

A proposed risk-mitigated cryptocurrency portfolio

The purpose of this memo is to outline a potential cryptocurrency portfolio that maximizes long term returns in a risk-mitigated way. The portfolio is comprised of 4 major categories:

- Long individual tokens (for long term appreciation)
- The Defi index (for passive indexing into Defi)
- The cashflow (for stable and risk-limited yield)
- The hedges (for protecting principle)

Information on each allocation	Expected returns and assumptions
<p><i>The token longs</i></p> <p>The allocation to token longs will be primarily towards Ethereum (\$ETH), with a market cap weighted allocation towards \$ETH competitors. There will also be an allocation towards projects that are high/risk high reward, focused on utility alt coins. These projects may include: \$OCEAN, \$NMR, \$WHALE, \$LUNA, \$NXM, \$FWB).</p> <p><i>The Defi index</i></p> <p>The allocation to indexing will be in \$DPI, a market cap weighted index of Decentralized Finance (Defi) projects powered by the Tokensets protocol.</p> <p><i>The cashflow</i></p> <p>The allocation to cashflow will be in two parts: 1) the Anchor protocol for stable 20% APY and 2) Mirror protocol asset staking (for ~50-150% variable yields).</p> <p><i>The hedges</i></p> <p>The hedges will be in two forms: 1) long out of the money puts on \$MSTR, 2) Nexus insurance protocol on Anchor.</p>	<p><i>Expected returns</i></p> <p>The weighted average expectation for this portfolio would be estimated at <u>44% annual return</u>, with a minimum of 3% and maximum of 126% returns. Notably, the best scenario shows a lower return than simply investing in \$ETH or \$DPI for example, but in the very bad scenario of complete breakdown of the crypto space, this portfolio will still preserve principle, primarily via the insurance and staking returns. I believe this is the best way to invest in the space across all potential outcomes over the next 5-7 years.</p> <p><i>Assumptions:</i></p> <ul style="list-style-type: none"> • Blockchain layer 1's are the most compelling 'blue chip' investment and are the focus of the token longs • Defi is very likely to succeed but picking winners will be challenging. \$DPI allows for broad exposure • Anchor and Mirror APY's stay somewhat constant, which may change over time • MSFT puts will pay about 7x of contract price near expiration in event of crypto collapse • Can cover approximately 40% of the portfolio with insurance that pays 20x in event of protocol failure

Average Return		44%					
Allocation				Scenarios			
<i>Strategy</i>	<i>Example</i>	<i>Allocation</i>	<i>Variance</i>	<i>V Bad</i>	<i>Bad</i>	<i>Good</i>	<i>V Good</i>
The token longs	\$ETH	25%	Medium	-80%	-50%	50%	200%
The token longs	\$ETH comp.	5%	High	-90%	-70%	60%	250%
The token longs	Alt coins	10%	Very High	-90%	-80%	80%	300%
The index	\$DPI	10%	High	-90%	-70%	60%	250%
The cashflow	Anchor	20%	Low	-100%	20%	20%	20%
The cashflow	Mirror	20%	Low	50%	50%	50%	50%
The hedges	MSFT Put	5%	High	700%	500%	-100%	-100%
The hedges	Nexus	1%	Low	2000%	-2%	-2%	-2%
		Returns		3%	8%	38%	126%

For more information or interest in investing, please contact Jim Shook at james.shook@gmail.com.