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How Market Downturns Can Spur Innovation



Rayne Steinberg Forbes Councils Member

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Rayne Steinberg is Chief Executive Officer at [Arca](#), an asset management firm investing and innovating in digital assets.



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[Aesop's fable](#), "The Ant and the Grasshopper," describes how an

ant forgoes the instant gratification of summer bliss to plan and prepare for winter. A shortsighted grasshopper ridicules the ant's diligence, but come winter, the ant is warm and well fed. But, conversely, the grasshopper is ill-equipped and perishes in the cold.

It has been a bitter first half of the year, underscored by broad indications of a centralized systemic fraying. The world economy has been under immense pressure, caught between runaway inflation and a faltering economy. Digital assets, which are only a tiny fraction of overall assets, are massively impacted by these economic forces.

While they were created to address issues with centralized systems, they have yet to go through a period of systemic stress. However, the sector is predicated on and energized by the assumption that centralized systems—the [Enrons](#) and [Equifaxes](#) of the world—will suffer multiple points of failure, especially during periods of uncertainty.

In the 1970s, the developments of personal and portable computers were groundbreaking. Connecting them via the internet in the '80s was revolutionary, as it changed how computers communicated. In the late 2000s, we rebuilt the internet and made it all about cloud, mobile and social, dramatically altering how humans communicated—*that* was evolutionary.

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Now, we are reconstructing the web again, but this time, we're building it on top of decentralized networks and open platforms. That is no easy feat, and shocks to the system are to be expected. Although times of uncertainty can cause people to retreat, as John Allen Paulos asserted, "Uncertainty is the only certainty there is, and knowing how to live with insecurity is the only security."

Despite its stated value proposition of countering centralized risk, the digital asset industry didn't evade the most recent downturn. This level of volatility, while extreme in other asset classes, is familiar in digital assets. We have been here before.

Previous downturns have served as important inflection points, with bear markets often spurring the rebirth of entrepreneurial innovation. At these critical junctures, scarcity of resources and tougher business conditions force companies to get creative and renew their focus on research and analysis, developing robust processes and fortifying risk management frameworks.

For example, the digital asset projects thriving today—including [Uniswap](#), [MakerDAO](#) and [Binance](#)—emerged from the 2018 bear

market. Those committed to developing a more democratic financial system channel Aesop's diligent ant, tackling complex problems and developing solutions that will get us to the next stage of mainstream adoption with use cases that will ultimately benefit billions of people.

Periods like this also serve to shake the proverbial grasshoppers out of the market—hype projects and feverish money-grabs—in favor of solid projects, businesses and teams resourced for the long haul. It is similar to what transpired following the dot-com bubble: Companies like [Amazon](#), [eBay](#) and [Priceline](#) survived the burst and adapted through reorganization and refined strategic plans.

On the other hand, businesses like [Pets.com](#), [WebVan](#) and [eToys](#) with unsustainable business models were overvalued, highly speculative and subsequently perished. While the burst was cataclysmic for many, it was also a necessary correction that revealed the strong players, created space for lean startups and encouraged investors to be more discerning.

Valuation of digital assets is an emerging and evolving practice. While no universal rules can be applied to assess a digital asset project, analyzing certain fundamentals may be an appropriate way to consider valuing digital assets. For example: past performance, performance comparative to bitcoin and other blockchain layer solutions, total value locked (TVL) and usage—which can be measured by active wallets (users), volumes, transactions or revenue—can impact value determinations.

- For a blockchain game like Axie Infinity, assess the game's daily active users (DAUs). For example, at its peak, Axie had over **2 million DAUs**, and AXS was at its **all-time high** price of \$157. As DAUs have fallen, so has the price of AXS.
- For a decentralized exchange (DEX) such as Uniswap, consider transaction volume (from which one can derive revenue). At its peak in March 2021, monthly volume on Uniswap was approximately **\$85 billion**, and its all-time high price was \$42 in **May 2021**.
- For a lend/borrow protocol like Compound, you can use something such as total lending value. As lending value spiked in **April 2021**, so did the price of **COMP**, which hit its all-time high of \$854 in May 2021.

Over time, there are significantly more players competing in each sector, so more data points exist to analyze and compare different projects.

Although the volatility of the past year can be troubling to digital asset newcomers, it is reminiscent of massive technology waves that have preceded it. The current period is important to the overall growth and adoption of this ecosystem, which is still very much in its infancy. Just as **Uber, Airbnb, Venmo and Slack** emerged following 2008's financial crisis, the projects built during this time have the potential to be some of the best.

It is said that no one ever learns to sail at the dock. The only way to gain knowledge, develop skills and build experience is to set

sail. But even the most experienced and skilled sailor faces unpredictable conditions. Therefore, it is crucial to develop a solid foundation, adequately prepare and have profound respect for the discipline and the natural elements of change. Innovators and developers are currently laying the foundation of a more democratic financial system to power a future that champions inclusive economic freedom—and rarely does profound change arise without a bit of chaos.

While there is no joy in the chaos, we see the digital asset ecosystem gaining in strength when tested. Challenges which arise from periods of decline are critical in ensuring the ecosystem's structural integrity. After all, if it's always sunny and smooth sailing, how would we learn to cope in stormy weather?

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