

One River Digital Pulse



14 DECEMBER 2022

One River Digital
Research



Weekly Pulse – The Uniswap Dilemma

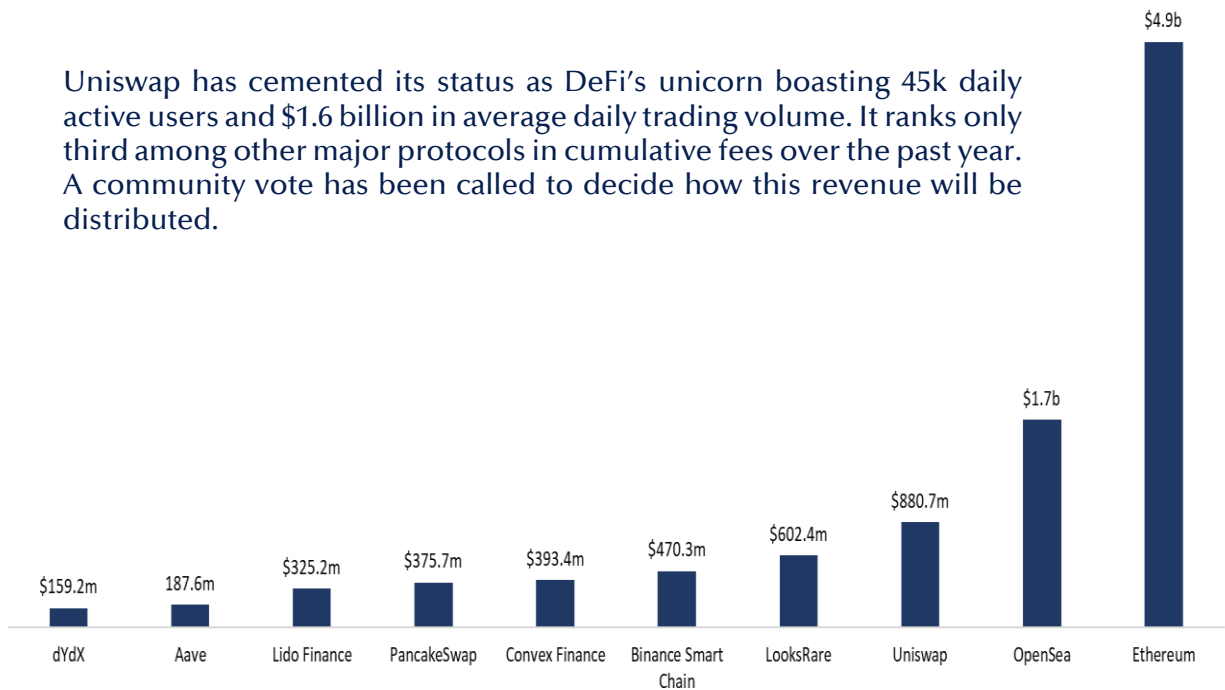
The Uniswap Dilemma: Uniswap is the most active decentralized exchange. Its daily trading volume is routinely in the top three of all exchanges, and many times that of the next largest decentralized one. But Uniswap the token is only about governance. That is, holders govern the future of the Uniswap Exchange. There are no direct ownership rights or claims to cashflows from the underlying application. Only voting power. Owners of the Uniswap governance token are actively engaged in an on-chain process in which they vote to initiate a 10% “tax” from transaction fees generated by three of the protocol's largest market-making pools. The experiment is limited to 120 days, and the revenue collected will remain in each pool until another vote can determine the use of funds. The proposal, analysis, debate, and upcoming decisions are all happening in a public forum. Discussion is centered on two issues. The first is what to do with the funds. Proposals are wide-ranging – from infrastructure funding to accumulating assets for the provision of liquidity. The second is the risk of running the experiment. Taxing liquidity providers to pay Uniswap could irritate market participants and encourage rivals to meddle. Decentralized exchanges are general-purpose infrastructure in an emerging digital ecosystem. Open-source software. Zero marginal cost of production. These are conditions for a harsh competitive environment. The experiment by Uniswap will determine how much they can keep without chasing away liquidity providers. Those revenues could be harnessed to accelerate Uniswap's dominance, or the change of incentives could expose the protocol to competitive pressures that are hard to reverse. Either way, we learn something.

WEEKLY BEATS

1. Chart of the Week – The Uniswap Dilemma
2. Fundamental Pulse – Neutral
3. Bitcoin Transactions – Consistent, But Low Value
4. Solana Development Activity
5. Staking Dominance – Ethereum and Solana

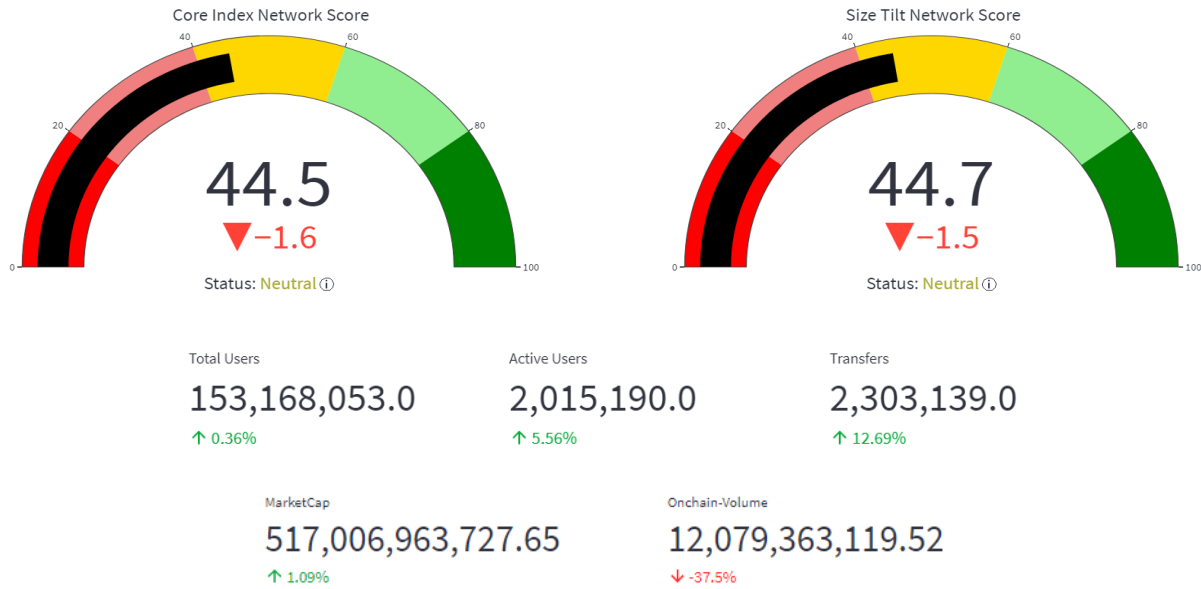
1. THE UNISWAP DILEMMA

Cumulative Fees over the past year



Source: Token Terminal

2. FUNDAMENTAL PULSE – NETWORK PERFORMANCE



Network scores for the Index assets are at the lower end of “Neutral”. While the transaction count is consistent for these assets, the value being transacted is still a soft point.

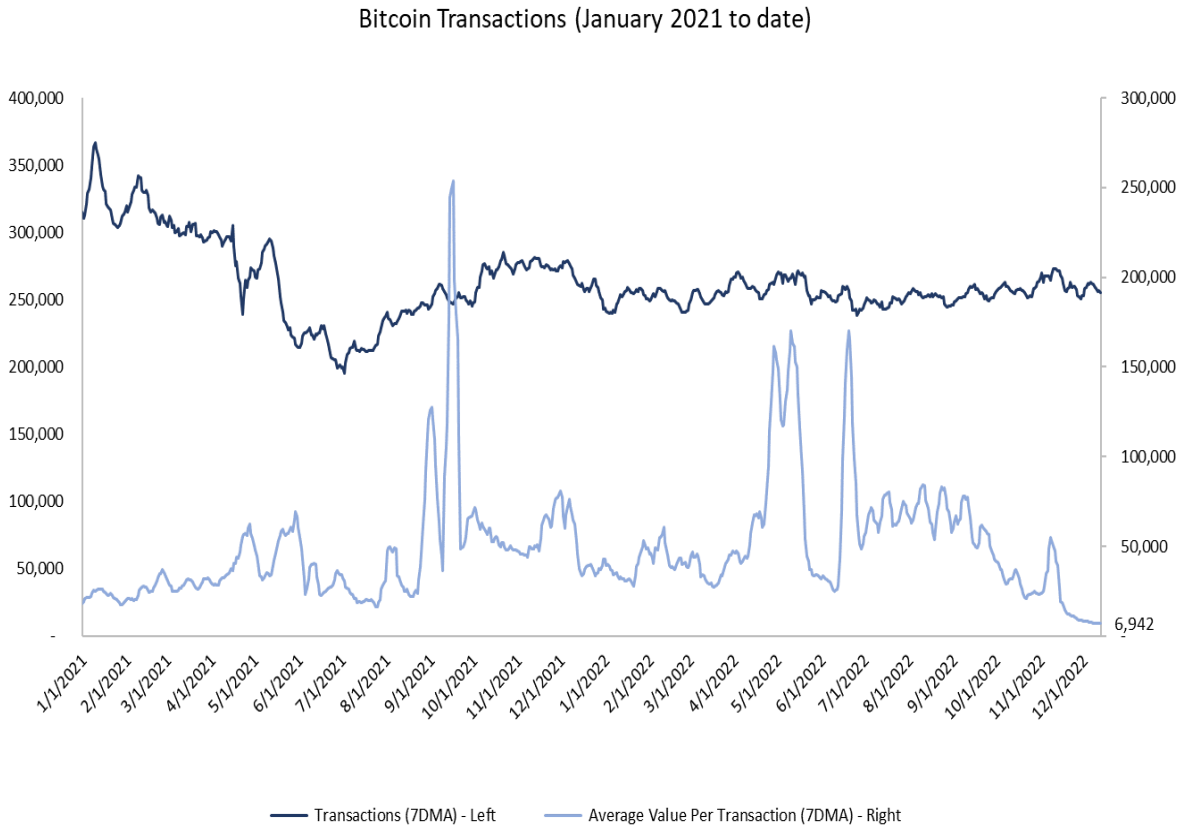
Assets	Asset Score	7d Change	30d Change	Volume	Transfers	Active Users	User Growth	Valuation	Velocity	Network Distribution
Core	45	-2	-19	15	34	49	43	11	64	96
Size Tilt	45	-2	-18	22	31	46	43	16	58	96
Bitcoin	50	-5	-24	5	38	40	38	3	88	100
Ethereum	39	5	-9	31	28	73	54	23	12	87
Cardano	54	-4	-13	29	29	22	58	15	100	100
Polygon	57	-6	-32	54	36	41	23	54	33	100
Litecoin	47	1	-15	30	28	25	39	20	93	93
Stellar	40	-7	-23	32	2	27	38	18	0	100

*Snapshot on 12/13/2022. Seven-day change in the Core and Size-Tilt Index Scores.

Notes: Status- High > 60, Neutral 40 to 60, Low < 40. A score of 54.5 means the Index value is better than 54.5% of its values in the past 365 days. Index scores exclude Solana, Cosmos, and Polkadot due to incomplete data coverage.

3. BITCOIN TRANSACTIONS - CONSISTENT BUT LOW VALUE

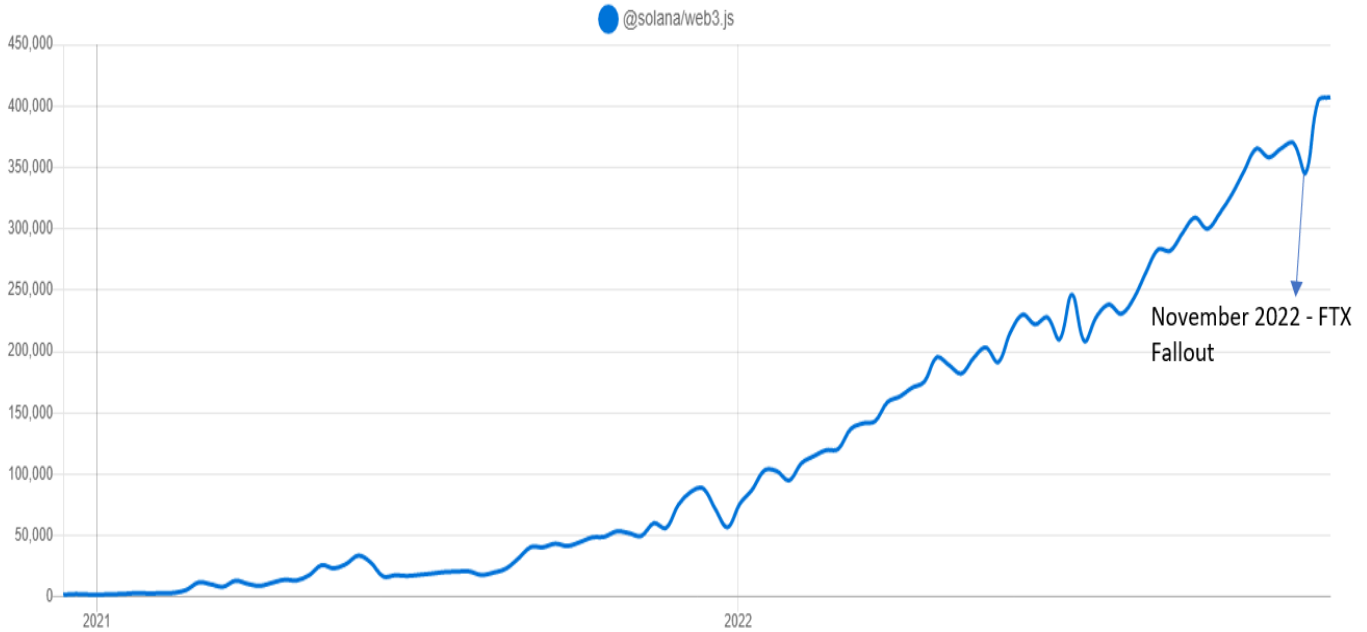
Bitcoin transactions have remained consistent averaging over 260k transactions per day in the past two years. However, the average transaction value sent on the network has now dropped to its lowest over the same time period. Consistency is good, but the network awaits a catalyst to introduce larger flows. For now, retailers dominate.



Source: Coin Metrics.

4. SOLANA DEVELOPMENT ACTIVITY

Solana has picked up on the download of software development packages. While the FTX bankruptcy slowed down the run, it continued its meteoric rise in development activity over the past two years.

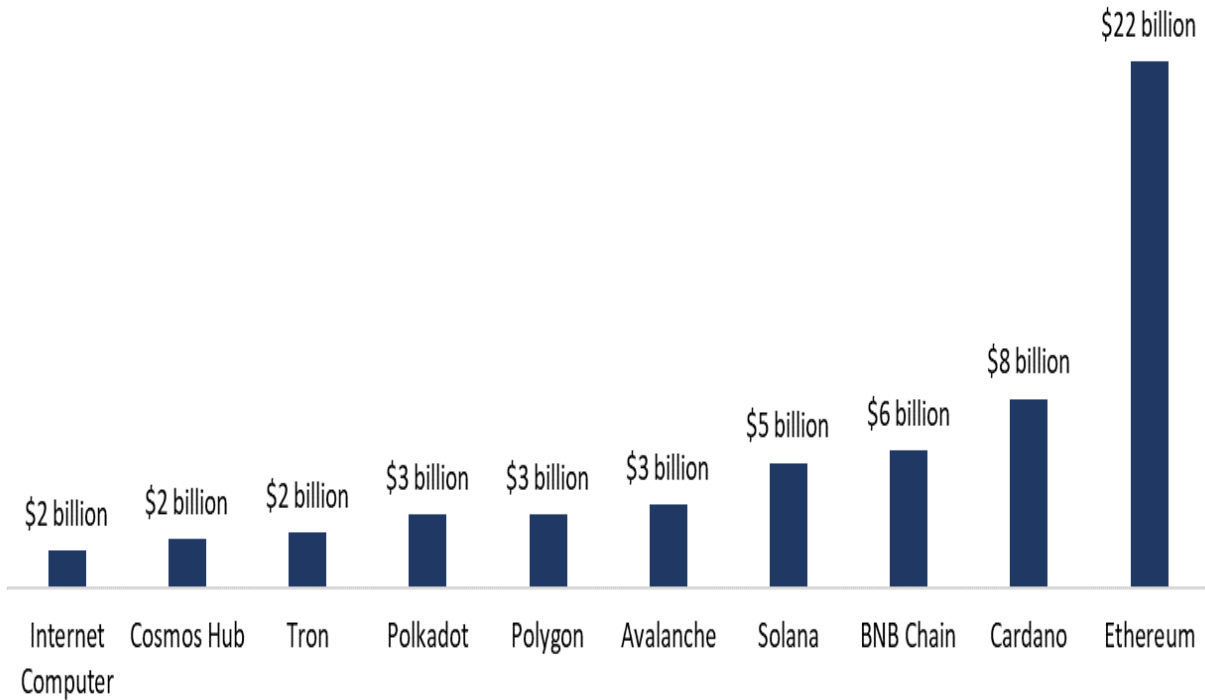


Source: NPM Trends

5. STAKING DOMINANCE – ETHEREUM AND SOLANA

Ethereum's Shanghai upgrade in March will enable the withdrawal of staked ETH. For now, Ethereum staking market capitalization has a distant lead amongst its peers. Despite Solana's drop in valuation post-FTX, it remains amongst the largest in dollar value of locked assets.

Value Locked in Staking



Source: Stakingrewards.com.

Metric Definitions

1. Volume – The aggregated value of native units transferred between addresses on-chain.

2. Transfer Count – The sum count of transfers between addresses. It becomes more valuable when used in conjunction with Volume.

2.1 Low Transfer Count & High Volume: High volume but transferred by a few addresses.

2.2 High Transfer Count & Lower Volume - Indicates higher retail activity or exchanges amongst small accounts.

2.3 Lower Transfer Count & Lower Volume: Indicates slower network usage and low network demand.

2.4 High Transfer Count & Higher Volume- indicates high network usage. A persistent trend is substantial.

3. Active Users: Number of addresses active in the network as recipients or originators of ledger change. This includes value transfers, signing blocks, and other forms of ledger change activity.

3.1 High Value: High network usage and high demand.

3.2 Low Value: Low network usage and low demand.

4. User Growth Rate: The rate at which new addresses with non-zero balances are added to the network.

4.1 High Value: Indicates users being added to the network at an increasing rate.

4.2 Low Value: Indicates users being added to the network at a slower pace.

5. Valuation: This metric compares the on-chain volume to the realized capitalization representing the value of the network. Realized capitalization is a revised form of market capitalization that accounts for the value of the coin at the time the coin was last spent. A lower volume compared to the high value of the network indicates the network could be overvalued and vice versa.

5.1 High Value: Indicates the network is closer to its real value based on the on-chain volume.

5.2 Low Value: Indicates the network is very close to being overvalued considering the activity on the network.

5.3 Medium value: Asset is reasonably valued—sustainable demand for transactions.

6. Velocity –This indicator shows the turnover of coins in the network as measured by on-chain volume divided by active supply. The primary use of this metric in this instance is to help assess an asset's market-relevant supply.

6.1 High Value: There is greater circulation of coins in the network and use for payments.

6.2 Lower Value: There is lower circulation of coins in the network and use for payments.

7. Network distribution – The metric used, the SER ratio, compares the smallest accounts (sum held by accounts with a balance less than 0.00001% of the supply) against the richest accounts (sum held by the top 1% addresses).

7.1 High value: Signifies high distribution of supply and higher decentralization.

7.2 Low value: Low supply distribution and heavy concentration amongst a few wallets.

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