

One River Digital Pulse



8 FEBRUARY 2023

One River Digital
Research

Weekly Pulse – NFTs Embrace Bitcoin

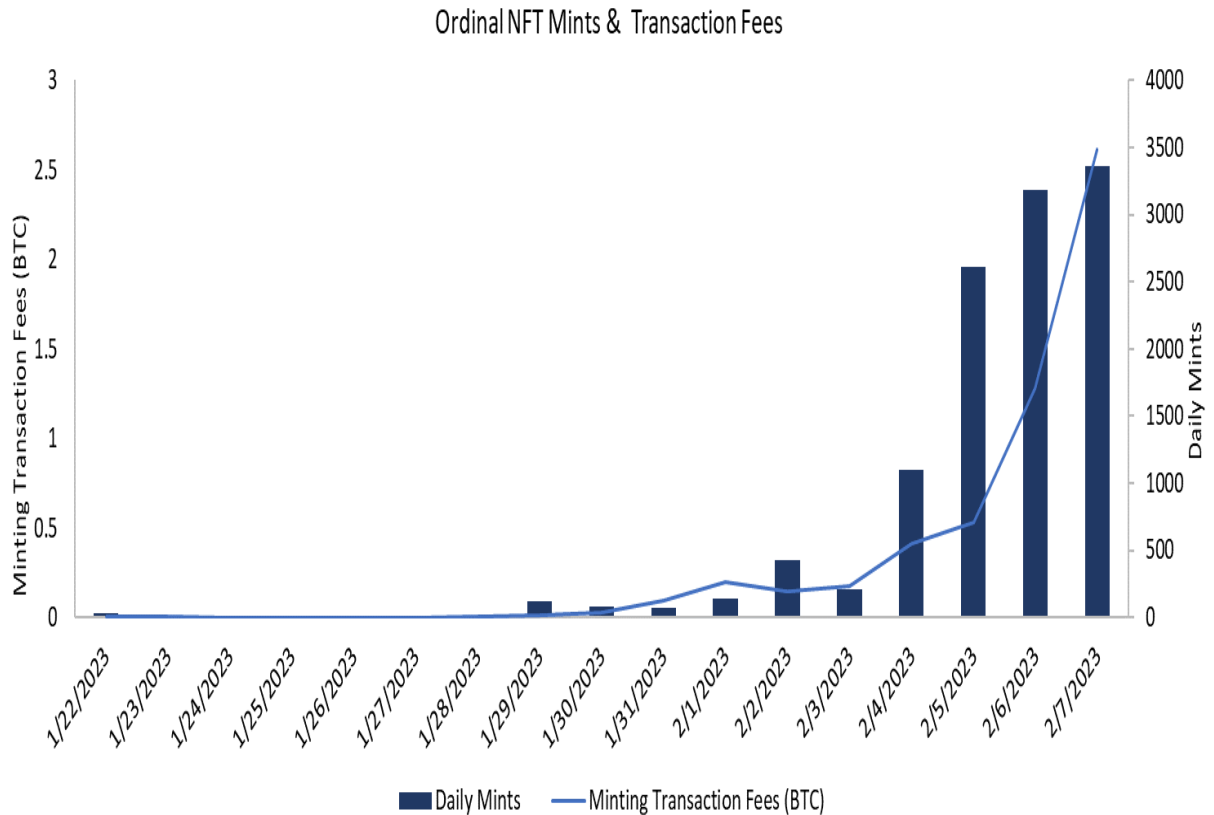
NFTs Embrace Bitcoin: What is Bitcoin? A payment tool, store of value, inflation hedge, nominal anchor – these are most observed. Now, minting NFTs belongs on the list. On January 21st, [Ordinals](#) was launched on the Bitcoin blockchain allowing users to include multimedia in a Bitcoin transaction. The impact has been noticed. Bitcoin readings on [The Pulse](#) have now risen to its strongest since November, to a 57 reading (0-100 scale). Transaction activity is the highest in almost two years, and the average block size is at record levels. But this activity has left the Bitcoin community divided. Once again, it's purists versus progressives. With the continued rise in demand for block space, congestion of the Bitcoin network drives transaction fees. Bitcoin purists will argue that this is unnecessary, given that other networks are custom designed for scaling NFTs. "Piling every proof-of-work quorum system in the world into one dataset doesn't scale," argued Satoshi Nakamoto. True. And it won't. New investment will alleviate congestion. In the meantime, miners certainly don't mind the newfound activity, benefiting from the rise in transaction fees. Over time, NFT demand on the Bitcoin network will most likely gravitate toward high-value transactions. From Jpeg monkeys to educational records or real estate deeds. Satoshi's gift was a trustless censorship-resistant network. Ordinals reimagines its network value.

WEEKLY BEATS

1. Chart of the Week – Ordinal NFTs Activity
2. Fundamental Pulse – Neutral
3. Mixed Reactions to Bitcoin Network Activity
4. The Taproot Unlock
5. Bitcoin Lightning Network Capacity on the rise

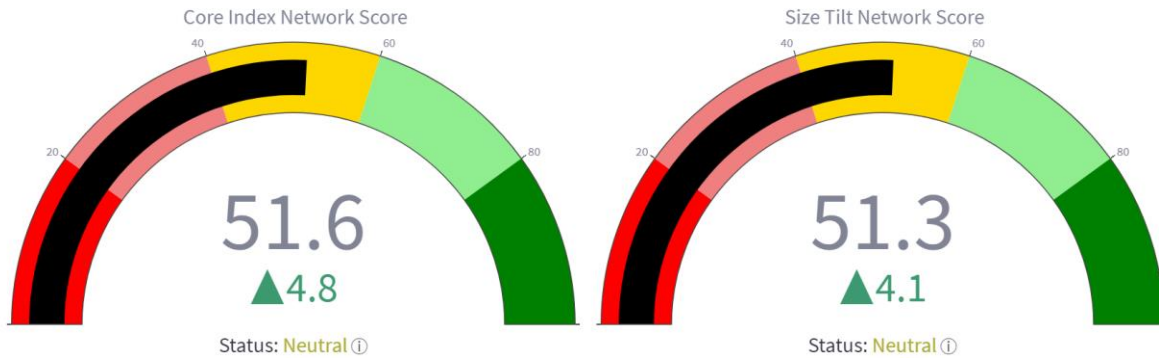
1. ORDINAL NFTS ACTIVITY

Since its launch in late January, Ordinal NFTs have gained the attention of the Bitcoin community. Daily NFT mints have continued to increase rapidly, with the demand driving up transaction fees. The Ordinals protocol paves way for a new wave of development on the Bitcoin Network.



Source: Dune Analytics

2. FUNDAMENTAL PULSE – NETWORK PERFORMANCE



Total Users

156,276,973.0

↑ 0.44%

Active Users

1,813,567.0

↓ -2.12%

Transfers

2,215,113.0

↑ 1.8%

MarketCap

672,664,113,831.42

↑ 0.97%

Onchain-Volume

20,867,813,835.65

↑ 44.83%

After remaining at a standstill in the past two weeks, network activity has made positive gains moving up to stronger neutral levels. Bitcoin and Cardano are main drivers of this growth.

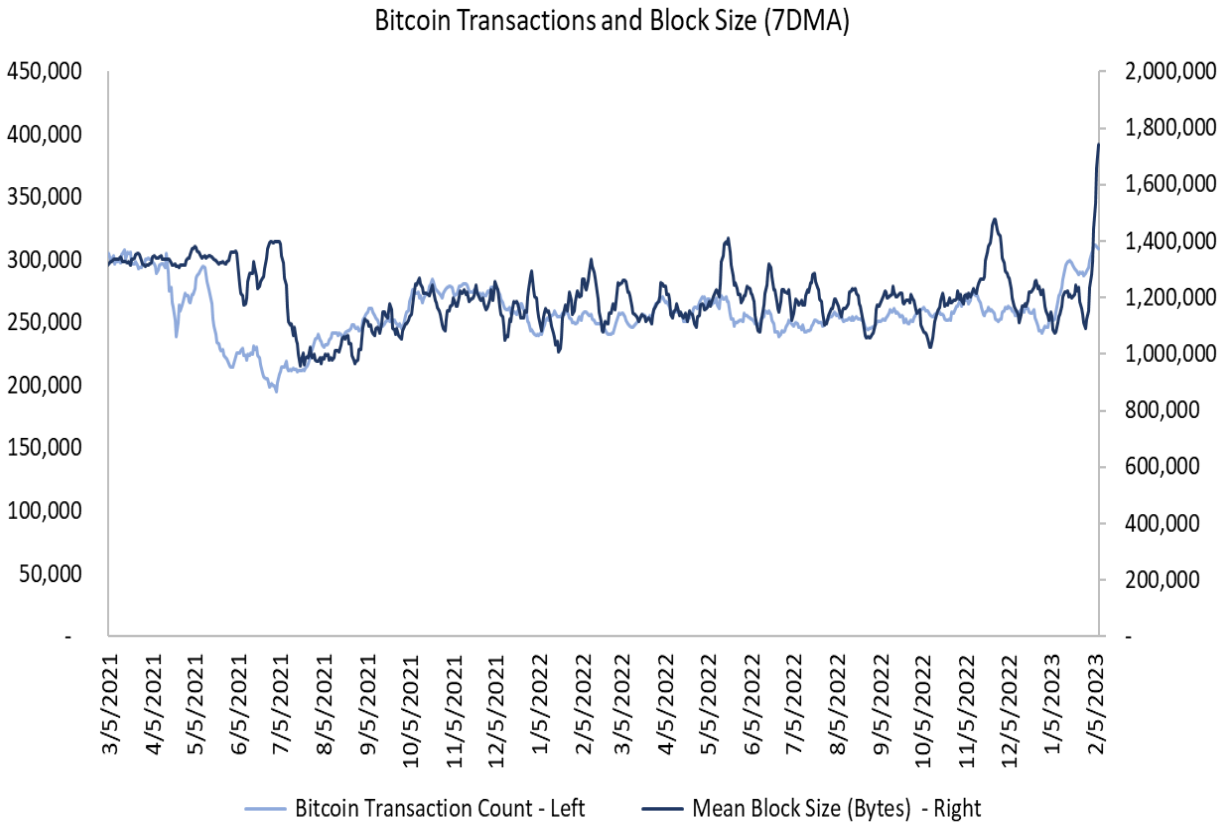
Assets	Asset Score	7d Change	30d Change	Volume	Transfers	Active Users	User Growth	Valuation	Velocity	Network Distribution
Core	52	5	10	20	64	53	61	25	45	92
Size Tilt	51	4	9	28	59	50	52	35	43	91
Bitcoin	57	5	12	10	76	65	70	15	65	98
Ethereum	39	4	5	34	43	30	48	38	1	80
Cardano	64	8	12	62	56	51	16	67	100	99
Polygon	54	-5	10	61	62	62	26	69	1	99
Litecoin	48	5	6	15	35	31	41	56	93	66
Stellar	51	1	14	48	59	58	54	34	2	100

*Snapshot from the [One River Digital Pulse](#) on 2/8/2023. 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. MIXED REACTIONS TO BITCOIN NETWORK ACTIVITY

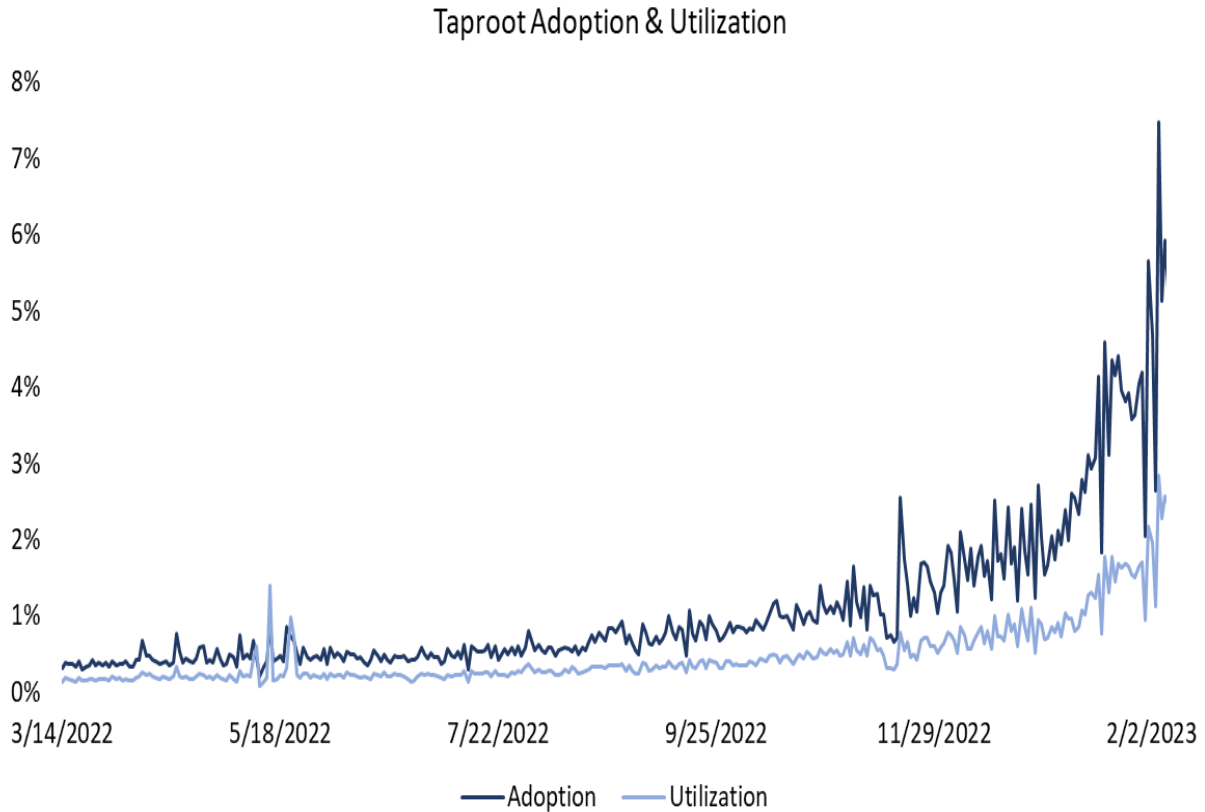
The introduction of Ordinal NFTs has largely contributed to the recent runup in Bitcoin's transaction count and average block size. It's the highest in about 2 years. However, increasing demand for block size leads to congestion of the network and increased transaction fees. Bitcoin miners are elated, with the potential for increased revenue.



Source: Coin Metrics

4. THE TAPROOT UNLOCK

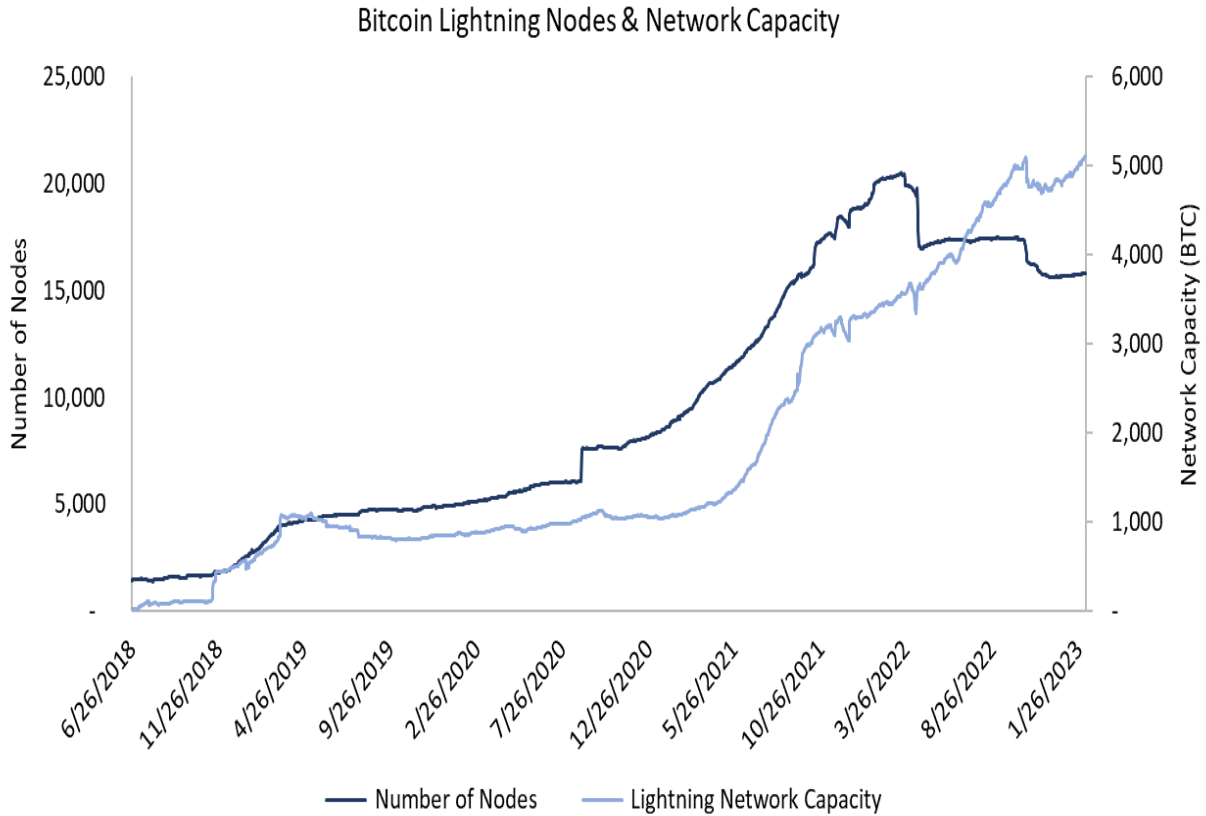
The 2021 Bitcoin Taproot upgrade cleared the way for large amounts of NFT data to be stored on the Bitcoin blockchain. The recent Ordinals activity has driven taproot adoption to all-time highs. But it's only just the beginning for NFTs on Bitcoin.



Source: Glassnode. Adoption- the number of transactions that spend at least one taproot input to the overall number of transactions. Utilization – relates the number of spent taproot inputs to the overall number of spent inputs.

5. BITCOIN LIGHTNING NETWORK CAPACITY ON THE RISE

Another innovation on the Bitcoin Network is the lightning network. The lightning network enables a throughput of about 1 million transactions per second with low costs. Its capabilities continue to grow, with the lightning network capacity now sitting at all-time highs.



Source: Glassnode

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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