INSIDER Weekly

Have you ever been to one of those buffets where the food is that combination of delicious and endless?

You know that you can't possibly devour it all but if you get to frequent this buffet you also know that over time you'll get to experience many of the delectables and benefit from them. I'd like to think that as i continue to build the business and Insider that it can become that buffet. And I don't want to turn this into a "you get a newsletter for this micro niche area here….and another for this micro niche area there" and you get upsold, sideways sold and downsold across the spectrum. That's fucking annoying when I see it happen. So here it is. Your first edition of what we'll just call bitcoin market update. Because….well that's exactly what it is.

Since I believe that bitcoin is one of the most asymmetric investment opportunities at the moment, I have twisted arms and cajoled my friends and colleagues at Zerocap to provide their institutional level research to you…our Insider members. Their skill sets in this arena are deep and their analysis top notch. Furthermore they're humble. And THAT…I like. At a personal level I do all my BTC trades through them.

In any event I hope you like this addition to the Insider program…oh and if some of their updates are too technical for you. Don't worry – remember this is institutional level so it's written as such. I have asked them to make it as user friendly as possible, without losing the value of their analysis at the same time. So the odds are there will be some things which (if you're not familiar with the space) you'll be thinking…WTF are they on about? Don't stress there will certainly be enough takeaways that I think you'll find are useful to you over the coming months and years. Our aim here is to provide you with the best tools available to protect yourselves and profit.

Over to Jon De Wet from Zerocap for this week's market update…

Regards
Chris

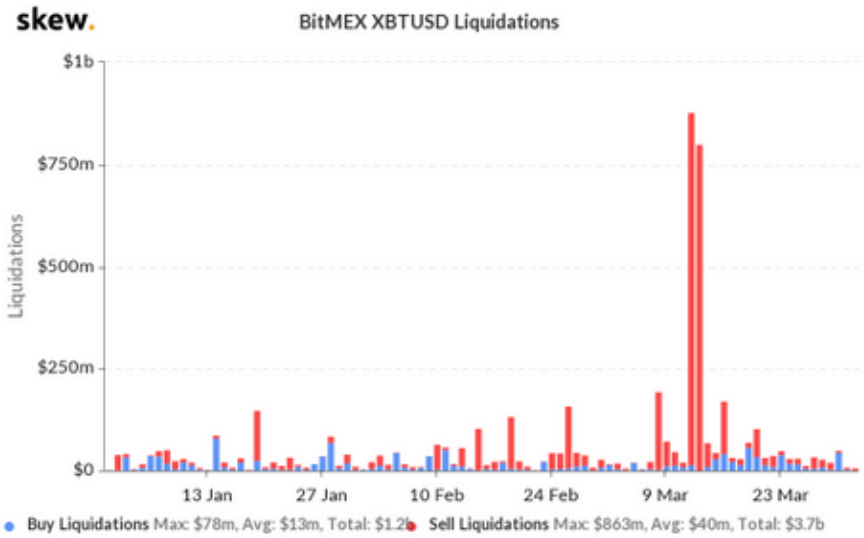
Jon De Wet

Market Update

That time of the month where we make ridiculous forecasts, and finger paint on charts.

Daily BTC chart

After the derivatives dive on the 12th March, we are seeing a nice recovery. Skew recorded $1.5bln in sell liquidations for BitMEX's XBTUSD perpetual swap contract on the 12th and 13th March despite total XBTUSD open interest before the move being below $1bln. Broader intermarket flows have been driven by margin calls, and with some recent stability in the equity markets, this has given Bitcoin and gold the chance to recover. Word on the street from our institutional digital asset lending partners is that despite the 50% drop in Bitcoin, all loans and margin calls in the asset were paid up and covered. This allows a nice reset to Bitcoin which should see some continued topside as a hedge against the insane central bank printing presses working overtime. Key levels for the technical analysts out there – $8,000 will complete the filling of the gap (fast move down on the 12th March), before running into some resistance at $8,500. If we break $8,500, this will put the bulls in control.



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USD backed stablecoins did very well in this environment. USDT began trading at a premium, and still actually buys you more real USD. USDT's market cap extended beyond $6bln towards the end of the month, showing a strong demand curve. Likely that the flows into USDT were coming from crypto, not the USD itself. We see some really interesting yield plays here in the USD over the next 6-months, with interest at record lows, there are solid lending and yield options in the space, with limited counterparty risk. We'll be coming back to you with some channels to take advantage of this in the coming months. Ideally, you want gold, USD and Bitcoin exposure (what a mix!), but with the option for yield on these assets. Possible? Hell yeah – up to 8% PA.

Section: Craziest thing in crypto this month

This section is fast becoming "who made stupid money gaming rule based systems". Today we look at Political Betting, PredictIT and Augur.

How to take $400, and make $400K gaming political futures over 4-years

Many of us felt the elation of the ICO boom in 2017, where everyone got rich, and almost all lost again. At the time we all felt pretty clever (which is the danger of any directional and sustained move – hello S&P500), analysing projects, getting on the back of the 'next big thing'. Every crypto enthusiast became a Venture Capitalist – and spent a shitload of money acting like one. Hindsight is a wonderful thing – many of the token based projects really did not require a token at all, and made very little sense. For example, Beetoken – the 'decentralised AirBnB. The result – charts like this, that absolutely DO NOT represent deep value.

Bee Token Statistics

Bee Token Price	$0.000374 USD
Bee Token ROI	-99.84%
Market Rank	#1472
Market Cap	$88,544.98 USD

You see, most crypto projects over the last few years attempted to ride the boom. They would argue that Airbnb needed to be decentralised, that a token was absolutely necessary for the project to be successful. "Our core value is in the token model". Well.. here's our take after seeing it all over this period. Most startups, and even established businesses (who ingeniously decided to do reverse-ICOs…), did so for one reason. Free cash. What a time to be alive…

"You mean I can raise stupid amounts of money for my business, without having to relinquish any equity..?"

"Yessir – just add the word 'blockchain' or 'distributed'. I mean look at Long Island Ice Tea when they changed their name to 'Long Blockchain' at the height of the ICO craze in 2017. Or even better, 'protocol', create a whitepaper, and you are good to go!"

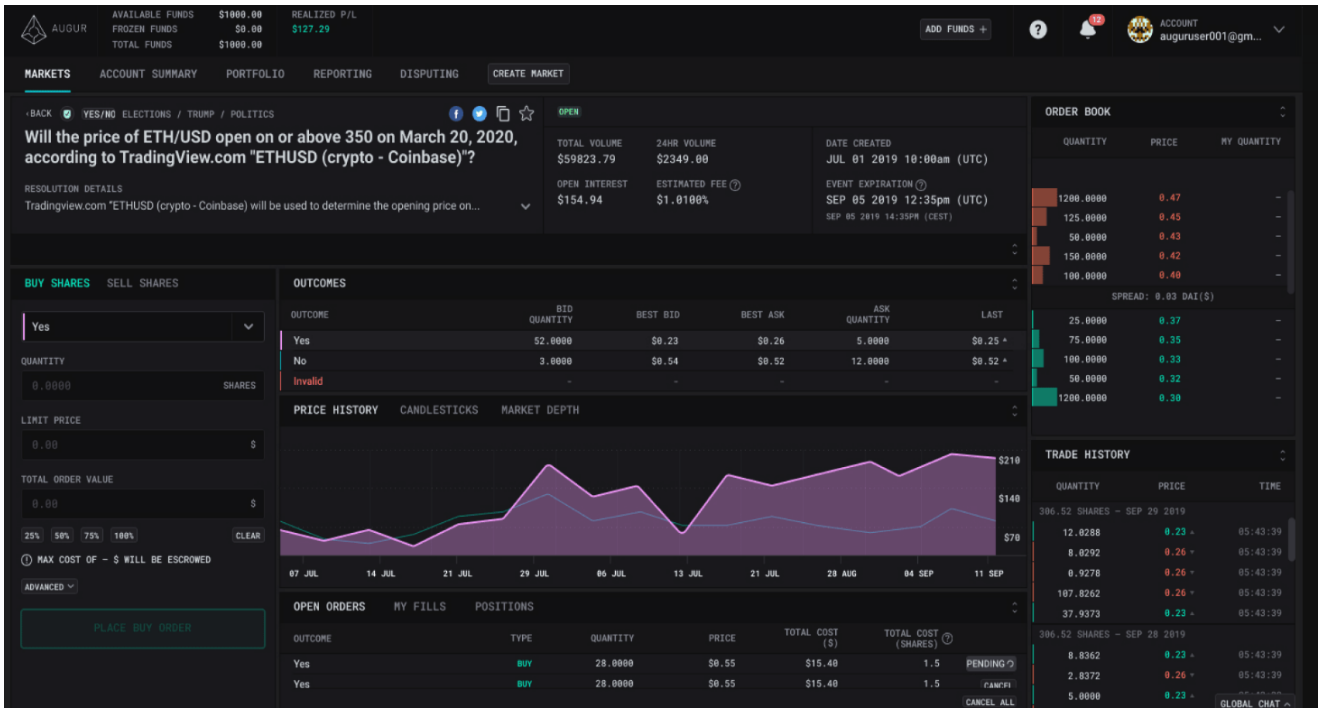
Moral hazard comes to mind.. when one party does not suffer the loss from undue risk taking, that party tends to… well, party.

Somewhat poetically, almost all of these businesses cleverly decided to leave all their money in the Ethereum currency, which also took one hell of a dive over 2017, leaving many of these startups with no runway and a healthy investigation from the SEC for selling a dud to retail Americans.

Yet out of all of the boom-led destruction, built from years of pent-up and increasingly saturated crypto projects, were born some absolute gems. One such gem that weathered the leadup to the madness, the madness itself, and finally survived on the other side, was Augur.

Unlike most of its peers in the space, Augur was a brilliant use of blockchain technology, and an example of how financial institutions could house and monitor risk. Traders participate in peer-to-peer prediction markets that are based on real world events, taking the 'wisdom of the crowd phenomenon and allowing people to bet against each other on outliers. As all markets are open before the outcome is reported, users can cash out their stakes; hedge risk, minimise losses and more liquidate their position if they want out. Augur is essentially a platform that has a constant systemic view of the risks, probabilities and betting outcomes on world events. If only our financial system had the same insight into true market risk.

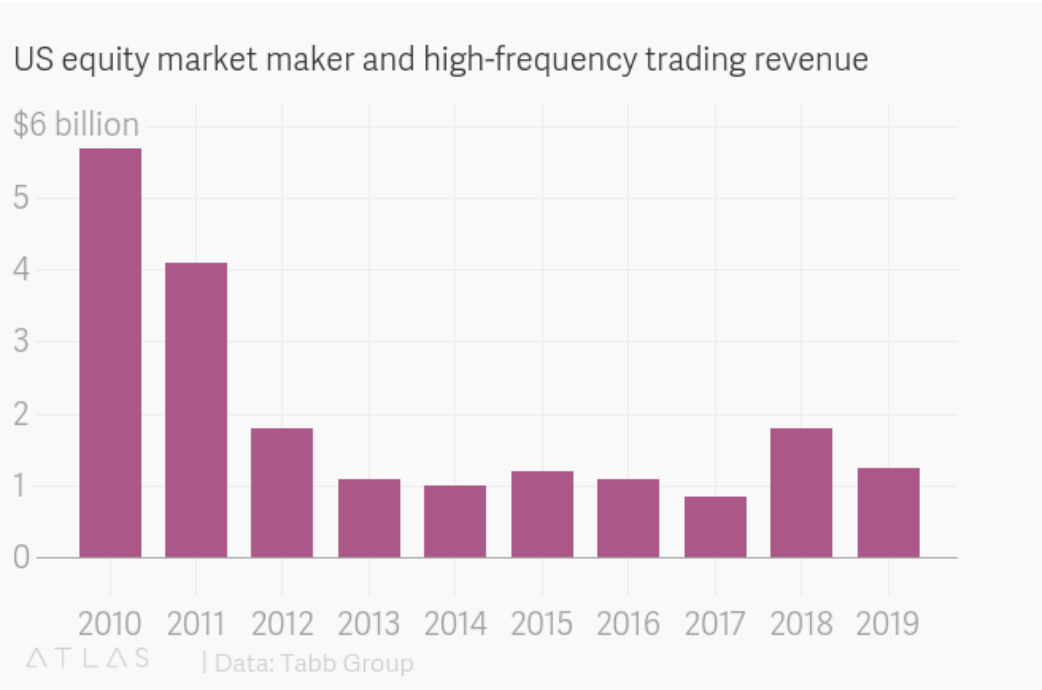
Now the following story is about winnings on PredictIt.org, a centralised betting platform with more bettors but with a limited volume per trade at $850 (limited largely due to risk worn by the platform, and regulatory barriers). We are positioning this story next to Augur as it has imposed no-limits betting, a testament to the ability, at any point in time, to understand the total risk on the platform. It's for this reason that the future for Augur is bright (despite recent declining volumes), and that a distributed view of risk is where financial (and betting) platforms should be heading! (Zerocap is not sponsored by, or paid by Augur in any way for the above comments. We are genuinely fascinated by its potential).



So how did this guy pull $400K in winnings?

The PredictIt platform operates like a financial system, with probabilities playing out based on the market's bets. You'd then naturally expect financial system-like strategies to play out here. And play out they do. Derek Phillips takes a High Frequency Trading strategy (HFT) approach, scalping lots of small wins whilst other bettors capitulate.

It's a fascinating approach in a world where financial market dislocation is leading to less exploitable alpha. Citadel, Virtu, Jump – good luck trying to front-run anyone ahead of these guys. Take one look at Flash Boys, and you'll realise the technology component of HFT is pretty tied up. In fact, that is one industry that is getting tougher to compete in:



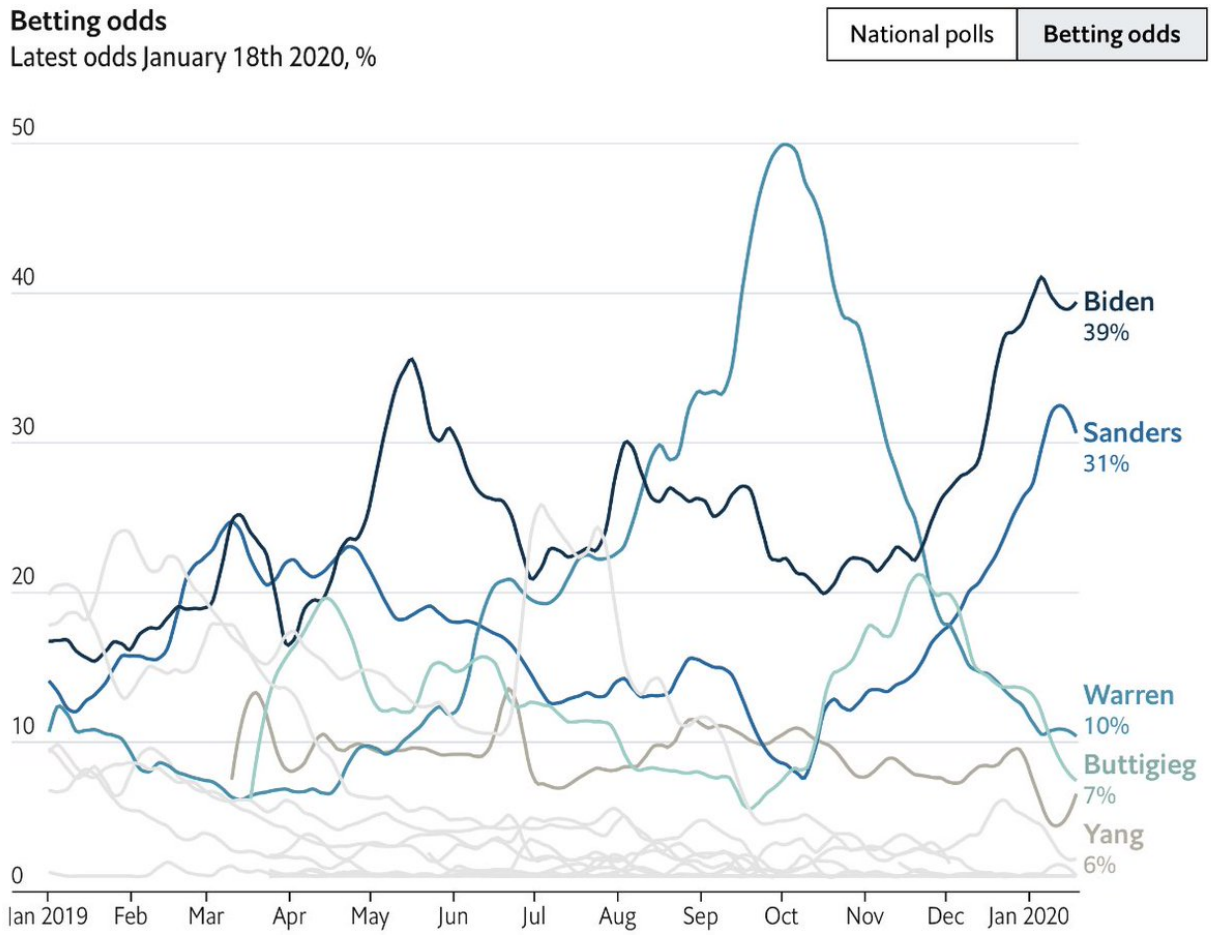
Data: Tabb Group

Low volatility (until Corona kicked in), increasing costs and the increased relative speed and technology costs have all led to an industry that's getting tougher to make good coin. The above data does not show profit margins, but those are tightening faster than my seat-belt when mum is driving these days.

So how to compete? Well, either take a long view, reduce the short-term noise and not have to compete against algos or funds that are pressured to make month on month returns. Or find other markets and deploy known, workable strategies where the edge has not yet been slaughtered. This is exactly what Phillips has done.

"I find high volume markets…(like the) Democratic Nominee market or the 2020 Presidential Winner market…and what I'm doing is I'm just getting in line at the 'buy' price and waiting my turn until my orders get filled. Then when those orders get filled I just sell them for 1c more."

He essentially front-runs the other buyers, over and over again, like a dark pool.. but public. You get the picture. Prediction markets do not constitute an actual representation of the general population, so the betting pool can lead to mispriced markets. Front-running orders in this way, playing volatility allows for many small wins over a timespan. Phillips notes that market pricing tightens over time, and the most lucrative arbitrage is always when a market opens.



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Here are the odds of each of the 2020 Democratic frontrunners. Notice the annualised volatility? Delicious. The HFT (High frequency trading) guys would be having wet dreams about this stuff, but alas, the depth of liquidity is not there for Citadel's size. And neither is the platform connection and latency to this market.. yet. So that creates opportunities for the little guy in the meantime to manually exploit the volatility, and potentially provide some decent returns.

Derek Phillips started this 'hobby' in 2016, went pro and has turned $400 in $400K over 4-years. What a guy.

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Jon De Wet

ZeroCap helps private clients, high net worth individuals and institutions purchase and custody digital assets. If you would like to know more hit up JD at vip@zerocap.io.