

2022 Wrap Up & 2023 Predictions

Just like last year, our team put together our personal thoughts and did not collaborate on a format. We wanted this report to be authentic and for each of us to have a sense of freedom on how we approached laying out our theses/predictions. This is the reason for the separation between write ups. We hope you find this valuable in some way!

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2022: Before and After

Let's begin with the top 10 tokens by market cap, comparing January 1st, 2022 to December 26th, 2022. Some highlights include: major price changes, LUNA out (went to 0), SOL out, DOGE in, MATIC in, and stablecoins up. On the next page will be a quick 2022 timeline, summarizing major events of the year.

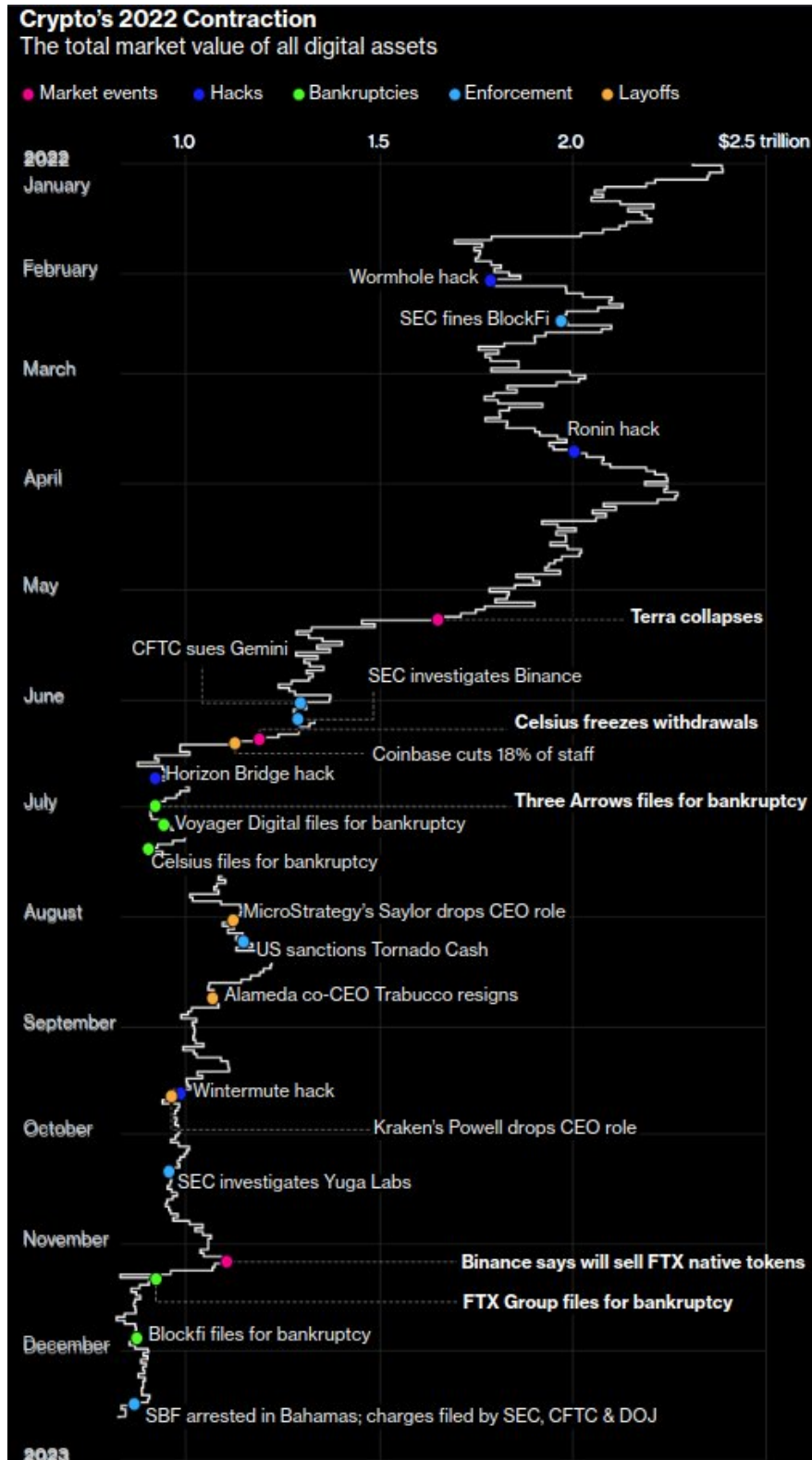
Top 10: January 1st, 2022

#	Coin	Price	1h	24h	7d	24h Volume	Mkt Cap	Last 7 Days
1	Bitcoin BTC	\$47,370.40	0.3%	0.6%	-6.4%	\$17,767,241,610	\$896,150,167,193	
2	Ethereum ETH	\$3,762.53	0.3%	1.2%	-8.5%	\$8,812,368,752	\$447,378,211,837	
3	Binance Coin BNB	\$525.58	0.3%	1.5%	-4.2%	\$1,245,441,847	\$88,362,668,400	
4	Tether USDT	\$1.00	0.2%	0.2%	0.2%	\$35,716,562,227	\$78,551,969,628	
5	Solana SOL	\$176.49	0.4%	2.1%	-8.7%	\$956,036,009	\$54,603,791,861	
6	Cardano ADA	\$1.37	0.4%	2.9%	-6.0%	\$710,891,085	\$43,996,833,540	
7	USD Coin USDC	\$1.00	0.3%	-0.0%	0.3%	\$1,654,923,822	\$42,617,463,747	
8	XRP XRP	\$0.849643	0.3%	0.5%	-8.4%	\$1,625,402,183	\$40,374,095,711	
9	Terra LUNA	\$90.08	0.4%	1.6%	-8.6%	\$1,356,363,157	\$32,594,796,647	
10	Polkadot DOT	\$29.29	1.3%	7.3%	1.2%	\$737,806,052	\$31,311,065,828	

Top 10: December 26th, 2022

#	Coin	Price	1h	24h	7d	24h Volume	Mkt Cap	Last 7 Days
1	Bitcoin BTC	\$16,839.19	-0.0%	0.2%	0.6%	\$12,821,984,856	\$324,050,444,746	
2	Ethereum ETH Buy	\$1,214.66	-0.1%	0.3%	2.3%	\$3,559,081,563	\$146,395,764,422	
3	Tether USDT	\$1.00	0.0%	0.0%	0.0%	\$15,827,935,700	\$66,297,608,518	
4	USD Coin USDC	\$1.00	0.1%	0.0%	0.2%	\$1,446,010,111	\$44,498,913,195	
5	BNB BNB	\$242.54	-0.0%	-0.2%	-3.6%	\$252,446,691	\$39,600,283,881	
6	XRP XRP	\$0.364659	0.9%	5.0%	4.0%	\$759,531,801	\$18,371,378,697	
7	Binance USD BUSD	\$1.00	0.1%	0.0%	0.1%	\$3,364,450,914	\$17,317,276,455	
8	Dogecoin DOGE	\$0.075720	-0.2%	1.4%	-4.1%	\$399,176,260	\$10,406,797,426	
9	Cardano ADA	\$0.262251	0.3%	2.3%	-1.6%	\$155,425,651	\$9,186,223,332	
10	Polygon MATIC Buy	\$0.803324	-0.0%	1.6%	-1.6%	\$137,508,732	\$7,200,292,628	

2022 Timeline



https://twitter.com/mr_0/status/1607938849011019776?s=46&t=Cn8XCOpXR11KczPeC3qgGQ

Beau

Five Personal Holdings

1. Cash/USDC
2. ETH
3. GLP
4. BTC
5. None (but potential buys include LINK, MATIC, LDO, DOGE, XMON, variety of NFTs)

Definitions to know

Layer 1 (L1): The “base layer” blockchain that handles consensus, data, and execution. These include blockchains like Bitcoin, Ethereum, and Solana.

Layer 2 (L2): Networks that run “on top” of an L1 to help scale, reduce fees, and/or add other features for users. These include things like rollups and side-chains. Basically, just know that they’re “add-ons” to layer 1s to help them scale.

Intro

2022 was, obviously, a tough year for crypto markets. After a 2021 filled with all-time highs in prices, market froth, money printing, and (as we now know) perpetuated scams, we were bound for a cooldown...but not many anticipated one of 2022’s magnitude. One of the largest exchanges (FTX) turned out to be a complete fraud, both a \$40 billion token (LUNA) and a \$10 billion hedge fund (3AC) went to 0, billions of dollars were lost in hacks, and there’s a whole lot more that I don’t have space to mention here. I’m glad it’s over.

Still, throughout all of this, there were some bright spots (they just may have been harder to spot) that can provide hope going forward. Here, I’ll take a look into some of these that I feel offer the most promise, as well as highlighting some risks that are still present.

Just like last year, none of this is financial advice. These are all predictions that may be way off, and you should do your own research before acting on anything discussed here. The point of this is to provide insights into some *potential* themes for crypto markets in 2023.

Brief Review of Last Year’s Predictions

Before looking forward to 2023, I’d like to take a quick look at how last year’s predictions panned out. Here’s each prediction and its result:

- **“Macro Concerns Will Continue To Tug at Crypto Markets Broadly”**: Very correct. This was my best prediction - a rapidly deteriorating macro environment dragged risk assets to the floor, especially crypto. I compensated by keeping stablecoins/cash as the majority of my crypto portfolio, focusing more on software engineering, and trading about 90% less than I did in 2021.
- **“Layer 1 Trade Gets More Complicated, Cross-chain Future Begins to Prosper”**: Half correct. The L1 trade certainly changed - spraying and praying at new L1 tokens no longer worked in 2022. Basically everything went down, and only *some* L1s outperformed ETH and/or BTC. Cross-chain wise, it *was* a big year...for hackers, as they took home over \$2 billion from cross-chain bridge hacks. No prospering here.
- **“Ce/DeFi 3.0 Will be a Derivatives Explosion”**: Wrong. CeFi-wise, the year *was* definitely explosive, but in the wrong way: FTX, BlockFi, Celsius, and many others blew themselves up. Still, crypto options, which I still believe have a bright future, continued to gain traction (but are still hindered in the US by regulation). DeFi-wise, FTX’s blowup has driven some traders on-chain, helping protocols like GMX, but the lack of “speculatory force” in 2022 has resulted in lower trading volumes overall. I still firmly believe this prediction will come to pass over time, but it did not even come close in 2022.

- **“Bad Token Design Will Be Brought to Light”**: Correct. In hindsight, it was obvious, but projects with bad tokenomics (large/on-going unlocks, high FDVs, generally predatory setups) got killed this year. This trend is ongoing.
- **“NFTs Markets Consolidate, Crypto Gaming Gets Real”**: Wrong. The NFT market, even for pfp (“profile picture”) NFTs, actually became, in my opinion, even more entrenched, while I predicted it would not. Sure, volumes and prices are mostly down, but the market is certainly not dead, and NFT trading infrastructure has been rapidly improved. Gaming-wise, the market basically died out, with no speculation to drive demand to crypto games that are already pretty sub-par to begin with.

Now, on to 2023.

A Year of Quieter, Surprising Recovery

I predict that 2023 will be a year of *slow* recovery for crypto; no all time highs for major tokens, but upwards price movements as crypto works off its “post dot-com bust blues”. Obviously, a lot of this is macro-dependent, and there’s been chatter recently about a 5+ year bear/sideways market in risk assets given the current macro situation, plus no future crypto cycles. I find this to be **complete nonsense**. One has to [look no further](#) than the US debt/fiscal spending situation for one reason why - to over-simplify, it’s nearly impossible for the US to keep rates elevated for a multi-year period of time without triggering a crisis or really cutting spending (won’t happen). We wrote at length about this over the course of the year, and I still believe it. The macro situation may not resolve in early 2023, but I doubt it takes 2+ years.

Predicting the exact timeframe for a reversal is hard, but to give a more non-consensus view: I’d predict that, by the end of 2023, rates are cut to well below the 5% level that the Fed predicts they will be at for all of 2023. More pain may be needed prior to this, but my thought is that the end result is “crypto prices higher”. As I’ve mentioned in recent reports, I believe the bottom for crypto has either already formed, or will be formed in H1 2023. To this end, I’ve started accumulating specific crypto assets, a couple of which will be mentioned in later points.

As the industry rebuilds, my hope is that crypto gets “back to the basics” in a more meaningful way. 2022 highlighted the limitations of current crypto technology and exposed the risks of highly centralized, poorly-risk-managed uses of it. Perhaps that will result in more carefulness among investors, a focus on the inherent advantages of crypto (censorship resistance, privacy, self-sovereignty, reduction of 3rd party fees, etc.), a renewed focus on usability (still *a lot* to be desired for less-technical users), and real use-cases (like payments).

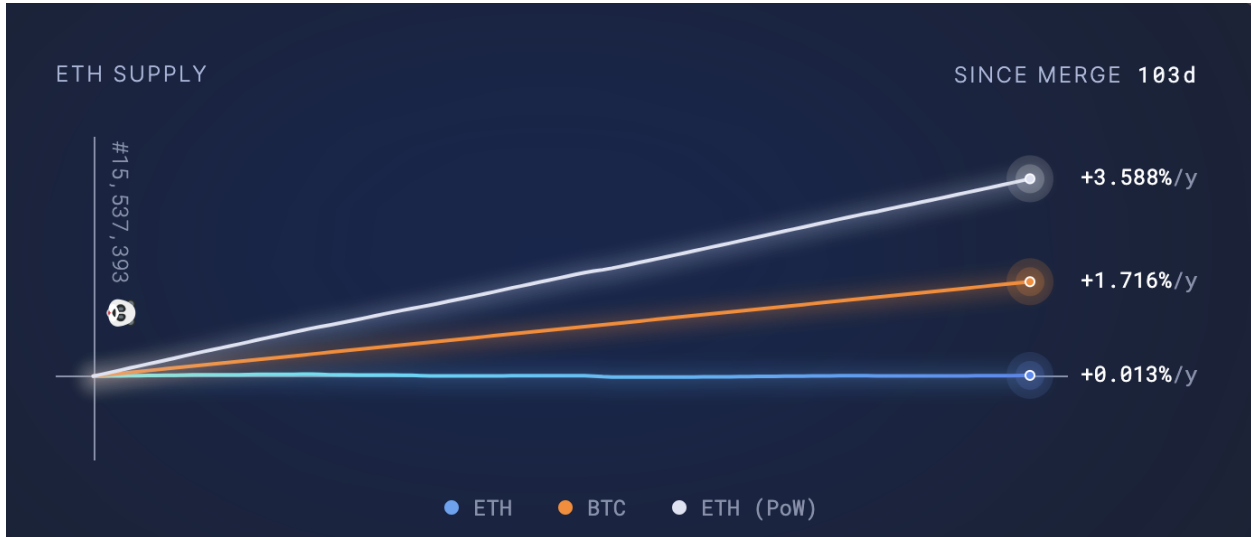
Progress on all of these things did continue in 2022. Developer tooling (had a huge year, which I experienced firsthand), [account abstraction](#) (can make self-custody much easier for the masses, and Visa mentioned this in a recent [report](#) as a way to enable auto-payments over crypto rails), and zero knowledge (“ZK”) tech all improved and continue to receive funding. Although account abstraction, ZK rollups, and other tech that can help crypto bridge to the masses and *begin* to resemble a decent alternative to the traditional financial system won’t be nearly “ready for primetime” in 2023, the promise is there longer-term. Progress will continue in 2023, helping to fuel a slower recovery.

All that said, it’s important to note that **speculation** will still be a key component/driver of crypto for the foreseeable future. **A bull case centered almost solely around this is still, in my opinion, a very well-founded one**, especially with the [“generation moonshot”](#) dynamic acting as a tailwind. Whenever liquidity starts flowing more freely again, I expect crypto to once again capture its fair share of the speculative fervor that results. I just don’t think this will happen in a *major* way in 2023, especially compared to 2021.

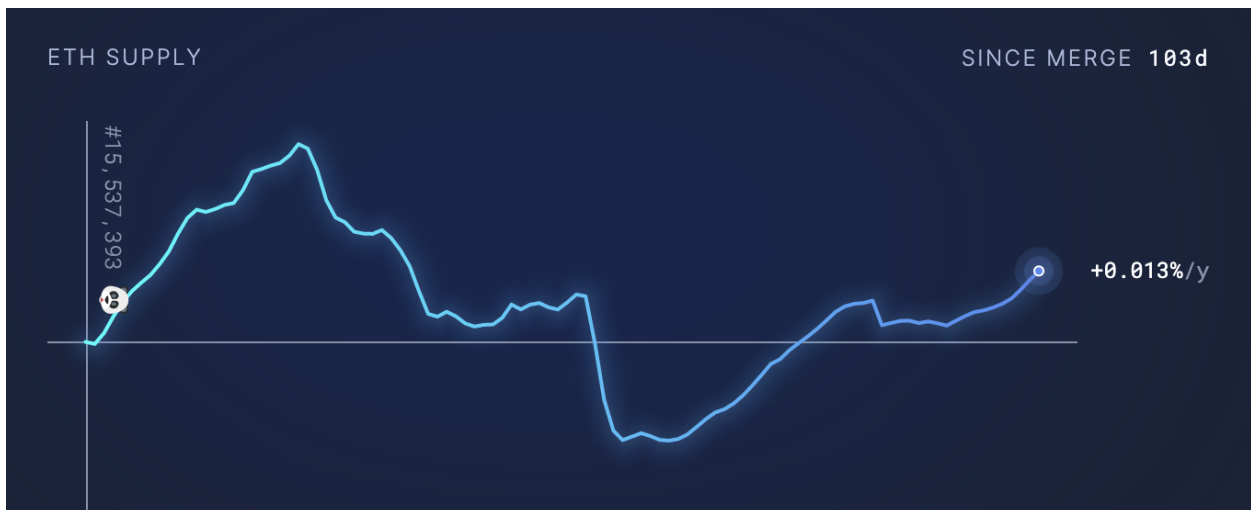
Ethereum's Year

Ethereum already had a big year in 2022, successfully transitioning from *proof of work* to *proof of stake*. However, it is actually slightly down against BTC (and, of course, some other tokens) on the year. That said, I predict outperformance from ETH in 2023 for two main reasons: post-merge tokenomics and staking withdrawals.

After the merge from proof of work to proof of stake, the supply of ETH grows far less per year. The [chart](#) below compares the current ETH supply growth per year ("ETH") with what it was pre-merge ("ETH (PoW)"):





How does this happen? Well, two main ways: (a) post-merge, part of each Ethereum transaction fee is burned (removed from supply forever), and (b) post-merge, less ETH must be paid for network security. The smaller supply paid out for security means less sell pressure there, and the burned ETH means existing supply reduction. Below, you can see that, in 2022, there was a period where ETH had actually become *deflationary* post-merge.



If the crypto market picks back up again and more users go back to transacting on-chain (perhaps in 2023), then network congestion rises, gas fees rise to compensate, and even more ETH gets burned. This has the potential to

turn into a self-reinforcing cycle where prices go up, FOMO increases, more users transact on-chain, more ETH gets burned, ETH supply decreases (turns deflationary), investors notice and buy more ETH, and the cycle repeats. Seeing this dynamic play out at a larger scale is something I'm hoping to see in 2023 (and even more so in 2024).

The other big driver for Ethereum in 2023 will come in the form of the staking withdrawals being enabled. As of right now, all staked ETH is locked up; you earn rewards (about 4% right now) on it, but you can't withdraw it. Even though you can get *some* liquidity through [liquid staking](#) tokens, the overall illiquidity risk has resulted in far less ETH being staked than most other L1 tokens (for instance, this is largely why I have not staked *any* of my ETH). As you can see below, only about 13% of ETH is staked - far less than other major L1s!

#	Asset	Price	24h	Reward	Adj. Reward	Staking Marketcap	Market Cap	Staking Ratio	Add
1	 Ethereum ETH	\$1,206.99	-0.92%	3.9%	3.87%	\$20,129,156,562	\$145,518,944,855	13.64%	+
2	 Cardano ADA	\$0.26	-1.83%	3.13%	-0.14%	\$6,543,664,921	\$9,055,483,533	71.9%	+
3	 BNB Chain BNB	\$244.88	0.81%	2.78%	9.16%	\$5,736,338,526	\$40,001,985,747	96.79%	+
4	 Solana SOL	\$10.83	-3.39%	5.07%	-0.14%	\$4,074,460,351	\$3,977,632,688	70.27%	+
5	 Avalanche AVAX	\$11.6	-0.34%	8.12%	2.48%	\$3,086,834,889	\$3,614,896,992	63.87%	+
6	 Polygon MATIC	\$0.8	-0.3%	6.76%	3.79%	\$2,713,505,577	\$7,203,497,763	37.78%	+
7	 Polkadot DOT	\$4.49	-1.1%	14.68%	7.28%	\$2,493,997,600	\$5,319,621,878	44.04%	+
8	 Tron TRX	\$0.05	-0.97%	3.52%	1.48%	\$2,252,292,609	\$4,961,030,955	45.46%	+
9	 Cosmos Hub ATOM	\$9.21	1.21%	20.95%	6.88%	\$1,861,851,707	\$2,702,520,571	62.88%	+
10	 Internet Comput ICP	\$3.82	-0.78%	7.56%	-2.95%	\$1,384,706,936	\$1,065,954,809	73.89%	+

Sometime in 2023 (likely 1H 2023), staking withdrawals will be enabled, removing this illiquidity risk. After what may be a hectic launch (many staked users trying to unstake at once, and vice versa), I envision two main effects will take hold: (a) that 13% rises to a much larger percentage, as users can, minus a brief wait in some cases, stake and unstake ETH at will, and (b) increased ETH put into liquid staking protocols like Lido, Rocketpool, and Stakewise.

This could result in more ETH being locked up, and it could help these protocols as they're able to grow their markets, earn more revenue, and spend less on maintaining liquidity for their liquid staking tokens. I won't comment specifically on their respective protocol tokens (LDO, RPL, and SWISE), but there is a great video from Taiki Maeda [here](#) that does a deep dive into these liquid staking protocols and their tokens.

Longer-term, Ethereum has solid scaling solutions being built on top of it, which I'll get into in my last point. ETH, to me, looks stronger than perhaps ever before. While stablecoins/cash are still my largest position, I've been building a position in ETH, and "will this outperform ETH over the timeframe I'm looking at?" will likely become the main question I ask myself when trading in 2023.

Selected "Things to Watch"

Rather than making additional points for each of these, I'll briefly go over a few things that I plan to pay special attention to in 2023, but that I don't necessarily have a fully developed thesis for yet.

- **SocialFi, STFX:** We wrote about STFX earlier this year - long story short, it's a protocol that allows users to permissionless-ly take a trade idea, raise money from anyone who likes it, and execute the trade. I like this idea because (a) it plays on the SocialFi trend that has risen to prominence in recent years, and (b) it takes advantage of an inherent property of decentralized networks, permissionless-ness, to enable something that is almost impossible to do in traditional finance. STFX ran a successful beta in the closing months of 2022, and the full product (and token) will be launching in early 2023. I'll be watching for other SocialFi projects as well.
- **NFTs:** Various NFT communities intrigue me, and I've always enjoyed trading these given that they're very momentum/sentiment driven. Although I've almost exclusively focused on "profile picture" NFTs in the past, my goal for 2023 is to get more familiar with the "art NFT" scene. *In 2023, I believe the NFT market will continue to grow faster, and provide more opportunities overall, than DeFi.*
- **SUDO:** SudoSwap, an NFT AMM, will be [releasing](#) its SUDO token at some point in 2023. I really like SudoSwap's mechanism design, I trust the team to continue to innovate, and I'm interested in this token (pending more research).
- **On-chain Derivatives Innovation:** Although on-chain trading volumes were down in 2022, innovation did not stop. Opy's Squeeth ("squared ETH") product, Panoptic's coming options protocol (perpetual options built on top of Uniswap V3 LP positions), and SudoSwap's NFT AMM (including potential new, future features) are all the kind of things I'm interested in here.
- **Ripple vs SEC Case:** I'm no law expert, but it's obvious that this case, whenever it finishes up, will have a large impact on (at least) the price of XRP. Since the case could come to a conclusion in 2023, staying in touch with those who *are* law experts and keeping up with this case will be on my priority list for 2023.
- **Post-2023:** A few things I'll be watching in the background this year, but that I don't believe will really see their big moments until later on:
 - **Social, Farcaster:** Although I don't have conviction that crypto-based social networks will make big strides (in terms of # of users) in 2023, they have potential down the line. Keeping up with early attempts at this, like Farcaster and Lens, is another priority of mine for 2023.
 - **Sports Markets:** Defi's inherent permissionless-ness provides a perfect place for sports betting (and prediction markets in general) to thrive. There's an oracle problem that needs to be solved, among other usability issues, so these probably won't mature in the near future. Still, the demand is there, and I'm anticipating solid on-chain sports betting markets sometime down the road.
 - **Meme Coins:** I don't think 2022 will quite have the free-flowing liquidity and speculation needed to enable meme coins (DOGE, SHIB, others) to pump like they did in 2021, but at some point I believe we'll see this again. For DOGE specifically, I currently own none, but I believe \$1 DOGE is coming...it's just a matter of when, and I hope to be there trading it when it does.

Debate: ETH vs Alt L1s vs App Chains vs L2s vs L3s

Since this is more technical and not *quite* as relevant for trading during 2023, I saved it for last. The debate around which of these setups will “win” over time still rages on. From my point of view, there are two main arguments here: **ETH vs alt L1s** (think MATIC, SOL, BNB, ADA, XRP, etc. - you could perhaps throw BTC in here, though most seem to exclude it from this debate), and **app chains vs L2s/L3s** (for those who don’t know, an L3 is basically a specialized scaling layer built on top of a scaling layer; scaling-ception).

On the “ETH vs alt L1s” side of things, I believe ETH will be the winner in 2023. Some alt L1s certainly have compelling cases, like Polygon’s (MATIC) strong business development/partnership team and Ripple’s (XRP) potential victory over the SEC, but ETH seems to have strong, set-in-stone tailwinds for 2023.

Longer-term, I doubt we see another alt L1 craze like we saw in 2021, where many went parabolic, but I’m less sure of this given (a) the potential for alt L1s that enable fully new/novel use-cases, and (b) the ability for alt L1s to create extremely strong communities, incentivized to grow the network by potential monetary gain. I won’t name names, but we’ve seen (b) drive some very sub-par L1s all the way into the top 10 tokens list in recent years. All-in-all, my thoughts are “ETH wins 2023, longer-term it’s still up in the air (though I do still lean towards ETH)”.

The “app chains vs L2s/L3s” debate is a bit more complex. My belief is that, of these two options, app chains will have the better 2023. dYdX, a major decentralized exchange, has already committed to leaving a major L2 (StarkNet) to move to their own app chain, and L2s, as I mentioned earlier, are not really “ready for primetime” quite yet (L3s even less so). The most blatant contradiction to this would be Arbitrum, which had a great 2022 filled with organic growth, but even that L2 is still in its earlier days (still very centralized). Right now, the incentives are there for well-funded project teams to deploy their own app chains, driving increased potential revenue and the ability to customize functionality. The Cosmos ecosystem may become home to some of these, given its developer-friendly and battle-tested tooling for building app chains.

Longer-term, I believe L2s/L3s win this race. This comes down to scalability and developer-friendliness - the engineering work that goes into developing a *truly* scalable decentralized system is **HARD**. L2 teams like those at Starkware, Polygon, Offchain Labs, and others are tackling these hard problems. Although this approach may take longer than the “spin up an appchain” approach (hard, but *less* hard), it’s likely to lead to more robust scaling solutions in the long-term. Plus, nearly every L2 is working on plans to enable L3s to be built on top of them, which should be far more scalable than app-chains. Finally, L2s/L3s should also be more developer-friendly than app chains, due to the lack of a need to bootstrap a network of validators and put a lot of thought into network security (this aspect of app chains, for now, is probably under-considered).

*Note: I have to shout out [this article](#) for some inspiration here. The last point does a good job of covering the “app chains vs L2s/L3s” debate.

Conclusion

Last year, I wrote “Having some predictions and a thesis is one thing; being able to understand when you’re wrong and adjusting your thesis is another”. This, of course, still holds true. Although what I’ve written here describes how I’m thinking going into 2023, crypto moves fast, and it will demand that we adapt as well.

Here’s to a great 2023, cheers.

Errett

Five Personal Holdings

1. ETH – As explained below, I think this is the year ETH outperforms BTC
2. Stablecoins – Used to hedge and allow you to earn yields higher than anywhere else. Considered a safe investment and a way to stay “liquid”
3. CANTO - Although hurt badly thus far, the community of Canto is something I can see taking off. It's a full dive into permissionless world. This is definitely gamble play
4. BTC – The grandfather of crypto, I view BTC as an investment in adoption
5. Small holdings and possible buys – ATOM, MATIC, and FIL

2022 Wrap-up

Honestly, 2022 was a very hard year for me to stay plugged in. From multiple billion-dollar empires collapsing to being betrayed by one of the most respected people in the industry, 2022 was riddled with challenges. On the other hand, 2022 has allowed me to step back and reflect on the current cryptocurrency space to truly understand why I am here and why I want to stay. As corny as this may sound, what I found out is that the “movement” that cryptocurrency brings is something I want to work on for the rest of my life. I am a firm believer that the overall ethos of this space is to bring financial freedom and ownership to the entire world - thus becoming a more equal and fair place to interact with one another. Yes, there will be many ups and downs with people like Sam Bankman-Fried, who try and ruin it. At the same time, it's important to realize the overall mission and vision that cryptocurrency creates. In my humble opinion, it's an amazing one to help move forward. With that being said, let's look at some of the predictions I made last year and see how they held up:

- **Decoupling Of Cryptos Will Slowly Continue** - this is still unfolding and, and I believe, will continue. In last year's edition, I mainly talked about cryptos not following the price action of BTC, which I think will play out this year with the performance of ETH (discussed below).
- **NFTs Drop In Value But Stay Very Relevant** - This was mostly correct, and one that most saw coming. To be honest, I thought PFP NFTs would easily die but they didn't. Instead, the market is still thriving even after they dropped severely in value.
- **DAOs Will Be Put In The Spotlight** - This was a miss this year. In 2022 DAOs were mentioned very little, which I found odd. I truly think DAOs will still play a large role in the space, but it depends on the use case for it. A potential use case I see for DAOs is DeSci, which I mention below.
- **Crypto (Regulation) Winter** - This one is pretty funny because I was right about a “winter”, but not in the correct way. My vision was that regulation would end up causing the winter, when in reality, it was a bunch of bad actors and macro issues.
- **DeFi 3.0 – Derivatives** - My prediction here was a complete miss. It will take a lot more time until these instruments see a lot of usage.

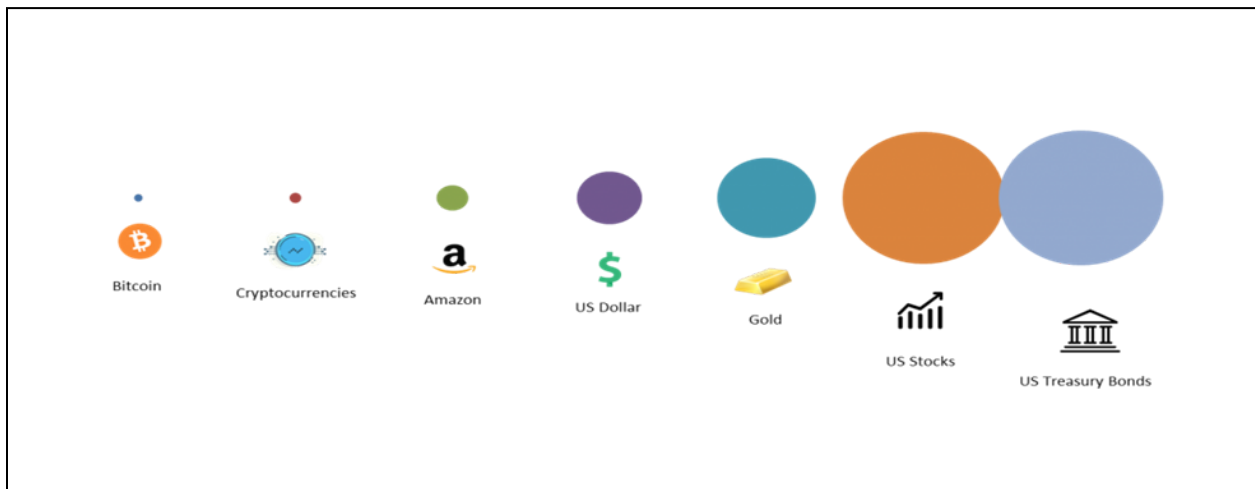
2023 Overview

In 2023, we are likely to see weaker growth as inflation peaks and rate hikes end. I am also optimistic that the U.S. will narrowly miss a recession as we begin to start the engines in mid-2024. The key takeaway here is that the world will have a slow recovery in 2023 as China re-opens and post-covid demand slows. This on top of the Russian Ukraine war has made an interesting macro environment, but a great one to learn in. I wouldn't expect anything like 2021 where it was hard to *not* make money. As I tend to often say to people, if you use this year to really learn and understand the space, it really can give you an edge in the years to come.

My overall hope for the space in the coming year is to get back to the core ethos, a theme you will hear me talk about a lot. I think money and hype tends to distract people from the overall goal. Hopefully this year of slow growth will allow us to revisit the goal and work in a better way to achieve it.

Predictions for 2023

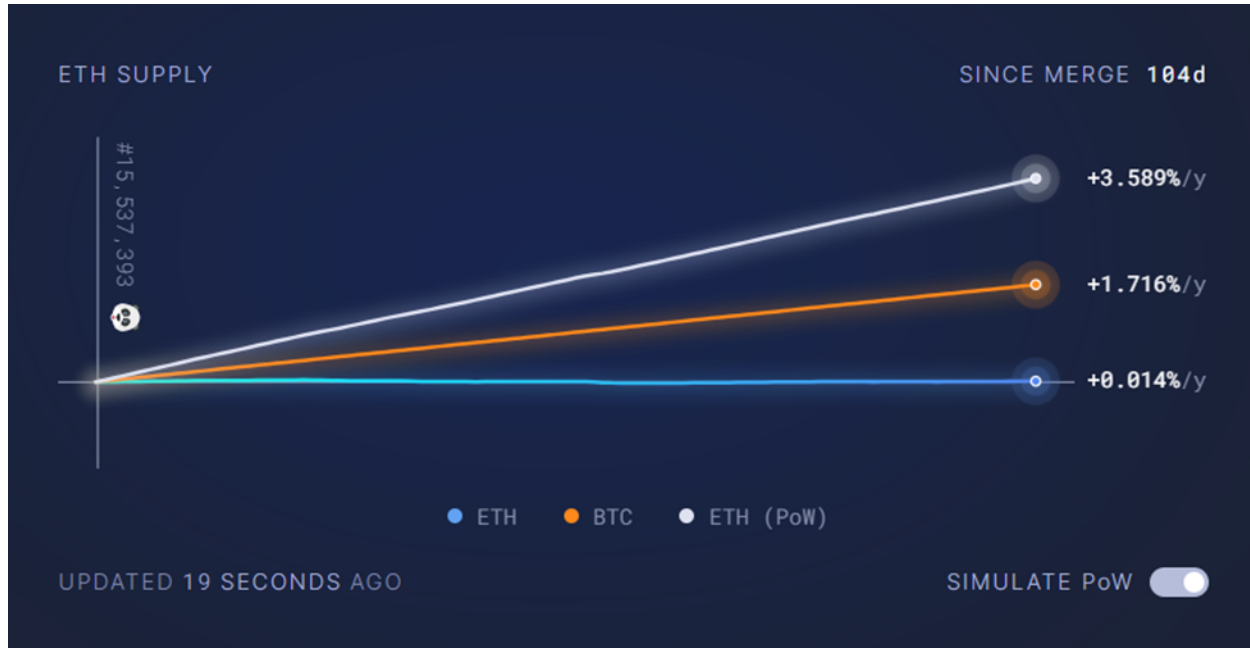
Before you start, I wanted to sort of take a theoretical approach to this year's predictions. I still fully believe we are insanely early to the space. I like to look at the picture below to remind myself of this. It is pretty wild how small it is when looking at it visually, but I want to leave you with two takeaways from it.



1. If you believe this asset class is here to stay and only get larger, you need to put in the time now. This will truly allow you to capture that value when it does indeed grow
2. It is seriously that small and yet it's all over the news. This just goes to show you how many people do watch it.

Now, let's get into it.

The Year of ETH



As many of you know, the merge happened in mid-September of this year. It was one of the biggest events in the lifetime of ETH. It changed the consensus mechanism of Ethereum, making it extremely efficient with better tokenomics than before. If you want to learn more on the specifics, make sure to check out our essay/paper listed here. Now to the prediction.

This isn't a very contrarian opinion, but I believe this will be the year Ethereum out-performs Bitcoin by a large margin. I have many reasons for this, but after this move, Ethereum is slowly evolving into the ultimate humanity operating system. The first main driver I want to point out is that it frees up developers to upgrade other parts of the chain. This may seem like a dumb thing to point out, but it's true! Most of the developers were working hard to push this upgrade forward and now that it's complete it allows them to focus their attention on other areas.

The next catalyst for ETH is the Shanghai Upgrade, planned for the second quarter of 2023. Among other things, Shanghai will allow withdrawals of staked ETH. This could be seen as a "sell" type event, but I also think it will let people who didn't stake their ETH in 2020 to come on board. Most importantly, I believe Ethereum utility as a platform for staking innovation will rapidly expand. As people look to chase "real yield," Ethereum will be the first place they land.

After Shanghai, EIP-4844 is another ETH upgrade that has the potential to position Ethereum as the most ubiquitous layer 1 in the space. In summary, EIP-4844 will enable proto-danksharding, a step towards full sharding. I know, the names sound crazy, but this upgrade allows layer 2s to scale and set up for mass adoption in the years following.

Last, but not least, I think ETH will gain a lot of popularity simply due to the price. A lot of newcomers will see the price of BTC and decide to put their money into ETH as it "has more potential." Even though there are **many flaws** in this logic, I have seen it play out many times.

NFT Utility

Although this won't be isolated until 2023, I think NFT (should I say digital collectible?) utility will become increasingly important. 2022 saw a lot of angry NFT holders due to large projects falling short of giving actual utility to holders. This made a lot of members question where all the money went, and you and I both know the answer to that. 2022 also saw a large step forward in NFT adoption with the Reddit digital collectible avatars. In short, NFTs continue to surprise me and I'm excited to watch.

I am personally a big believer in NFT technology and how it can change the world. Yes, there will still be a market for PFP (profile picture) NFTs, but we must move away from that to see actual growth. This is where utility can come into play. In all honesty, there needs to be a lot bigger developments in the user experience for this to take off, but I think we are close. I can go on and on about the many examples of NFT utility, but just look at the big brands such as Starbucks, who are paving the way in showing the world how NFTs can be used.

Although, this isn't necessarily about NFT utility it is something I wanted to bring up. I think it's really important to look into the actual use of blockchain when coming up with ideas for NFTs. This is something that I have personally struggled with in the past. There are many things that NFTs seem like they would be useful, but in reality just complicate things further.

Decentralized Science

Decentralized science (DeSci) is another prediction that won't just happen in 2023, but I believe, will gain traction over the next year. I have been a big believer in blockchain being an extremely useful technology in the progression of science. DeSci allows for an open-source and efficient collaboration ecosystem. This hyper-collaboration system creates a world where we step away from monopolistic fields like biotech and work towards a world where discoveries are free and open to all.

One example I want to point out is the peer review process. It takes years and years for a scientific breakthrough to be peer-reviewed, and this wasted time could potentially cost many lives. Blockchain could help prevent this by creating a more efficient validation of work and adding an element of a monetary incentive to speed up the process. I know there are many projects working on this, and I'm excited to see where they take it.

Token Mania Dies Out

I believe the days of pointless tokens are getting close to being over. Now, there is a lot more to unpack here but I'll keep it short. Overall, this space has been littered with VCs trying to catch a pump. What I mean by that is they simply want to invest in a project to get allocated a lot of tokens, pump the price, and dump on retail investors. When I first understood this, it totally made sense. In my opinion, this is why I think there are tons of projects out there with tokens that have no actual use case. I think a perfect example of this is the recent launch of Aptos. It was a chain heavily pushed by VCs and ultimately failed. There are other factors that played into its failed launch, but it was one of the few times a VC token project didn't work out.

After the recent contagion blowing up a lot of VCs with this investment model, I think we can start fresh. People are beginning to realize a lot of these tokens have no current or future use. Yes, this will create more blood in the short-medium term but will help shake the industry of the BS in the many years to come.

DEX's and Self-Custody Take Off

With the SBF drama, I think the push toward decentralization will be stronger than ever. The events that unfolded over the past few months just go to show how little you can trust people. As sad as that statement is, it's true. This is why I see DEXs and self-custody take off as many people who were hurt during the FTX collapse only trust protocols that aren't run by parent companies.

Overall, this is a core ethos of cryptocurrency and it's unfortunate that it had to go this way. I still fully believe we are way behind in terms of mass adoption with the current user experience but am confident we will get there. Companies such as Ledger and Uniswap are doing great things in moving us toward a decentralized future.

Trends to Watch

- **AI & ML Narrative** – in the short term I could easily see a lot of crypto AI & ML projects that will pop up and inevitably run for some time before dying out. AI is super-hot right now and will get a lot of VC attention
- **ZK Proofs Take Off** – I have started to see a large emphasis on ZK proofs, it'll be a narrative I pay close attention to in the coming year. We have a report on ZK Sync for more information
- **Regulations** – this more so has to do with the XRP vs SEC case. This case is something all should watch as it will have many implications for the rest of the industry
- **Web3 Gaming Lags** – Personally, I never really understood the hype around a lot of these gaming projects early on. The current UI for players is horrible and it's as simple as that. I can for sure see in-game items become NFTs on the blockchain, but actual on-chain games need a ton of work before seeing any real use
- **Decentralized Identity** – With the takeover of Twitter, I think decentralized identity online will become increasingly important. The Twitter Files are just the start.
- **Continued Contagion** – Again, not really a contrarian opinion but don't be surprised if we see more pain in the crypto markets in the coming months. It will take some time before people begin to feel risk-on again.
- **Russia & Ukraine** – This is sort of random, but I think this year we see the conflict end.
- **FTX Drama** – I am very tired of talking about this already, but I think in 2023 more sketchy stuff will come to light. Just today, someone from the CFTC had to step down due to their involvement in FTX.....bring more of them down!!!
- **Filecoin** - I think Filecoin gets a lot of attention this year. Filecoin and its native token FIL is the most established decentralized data storage protocol in the space. As digital identity becomes increasingly important, so will be how you store your online data.

Conclusion

2023 will definitely be a year filled of learning for me. We are in a once in a lifetime market condition and if you can watch and learn, it can benefit you throughout your life. Again, I truly think this downtime will allow for some real progression in the space. I am super excited for the upcoming months as you have no idea what this industry can throw at you. Stay curious. Stay hungry. Stay patient.

Cheers and we will see you next year.

Andy

Current Crypto Portfolio

1. USDC/Cash
2. ETH
3. BTC
4. Potential Buys: DOT, CAPE (whenever token launches)

I currently do not believe altcoins will be able to sustain the upcoming environment, so I have cleaned house (for the most part) on my portfolio. I continue to DCA into ETH and BTC every other week, even though I foresee more blood in the near future.

Intro

Wow, what an eccentric 2022 year we all have endured. From billion dollar operations collapsing, to one of the world's most prominent exchanges committing fraud and setting the overall crypto industry back by an uncertain amount of time, we have truly experienced something revolutionary in its own state. I cannot lie that this year has been an absolute rollercoaster, and 2023 is shaping up to continue the wild ride. If you are reading this and are still involved in this space, congratulations - this is the perfect time to stack your chips and get ready to deploy them at the right time. I am predicting that sometime in 2023, the bottom will occur and the perfect buying opportunity for the long term investor will arise. I firmly believe that as we exit Q1 of 2023, the Federal Reserve will pivot and pause rate hikes, which will not only support the tradfi markets, but also the crypto markets as well.

My report this year is a bit different than last year's, as I tried to be a bit more conceptual on certain topics that I care deeply about.

Note: I personally felt like the points in the the Random Thoughts section below were deserving of the real estate at the beginning of my report. Although they are brief and succinct points, they are valuable in my eyes and I hope they resonate with you in a particular way as they did with me.

Random Thoughts

1. The majority of individuals who joined into the crypto-mania this past bullrun have left the space after the unfortunate 2022 year, which means that the battle-scarred crypto-native individuals are the *only* ones left. If you are still here and wish to participate, be cautious and know who you are going up against in this player vs. player game we call the crypto markets. The majority of these crypto-native individuals have been through multiple market cycles and have an abundance of knowledge on how to maneuver these times. It is certainly not a bad idea to stay neutral and wait patiently for things to be better. There are cycles to everything and one day we will once again experience the glorious times we had during the last bullrun.
2. Crypto is often times compared to the game of musical chairs, and some people are too too focused on whether the song is good or not. That is not how the game works, however. Do not commit yourself to having a tunnel visioned mindset, but be open and play all vertices.
3. Please keep an eye out for the AI narratives. People are inherently lazy thinkers and once AI gets to the point where people start to completely trust its responses, that will be a key indicator. People will undeniably just default to the answers that AI provides, even if it is pseudo wrong or the truth is a bit distorted.

- In my opinion, the idea of Bitcoin Maximalism will return in a very overpowering way in 2023

Brief Review of Last Year's Predictions

Before I dive into my predictions for 2023, I wanted to take a brief moment to go over my predictions from last year.

- 2022, the Year of Layer 2's and Rollups** - I was partly correct on this thesis, but also exceptionally wrong at the same time. Arbitrum, the L2 on Ethereum did an extraordinary job this year with onboarding new users and keeping them even throughout the market turmoil. In the screenshot below, you can see that Arbitrum has finally passed both Optimism and Polygon in the total value locked (TVL) to become the top L2 on Ethereum.



I stated that I was bullish on zero-knowledge rollups at the *end of 2022*. There was a bit of a hype train earlier in the year, but nothing helped sustain it. ZkSync and StarkNet did not release its tokens in 2023, which more than likely would have kicked off the narrative.

- Subsidies for Crypto Users** - This prediction did not happen in 2022 but I do believe this is still a valid idea that could revolutionize growth
- Derivatives Trading Protocols** - Derivative crypto markets were very much present in 2022, even though the volume was down. Innovative protocols and ideas have surely kept everything afloat, however. GMX had its moment towards the back half of 2022 and SudoSwap's NFT AMM have been exciting to see. There is still progress to be made in this space but the degeneracy and *need* to become wealthy in this space is certainly why derivatives will be present in crypto.
- NFTs Evolving in 2022** - NFTs and their utility evolved a bit in 2022, although the profile pictures and random JPEG images still overruled the space. Even at the time of writing, the *Pudgy Penguins* NFT collection is going through a wild volume increase during the holiday season. There are people in the space (and outside) that want to part ways with the profile picture NFT space, but it does not look to be in the near-term future. Ideas and technology will need to advance just a bit more for NFTs to be practical and have a certified use case, but we are currently in a bear market where builders thrive. Next bull run, I predict we will see a brand new side of NFTs and the legitimacy of how they are used will finally bring credibility to the sector.
- Outlook on the 2022 Market** - In last year's report, I stated that I thought we would enter a bull market in the beginning stages of 2022 and go bear by the start of Q2. This was sort of correct, although we did not necessarily "enter a bull market in 2022" but rather kept it neutral until things shifted to bear. Macro

issues played a big factor in how things went, of course, so I was correct on that point. Read up on my 2023 market analysis below.

Decentralized Social Media

Note: Although this point has slight ties to crypto and its decentralized state, it is not directly crypto-focused so I will keep this brief.

With all of the chaos that has been revolving around the Twitter acquisition, the *Twitter Files*, and the efflux of users, the thought of decentralized social media is quite intriguing and in my opinion, will begin to make its **small but initial** strides in 2023. We are already hearing quite a bit of buzz surrounding Mastodon and Nostr, two decentralized blogging platforms, and while they are interesting, they seem a bit complicated and/or not entirely decentralized. I recall in late 2021, there were some individuals calling for a social network built on a blockchain to not only allow for a clean ‘paper’ record of information transcribed, but also the decentralized and unrestricted nature that would come about from utilizing the underlying technology.

Do I think this is a good idea? Sure, I see value in that thesis but I do, however, believe this should not be done anytime soon. There are a countless number of things that need to progress before a blockchain based social media platform can truly flourish. The first big issues would be blockchain fees per transaction. Imagine having to pay everytime you post. Why not just use the Web2 version of Twitter where it is entirely free? The next big issue would be transactions per second. If the platform took off, the TPS would need to be extremely high or else users would leave for another reliable platform.

The thought of having a decentralized social media platform that allowed for no restrictions is certainly very enticing, but blockchain technology will have to grow before this ever takes off and becomes a household name. At this point in time, it just simply does not make sense and goes back to the phrase which I think every crypto-native person should hear: “Not everything needs to be moved to the blockchain.”

Coinbase (\$COIN) Thesis

Coinbase, the largest exchange in the US by trading volume is going through the pain that a majority of stocks are going through. 2023 looks a bit grim for the company as the crypto industry is going through a deep hardship and the trading volume is at lows compared to last year and the year prior. I believe as prices go down in all equity and speculative markets in 2023, COIN will be one of the stocks that gets hit harder than others (not to say it hasn’t already - take a look at the chart below). The stock price itself is down ~86% on the year which is atrocious... even in crypto terms.



I want to note that this analysis is certainly not investment advice and I do not recommend anyone to base their financial decisions on this piece. I do, however, believe that in the long term, COIN has more upside than downside and the time to purchase is more than likely approaching if you believe this has strong potential in the upcoming years. I have thought about throwing COIN in as one of the investments for my IRA, but have also thought about just putting it in my standard portfolio. I am undecided at the moment.

I firmly believe that because this is the US's number one crypto stock and the fact that Coinbase loves promoting itself as a US company, the SEC will not *allow* it to fail. After the FTX collapse, there were talks about contagion entering into Coinbase (which I think were valid concerns). I don't think that there are any major worries any longer, and I believe Coinbase will be a "survivor" because of their current financials - \$5 billion in cash and \$3 billion in low-cost debt. For at least the near-term future, the COIN stock price will be tightly tied to the crypto markets which obviously means that right now is a bit difficult to dive in.

Please do your own research before ever investing into anything but I, as a long-term investor, am certainly keeping this on my watchlist for now.

(Potentially) Controversial Opinion

I flip flop back and forth on the topic of the meltdowns of LUNA, FTX, 3AC, the Celsius and Blockfi bankruptcies, and all of the other unfortunate failures. I have heard from a number of crypto OGs that this contagion is peanuts when compared to the previous crypto cycles. Every once in a while, a cleansing is very much needed to get rid of the overleveraged degens and bad actors. I think that crypto being on the scale that it was and having the insane press due to the help of DOGE and other memecoins may have set back the industry just a bit, but it was needed if we want this industry to be successful down the road. The technology is there and is only progressing, it will just take a few more years to fully solidify that this is a legitimate industry. Decentralized finance is one of the many sectors that I believe will be able to bring a good name to crypto.

When close-minded people say something like, “the FTX scandal proves that crypto is a scam”, it makes me seriously think about how the 2008 financial crisis exposed the Madoff ponzi scheme. The massive liquidity run of \$7 billion was attempted to be withdrawn by customers of his funds, which ultimately uncovered the fraudulent activity. If that quote above is the case, then one might say that, “oh, Bernie Madoff proves equities are a scam!”. It is a bit foolish for someone to say something like that because there are bad actors in everything, and not only financial markets.

My point here is that there are cycles to everything, and the flushing out of the bad actors and fraudsters is something that **needs** to be done every once in a while. Sure, it would be tremendous if people did not lose money and if we all had a crystal ball to see when exactly we should pull our funds out, but that is just not the case. We learn and move on. There will be another time to enter the market and hopefully next time, we will be able to see the signs prior to a catastrophic event such as the SBF and FTX scandal.

Sam Bankman-Fried and His Inevitable Doom

SBF had one of the most spectacular downfalls of anyone in recent history, and it was very much deserved. Now the question is, will he walk away with just a small slap on the wrist, or will he be sentenced to prison and follow the path that Bernie Madoff once traveled upon? SBF deserves everything that is coming for him and I sure do hope that it is the latter. Although I mention hope, I do strongly believe that the DOJ will make an example out of Sam and showcase to everyone that they do not play around with fraudulent activity, even in crypto. The DOJ also wants to send a message to the rest of the crypto industry. Market manipulation and fraud will not be allowed here in the US so do not even consider approaching that route.

In an [article](#) from CoinDesk, former US Prosecutor Renato Mariotti stated that “there’s definitely an energy in federal law enforcement right now in going after crypto,” which is exactly why the face of the industry (at the moment) needs to be punished in a big fashion. I am not here to get political, but the ties that SBF and his family have to the government is something that may (but hopefully does not) play into the decision for Sam’s future. Like I said before, I think an example needs to be made and the US government will do it... all things considered.

2023 Crypto and Macro Outlook

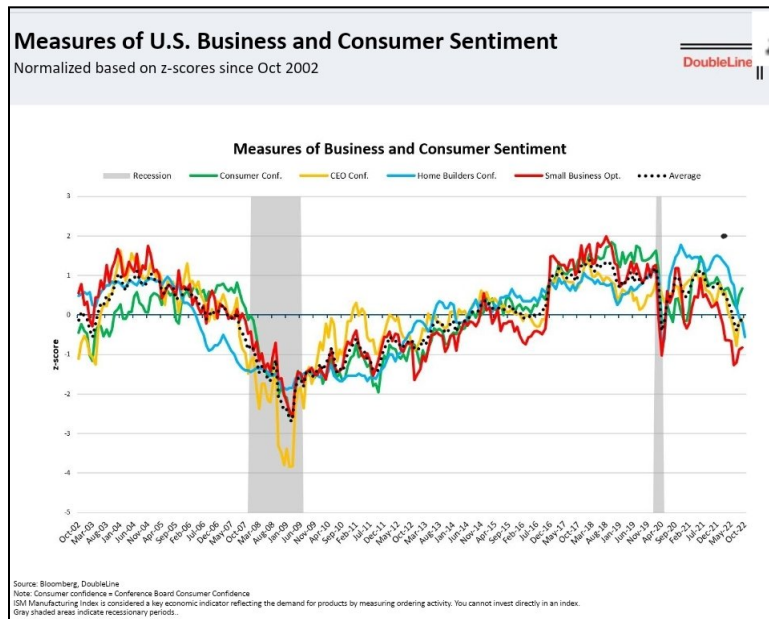
After the chaotic year we had in 2022, I am looking forward to seeing how 2023 plays out. The crypto and equity markets have both experienced some unusual times over the last year. Massive bankruptcies, coins/stocks declining to all-time lows in a variety of spaces, and a European war, some may think that we have seen it all; that is certainly not the case. It appears that the war is beginning to slow down a bit as there are reports of a settlement potentially being reached between Russia and Ukraine. This would be monumental for the world and *hopefully* ease tensions between the West and Russia, but only for the time being. I think the war is going to end sometime in early Q2, just after the Federal Reserve pivots.

I predict that Federal Reserve Chairman Jerome Powell will start to pause rate hikes as we exit Q1, but not earlier and at some point, the SPX will bottom out in the 3,200s, and then hopefully begin the process of advancing back up. With that being said, I believe that the next 12-18 months will be sideways with a slight downward movement in an incredibly slow fashion, to which we will reach a point where *no one* is buying anymore (to an extent), but people will look back at those prices in 2028 and regret not buying at these levels.

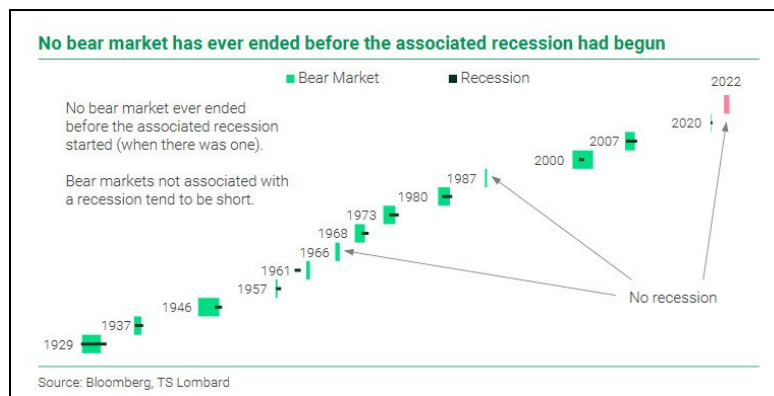
There are people calling the inevitable upcoming recession to be even more dreadful than the Great Recession in 2008, however, I view things as the opposite. People are anticipating the recession more than ever which I think will play into everything a bit more than people think. There is absolutely a serious issue with how things are currently being operated and even more so manipulated, and that will certainly blow up here soon. I just think the magnitude of the downfall will not be as glorious as some predict. Maybe that is wishful thinking, but I do want to refer back to the point I mentioned in the *Controversial Opinion* section: Every once in a while, a cleansing is very much needed to get rid of the overleveraged degens and bad actors.

I brought up the macro environment because at the moment (but hopefully not in the future), the crypto markets are tied to the equity markets along with a lot of other things. I believe that decoupling will happen eventually, but not before crypto is regarded as a *credible* industry.

Below are two graphs that I deem as noteworthy.



Graph can be found [here](#)



Graph can be found [here](#)

Disclaimer

The opinion and commentary herein is provided for general information purposes only and should not be construed as investment, tax or legal advice, and does not constitute an attorney/client relationship. Such information is believed to have been obtained from sources deemed reliable but is not guaranteed. Past performance of any market results including crypto currencies and such related assets is no assurance of future performance. Investing is risky, and you can lose what you put in.