# Crypto investment strategies and the Boston Consulting Group (BCG)Matrix

December 2021

Market growth rate

**QUESTION MARKS**

***Investment strategies***
- *value-investing*
- *contrarian*
- *event-driven*

**STARS**

***Investment strategies***
- *momentum*
- *Indexation*
- *directional trading*
- *staking*

**DOGS**

***Investment strategies***
- *timing-the market*
- *long/short*
- *market-neutral*

**CASH COWS**

***Investment strategies***
- *buy-and-hold (HODL)*
- *global macro*
- *indexation*
- *dollar-cost averaging*
- *value-averaging*
- *staking*

Relative market share

**KEY**:
Market growth rate = rate of adoption of technology or protocol = liquidity

Relative market share = relative market capitalisation

**Note: The lists are not exhaustive**

| | Question marks | Stars | Cash cows | Dogs |
|---|---|---|---|---|
| **SECTOR** | | | | |
| Store of value | BCH | | BTC | BSV, BTG |
| Platforms | ADA, MATIC, ETC, EOS | ETH | | NEO, QTUM |
| Payments/Currency | LTC, XLM | XRP | | ZEC, DASH, NANO, NEM |
| Centralised Exchanges | CRO, ATOM | DOT | BNB | HT, ONT |
| Decentralised Finance | AAVE, MKR, COMP | UNI, LINK | | SUSHI |
| Internet of Things | | IOTA | | |
| Non-fungible Tokens | ENJ | MANA, THETA | | CHZ |

# Our investment strategies explained

- Just as with traditional finance, our investment ethos (built around fundamental analysis) is driven by a desire to seek out crypto projects with robust use-cases and with long-term investments in their development teams (including in R&D) and which, therefore, present credible long-term value even in the face of periodic extreme market volatility.

- Our preference for passive strategies is informed by both anecdotal and empirical evidence that active strategies do not consistently outperform a 'naïve' buy-and-hold policy on a risk-adjusted basis. With the unpredictability and often extreme volatility found in the crypto market, this truism holds even the more.

- However, we do not remain oblivious to the investment opportunities that come with periodic market and price dislocations, following either favourable or adverse events and announcements (typically FOMO and FUD), and we utilise such opportunities to suggest tactical allocations and periodic rebalancing to our clients.

# Our investment strategies explained

- In particular and in regard to this, we seek to pay attention to the less news-worthy mid-tier cryptos due to a greater chance of their mispricing, either an overvaluation or an undervaluation, when compared to their more popular top-tier counterparts.

- Theoretical underpinnings, like the Efficient Market Hypothesis (EMH), are also key to informing our firm strategies, and we remain cognisant of its relevance to the crypto market including with regard to 'size effect', 'mean reversion' and 'lead/lag relationships' , among others, when advising our clients.

- The emergence of crypto-based funds build around full replication, size, sector, etc up to and including crypto ETFs means that our tool-kit is well equipped to meet the objectives of a host of varying client types. For more on crypto funds see our report titled '*Cryptocurrency: taming the volatility through fund-investing*' at https://www.blockchainandcryptoassetk.com/our-thinking

# Our investment strategies explained

- Our specific investment strategies are mainly informed by *Metcalfe's Law*. The value of the network (or a particular public blockchain technology or, in short, a cryptoasset) is proportional to the square of the number of connected users. Simply put, as more and more people use a cryptoasset, the higher the value because of the network effect. As the number of users grows linearly, the value of the network grows geometrically.

- Three indicators pertinent to network value are:
  - Unique Address: as an indicator this shows how many people are using the network at a particular period in time. More users should indicate a higher network value following Metcalfe's Law.
  - Transactions Value: higher trading volumes on any protocol should usually indicate higher transactions value, though not necessarily more users. However, transactions value remains a useful indicator of network value.

# Our investment strategies explained

- Mining Cost. As mining costs increase, this necessitates an increased value of the relevant cryptoasset. Miners won't mine if the value of the cryptoasset they are mining isn't high enough to offset their costs. And, since miners are essential to making the blockchain function, as long as there's demand for using the blockchain, the price will have to go up as well as the network value. For more on mining cost see our article *Bitcoin Hashrate and Bitcoin Price: Is price prediction possible?* *at* https://www.blockchainandcryptoassetk.com/our-thinking

- Four ratios that are critical to our investment analysis include:
  - Network Value to Transactions value (NVT) Ratio — The P/E Ratio of Cryptoassets. This ratio divides the network value by the network transactions value to see the relationship between the value of the overall network and how it relates to the network's activity. A high NVT ratio may, but not always, suggest that the cryptoasset is overpriced. A low NVT may suggest the converse.
  - Market-Value-to-Realized-Value (MVRV) Ratio. The MVRV Ratio measures a network's market value (market cap) against its realized value. Realized value is a calculation of market cap where coins are valued based on the market price when they were last transacted on the blockchain.

# Our investment strategies explained

- Thus, the cryptoasset prices are taken at the time they last moved instead of at the current price. This helps eliminate some of the lost and unused coins from total value calculations. A high MVRV ratio denotes overvaluation of a cryptoasset while a ratio of 1 or below denotes undervaluation.
- Mayer Multiple Ratio. This is a statistical estimator which shows how common a price level is in relation to its historical trading pattern using the 200-day moving average. Mayer Multiple = Price / 200 DMA (200-day moving average). A value less than 1 is a bullish indicator for the particular cryptoasset and may suggest a lower price than the (recent) historical average. This can serve as a buy or accumulation signal. A much higher value suggests the cryptoasset may be overpriced.
- Price to Mining Cost Breakeven (P/BE) Ratio. The price to mining breakeven ratio compares the price of a cryptoasset relative to the cost to mine. This ratio only works for coins that are mined, not tokens or coins that are pre-mined. A P/BE Ratio of less than 1 is usually a bullish signal and may indicate the particular cryptoasset is undervalued.

# Our investment strategies explained

- High mining costs are usually indicative of higher competition among miners in anticipation of a cryptoasset price rise. A P/BE ratio much greater than 1 is usually an indicator that the particular cryptoasset may be overpriced.

- **Concluding remarks**
- Our investment analysis and advisory process uses a combination of fundamental analysis tools and theoretical underpinnings to arrive at strategies that suit the specific risk and return profiles of a varied set of client types. The process, largely, aims to not only identify value at an early stage but also to take advantage of relatively mature and established cryptoassets while also exploiting opportunities arising from short-term market and price dislocations.

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