



2018 MARKET RECAP

The **Crescent Crypto Market Index (CCMIX)** was down 78% on the year, while Bitcoin was down 72% and Ether was down over 80%. To put this in perspective, these losses were off the back of an enormous run up at the end of 2017 precipitated by the flawed but exciting boom in the initial coin offering (ICO) space. The space ended 2018 at similar levels to fall 2017. **Over the 2 year period from 2017 to 2018, the CCMIX was up 375%.**

In 2018, the **SEC brought the space back down to earth** by bringing multiple enforcement actions against ICOs for being unregulated securities offerings. The SEC continues to emphasize that they are not stifling innovation. Rather, they are ensuring the securities laws frameworks are followed for the cryptocurrency space. This wasn't a surprise, and we believe this is a positive for the long term viability of the space. **Clear regulatory guidelines will reduce fraudulent activity and provide comfort to institutions** that are interested in allocating to the asset class.

In the face of significant prior drawdowns, the space has shown resilience. This latest pullback marks the 6th 70%+ drawdown over the past 10 years of Bitcoin's history.

LOOKING FORWARD

We see **significant development and investment** that we view as both meaningful and positive for the long-term prospects of the industry. On the investment side, institutions have started to invest in the space more significantly. Grayscale, one of the largest digital asset managers, has seen the majority of their inflows from institutions (see report [here](#)). Additionally, **Yale and Harvard announced an allocation to a crypto-specific manager last year** and several other endowments have begun exploring and allocating to the space.

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The **digital currency financial infrastructure continues to improve**. We see development around institutional custody solutions, new listed products, and improved platforms for investment into the space. In 2019, there are several of these solutions coming to market from large institutions. Intercontinental Exchange (ICE) is launching a physically-settled futures product and platform, [Bakkt](#). [Fidelity](#) has announced an institutional custody and execution platform for the crypto space. [Nasdaq and VanEck](#) are partnering to launch a futures product. [Goldman](#) plans to trade a non-deliverable forward on Bitcoin. Overstock is launching [tZero](#), a regulated security token exchange.

Beyond the financial infrastructure, the **technology infrastructure also continues to improve**. Layer 2 solutions and further research into Proof of Stake consensus algorithms are helping to improve blockchain scalability - transactions per second can be drastically increased without increasing costs or wait times as severely as we saw back in 2017 when many digital asset networks were capacity-constrained. These improvements will allow for microtransactions and smart-contract platforms to more easily support viral decentralized applications for mainstream consumption.

On the downside, **we anticipate continued volatility in the space**. [Security breaches](#) at exchanges and [51% attacks](#) may continue to cause some volatility this year (albeit less than we saw last year hopefully). Continued [regulatory enforcement actions](#) against ICO projects could also cause some turmoil in the markets. Hopefully, the SEC will detail some additional guidelines that will allow the majority of ICO projects to become compliant without further persecution.

We maintain our **positive outlook on the long-term prospects of digital assets**. The continued resiliency of the space, investment in financial and technological infrastructure, and influx of human capital reinforce these views. Digital asset networks are a relatively new and experimental frontier for wealth storage and record-keeping. **For the first time in human history, there exists a means of exchange that is borderless and censorship resistant**, with nearly free and instantaneous transactions. Additionally, the premise of smart contracts and programmable wealth is newer and more powerful - with the potential to reduce slippage lost to intermediaries in all sorts of transactions through trustless and objective execution.

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Crescent Crypto Asset Management

MARKET COMMENTARY

AS OF 12/31/2018

Thank you again for the continued support. We're excited to have you as an early investor and partner with us along this journey.

Stay tuned to our weekly newsletter **Crescent Talks Crypto** for updates on all of these fronts.

Best,



The Crescent Crypto Team

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