And finally, Meme Coins were created more out of humour, do not represent any real-world value, but are gaining popularity among the younger generations as a way

to express opinions or ideas, and are represented by coins such as Dogecoin and Shiba Inu.

Tokenisation is expanding apace

In the second core category, or Type B as he calls them, there are even more tokenised representations of real-world assets.

These include Stablecoins, which are tokenised values of specific fiat currencies, and the stablecoins are designed to facilitate instant settlement for cross-border or micro-payment transactions because the traditional bank-wire system is often costly and too slow, which is why stablecoins have become so popular. Tether, or USDT, is the most traded cryptocurrency, with an average of USD50 billion equivalent of daily trading volume.

Christian offered further comment: "The tokenisation of loyalty points has been popular among many companies. Loyalty points or platform tokens are valuable because they can redeem specific goods and services according to the rules set by the issuers and allow issuing companies to crowdfund their future product expansions. However, the recent fallout of Terra/Luna and FTX raised concerns about how companies could misuse and over-leverage their platform tokens which can trigger catastrophic collapses in the broader token ecosystem. Perhaps more regulations would focus on this area in the future."

NFTs galore

Another key segment of this second category is the Non-Fungible Tokens, or NFTs, which are tokenised fractions of value of largely specific tangible assets, such as artwork, collectibles of all types, or perhaps bodies of music.

He reported that NFT had become the word of the year of Collins Dictionary 2021. "NFT is a very innovative technology, and there is a lot of innovation taking place in this segment," he stated, "even though liquidity in NFTs has dropped in recent times given market conditions and other events."

Tokens of real-world financial assets

Finally, there are Security or Commodity Tokens that represent real-world financial assets, such as stocks, bonds, real estate or precious metals such as gold, silver, or other valuable commodities like oil, gas, and carbon credits.

"I know a lot of colleagues in this industry, some of them here today, are working on security tokens," he said. "This category is actually quite safe to play with because there are quite a lot of regulations already around the securities, as we are talking about stocks, bonds and real estate. A key attribute is you can allow decentralised access, and second you can achieve fractional tokenisation of private assets."

Helping demystify the market

Christian conceded that his categorisation is by no means perfect, as many multi-purpose tokens can be classified into other categories, but he said he hoped it would help the average interested private investor to imagine and then understand the crypto asset universe, ever expanding as it is.

"As we see it, cryptos under our store of value, smart contract and stablecoin categories should be considered core allocations to a crypto portfolio," he concluded. "As to access, investors can buy directly, or they can buy into traditional fund vehicles or exchange-traded products that track Bitcoin or major crypto asset groups."

Believe and follow...

Christian closed by reiterating his vision for a crypto assets future to grow alongside traditional finance.

"I am Christian Hsieh and as I said, I am a believer in crypto assets. This is happening and it will continue to happen. Tokenomy is playing a core part in helping develop access and security and also education for this exciting and dynamic market. None of us know exactly where this will all go, it is incredibly fast-moving, but we do know that there is a road ahead and that institutional adoption is already paving the way for a much more significant private investor participation." ■