

May 2018

*Portfolio Manager's comments*

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CONSENSUS conference in NYC had a record attendance of over 8,500 participants but failed to ignite a bullish spark to the markets. There were some great panel discussions with Regulators like [James B. Bullard](#) from the St. Louis Fed, industry titans like FedEx's Chairman and CEO [Frederick W. Smith](#), VC firms such as Union Square Ventures headed by [Fred Wilson](#), ex-bankers like Bitmex's CEO [Arthur Hayes](#) and amazing entrepreneurs like Square's CEO [Jack Dorsey](#) to name just a few. A lot of the crypto hedge funds participated as well with appearances from Pantera Capital's Dan Morehead, Blockchain Capital's Co-founder Bart Stephens, ConsenSys Venture's Founder Joseph Lubin and others.

To summarize, three topics that were constantly being brought up in panel discussions:

- 1) how to improve the User Experience in day to day life with crypto currencies;
- 2) Institutional custodial solutions with an important announcement of a [partnership](#) between Nomura, Ledger and Global Advisors;
- 3) regulations in general but more focused on how to curb the number of ICO launches.

Volatility decreased during May but amplitude remained high with BTC trading as high as \$9,964 and a low as \$7,090 closing the month at \$7,494, down 18.9% while Genesis Block Fund was down 20.14% and the TOP10 down 20.90%. On the last 10 days of May the market sold off after [NASAA](#), the [US Justice Department](#) and the CFTC announced different investigations on crypto currencies. This clearly created short-term noise but is supportive for the long-term development of the market by penalizing any bad actors within the ecosystem.

EOS released their latest tech [Dawn 4.0](#), their main net will soon launch in early June. There was a lot of volatility in the EOSxBTC pair, which traded from 0.0138 to 0.0214, a 55% intra-month range that we traded in and out with a 5% position generating some gains. Unfortunately, after a fantastic April EOS underperformed in May, but we remain bullish on this token. Our gamma strategy on BCHxBTC pair did well during May as we decreased the BCH longs at mid/high teens to later cover them in the low/mid-teens, this pair traded from a range of 0.122 to 0.185, a 51% intra-month range. DCR which is a hybrid PoS/PoW consensus algorithm did very well, so we decreased our positions during the second half of the month to wait for a better entry point.

For those who would like to bet on the upcoming World Cup results you may do so using [Cryptocup](#), a betting site built using Smart Contracts that you bet using Ether. This shows the power of a decentralized network at work and is a simple real use-case scenario of blockchain technology.

Interesting announcements/comments:

- [SEC Chairman Clayton](#): Bitcoin is not a security
- [JPM](#) is developing their crypto currency strategy after calling Bitcoin a fraud last September.
- [NYSE](#) has plans to open crypto exchange.
- Are crypto currencies a growing threat to [FAMGA](#) (Facebook, Apple, Microsoft, Google and Amazon)?
- [Florida's Seminole County](#) starts accepting Bitcoin and Bitcoin Cash to pay taxes.
- [Ripple](#) hit with a class-action suit over "never ending ICO".
- [Argentine bank](#) ditches SWIFT for cross-boarder payments.

### *Monthly estimated return*

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	Jan	Feb	Mar	Apr	May	Jun	YTD 2018
<b>Genesis</b>	-16.00%	-5.17%	-37.38%	57.20%	-20.14%		-37.38%
<b>Bitcoin</b>	-27.80%	1.73%	-32.93%	32.51%	-18.90%		-47.06%
<b>TOP10</b>	-21.20%	-12.40	-41.64%	53.12%	-20.90%		-51.21%

### *Tech corner*

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Lightning Network is a "second layer" payment protocol that operates on top of the Bitcoin blockchain and allows for near-instant, incredibly cheap Bitcoin transactions. The Lightning Network is a mesh of nodes connected through a network of bidirectional payment channels.

In order to transact on the Lightning Network, a user must open a payment channel by committing a funding transaction on the Bitcoin Blockchain. Once a channel is funded, the user can transact with other lightning nodes indefinitely, so long as their channel is funded. Once the user is finished with their transactions, they can close the channel by sending a close-out transaction on the main Bitcoin blockchain.

Let's walk through an (imperfect) analogy. Lightning works a lot like a bar tab. If you're planning to post-up at the bar and double-fist ice-cold crispies for a few hours, it doesn't make sense to pay each time you get another round. If you're paying in cash, this would require the server to get correct change for each transaction. Worse, if you're paying with credit, the server would need to run your card and get a signature every time. You want to drink without interruption, but the bar owner wants to make sure you don't run off with a free buzz, so what do you do? You open a tab.

When you open a tab, the bartender will keep track of what you're drinking, and you won't pay until you decide you're done for the night. In order to prevent getting stiffed, the bartender may keep your credit card or even your identification. If you forget to close your tab, the bartender will charge your account for the drinks and likely give himself a fat tip,

and you'll have to take the walk of shame the following morning to pick up your cards and what is left of your pride.

When you start your tab and hand over your credit card, you are effectively opening a payment channel. The bartender keeps tabs on how much you owe, and updates the state of your payment channel every time you order another beer. When you're done, the bartender swipes your card, you add your tip, and you close the tab and close your payment channel. In addition to being efficient, there is only a small amount of trust involved. Once the bartender has your card, the bar is more or less guaranteed to get paid. You can check the tab at the end of the night and ensure that you're paying the correct amount. If the amount is wrong, you'd likely have to talk with the owner. If the two of you still disagree on the amount owed, you may need to take the complaint to your credit card company.

With the Lightning Network, you open a channel by sending a Bitcoin transaction on the Bitcoin blockchain, and commit a certain amount of funds to a lightning channel. Once funded, you can transact with anyone on the Lightning Network that shares an open channel with you. You can transact indefinitely until you are finished or out of funds, then post a closing transaction to the blockchain. The Lightning protocol uses a combination of smart contracts, time-locked transactions, multi-sig addresses, game theory, and more to ensure proper routing and payment. There are many great resources that explain the network in detail, but the main takeaways are as follows:

- 1 Lightning allows for instant, cheap transactions.
- 2 Security is enforced by blockchain smart contracts, without creating on-blockchain transactions for individual payments.

The Lightning Network will not only save you a few bucks if you transact frequently, but it effectively allows for non-linear scaling of Bitcoin in general. If enough consumers/merchants use Lightning, Bitcoin will be capable of Billions of Lightning transactions per second. The implications of this statement are massive. Not only can Bitcoin scale better than traditional payment systems like Visa, Lightning will allow for "streaming money", machine-to-machine micropayments, and other solutions that have not yet been envisioned.

Joseph Poon and Thaddeus Dryja wrote the initial Lightning white paper a couple of years back. The specification was announced after the white paper, and it is currently under development by multiple parties (Elements Project, Lightning Labs, and ACINQ). For all intents and purposes, Lightning should be treated as Beta-level software that is not ready for public release. If you decide to open a lightning channel, only a small amount should be used at this time, and you should be prepared to lose funds.

That being said, Lightning is live on mainnet Bitcoin and you can fund a channel and make real-life purchases right now.

The Lightning Network is currently front and center in the Bitcoin scaling debate. Big-blockers (BCH camp) are convinced that Blockchains can scale simply by increasing the blocksize when more capacity is needed. Small blockers (BTC camp) are convinced that more elegant solutions like SegWit, Schnorr Signatures, MAST and Lightning Network will allow for exponential scalability that can truly compete with and ultimately outperform legacy payment rails.

Those who argue that LN is too complicated for ordinary users are being short-sighted. When the Lightning Network went live in December, it was too difficult for many users (including me) to use, even with a guide. However, in just a couple of months, ACINQ has put out this incredibly easy to use Eclair wallet. While the software and protocol are certainly not ready for mass adoption at this time, developers are working around the clock on UI and user improvements.

Is Lightning the end-all-be-all solution for Bitcoin? No. I like to think of lightning as a complementary payment option. With fiat, I've got cash in investments, checking accounts, and my wallet, all with varying degrees of liquidity and security. I see Lightning serving more as the cash in your wallet for the short term. You can hit the ATM, pay a fee, and have a wallet full of cash for small purchases in the physical world. Online, you'll open a lightning channel, pay a fee, then transact with little to no fees until you need to top up your wallet again. Eclair has already made the wallet pretty seamless, putting the BTC wallet and lightning channels in the same app. I wouldn't be surprised if Bitcoin wallets are soon available which totally hide the lightning back end from the user.

The Lightning Network is an incredible idea that is just getting started. The inner workings are beautiful and complex.

For further reference please refer to the [Lightning Network](#) video presentation from Andreas Antonopoulos.

On next months Tech corner we will explain the concept of Sharding on the Ethereum protocol.

### *Fund Characteristics*

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Minimum Investment	\$100,000
Subscription	Monthly
Redemption	Monthly with 15 days pre-notice
Administration fee	2% p.a.
Performance fee	20% over Libor with High Water Mark
Administrator	MG Stover
Auditor	Cohen & Co
Legal Counsel	Walkers Global and Freitas Leite
Contact	<a href="mailto:genesis.block@blpasset.com.br">genesis.block@blpasset.com.br</a>

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