Welcome to Unchained Profits.

I’m certain many subscribers reading this have been following my research for years. And I first want to say I sincerely appreciate your support and the trust you place in the research we produce here at Brownstone Research. It’s something we take very seriously.

Second, I want to welcome each and every one of you to our new service, Unchained Profits. This is a research service I have been waiting to bring readers for years. And now that the timing is right, I am incredibly excited to offer it to you.

Digital assets are truly a separate asset class that require a different investment approach, different analytical skills, and even different tools, platforms, and techniques. It is for these reasons that a dedicated investment research product is necessary. This is a once-in-a-generation shift, and it is important enough to have its own platform for research.

Your membership includes research into investable, blockchain-focused companies and all forms of digital assets including cryptocurrencies and security tokens. The majority of the recommendations made in Unchained Profits will, of course, be cryptocurrencies. But we’re not going to limit ourselves. When we find fantastic equity opportunities in the early stage blockchain space, we may recommend buying stakes in special purpose acquisition companies (SPACs).

Of all the sectors that I cover in the world of high tech, no sector is as dynamic and fast moving as the blockchain and cryptocurrency industry. So we won’t hold back when we see a fantastic investment opportunity.

I look forward to introducing you to the best opportunities that will shape the next generation of the internet. It will be an incredible journey, as virtually every aspect of our lives will be touched by this technology for generations to come.
If you haven’t done so already, I’d encourage you to read our *Unchained Profits Manifesto*. It will help you understand the investment philosophy of this product and the types of projects we will be investing in.

In the weeks and months ahead, I will be issuing a string of recommendations for this product. Investment recommendations will be issued as opportunities present themselves. I will always send research recommendations via email and through push notifications on our Brownstone Research mobile app.

Push notifications are by far the easiest and fastest way to be alerted to new research. If readers haven’t done so already, please download the app and enable push notifications. The Brownstone Research mobile app can be downloaded for iOS devices [right here](#) and for Android devices [right here](#).

Now, before I share this report’s actionable recommendations, let me give a brief overview of the types of investments we will be making.

**Understanding the Blockchain Ecosystem**

When investing in digital assets and blockchain products, there is a tendency to refer to every asset simply as “crypto.” Bitcoin, Ether, and assets like LINK are often grouped under this catch-all term. This is a mistake.

The projects we will invest in are incredibly diverse in their mission and placement in the blockchain ecosystem. My mission with this product is to not only show readers how to see incredible investment returns, but also to educate readers on the important nuances of this technology.

With that said, here are the types of projects we will be looking at in this report.

**Layer One Protocols**

Layer one protocols are viewed as the technological foundation for a blockchain. This means other projects, applications, and businesses essentially run on top of them. This is similar to the internet protocols that we use each day. The main difference here is, for the first time in history, we can own a piece of these layer one protocols.

Two of the most notable layer one projects in the blockchain industry are Bitcoin and Ethereum. Bitcoin is a peer-to-peer payment protocol that anybody can use to send transactions. Ethereum’s unique point of differentiation compared to the bitcoin blockchain is the addition of a smart contract layer, one that allows developers to create programs and applications on top of this protocol.

Layer one protocols look to redefine the internet, and I am ready to share with you two of my favorite layer one protocol investments.
Applications

Applications are blockchain projects that typically reside on top of layer one protocols. Here’s an easy way for us to think about it...

In 1989, Tim Berners-Lee proposed a protocol known as hypertext transfer protocol (HTTP). This internet protocol was the foundation for what became the modern internet. From here, several companies were able to essentially build applications, and thus their companies, on top of this important foundation. Amazon, Netflix, and Facebook were all built on top of the essential internet protocols.

It is a similar concept in the blockchain industry. Many blockchain projects make use of foundational blockchain protocols and build something truly unique.

One of the most common applications of blockchain technology right now is decentralized finance (DeFi). In the next few pages, I’ll share two of my favorite DeFi projects.

Public Companies

While the majority of our model portfolio will be digital assets, there are a handful of small public companies that are critical players in the industry, providing necessary services and technology for the industry to thrive. We will be including some high-quality public equities in our model portfolio. Put even more simply, we will be looking at great high-growth “blockchain stocks” to invest in. In this report, I’ll share research on two stocks that I’m particularly excited about.

A Note on Risk Management

Before I share today’s recommendations, I want to add one more note on risk management.

**There will be no stop losses** in this research product. And unless we are taking profits, or something has fundamentally changed with our investments, I will not recommend selling.

Our risk management policy will be to use rational position sizing. This simply means that an investor should only invest an amount that is appropriate given his or her portfolio size and tolerance for risk.

Digital assets can be volatile. It’s not uncommon for cryptos to move 20%+ in a single day. In many ways, this volatility is the price of admission for investing in the crypto space. We shouldn’t be surprised by it.

Deciding on a rational position size will be an individual decision, and I cannot give personalized investment advice. More conservative investors may choose a smaller position size – even a few hundred dollars is perfectly fine. Other investors will decide to invest more. The general goal, however, for all investors is to build a portfolio of the most promising digital assets and blockchain projects that represent some of the highest growth potential.
There will be some really massive outliers in terms of performance, so we want to make sure that we have exposure to each recommendation to maximize overall returns.

And as always, I never recommend anybody go “all in” on any one investment. With all that said, let’s turn now to our first additions to the Unchained Profits model portfolio.

**Our Unchained Profits Recommendations**

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<thead>
<tr>
<th>Action to Take:</th>
<th>Buy Polkadot (DOT) up to $45.</th>
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<tbody>
<tr>
<td>Started to Trade:</td>
<td>May 2020</td>
</tr>
<tr>
<td>Current Market Cap:</td>
<td>$27 Billion</td>
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<tr>
<td>Project Type:</td>
<td>Layer One</td>
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<td>Where to Buy:</td>
<td>Coinbase</td>
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**The Project**

The first project is Polkadot, a layer one protocol. It is a blockchain project created by one of the founders of Ethereum, Dr. Gavin Wood.

Wood’s experience in creating public blockchains is rivaled by only a handful of individuals in the world. Anytime we see Wood involved in a blockchain project, we should take notice.

He is the cofounder of Ethereum, coded the first implementation of Ethereum, held the title as the Ethereum Foundation’s first Chief Technology Officer, and wrote Ethereum’s smart contract language, Solidity, which is still used today. The Ethereum network is now valued at more than $300 billion.

Upon completing his work with Ethereum, Gavin went into private consulting work only to reemerge in 2016. He resurfaced in the public arena to publish his vision of what is our first recommendation here at Unchained Profits, Polkadot (DOT).

Polkadot is best described as many blockchains operating side by side that leverage the same security layer.

This shared security layer is called the Relay Chain. We can think of it as being similar to the way in which apartments in the same building complex share a security guard at the main entrance. Contrast this with each apartment (or blockchain) needing its own security.

This keeps costs down and allows for blockchains to focus more on developing applications instead of issues related to security.

The Relay Chain also acts as host for other features unique to Polkadot. This includes allowing blockchains to lease real estate on the network and ensuring about 100 various blockchains can be in sync and communicate with one another.
This architecture is what makes Polkadot a project ready to rival Ethereum, the world’s most valuable layer one blockchain for building decentralized applications.

**The Backers**

In 2017, Gavin Wood along with others founded the Web3 Foundation. It was designed to support the research and development for Polkadot.

In October 2017, the nonprofit held a token sale to distribute 50% of the initial supply of the token. The team raised $145 million in under two weeks.

This gave Polkadot the capital it needed to execute on its vision.

And to this day the Polkadot token is believed to be the most commonly held asset among crypto funds according to Arthur Cheong, founder of DeFiance Capital.

A few of the most notable crypto funds investing in its success are Fenbushi Capital, CoinFund, Pantera, Polychain, and Three Arrows Capital.

Additionally, some of the younger projects looking to deploy on Polkadot like Moonbeam and Acala have received interest from a similar set of investors.

This is a vote of confidence that Polkadot is attracting top-tier talent and well-capitalized projects to its ecosystem, which in turn will drive its value.

Let’s have a look at what Polkadot is aiming to accomplish...

**The Opportunity**

Developers need to spend an incredible amount of time and money to get a new blockchain project up and running. This involves engineering and auditing the code to ensure the security of the project.

It is a very costly and time-consuming endeavor. Developers need to spend much of their time creating the code for the project and spend hours reviewing it.

The project managers need to spend tens if not hundreds of thousands of dollars to audit the code for security concerns.

If these steps are not taken nor done well, the consequences can jeopardize a project. There have been dozens of hacks and bugs to date that have resulted in millions of dollars of stolen assets.

In fact, in 2020 there were over $120 million worth of stolen assets from just 15 decentralized finance (DeFi) application hacks. Many of these resulted in projects failing to bounce back. This presents a need in the industry to make this startup process better.

Polkadot solves this problem in two ways.
The first way is with the Relay Chain. The Relay Chain is what blockchain projects and applications “hook” into. It provides them with top notch security from day one.

It also allows their blockchain to communicate with other chains from the start – something only a few layer one projects make possible today.

The second way Polkadot is addressing blockchain security is with its unique “testnet.”

Blockchains typically have a testnet where developers and their applications can work out the kinks before going live on what is referred to as the “mainnet.” While testing is happening on a testnet, a would-be hacker is not incentivized to try and steal funds or expose a bug.

The issue here is that many projects need an environment with economic value on the line in order to properly stress test their projects.

A recent example highlighting this issue was observed through Iron Finance’s bank run. It was a project that had a lot of moving parts and factors to keep its stablecoin pegged to $1.

Shortly after launch, somebody exploited the project, and its stablecoin went to zero. If the project had been able to test itself in an environment that transacted real value, such an incident might have been avoided.

This is where Polkadot’s canary network, Kusama, comes into play. It is an experimental blockchain with real economic conditions. It serves as a proving ground where developers can deploy and gain users even before launching on Polkadot.

In this way, Kusama acts like the “minor leagues.” It’s a place to test a project in real-world conditions, but where the consequences are minimal.

After a project realizes success and earns the trust of would-be investors and the Polkadot Foundation, the project can look to launch in the “major leagues.”

Which brings us to our next point. One that really explains why we want to get into Polkadot now...

When a project looks to deploy on Polkadot, it needs to lease a spot on the network by bonding DOT tokens. This is like putting up collateral to reserve a spot at the table for the next couple of years.

It is a unique setup that will begin soon. And the effect is that DOT tokens will become less liquid. That’s because more and more DOT tokens will get tied up in these lease-like agreements over time. And the ultimate result is DOT tokens become scarcer — and thus more valuable — over time. This is a setup I like.

Now, one last feature of the Polkadot network we have not touched on is Parachains. They are essentially another word for a blockchain. But in Polkadot, they represent the blockchains, projects, or applications that connect to Polkadot’s Relay Chain.

It’s the leased property that we mentioned earlier.
Meaning if you want to have a Parachain, you need to come up with a certain amount of DOT tokens to reserve your spot.

DOT tokens can come from the team or from token holders. And the network currently expects to have about 100 Parachain slots.

To help visualize how the Relay Chain and Parachain interact with one another, here is a diagram of Polkadot.

(Note that the Bridges category is something we haven’t covered, as these are unique projects that enable communications with other blockchains like Ethereum and Bitcoin.)

Diagram of Polkadot’s Architecture

Polkadot unites a network of heterogeneous blockchain shards called parachains. These chains connect to and are secured by the Polkadot Relay Chain. They can also connect with external networks via bridges.

Source: Polkadot Lightpaper

As mentioned earlier, Parachain slots have yet to be auctioned.
There is no specific date for when these auctions will take place. But with the first project starting to have success on Kusama, we can expect the first Parachain slot to be reserved on Polkadot later this year.

And when auctions take place, DOT tokens will become scarcer — and more valuable — in the marketplace. That’s why we’re looking to act now.

**What to Expect From This Investment**

Through Wood’s experience working on Ethereum, he engineered Polkadot to be more efficient in the way new projects get started on the network.

The Relay Chain is a prime example of this.

The team also made the early days easier on new projects thanks to the experimental and live value network called Kusama that acts similar to a testnet.

The combination of these two features makes sure the projects that launch on Polkadot are more secure and more likely to have success from day one.

As of today, the Polkadot network is expected to host about 100 different applications or blockchains that it calls Parachains.

Once Parachains begin to transact value and communicate with one another, Polkadot will realize its potential in becoming one of the key pillars in what we describe as the next generation of the internet.

If we were to pick out another public blockchain that is solving issues as big as Polkadot, its main comparable is Ethereum.

In this way we can gain a better idea of what market cap Polkadot can attain if it executes on its vision, which I believe it will because of the experience of Gavin Wood, his well-capitalized foundation, and the invested interest of the most notable venture firms.

As of August 2021, the 200-day moving average for Ethereum’s market cap totaled $248 billion. On the same day, Polkadot’s market cap using a 200-day moving average was $25.2 billion.

Ethereum has been trading for about six years while Polkadot has been trading for only one year.

For comparison, we can gauge Polkadot’s growth if we calculate how quickly Ethereum hit its $25.2 billion market cap, which was 838 days. In other words, Polkadot hit this $25.2 billion milestone in less than half the time of Ethereum.

That means Polkadot’s value is rising at a much faster pace than what we saw in Ethereum during its earlier days.
This is likely due to more capital in the market in general, as well as more attention to the space.

But if we assume for a moment that Polkadot will continue this pace of growth that is nearly twice as fast as Ethereum, then before 2024, the Polkadot network will be worth approximately $248 billion.

Based upon the expected supply at the start of 2024, each DOT token would be valued at $161.

And at today’s price of $41 this represents a nearly 4x return.

I am incredibly excited over Polkadot’s future. This is one of the most promising projects in the entire industry. And with auctions for its Parachain slots approaching on its roadmap, there is a lot to be excited about when it comes to the economics of this token.

With it looking to compete with Ethereum just as public blockchains gain usage across the globe, we’ll look to ride this project higher. The experience of the Polkadot team and its ambitious goals falling well within its capabilities, we can see it tracking Ethereum in a similar manner, but faster.

**Where to Find This Asset**

Polkadot can be purchased on many major digital asset exchanges. For our purposes, I would recommend readers use Coinbase. The company provides one of the most regulatory-compliant and user-friendly products out there. Once we purchase Polkadot, we can feel free to hold this asset on the exchange or in a digital wallet of our choosing compatible with DOT.

If any readers require help setting up an account with Coinbase, please refer to our supplemental “how to” guide, [found here](#).
Action to Take: Buy Polkadot (DOT) up to $45 on Coinbase. There will be no stop loss for this position.

Risk Management: Because we will be holding this token without a stop loss, I encourage all readers to use rational position sizing. We should remember to never go “all in” on any one investment. Our mission is to build a portfolio of our companies. That’s how we’ll optimize our success.

Note: Subscribers in Hawaii are currently unable to transact with Coinbase. For any subscribers unable to use Coinbase, I recommend creating an account with Kraken, found here. The setup process is simple, and the process of buying and selling digital assets is straightforward.

The Company

Our next recommendation is another layer one project, Celo (CELO). It is a decentralized public blockchain that allows users to transact peer-to-peer with a stablecoin, an asset with a price that remains stable (more in the following pages). The network also allows for the creation of smart contracts and decentralized apps.

But what is interesting is that the project is focused on optimizing its application on mobile phones. This is a massive market that has remained relatively untapped. And with approximately 3.8 billion smartphone users around the world, it represents an incredible opportunity.

Making this possible is the low processing power required to transact on the Celo blockchain. Additionally, the team is also looking to make getting started seamless and simple.

Typically, new users in the crypto space are met with a steep learning curve. That’s because from day one there tends to be new addresses, passwords, and technologies introduced for the first time. It can cause any weary newcomers to give up before they even start.

Celo solves this issue by leveraging a string of numbers that already act as part of our identity – our mobile phone numbers.

As I will show you in a moment, Celo excels in making a network that is very efficient and easy to use. But first, let’s dive into the backers helping make this project so strong.
The Backers

Celo is backed by industry stalwarts. In June 2018, the company developing the tech for Celo, cLabs, raised $6.5 million from Twitter founder Jack Dorsey, LinkedIn co-founder Reid Hoffman, and AngelList co-founder Naval Ravikant, among others.

These are individuals who have already built tech that has disrupted society. We simply couldn’t have asked for a more innovative and forward-thinking group of early stage investors.

In the same round, cLabs received capital from venture firms Andreessen Horowitz, Polychain Capital, and Coinbase Ventures, among others.

The team then went on to raise $30 million about a year later, with Andreessen Horowitz and Polychain Capital leading the round. Since then, the team has raised $10 million in a public offering and another sale of treasury funds for $20 million.

This is a well-capitalized project with the most notable entities pushing it along. And witnessing a fund like Andreessen Horowitz go back to the well three times now is telling. It indicates progress is being made beyond what the general public likely knows.

Additionally, to help foster development of tools and services on Celo, Polychain Capital is leading an Ecosystem Venture Fund that is also supported by Andreessen Horowitz and Celo.

This is a strategic move to seed future projects that leverage Celo and make it one of the most accessible and easy-to-use blockchains in the world.

Now, let’s have a look at Celo’s core mission.

The Opportunity

Celo is focused on making its network more usable for mobile phone owners. And it does this by innovating its blockchain in three specific ways.

The first way is through its client, Plumo. A client is also referred to as a “node,” and it’s the software that handles the transaction. A node is what tells the network a transaction is coming or going, the amount involved, and parties involved.

The issue in running a client on a mobile phone is that the computation required can be rather excessive. This holds true even for Simple Payment Verification (SPV) clients, which tend to be geared toward mobile phones.

The team at Celo tackled this problem head-on by making its Plumo client orders a magnitude more efficient. That’s because Plumo requires about 17,000 times less data to sync than a traditional SPV.

And Celo is going further with the employment of a technology called zk-SNARK (zero-knowledge succinct non-interactive argument of knowledge).
It is a complex technology, but the easiest way to describe it is that it enables one entity to confirm that another entity has the correct information without actually revealing that information. It’s highly secure and requires far less data to be exchanged. In this case, the team expects to make the solution require 1.7 million times less data.

The result is that a very low-end device can download the client and quickly transact on Celo in a fully peer-to-peer and permissionless manner nearly instantly.

This makes Celo a blockchain that can be used even with high latency, low bandwidth, and in areas with high data costs. It is the type of solution countries with high mobile phone usage and low payment solutions would favor.

The second way Celo makes its network easier is via its stablecoins. A stablecoin is precisely what it sounds like... It is a digital asset with a price that is designed to be stable. Stablecoins typically achieve this by pegging their stablecoin to an existing asset like a fiat currency.

Celo is intended to be an easy-to-use network for sending payments. To facilitate this, Celo created an algorithm that makes stablecoins possible by backing them with crypto.

Right now, the reserves backing Celo stablecoins total approximately $475 million dollars. The mix of assets in reserve can be seen below.

(Note: DAI is also a stablecoin. We will discuss it more in our next recommendation.)

![Celo Reserves](source: Celoreserve.org)

As of August 2021, there was 110.8 million cUSD in circulation and 38.7 million cEU in circulation. These two stablecoins are designed to be pegged to the U.S. dollar and the euro, respectively. This comes to approximately $155 million worth of stablecoins. This is a healthy ratio of stablecoins in circulation compared to the $475 million reserve backing.

Backing a stablecoin with digital assets might not seem like an ideal way to ensure that the price remains stable. But Celo keeps the asset trading close to $1 with a unique strategy.

If the stablecoin were to dip below $1, then a user could redeem $1 worth of the reserve. This lowers the amount of stablecoins in circulation and lets the individual make a small profit.
Similarly, if the stablecoin goes above $1, then a user can deposit assets in the reserve to mint more stablecoin tokens and again realize a small profit.

These two methods help keep stablecoins at their desired peg. And with the reserve holding more assets than the amount of stablecoins in supply, it helps ensure there is always proper backing for stablecoins in the network.

It gives confidence to anybody that holds cUSD that they will always have one U.S. dollar worth of a token. The same is true for cEUR and the euro. And it’s this mechanism that helps Celo become a payment network since it mints tokens that are not subject to wild swings in price.

The third way Celo is making its network easier is by using our phone numbers as wallet addresses. Each of us is familiar with sending a text or calling a relative using a cell phone number. We also store a list of contacts we regularly interact with. This means a Celo user already knows the addresses of all their family and friends.

To take advantage of this, Celo made it possible to send a payment to a friend even if they haven’t set up their Celo wallet.

They can merely load a Celo wallet on their phone, enter a few pieces of information, and in a matter of minutes gain access to the wallet and payment associated with their phone number. It is a very clever design for bootstrapping a new network since it means Celo gains access to arguably the biggest social network – a phone’s contact list.

It’s a great value proposition. Simply send and receive a stable asset as easily as sending a text message. This is incredibly useful in parts of the world that are under-banked but have access to even low-end smartphones. And thanks to its bleeding-edge use of cryptography, Celo ensures the wallet attached to the phone number is secure.

When we pair these three ways that Celo is making its network easier to use, we begin to see the team is truly focused on attracting a wide array of users.

**What to Expect From This Investment**

Celo is a blockchain network optimized for mobile phones. In a lot of ways, this project reminds me of bitcoin. Similar to bitcoin, Celo is a peer-to-peer payment network that is permissionless.

And while we don’t expect Celo to ever supplant bitcoin, it is clear Celo’s unique technological approach makes it a great alternative to bitcoin thanks to its stablecoins, mobile-friendly clients, and use of cell phone numbers for wallet addresses.

And since we view these two assets as being similar, we can compare their growth over time to gauge where Celo is headed if it succeeds in its mission – which I strongly believe it will.

Celo’s market cap is currently around $925 million. It achieved this level in about 15 months from the day it began trading.
And during this time, it amassed about 1.1 million addresses on its networks. While addresses don’t necessarily translate to the number of users on the network, it is a way to gauge its growth. More importantly, the addresses allow us to compare Celo to bitcoin.

Bitcoin attained a similar market cap to where Celo is today – but it did so back in 2013. That was a little more than four years after bitcoin began. What is important to note is the number of addresses for bitcoin was 1.05 million when it was valued where Celo is today.

This might just seem like a coincidence. But this hints at the two assets following Metcalfe’s Law, which states that the value of a network is directly related to the number of users of that network. We see this playing out today with bitcoin and Celo.

And if we continue with this growth trajectory, Celo is on a path to hit a $10 billion market cap with nine million addresses before the end of 2023.

If it continues at this pace, then each Celo would be worth $19.41. This represents a 518% return on what CELO is worth today. So let’s add Celo to our Unchained Profits model portfolio.

Where to Find This Asset

The majority of readers will be able to find CELO on Coinbase. For users able to purchase the asset on this exchange, I recommend doing so. We can feel free to store this asset on the exchange or in a digital wallet of our choosing that is compatible with CELO.

For New York residents, CELO is currently unavailable on Coinbase. The company is simply complying with state regulation which – at least for the time being – does not allow for Coinbase to offer the asset.

However, CELO can be purchased at the KuCoin exchange. For any users unable to find the asset on Coinbase, we can navigate to the KuCoin exchange (found here), create an account, and purchase this asset.

**Action to Take:** Buy Celo (CELO) up to $5.12 on Coinbase or KuCoin. There will be no stop loss for this position. You may see both CELO and CGLD as the ticker for Celo on Coinbase. They are one and the same.

**Risk Management:** Because we will be holding this token without a stop loss, I encourage all readers to use rational position sizing. We should remember to never go “all in” on any one investment. Our mission is to build a portfolio of our companies. That’s how we’ll optimize our success.

**Note:** Subscribers in Hawaii are currently unable to transact with Coinbase. For any subscribers unable to use Coinbase, I recommend creating an account with Kraken, found here. The setup process is simple, and the process of buying and selling digital assets is straightforward.
The Company

Our next recommendation is an application project. As I mentioned previously, applications are projects that typically exist on top of layer one protocols. In this way, they are similar to companies like Amazon or Facebook, which created tremendous value by using the original internet protocols as a foundation upon which they built their businesses.

Specifically, this project runs on Ethereum and is involved in what’s known as “Decentralized Finance” (DeFi). This type of blockchain application takes the middleman out of finance. I like to think about applications like this as removing unnecessary friction from any kind of transaction. It reinvents our commonplace interactions at the bank. It cuts costs and reduces a transaction that can take days or weeks down to minutes.

Take your standard house loan. A loan writer will need to fill out paperwork, pull your credit history, call your place of work to verify employment, and even look at your bank account.

Then, once everything checks out, you get even more paperwork. If you pass their requirements, the bank takes a fee that can be as much as a couple of percentage points of the amount you wish to borrow. This can amount to tens of thousands of dollars depending on the loan size. This shows why our next project is such a disruptor to the banking industry.

The project is Maker (MKR), a peer-to-contract lending platform.

Maker has been in the works since 2014 and launched in late 2017. The underlying code is open-source, meaning anybody can review it and suggest edits. This in turn makes the code more resilient to attacks over time.

The main feature of the protocol allows users to deposit digital assets and take out a loan against those assets. And to do so, Maker mints a debt-backed stablecoin called DAI.

It’s an efficient system that uses smart contracts instead of middlemen. But before we get into how Maker works, its stablecoin, and how profitable it is, let’s look at Maker’s backers.

The Backers

Maker is a project backed by some of the most prominent names in the industry.

Names include Andreessen Horowitz, Paradigm, Polychain Capital, Dragonfly Capital, Fenbushi Capital, and Jump Capital, among others.
And in a sign that Maker is hitting its milestones, some firms from this list have invested in the project, and in particular its MKR token, more than once.

Seeing an investment firm that likely has inside knowledge of a project go back to the well for more is one of the strongest signals we can find. And so far, the foundation that backs the project has managed to raise just over $54 million since 2017.

This makes Maker a project with strong backing and considerable funds to execute its mission. It is well-positioned to continue its growth in disrupting the banking industry.

**The Opportunity**

The Maker protocol is built on the Ethereum network. It allows anybody to access it in order to borrow capital, making it a permissionless platform. There is no formal application to use the platform.

And for a person or business to set up a loan, the user needs to provide collateral that is accepted by the platform. Right now, Maker accepts over 20 Ethereum-based assets. A few examples of acceptable assets are ETH, USDC, ZRX, MANA, and BAT.

The borrower can create a smart contract with the help of an application like Oasis.app. In doing so, the terms of the loan will get coded into existence.

An important piece here is that Maker does over-collateralized loans. This is similar to giving a friend your $200 watch and asking to borrow $100. And once you return the $100 to your friend (plus some interest), you get your watch back.

This ensures the platform is fully collateralized.

Now, the token a borrower receives once their collateral is locked up is a stablecoin called DAI. It has a soft peg to the U.S. dollar and is fully backed by assets locked in Maker smart contracts.

And since DAI is an Ethereum-based asset, it can be used throughout the crypto ecosystem. It can even be used to pay for items like you would with a debit card. This is thanks to collaborations with Coinbase, Uphold, Crypto.com, and Wirex.

The demand for DAI is strong. On the next page is a chart showing the amount of DAI in circulation over time. As we can see, more than 5.5 billion DAI are in circulation.

Over the last year alone, DAI in circulation has grown nearly 1,400% while overall stablecoin growth is up 1,038%. This tells us DAI is growing faster than the stablecoin market. And users want a permissionless, borderless, and transparent token like DAI.

Now, the reason we want to hold the protocol’s native token, MKR, is because the project does generate revenue.
It does this in three ways...

- From the interest charged on loans.
- Fees from a loan being liquidated due to the amount of collateral falling below a certain threshold.
- Fees collected from users swapping other stablecoins for DAI at a fixed rate.

The revenue is then used to pay for protocol development, provide a buffer that acts as insurance to the protocol, and, most importantly, to purchase MKR tokens that are then removed from circulation.

In this last way, much like a share buyback, MKR token holders realize the revenues by holding a scarcer asset. If the market capitalization of Maker remains unchanged, but the amount of MKR tokens in circulation decreases, then, all else equal, each token is worth more. This is how holders realize these revenues.

As of late, the amount of MKR being destroyed – or “burned” – is accelerating.

To date, nearly 22,000 MKR tokens have been destroyed. 14,249 of that amount has happened since August of 2020. Based on current prices, this equates to $42.7 million in value returned to holders in just the last year.

It’s a trend I don’t see slowing down. In fact, because of recent developments taking place, I believe the protocol will soon realize its full potential.
How Maker Can Heal Itself

MKR tokens can also be minted in the event the protocol becomes undercollateralized. This happened one time in its history on March 12, 2020. It is an event known as Black Thursday in crypto, where prices plunged over 50% in just over 24 hours.

When this happened, an attacker throttled the Ethereum network and attacked the collateralized loans by liquidating them.

After the event, the platform held an auction for MKR tokens. The funds from the auction were used to cover losses. There was an overwhelming amount of interest and support from venture firms already invested in Maker. These firms responded within hours.

It was one of the most sophisticated attacks on crypto and Ethereum witnessed to date. And while it might seem a bit worrisome, DAI didn’t break its peg. The amount of DAI in circulation has grown by 485% since the event. And the protocol has burned more tokens in its lifetime than were issued to collateralize the system.

In fact, many view it as remarkable given there was no government bailout, no call to an insurance company, and no investigations into the issue since it was all viewable on the blockchain.

It marked a shift in how markets can operate efficiently.

On the heels of the attack, a lot of work has been done to improve the code. At the time, there was no surplus fund to pay for such an event. The surplus fund now stands at nearly $50 million.

If anything, the Maker protocol has since become even more formidable and has earned the trust of the blockchain industry.

That’s because the Maker Foundation, the entity leading the charge to date, is now dissolving. This might sound counterintuitive. But this is the original mission of Maker, which is to fully decentralize the project.

The result is MKR token holders will decide on changes to the protocol. Decisions range from what collateral to accept, appropriate collateralization ratios, what projects to fund, and much more.

And since the hard work by developers and contributors is paid for using the platform’s native token, the incentives are aligned. This means developers and contributors look to bring more value to the project because the token’s value will appreciate in turn. This then incentivizes even more development.

This arrangement is what’s known as a “decentralized autonomous organization,” or DAO. In Maker’s case, the entity will be known as MakerDAO. And it is a catalyst for the platform to thrive and attract top talent that can continue innovating the protocol.
What to Expect From This Investment

The Maker platform is cutting out the middleman and making borrowing more accessible.

As mentioned earlier, Maker earns revenue in three ways. It charges interest on loans, charges a fee for loans being liquidated, and earns a small percentage on stablecoin swaps. This also pays for platform expenses such as server and contributor costs.

Thanks to a transparent blockchain, we can view all these items in real time. We can view them below.

<table>
<thead>
<tr>
<th>Maker Financials</th>
<th>Annualized (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from interest</td>
<td>$38.13</td>
</tr>
<tr>
<td>Income from liquidations</td>
<td>$41.97</td>
</tr>
<tr>
<td>Income from swaps</td>
<td>$2.42</td>
</tr>
<tr>
<td>Platform Expenses</td>
<td>$(32.00)</td>
</tr>
<tr>
<td>Platform Profit</td>
<td>$50.52</td>
</tr>
</tbody>
</table>

*Source: makerburn.com*

As we can see, Maker is estimated to generate $82.5 million in revenue and capture about $50 million in profit over the coming year. What this table does not show is that most of this profit began to accrue on the protocol this year.

But what’s great about being able to view all these figures in such an open manner is that we can recreate the financials. This lets us do a future projection where the main assumption we need to determine is how much DAI is created in the coming years. This is another way to say loan growth.

A couple of other assumptions are that the protocol keeps its average interest rate charged to borrowers at around 1.4%. If rates are raised, then the protocol earns more revenue than we estimate.

We also assume the amount made from liquidations and swaps remains consistent as the amount of DAI grows.

With these things in mind, let’s discuss a conservative assumption for DAI growth...

DAI in 2021 grew nearly 1,400% over the prior year. This growth is great to see, and it likely will taper in the years to come. And to keep it conservative, we can assume DAI grows by 400% next year, and then we can cut the growth rate in half for every year that follows.

Here’s what the protocol’s profit would look like over the coming years if it continues at its current breakdown with DAI’s growth slowing.
And if Maker decides to raise rates, realizes a higher growth rate for DAI, or attracts a higher use for its swaps, then these figures will rise.

In terms of what this means for Maker’s market valuation...

Citigroup, Goldman Sachs, and JPMorgan Chase command price-to-earnings ratios of 7.01, 7.03, and 10.2, respectively. This averages out to 8.08.

If we apply this same P/E ratio to Maker’s profit forecast in 2025, we wind up with a market capitalization of $18.4 billion.

It may sound strange to compare a blockchain project like Maker to established financial entities. But we should remember that many blockchain projects – like Maker – are looking to disrupt these incumbents. In essence, they are using blockchain technology to make everyday services – like loan issuances – better, faster, and cheaper.

If Maker still has the same number of tokens in circulation as it has today – which is a figure that is likely to be lower – the expected price per MKR comes out to $18,560.

We can get MKR today for less than $4,000. And remember, we do not have to purchase a complete unit of MKR. It’s perfectly okay to buy a fractional amount to maintain a rational position size.

**Where to Find This Asset**

MKR can be easily purchased on Coinbase. We can purchase this digital asset and hold it on the exchange or in a digital wallet of our choosing that is compatible with MKR. As always, I have provided supplemental material for any readers who need help working with an exchange like Coinbase. We can find that research [right here](#). Let’s add MKR to our portfolio of projects redefining finance.
Action to Take: Buy Maker (MKR) up to $5,000 on Coinbase. There will be no stop loss for this position.

Risk Management: Because we will be holding this token without a stop loss, I encourage all readers to use rational position sizing. We should remember to never go “all in” on any one investment. Our mission is to build a portfolio of our companies. That’s how we’ll optimize our success.

Note: Subscribers in Hawaii are currently unable to transact with Coinbase. For any subscribers unable to use Coinbase, I recommend creating an account with Kraken, found here. The setup process is simple, and the process of buying and selling digital assets is straightforward.

The Company

Transferring value on a blockchain can happen at any minute of the day. Unlike brick-and-mortar businesses, there is no need to wait for business hours, and blockchain transactions are never closed for holidays.

This is made possible through small software programs called smart contracts. Smart contracts are precisely what the name suggests. They are self-executing contracts where the terms of agreement are written into the software code. And because these smart contracts are executed over a blockchain, the transactions are all transparent and irreversible. It would literally be impossible for one party to renege on a well-designed smart contract.

And these smart contracts essentially sit dormant until called upon. The interesting thing is applications, users, or even other smart contracts can swap assets via these programs.

This means an entire economy can plug these solutions into the backend of its consumer-facing applications.

This is true whether it is an application that writes loans, a video game that allows for in-game transactions, or a store wanting to exchange one currency for another. It does not matter. The use cases for smart contracts are only limited by our imaginations.

If a business, application, or user wants to automate or exchange an asset, they can make use of these solutions. It’s a remarkable way for a digitized economy to exist 24/7, all year long.
And that’s where our next digital asset – ox (ZRX) – enters the picture. ox is a project that allows users to “swap” ERC20 tokens – crypto assets hosted on the Ethereum blockchain – without relying on centralized exchanges like Coinbase. ox accomplishes this with a collection of open-source, fully transparent smart contracts.

This project is forming partnerships with some of the largest consumer-facing projects in the blockchain industry. And it can do this without needing to subsidize the use of its platform (more on that in the next few pages).

ox is also able to avoid some of the issues facing other services thanks to its unique technology that avoids front-runners. ox is a project on the cusp of becoming the dominant player in exchanging assets on the blockchain.

But before we get into why, let’s first see who is backing this project.

**The Backers**

ox is a protocol built by the developers of ox Labs.

In August of 2017, the team held an Initial Coin Offering for the ZRX token. The team took in $24 million worth of ETH from 12,000 backers. A few firms involved in the sale were Polychain Capital, Blockchain Capital, Pantera Capital, and Fenbushi Capital.

In February of 2021, ox Labs raised $15 million in a Series A round. The round was led by Pantera Capital, with other notable names like Jump Capital and Coinbase Ventures taking part.

This was ox Labs’ first equity round to date. And the company expects to use part of the funds to expand its user-friendly swap service called Match.

This is a list filled with elite crypto fund names. And it means the team can lean on some of the most knowledgeable firms in the world to grow the project.

**The Opportunity**

As mentioned, ox is considered a decentralized exchange (DEX). But what makes ox unique is its ability to source liquidity throughout the Ethereum ecosystem. And in many ways, it is becoming the backbone for many of the applications commonly used in crypto investing.

One of the ways that ox differentiates itself from the dozens of DEXs now on Ethereum is how it operates.

Most DEXs are automated market makers (AMM). An AMM is similar to a market maker in the equity markets, in that both help provide liquidity and connect buyers and sellers. An AMM differs in that the entire process remains decentralized and makes use of what’s known as a “liquidity pool,” a crowd-sourced pool of assets. Uniswap, Sushiwap, and Curve are some of the more popular DEXs that fall into this category.
They provide a unique way to swap assets without needing a centralized exchange. Users can custody their own assets and execute a swap using a DEX all from their cryptocurrency wallets.

And since AMM-based DEXs operate exclusively using smart contracts, the user never interacts with a middleman.

It is more efficient than your standard brokerage account. But for all the positives that come along with it, there are a few drawbacks.

The first drawback is that most DEXs complete the swap process on the blockchain – “on-chain.” This sounds like it wouldn’t be a problem. But any interaction with a blockchain requires a fee.

And if a user wants to buy an asset at a specific price, they would need to spend money to simply enter an order that might never execute. Changing that order would require another fee in order to send the message to the blockchain. If a user needed to place multiple orders, it can become very costly.

0x gets around this issue with what’s known as “relayers.” Relayers are nodes in a network that hold various buy and sell orders “off-chain.”

A potential buyer or seller can place an order with a relayer and have it broadcasted to other nodes, which have their own set of buy and sell orders. In this way, it is like an automated over-the-counter (OTC) experience using a DEX.

And via this network of relayers, once a buyer and seller are paired up, the order is then settled on-chain where it is fully auditable, immutable, and secure. The entire process is easy and avoids unnecessary fees.

This off-chain network of nodes that relay their order book is known as the 0x Mesh Network. And it’s what makes 0x a leading solution within DeFi.

0x Mesh opens up the possibility of creating experiences similar to what we might have on a centralized exchange. The ability to place a limit order without spending money opens up the possibility for margin trading or derivatives like options.

Decentralized options application Opyn is one such project using 0x Mesh. It lets Opyn users create limit orders for options contracts.

The 0x Mesh alone is a strong case for the asset as an investment, but it’s only part of the reason we want to own 0x.

The second is in the way 0x aggregates all the available DEXs and liquidity to find the best price. It does this with its 0x API solution, and the technology involved makes 0x best in class.

As technology investors, we may be familiar with the term “API.” It stands for “application programming interface.” At a high level, an API serves as a “bridge” between computers or computer programs. It’s a similar idea with the 0x API.
0x API not only leverages all the order books and liquidity from its off-chain Mesh network, it also scours through over a dozen DEXs to find the best available price on the network.

It doesn’t use just one DEX or one order in the Mesh network. It takes a combination of sources to find the most efficient swap in terms of price. Put simply, if a user is swapping a dollar of one asset for another, they are getting the most for each dollar.

Doing this may mean using one DEX or even three DEXs and a relayer on Mesh depending on the amount of money being swapped.

This is where 0x’s unique algorithm comes into play in order beat other aggregators in the market. In fact, 0x’s API offers better pricing seven out of 10 times compared to its competition.

Of course, having the most efficient solution does not always translate to usage.

But in this case, 0x stands apart because anybody can plug the 0x API into their application or smart contract.

In doing so, they instantly get the benefit of using Uniswap, Balancer, Sushiswap, Curve, Kyber, Oasis, and over a dozen other DEXs without checking who has the best price.

And if a new DEX or source of liquidity becomes available, then the 0x API automatically integrates it into the system. No additional work is done on the user’s end. 0x is an easy “plug and play” solution for applications seeking the best pricing.

And it’s why we see notable blockchain projects like Brave, MetaMask, ShapeShift, and Zapper plugging into the API. It lets their users easily swap assets without needing to leave the platform.

**What to Expect From This Investment**

0x is best positioned for growth moving forward compared to its competitors. This comes down to three reasons.

The first reason is outlined in the table below. It lists the top five of nearly two dozen DEXs on Ethereum by volume over the last month. As we can see, 0x is number four.

<table>
<thead>
<tr>
<th>DEXs</th>
<th>Previous Month’s Volume (in Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uniswap</td>
<td>39.52</td>
</tr>
<tr>
<td>Sushiswap</td>
<td>5.65</td>
</tr>
<tr>
<td>Curve</td>
<td>4.87</td>
</tr>
<tr>
<td>0x</td>
<td>3.1</td>
</tr>
<tr>
<td>DODO</td>
<td>2.14</td>
</tr>
</tbody>
</table>

*Source: Dune Analytics*
The important part to realize about this list is that ox does not subsidize the trade volume on its platform. We can compare this with Uniswap, SushiSwap, Curve, and DODO, which all reward users. They offer traders an added incentive to interact with their respective platforms by earning free tokens.

ox does not subsidize users like the others. This may sound like a negative. But it tells us that ox is on this list based on merit alone. And when the subsidies begin to dry up for these other projects, ox will begin to take market share.

The second reason is that the ox API is just starting to gain traction. Here is a list of a few partnerships ox made this year.

- In July of this year, Brave partnered with ox to enable token swapping directly from the browser. This is a major relationship as Brave is home to more than 25 million active users.

- In June of this year, ox integrated with a scaling solution on Ethereum called Polygon. This integration, which lowers transaction fees, saw seven projects plug into the API. A few of the more notable projects were index token provider Set Protocol, asset management platform Zapper.fi, and portfolio management system Zerion.

- In April, the options trading protocol Opyn began to work with ox.

There is a flurry of partnerships being formed centered on the ox API solution. It’s a trend I believe will continue. These new providers will bring more volume to the ox ecosystem as each one gains users.

Lastly, the governance of ox is discussing an update to its tokenomics. Tokenomics – similar to economics – involves all aspects of a digital asset’s creation, management, and – in some cases – removal. Changes to an asset’s tokenomics can create a meaningful change in the value of that asset.

Changing a crypto’s tokenomics is possible because these assets are “programmable.” It just takes a few changes to the underlying code to influence behaviors surrounding the token.

Right now, the governance of the ox protocol is exploring protocol fees. This would be a fee charged to a user of the swapping services offered by ox. In essence, it would be a revenue generator for ox. There is a very active discussion on the best way to do this.

When the protocol finds the right solution, it will be an immediate catalyst for ZRX tokens. It’s already great on its own, but generating revenue makes the case for holding ZRX tokens stronger.

Let’s recap what we already know...

The project is bringing in major partners to make use of the ox API. As we saw on the previous page, ox can attract meaningful volume without subsidizing the platform. And ox is preparing to collect fees for the platform.
Taken together, this is a token getting ready to jump into the top of the rankings in terms of market cap.

Right now, the top three DEXs by market capitalization are Uniswap at $14.8 billion, Pancake Swap at $3.8 billion, and Sushiswap at $1.9 billion. This averages out to nearly $7 billion.

0x is sitting at a market cap of $950 million. If the project can execute on its vision and become the preferred DEX in the marketplace – which I believe it can – it’s not unreasonable to expect a $7 billion market cap in the years ahead. This would represent a greater than 600% return on investment.

**Where to Find This Asset**

ZRX can be easily purchased on Coinbase. We can purchase this digital asset and hold it on the exchange or in a digital wallet of our choosing that is compatible. As always, I have provided supplemental material for any readers who need help working with an exchange like Coinbase. We can find that research right here. Let’s add ZRX to our portfolio of projects redefining finance.

**Action to Take:** Buy 0x (ZRX) up to $1.40 on Coinbase. There will be no stop loss for this position.

**Risk Management:** Because we will be holding this token without a stop loss, I encourage all readers to use rational position sizing. We should remember to never go “all in” on any one investment. Our mission is to build a portfolio of our companies. That’s how we’ll optimize our success.

**Note:** Subscribers in Hawaii are currently unable to transact with Coinbase. For any subscribers unable to use Coinbase, I recommend creating an account with Kraken, found here. The setup process is simple, and the process of buying and selling digital assets is straightforward.

**The Company**

As mentioned previously, the majority of our model portfolio will be digital assets. But there are a handful of small public companies doing interesting work with blockchain technology. As such, they deserve a place in our *Unchained Profits* portfolio.
Our first stock pick is building out infrastructure for the bitcoin blockchain. As the blockchain industry grows and bitcoin is further embraced as a global asset, the infrastructure supporting the network needs to grow as well. The sector we are focusing on with our next recommendation is the blockchain mining industry.

Miners are individuals or companies that “mine” blocks of a blockchain in exchange for an economic reward. Miners provide a service to the blockchain network by solving cryptographic problems in order to help confirm and add new blocks to the blockchain they are supporting. This enables transactions to take place over the blockchain network. This is effectively the computing power necessary to run many blockchain networks.

For instance, whenever we send or receive bitcoin peer-to-peer, that transaction is made possible thanks to bitcoin miners.

Miners also maintain a copy of the blockchain (the ledger of transactions) as each new block is written into the blockchain. Again, we can think of this as maintaining an immutable database – a perfect record of all transactions that take place on that blockchain. But to do this, real-world resources are required.

Blockchain mining requires specialized computers (servers) as well as labor and energy inputs to build and maintain these computer systems. For these efforts, miners are paid in the cryptocurrency associated with the respective blockchain. In the case of the Bitcoin blockchain, miners are paid in bitcoin.

This means the three main factors that determine the success of a bitcoin mining outfit are:

- The cost of energy
- The efficiency of the computers mining
- The price of bitcoin

These three factors lay out how much an operation will spend, the amount of bitcoin it will acquire, and the amount – in dollar terms – those bitcoin are worth.

Based on these three factors, we found what might become the best mining operator in the sector – **Cipher Mining (CIFR)**.

Before we get deeper into this project, let’s have a look at the backers for Cipher Mining.

**The Backers**

The first name that pops up when diving into Cipher is its top shareholder – The Bitfury Group.

This is one of the strongest names in bitcoin mining. It’s a leading provider of bitcoin mining hardware and other blockchain services.
The Netherlands-based company has been around since 2011 and has deployed more than 500 megawatts (MW) of computing power in 2020 alone.

In its lifetime, Bitfury has erected seven data centers in five different countries and mined more than 600,000 bitcoin.

Bitfury’s experience in the industry is nearly unmatched. And having the company strategically aligned with Cipher with skin in the game is a setup we can get behind.

In addition to Bitfury’s involvement, the firm also received backing from Morgan Stanley and Fidelity.

**The Opportunity**

Remember, there are three factors that determine the success of a mining operation.

1. Access to cheap, abundant electricity
2. Access to bleeding-edge hardware
3. The price of bitcoin – the higher, the better

Let's take each of these one-by-one.

Right now, Cipher looks to deploy new operations in two U.S. states – Ohio and Texas. In Ohio, the company is partnering with Standard Power, a leading energy infrastructure service provider that will provide hosting capacity. In Texas, Cipher is partnering up with CloudHQ and Vistra for its three other sites.

Taken together, this gives it the ability to build out 445 MW initially, with plans to deploy another 300 MW after that. On the next page is a diagram showing how the operation will look at a high level.

These deals give Cipher a low-cost electricity supply of $27 per MWh (Megawatt hour). Remember, one of the key factors that determines a miner’s profitability is the cost of electricity – the cheaper it is, the better.

And at $27 per MWh, Cipher is about to have some of the most cost-effective energy compared to its peers.
As we can see, Cipher Mining anticipates it will have one of the lowest costs in the field. And with power costs this low, it looks to mine bitcoin with greater efficiency. That’s advantage No. 1 for Cipher. Let’s have a look at advantage No. 2: access to bleeding-edge hardware.

Cipher Mining and Bitfury have a preferential treatment contract that gives them preferred access to Bitfury’s next-generation equipment.
And when talking about crypto mining, there’s one piece of hardware that stands out: bleeding-edge semiconductors. Having the most powerful application-specific semiconductors in your mining rigs can make or break an operation.

At a conference earlier this year, it was mentioned that Cipher is first in line for Bitfury’s latest equipment. And Cipher will get these chips with the most favored pricing in the market. For other mining operations, that will be difficult to compete with.

To date, Bitfury has created seven generations of ASIC chips. ASIC stands for “application-specific integrated circuit,” which means these chips are designed to do one thing optimally – mine bitcoin.

Bitfury expects to release its 5 nanometer (nm) chip later this year. Right now, the most advanced ASIC chips in the market are 7 nm. Whoever gets their hands on 5 nm chips will have a competitive advantage until the rest of the market catches up.

And at a time when many miners might be feeling the global shortage in semiconductors, being vertically aligned with Bitfury is a competitive advantage.

Bitfury also has a long-term relationship with the Samsung foundry, and it’s a Tier-1 partner. This is another positive for Cipher in an era of chip shortages.

The last factor that goes into a mining operation is the price of bitcoin.

I am very optimistic bitcoin will continue to grow in market capitalization. I remember when I first recommended bitcoin in 2015. The asset was trading for around $240, and plenty of readers were skeptical at the time. But things have certainly changed over the past six years.

Virtually every investor on the planet knows bitcoin now. And we’re hearing mainstream investors openly talking about adding bitcoin to a sophisticated portfolio. Even more remarkable, legacy incumbent JPMorgan is planning to launch a managed bitcoin fund.

And the future introduction of a bitcoin exchange-traded fund (ETF) will be an incredible catalyst for the market as a whole. It will make it easier for many investment firms, pension funds, and companies to gain exposure.

Finally, I should mention that the executive team behind Cipher consists of people we can be comfortable investing alongside. CEO Tyler Page comes from a rich financial background. His employment history consists of stints at Goldman Sachs, Guggenheim Partners, and NYDIG.

The rest of the executive team shares a similar background with companies like Citadel, Nomura, and Stone Ridge Asset Management.

The leadership here understands how financial products can improve a bottom line. And we can expect that to be the case here.
What to Expect From This Investment

Once the reverse merger is complete, the company will receive $501 million to fund operations. These funds will be deployed with the intent to push 445 MW of capacity by the end of 2022.

It’s an ambitious timeline. But Bitfury has done large build-outs like this before. For instance, it did 526 MW in 2020 alone.

Assuming 445 MW gets deployed before 2023, and based on its mining power, Cipher expects to mine approximately 17,234 bitcoin with a cost basis of $17,425 per bitcoin.

Then, depending on the price of bitcoin from now until 2025, the company laid out several scenarios for projected earnings before interest, tax, depreciation and amortization (EBITDA). We can see these projections below.

<table>
<thead>
<tr>
<th>BTC Price</th>
<th>2021E</th>
<th>2022E</th>
<th>2023E</th>
<th>2024E</th>
<th>2025E</th>
</tr>
</thead>
<tbody>
<tr>
<td>$25K to $50K</td>
<td>($5)</td>
<td>$237</td>
<td>$465</td>
<td>$502</td>
<td>$761</td>
</tr>
<tr>
<td>$25K to $12.5K</td>
<td>($5)</td>
<td>$169</td>
<td>$298</td>
<td>$293</td>
<td>$409</td>
</tr>
<tr>
<td>Flat $25K</td>
<td>($5)</td>
<td>$195</td>
<td>$374</td>
<td>$389</td>
<td>$579</td>
</tr>
<tr>
<td>$25K to $100K</td>
<td>($5)</td>
<td>$330</td>
<td>$782</td>
<td>$948</td>
<td>$1,513</td>
</tr>
</tbody>
</table>

*Source: SEC.gov*

Sticking to the expectation for 2023, we see EBITDA coming in at $465 million for its base scenario.

If we compare this figure to the industry average for enterprise value (EV) to EBITDA, we can gauge where Cipher Mining will be in 2023.

Marathon Digital Holdings, Hive Blockchain Technologies, Hut 8 Mining, and Bitfarms are four competitors in the mining industry. Their EV/EBITDA values come in at 37.5, 29.2, 13.4, and 43, respectively. This averages out to 30.8.

Applying the average EV/EBITDA to Cipher Mining’s expected 2023 figure, we come to an EV of $14.3 billion.

If Cipher can achieve the $14.3 billion enterprise value milestone, it would represent a 615% return on investment from today’s levels.

There is a great opportunity to get in before Cipher Mining begins to build out its operations. And if it can follow through on its plans – which I think it will – I expect to see its stock price reflect this growth in the coming years.

Let’s add this infrastructure play into our stock portfolio before Cipher starts to make headlines.
Where to Find This Asset

Subscribers can purchase shares of Cipher Mining through whichever brokerage they choose. Please find our guidance for this trade below.

**Action to Take: Buy Cipher Mining (CIFR) up to $10.50.** There will be no stop loss for this position.

**Risk Management:** Because we will be holding this stock without a stop loss, I encourage all readers to use rational position sizing. We should remember to never go “all in” on any one investment. Our mission is to build a portfolio of our companies. That’s how we’ll optimize our success.

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**Action to Take:** Buy Concord Acquisition Corporation (CND) up to $10.50.

**Started to Trade:** July 2021

**Current Market Cap:** $4.5 billion

**Project Type:** Stock

**Where to Buy:** Brokerage Account

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The Company

When we pay for an item online, it typically takes three business days before the business on the other end actually receives payment. It is a timeline we all take for granted.

But with blockchain, this is changing. There is now a way to transfer value across the globe with settlement times measured in seconds and minutes. Not days.

And with stablecoins and cryptocurrencies growing in popularity, the need to run a business that accepts and transacts in these assets is growing. This presents an interesting issue facing blockchain-oriented businesses. There is no easy-to-use payment processor like a Square or Stripe.

Businesses that accept stablecoins as payment typically handle a lot of the administrative tasks that other software solutions streamlined years ago.

This includes things like creating an invoice for payment, enabling the self-custody of assets, manually initiating payments, and messaging a customer for a payment that is normally sent automatically each month.

It’s odd to think such innovative tech is making businesses resort to antiquated methods. Luckily for us, we can take a position in the company filling this glaring need – Circle (CRCL).

Just like Cipher, Circle is a private company going public via a SPAC. So we shouldn’t plan to look for the ticker CRCL just yet. I’ll share more details on the reverse merger in the next few pages.
In going public, Circle is looking to take in $1.1 billion in capital to build out the company to better enable the frictionless exchange of financial value. One of the ways in which it will do this is through its stablecoin, USDC.

But before we take a closer look at Circle, let’s first go over the leaders rebuilding the world’s new financial account for global blockchain businesses.

The Backers

The venture funds supporting Circle are a deep bench. Since 2013, Circle has held nine funding and equity rounds. Notable backers include names like Goldman Sachs, Fidelity, and FTX.

More importantly, we saw many venture firms come back multiple times through the rounds. They were Accel (3x), Breyer Capital (5x), Digital Currency Group (5x), General Catalyst (5x), and Pantera (3x), among others.

The nine rounds to date have brought in $711 million for Circle. And before its latest round that brought in $440 million, it was said to be valued at $3.5 billion.

This is a project that has received a lot of interest from a diverse group of backers. More importantly, we are seeing some of its own users invest in the company, as well as many investors come back again and again in subsequent rounds.

This is a sign of confidence that investors see progress and future growth ahead for Circle.

The Opportunity

Circle is redefining the way businesses transact online.

At the heart of its business is USDC. It is a stablecoin that is fully backed by cash and cash equivalents. It’s redeemable on a 1:1 basis for U.S. dollars. Top 5 accounting firm Grant Thornton, LLP verifies the backing of USDC each month.

And the stablecoin is available on the Ethereum, Solana, Algorand, and TRON blockchains. It is becoming one of the most widely used stablecoins in the industry.

Over the last year the amount of USDC in circulation has grown by nearly $26 billion. This represents a growth rate of 2,272%. The total amount in circulation now hovers just over $27 billion.
The other popular stablecoin in the industry is USDT from a company called Tether. It has a market cap of $62 billion, over twice the amount of USDC.

While many might think USDC has a long way to go before catching up, if we dig a little deeper, we actually see this is not the case. That’s because it ultimately comes down to usage.

The first chart below shows the amount of USDC and USDT residing in smart contracts. Smart contracts tend to signify an asset is being used in some type of financial setting on the blockchain.

Both stablecoins have about $12 billion residing in smart contracts or the DeFi ecosystem. The only difference is USDC is still rising while USDT is starting to fall.
And in another chart, we can see the amount of transfer volume over a 30-day moving average for both USDT and USDC. USDC makes up more transactional volume in crypto than USDT since June of this year.

This is compelling as it shows that USDC is currently taking away market share from its competitor.

It also shows us that USDC is a widely used stablecoin in this digital asset space with growing usage. This is important to understand as we nail down how Circle’s business looks to expand in the coming years.

As I mentioned before, Circle is positioning itself to be the “Stripe of crypto.” Businesses lack many of the payment processor features that traditional online businesses use each and every day. It is a need that Circle is filling with its transaction and treasury services.

As I mentioned, these services do for the crypto community what Stripe has done for traditional online retail. They handle all of the administrative tasks for retailers looking to accept stablecoins as payment.

Today, the below companies are all customers of Circle:

- Coinbase
- Cryptocurrency exchange FTX
- DeFi lending protocol Compound
- Builder of Flow Blockchain, Dapper Labs
- The world’s largest digital asset lender, Genesis
These companies make up a substantial amount of business within the blockchain industry. For instance:

- Genesis caters to institutional clients and did $25 billion in loan origination business in Q2 2021.
- Compound is an incredibly successful lending platform with more than $7 billion of borrowed capital.
- FTX is a top three cryptocurrency exchange in terms of trading volume.
- Coinbase is the most valuable cryptocurrency exchange in the world.
- Dapper Labs is the creator of the digital collectible blockchain Flow, which has partnered with the NBA and UFC.

And while unlisted as a partner, OpenSea – one of the most successful NFT marketplaces – has integrated USDC into its site.

The benefit for these companies is they can accept USDC, pay employees in USDC, and even participate in DeFi to earn yield on their USDC holdings. It’s all made possible through Circle’s API services.

Here is a diagram that lays out what is possible through Circle’s API:

### Circle’s API Services

Circle API Services comprise a powerful suite of infrastructure for diverse digital currency payments and treasury use cases.

- **ACCOUNTS API**: Securely store and manage digital currency incl. USDC, BTC & ETH
  Manage complex funds flows and embedded finance applications

- **PAYMENTS API**: Accept payments with legacy rails that settle in digital currency
  Natively support crypto payments
  Built in tooling for fraud management and operations

- **PAYOUTS API**: Send fast payout to sellers, vendors, or users
  Automate payout workflows
  Global reach with USDC, and flat payouts into banks in 90 countries

- **YIELD API**: Transfer USDC into collateralized lending markets, generating interest, accessing CeFi and DeFi markets

**Source: Circle Investor Presentation**

Currently, Circle charges a monthly fee for using various parts of its API. Then, similar to Stripe, Circle charges 2.9% on all credit card transactions.

And Circle is in the early stages of adding new revenue-generating services that can add to its top line. These include yield-bearing products, fraud management, and a dashboard to monitor all things related to a business owner’s account.
This indicates that Circle is not settling to be the payment processor for blockchain-based payments. Circle is positioning itself as a banking solution with integrated reporting and analytics to help businesses operate efficiently.

Circle is where financial technology (fintech) meets the blockchain.

**What to Expect From This Investment**

Circle is looking to be a first mover in the industry for providing frictionless payments with stablecoins.

To determine what we can expect with Circle in the coming years, we can look at some of its estimated financials.

Circle is expected to generate $115 million in revenue this year. At an enterprise valuation of $4.5 billion, that gives Circle an enterprise value-to-sales ratio of 39. On the surface, this might seem overvalued.

But if we compare it to other companies that are publicly traded (Stripe, unfortunately, is not public), a different story emerges. Public companies we can compare Circle to are Square, Shopify, Bill.com, and Adyen.

The average EV/Sales of these four companies is 41.2 as of August 2021. This means Circle’s current valuation is in line with its peers.

But more importantly, Circle expects to grow to $407 million in revenue next year. And it will reach $886 million by 2023 as it unlocks these new forms of revenue mentioned earlier.

That’s 8x growth in just two years. And with the amount of USDC in circulation growing by more than 23x over the last year, NFT sales surging to $2.5 billion in the first half of 2021, and businesses operating on the blockchain needing a solution like Circle... I see a scenario where Circle realizes incredible growth in the coming years.

So let’s add Circle to our stock portfolio today.

**Where to Find This Asset**

It’s important to note that when it comes to Circle, it is still a private company looking to go public via a reverse merger. To gain exposure to Circle, we are investing in the SPAC that is expected to merge with Circle. That SPAC is Concord Acquisition Corporation (CND).

CND can be easily purchased in a brokerage account of your choosing. We can purchase shares in this company just as we would for shares in any stock.

The deal is expected to go through in Q4 2021. And when Circle finalizes the deal with Concord Acquisition Corporation, the ticker will change from CND to CRCL. When the reverse merger is completed, the name and ticker of the company will automatically be updated.
Action to Take: **Buy Concord Acquisition Corporation (CND) up to $10.50.** There will be no stop loss for this position.

**Risk Management:** Because we will be holding this stock without a stop loss, I encourage all readers to use rational position sizing. We should remember to never go “all in” on any one investment. Our mission is to build a portfolio of our companies. That’s how we’ll optimize our success.

As a reminder, we often see an initial surge in the price right after our trade alerts go out. But with patience, we almost always see multiple opportunities to establish a position.

**So please don’t chase these assets higher if the price spikes.** Instead, wait until the asset is at or below our buy-up-to price.

Regards,

Jeff Brown
Editor, *Unchained Profits*

P.S. Welcome once more to *Unchained Profits.* I look forward to a great experience with all our subscribers in the months and years ahead.