X

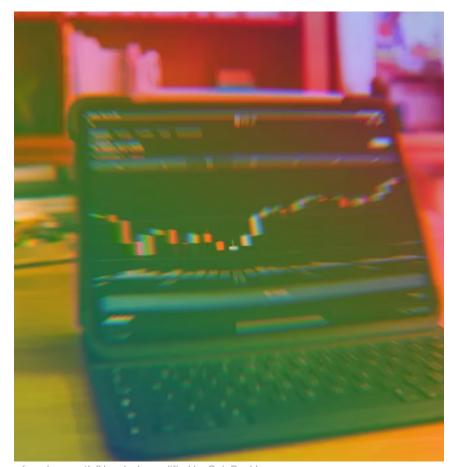
Over 50 sponsors signed up for Consensus 2024 View All

Opinion

How Crypto Traders Are Reinventing Venture Capital

The digital asset ecosystem democratizes startup investing by granting everyday investors wider access to potentially outsized returns of liquid venture markets.

By Wes Hansen Oct 27, 2022 at 9:09 a.m. EDT



(regularguy.eth/Unsplash, modified by CoinDesk)

"Crypto's \$3 trillion of liquid value creation in 10 years now rivals that of all other venture-backed startups combined." – Messari.io

ADVERTISEMENT

Powered by blockchain technology, digital assets offer new trading and investing opportunities with more liquidity and speed. What we refer to as "liquid venture" – digital assets issued by early-stage companies or projects – expands the tradable landscape.

How Might Crypto Influence the Upcoming U.S. Elections?

Web3 Funding from Venture Capital Funds Slumps in Second Quarter:

Clean Ethbals & Conc. Crypto Custodian Obtaining Full

Venture capital (VC) investments tend to generate net returns that outperform the S&P 500, but they are inaccessible and illiquid, with average fund lockup periods of seven to 10 years. Experienced traders who consider the unique nuances and risks of liquid venture can have novel alternatives to long-term, locked-up VC investing.

Wes Hansen is the director of trading and operations at Arca. This article is part of CoinDesk's "Trading Week."

Traditionally, young businesses have had limited funding options, with most depending on VC financing to build their companies. Similarly, access to startup investment opportunities is notoriously gated for the ultra-wealthy or select funds. As a result, investors have sought alternatives to expand this pool of opportunities.

ADVERTISEMENT

Recently, blockchain has enabled startups to bootstrap their projects by issuing tokens. The digital asset ecosystem democratizes startup investing by granting everyday investors wider access to potentially outsized returns of liquid venture markets, often allowing traders to buy and sell assets without restrictive holding periods.

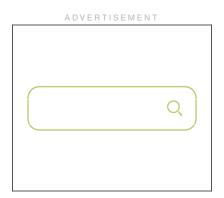
However, traditionally a startup has the benefit of time to experiment and grow without public scrutiny or worries over token price movement. But once a company offers a publicly tradable asset into the market, it is subject to increased regulatory review.

Digital asset projects feel many of the growing pains of traditional startups – immature organizational processes, hiring and fundraising responsibilities, product rollouts and technology bugs – but they are experienced much more publicly. When a team faces obstacles or struggles to find product market fit, every misstep or dip in growth is magnified by the team's public persona and the price action of its token.

See also: Why Crypto Trading is Essential for the Cryptocurrency Industry | Opinion

Many teams are unprepared for the added stress and complexities that come with public oversight and pressure. As a trader in this space, the long-term play is less relevant when your investment is continually marked to market.

The nature of trading liquid venture can be complex and volatile because of the myriad factors that can affect token price. For this reason, trading liquid venture tends to be best suited to traders who are able to actively monitor the idiosyncrasies of the ecosystem with the support of analysts and other traders around them.



ADVERTISEMENT

Some factors to consider include:

Nascence: Venture projects and their tokens are often powered by small, young teams with limited resources. Inexperience, poor communication, misaligned priorities and infighting can cause projects to implode at any time. Successful teams show patience and diligence and delay the short-term gratification of a high token price to prioritize the business' and customers' best interests. These teams understand that focusing on their company's long-term success will be advantageous for future sustained price growth.

Resilience: Traders must be quick with decisions, flexible with investment theses and knowledgeable about factors that drive token prices. Agility and resilience to move on from a bad trade while maintaining the ability to evaluate the next trade properly are paramount. And balance is key: A bad trade should neither make one fearful of greater losses nor overly aggressive to recompense. A good trade shouldn't garner overconfidence, which could lead to overlooking red flags.

Information: On-chain metrics like revenue, volume, users or active addresses and total value locked (TVL) can provide a real-time picture of a token or a company's health. Additionally, startups must provide public information through transparency reports.

Regulation: Inconsistent and often sudden decisions adversely affect token prices because regulators can unexpectedly subpoena a token project for exploratory inquiries or violating outdated regulations. Digital assets and startups need clear, relevant and fluid regulation that will allow those in the space to experiment and evolve. Otherwise, maintaining legacy frameworks for novel technology will create noncompliant companies, push teams to build in other countries and prevent the U.S. from being the dominant venue for digital asset industry growth.

Investors with venture experience know the peaks and valleys of investing can be exhilarating and unpredictable. But for liquid venture, these swings occur publicly with an asset that immediately reacts to news.

STORY CONTINUES BELOW

Recommended for you:

- The Sandbox Aims To Make India Its Largest Market
- Stacks' STX Soars 27% on Positive Comments From Tim Draper
- North Korean Hacking Group Tied to \$100M Harmony Hack Moves 41,000 Ether Over Weekend
- · Sponsored by eToro

Join eToro and get \$10 of free crypto. Get free access to millions ideas. Explore a new way to invest, plus get \$10 of free crypto whup.

See also: A Day in the Life of a Crypto Trader







~

Sometimes there is neither room for error nor recovery – the market is an immediate indicator of an issue or of success. Even so, liquid venture can be a compelling complement to investing in stocks and bonds, offering more diversification to a liquid portfolio of assets and access to emerging companies with high growth potential.



Trading Week





Newsletter → Every Friday, Resuming Jan. 2024

Money Reimagined

Sign up for Money Reimagined, our weekly newsletter exploring the transformation of value in the digital age.

Enter your Email

Sign Up

By clicking 'Sign Up', you agree to receive newsletter from CoinDesk as well as other partner offers and accept our terms of services and privacy policy.

Learn more about **Consensus 2024**, CoinDesk's longest-running and most influential event that brings together all sides of crypto, blockchain and Web3. Head to **consensus.coindesk.com** to register and buy your pass now.

DISCLOSURE

Please note that our privacy policy, terms of use, cookies, and do not sell my personal information has been updated.

The leader in news and information on cryptocurrency, digital assets and the future of money, CoinDesk is an award-winning media outlet that strives for the highest journalistic standards and abides by a strict set of editorial policies. In November 2023, CoinDesk was acquired by Bullish group, owner of Bullish, a regulated, institutional digital assets exchange. Bullish group is majority owned by Block.one; both groups have interests in a variety of blockchain and digital asset businesses and significant holdings of digital assets, including bitcoin. CoinDesk operates as an independent subsidiary, and an editorial committee, chaired by a former editor-in-chief of The Wall Street Journal, is being formed to support journalistic integrity.

=	TV & Videos	Newsletters	Podcasts	Coir	CoinDesk Indices Events Log In / Cre			Q		
	Markets	Finance	Policy	Technology	Learn	Consensus Magazine	Protocol Village S		Sponsored Content	t

Ethereum • \$2,316.08 +4.29%

Binance Coin A

\$271.26 +0.53%

▲ Crypto Prices →

CoinDesk Market Index →



Wes Hansen

Wes Hansen is the director of trading and operations at Arca.

Read more about

Opinion

Trading Week 2022

Venture Capital

Investing



For You

Recommended by outbrain



Massachusetts Will Cover the Cost to Install Solar if EasySolar



Here's How To Fly
Business Class For The
SearchFavorites | Search Ads



Beckham Marries The Richest Heiress In The Investing Magazine



These 2023-2024
Caribbean Cruise Deals
Popular Searches|Search Ads



About

About

Masthead

Contributors

Careers

CoinDesk News

Stay Updated

Events

CoinDesk Studios

Newsletters

Follow

Get In Touch

Contact Us

Advertise

Accessibility Help

Sitemap

The Fine Print

Ethics Policy

Privacy

Terms Of Use

Update My Cookie Consent

Do Not Sell My Personal Information

Please note that our privacy policy, terms of use, cookies, and do not sell my personal information has been updated.

The leader in news and information on cryptocurrency, digital assets and the future of money, CoinDesk is an award-winning media outlet that strives for the highest journalistic standards and abides by a strict set of editorial policies. In November 2023, CoinDesk was acquired by Bullish group, owner of Bullish, a regulated, institutional digital assets exchange. Bullish group is majority owned by