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Features

Bitcoin and Beyond: The Future of Cryptocurrency Investing

Experts weigh in on the future of crypto as currency ahead of CoinDesk's I.D.E.A.S. conference.

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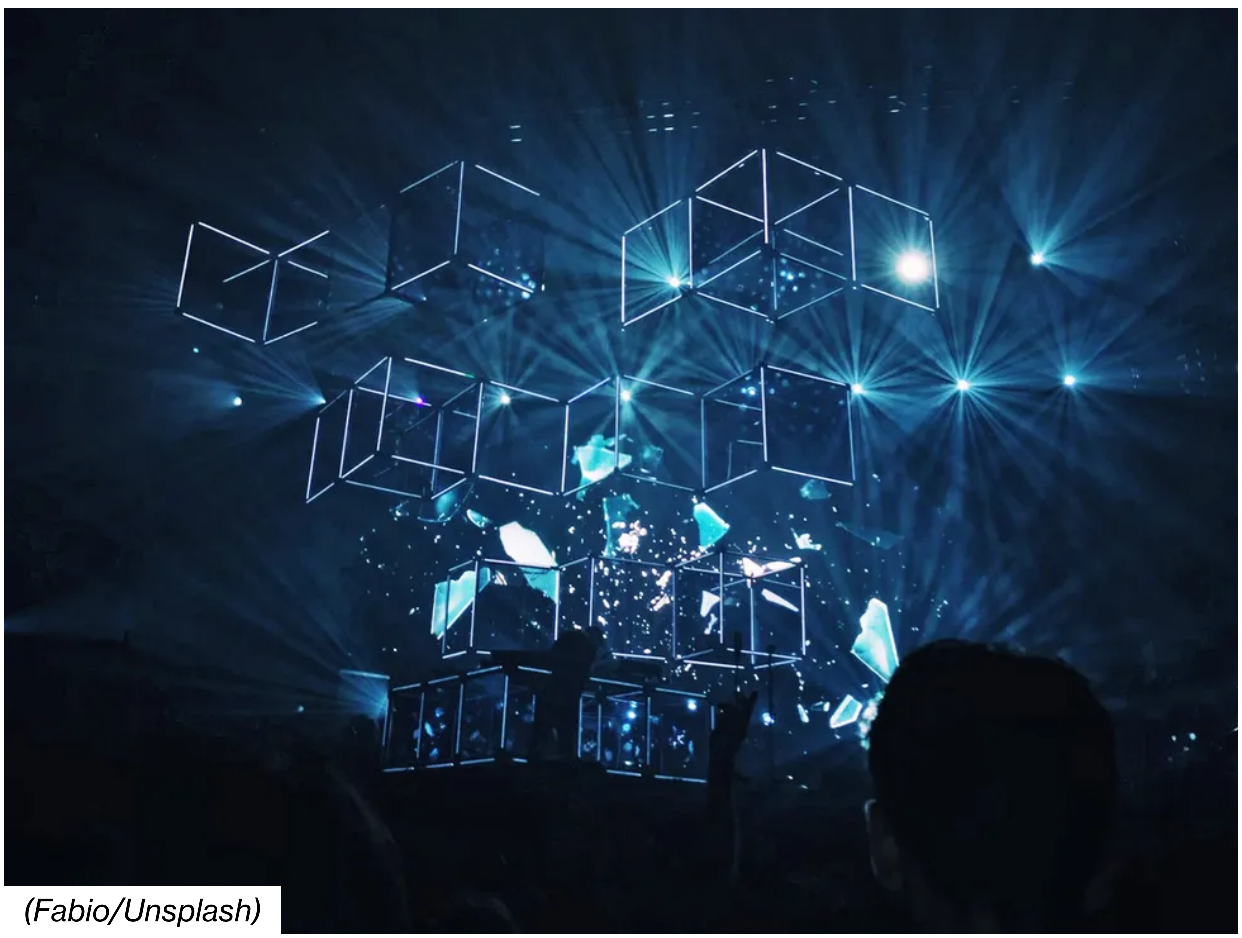
Oct 12, 2022 at 11:05 a.m. EDT

Updated Oct 12, 2022 at 5:38 p.m. EDT Layer 2



(Fabio/Unsplash)

Since 2009, when Bitcoin was quietly launched by its creator, the technology spurred thousands of digital money projects, creating a vibrant and lucrative landscape for investors.

Investors now come in all sorts of flavors. What once was a small group of geeky believers is now a diverse crowd of people, from cypherpunks to big mainstream companies and large investment funds.

With cryptocurrencies gaining traction as an investment asset, investors are showing interest in a wider variety of crypto assets – not just bitcoin, experts told CoinDesk.

Shift from the 'digital gold'

The landscape for institutional crypto investors has been definitely shifting recently, says Ajit Tripathi, former investment banker at Barclays and Goldman Sachs and until recently head of institutional business at decentralized finance (DeFi) project Aave.

“I’ve been talking to some sovereign fund [managers] last week, and they [have] started making token investments,” Tripathi told CoinDesk in an interview. He said at least some of the funds managing the sovereign wealth of entire countries, have started taking baby steps into crypto beyond bitcoin.

Investments of this kind usually do not exceed 1% of such funds' total allocation, and the biggest part of it would be into bitcoin and crypto-exposed venture funds such as Pantera and a16z, among others. However, some of that allocation could also be invested in other, smaller cryptocurrencies.

“You can’t invest a hundred million dollars in a s**tcoin. So you would put a half in bitcoin and ether, and the other half in venture funds, like Pantera and a16z, and a small part, as a learning exercise, in other tokens,” Tripathi said.

Before, bitcoin looked like the safest bet in the eyes of institutions due to the “inflation hedge” and “digital gold” narratives. Also, bitcoin was one of just two crypto assets cleared from regulatory risks by the U.S. Securities and Exchange Commision. However, now the bitcoin narrative is changing and attention is slowly moving to newer projects, including ether, MATIC, ATOM and SOL as well as gaming and DeFi tokens, Tripathi said.

For instance, GoldenTree, a $50 billion private asset manager bought $5.2 worth of SUSHI tokens, the digital asset of the SushiSwap decentralized exchange (DEX).

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“Until 2019 crypto was not really seen by institutions as an asset class,” Tripathi said. However, since then a couple things helped bring some serious attention to crypto: the U.S. government unleashing the “money printer” during the COVID-19 pandemic and PayPal introducing its cryptocurrency trading and custody service, Tripathi said.

“The legitimization and mainstreaming of crypto as an asset class has been pretty much accelerated,” he added.

Tyler Spalding, co-founder of payment startup Flexa, agrees. He said institutional funds are increasingly looking into tokens issued by decentralized trading protocols including Uniswap, Compound and SushiSwap.

Stablecoins vs. CBDCs?

One of the crucial parts of the crypto market infrastructure is stablecoins, or cryptocurrencies that maintain a stable price by pegging the coin to an asset such as a fiat currency such as the U.S. dollar. The two biggest dollar-backed stablecoins are tether (USDT) and USDC.

Stablecoins might soon be challenged by central bank digital currencies (CBDC), according to Eswar Prasad, professor at Cornell University, a former International Monetary Fund (IMF) official and author of “The Future of Money: How the Digital Revolution Is Transforming Currencies and Finance.”

“The emergence of CBDCs and the displacement of cash by CBDCs will almost certainly become the reality. We already see China, Japan and Sweden central banks initiating experiments with CBDcs, and I suspect all of these economies will issue CBDCs in the next three to five years,” Prasad told CoinDesk.

Unlike the stablecoins running on decentralized permissionless ledgers such as Ethereum or Tron, central banks favor ecosystems they can control. So there is little chance the governments of the world will allow stablecoins to be on a par with CBDCs once the latter are in place, said John Kiff, former senior financial sector expert at the IMF.

There will always be a place for private stablecoins for gray market use cases and capital control avoidance, he added. But there is a bigger market that will probably be only open to stablecoins, Kiff said: tokenized securities.

Some countries are already experimenting with issuing securities on blockchain and settling them with digital currencies, such as the Helvetia project recently piloted by the Bank of International Settlements, Swiss National Bank and SIX Exchange, Kiff said.

He sees projects like this expanding in the years to come, especially in developing economies. However, in the advanced economies with sophisticated securities market, putting all the infrastructure on the new rails will take a while, he added. In the U.S. we won't see as much as a limited pilot of this kind in the next three to five years, Kiff said.

Christopher Giancarlo, former Commodity and Futures Trading Commission chairman and "Crypto Dad" because of his friendly attitude towards crypto, believes there is room for "healthy competition" between CBDCs and privately issued stablecoins, "at least in the free world," he said.

Ajit Tripathi thinks otherwise: CBDCs won't find any actual use

Ajit Tripathi thinks otherwise. CBDCs won't find any actual use case in developed economies, but privately issued stablecoins will become an integral part of the banking system. They will be much more regulated than they are now and will probably become something more similar to banks in a regulatory sense. "And then, as long as you follow the rules, you're a part of the payment rails," Tripathi said.

Stablecoins acquiring banking charters or gaining similar regulatory status is one or two years away, Tripathi believes.

The rail builders

What does this mean for investors? As the technical and legal infrastructure will be created for the next generation of digital payments – those who are building that infrastructure will benefit from the transformation and those who invest in the builders.

For example, projects that are creating enterprise systems on Ethereum or R3's Corda, which has been quite popular for CBDCs pilots around the world, might be where investors should be looking, said Kiff. Projects like Stellar, Algorand and Avalanche may also be likely candidates to provide countries with tech for CBDCs, he added.

Flexa's Spalding believes decentralized protocols with their own governance tokens, such as Compound or Uniswap, will become "ultra-successful" in the years to come if they use a model where the platforms' revenues are distributed among token holders, just as traditional companies do with their shareholders.

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Alex McDougall, CEO of a technology startup Stablecorp, believes

Alex McDougall, CEO of a technology startup Stablecorp, believes viable, “hardened, tested and disputed” decentralized governance models will be worked out by the industry in the next seven to 10 years. However, it’s going to take up to 20 years for those models withstand expected battles in courts and with regulators.

In the meantime, companies building bridges among blockchains, fiat currencies and trading platforms, not necessarily in a decentralized way, will be reaping the benefits, unlocking the “trillion dollars of friction tax that’s locked up in the financial services system right now,” McDougall said, referring to the fees and service hiccups that happen while switching from one currency or blockchain to another.

'Bitcoin standard' holding on

All these trends do not mean the oldest and largest cryptocurrency by market cap has lost its attractiveness for investors, experts say. If anything, it is considered the benchmark of the crypto market, not as profitable as some other coins but not as precarious either.

“Bitcoin is kind of a reserve currency for the crypto market,” said Kiff. “I think of it almost like an index fund of the crypto market. It’s a good place to park my money when I’m not investing in anything specific.”

Bitcoin will most likely keep this status, especially “if it sticks to its roots, to the proof-of-work [system], although we complain about it so much,” Kiff said. He added that of all cryptocurrencies, bitcoin remains the most decentralized.

“It has been going so far without any glitches or anything. Bitcoin has worked like clockwork since 2009. It’s pretty impressive,” Kiff has worked like clockwork since 2009. It's pretty impressive," Kiff said.

Giancarlo, the former CFTC chairman, said the past few weeks have revealed an interesting trend: While the U.S. dollar has been gaining strength over the past year, other global reserve currencies have been losing steam. But not bitcoin. While British traders have been selling pounds to buy dollars, bitcoin is continuing to trade in a narrow range of around $20,000.

Traders "are not selling bitcoin to buy dollars the way they're selling yen to buy dollars or they're selling pounds to buy dollars. At a time of a global economic stress, when many traditional currencies are being diminished in value, bitcoin is not," Giancarlo said.

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