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Opinion: Crypto Will Survive Banking Woes—Here's How

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By **Rob Frasca**, **COSIMO Ventures**

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"Be fearful when others are greedy, and greedy when others are fearful," Warren Buffett famously said. It's a quote that perfectly captures how investors and advisors should view the crypto market right now—particularly those with a high conviction in the underlying technological advancements that blockchain provides.

The collapses of Silvergate Bank, Signature Bank, and Silicon Valley Bank in the past week—banks that played important roles for parts of the digital asset industry—continue to rock the financial world. So too did last November's bankruptcy filing by FTX and the resulting fallout in which poor management, alleged criminal actions, and a lack of regulation left an estimated one million customers and investors facing losses totaling in the billions of dollars.

But despite these events, I believe we are now witnessing a pivotal point in the crypto industry's evolution as it shifts from focusing on speculative assets to investing in real-world blockchain use cases that improve functionality, reduce costs, and create transparency.

As risk-managed products did for traditional finance, today's crypto funds are evolving to manage downside risk while providing upside reward through staking, token accumulation and compounding price appreciation. Investment vehicles with exposure to diversified cryptocurrencies and their blockchain protocols are starting to mirror many aspects of traditional finance products, with an eye on risk management, yield generation, and reduced counterparty risk, led by experienced portfolio managers.

One of the most obvious ways that traditional finance has merged into the digital asset sector is through risk-managed funds, particularly those that invest in proof-of-stake (PoS) networks like Ethereum. There are two major consensus mechanisms for verifying new transactions on the blockchain: PoS and proof-of-work (PoW), an energy-intensive approach that uses computing power to validate blockchain transactions, known as mining, and to

secure the network. The Bitcoin blockchain offers an example of this PoW, which has garnered criticism for its energy inefficiencies.

On the other hand, PoS blockchains employ a faster, more energy-efficient method where validators, individuals, or entities stake their tokens as collateral on a network for the opportunity to validate new transactions and gain rewards. I believe that the highly publicized move by the Ethereum blockchain from PoW to PoS is a harbinger of where the market is heading. Digital assets have entered an age of generating yield via the validation mechanisms themselves rather than solving mathematical riddles via mining to gain alpha. By staking cryptocurrencies into these networks and protocols—ones based on tangible utilization, not hype—investors can gain rewards.

Furthermore, rather than having clients access crypto as a buy-and-hold strategy, or through vehicles like expensive Bitcoin-only futures ETFs, advisors now have access to a whole new category of emerging risk-managed funds. Such funds, like the ones my company offers, seek to limit losses without sacrificing the opportunity for capital appreciation or token accumulation. This approach helps investors manage through volatility, while reducing concerns about overexposure to potential bad actors in the space.

Additionally, permanent institutional quality custodians, staking firms, and investment platforms allow advisors and investors to enter the market in ways that simply didn't exist before. Risk-managed, digital yield funds are a critical element in providing quality access to this sector. New investment vehicles can now hedge via derivatives, which mimic risk-managed traditional financial vehicles such as buffered products.

The reality is that blockchain represents one of the greatest value-creation events of our lifetime. We're now witnessing a pivotal point in the industry's revolution as it shifts from focusing on speculative assets to investing in real-world blockchain use-cases that improve functionality, reduce costs, and create transparency.

Photo Illustration by Barron's Advisor

__Rob Frasca__ is co-founder and managing partner of COSIMO Ventures, which offers a tokenized, evergreen venture capital fund, as well as an investment fund offering risk-managed exposure to proof-of-stake networks. He has been involved with financial technologies dating back to the early 1990s when he created a stock quote and portfolio management service which was sold to Intuit in 1997. Since then, he has brought three venture-backed start-ups to successful exits.