

# Q1 Client Letter

April 2022

Dear Client,

We are excited to issue our first quarterly “Client Letter” in an effort to tell you more about us and share our views on what was an eventful period for financial markets.

We officially launched our Domain managed strategies in conjunction with the Domain Money application in the iOS App Store on 1/25/22. We are grateful to have earned the privilege or consideration to manage your money in one or more of our strategies. We look forward to serving you for a long and prosperous investing journey.

Domain Money Advisors is founded on serving our clients based on the following principles:

1. work tirelessly to build your wealth
2. expose our decision making along the way to help you understand our investment process; and
3. be transparent about the outcomes of our decisions.

In the pursuit of transparency, we will deliver quarterly updates to highlight how events and market conditions impacted Domain Money Advisors’ managed strategies.

As part of our initial Client Letter, we wanted to remind you that Domain Money Advisors has 5 actively managed strategies<sup>1</sup> available to clients of differing investing and risk appetites:

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**Domain Edge**

Our flagship crypto portfolio. This strategy provides turnkey exposure to the emerging crypto asset class.

**Domain Core**

Our flagship stock portfolio. This strategy includes companies driving the technological innovation that will shape the next decade.

**Domain Access**

A novel portfolio that targets 80% stocks and 20% crypto. This strategy invests in innovation across both asset classes.

**Domain Balanced**

A novel portfolio that targets 50% stocks and 50% crypto. This strategy invests in innovation across both asset classes.

**Domain Metaverse**

A portfolio uniquely crafted with both crypto and stocks for exposure to the growing Metaverse.

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<sup>1</sup> Please see <https://domainmoney.com/strategies> for more detailed explanations

**1/25/22 - 3/31/22 Market Commentary**

Since we launched on January 25th, macroeconomic conditions dominated headlines and drove much of the price action of stocks and crypto. Bitcoin and the S&P 500, facing the same macro picture, traded in a tight pattern over the course of the quarter and realized the highest correlation since early 2020, equal to 0.48. (Please note that all market performance or price information is from Yahoo! Finance<sup>2</sup>).

**Fig. 1:** 3-month rolling correlation of Bitcoin and the S&P 500 based on daily closing price

**Bitcoin vs. S&P 500 Rolling 90D Correlation**

Source: Domain Money, using data from Yahoo finance

Despite volatility, the S&P 500 rose 4.3% from January 25th through March 31st. Over the quarter, we believe that the primary macroeconomic themes influencing asset prices were: 1) above average inflation<sup>3</sup> 2) expected monetary policy tightening<sup>4</sup> 3) the war between Russia and Ukraine.

Headlines related to these themes drove price action over the first part of the quarter, creating significant headwinds. The S&P 500 fell 9% peak-to-trough from February 5th through March 8th. We think the most important headlines were: a reading of the consumer price index (CPI) for February which showed prices rose 7.9%<sup>5</sup> over the previous year; a 65% increase in oil prices<sup>6</sup> to start the year, and the Russian invasion of Ukraine on February 24th. We believe that these headlines contributed to the belief that the Federal Reserve would aggressively increase interest rates to fight above average inflation.

<sup>2</sup> Yahoo finance <https://finance.yahoo.com/>

<sup>3</sup> <https://www.bls.gov/charts/consumer-price-index/consumer-price-index-by-category-line-chart.htm>

<sup>4</sup> <https://fred.stlouisfed.org/series/FEDTARM>

<sup>5</sup> <https://www.bls.gov/opub/ted/2022/consumer-prices-for-food-up-7-9-percent-for-year-ended-february-2022.htm>

<sup>6</sup> Yahoo finance

The market's concerns around these three themes appeared to lessen starting on March 8th when the S&P 500 started to recover from its losses toward the end of the quarter. While inflation did not abate over that period, on March 16th, 2022, the Federal Reserve announced a 0.25% increase in the Federal Funds rate and projected interest rates would rise to about 1.9% by the end of the year, signaling an intent to fight inflationary pressures.

The market found comfort in the Fed's action as fears of an even more aggressive inflation fighting policy were unfounded (the Fed communicated to the market that they were comfortable with negative real yields going out until the end of the year). Additionally, during the week of March 14th, signs of a deal between Russia and Ukraine began emerging, lessening the risk of global involvement in the war vs. Russia – a positive development for markets.

While most crypto assets closely followed the stock market's volatility over the quarter, exhibiting a "V" shape price pattern, there were some notable developments specific to the crypto markets that drove prices net higher. Overall, from January 25th through the end of the quarter, Bitcoin rose approximately 24% and Ethereum gained 34%, reflecting investor optimism as well as the continuing adoption of cryptocurrency and the development of blockchain technology.

### Crypto as global and credibly neutral currency

During the quarter, crypto played an important role as Russia invaded Ukraine. Thanks to the global nature of crypto and its speed of settlement, Ukraine was able to raise \$50M+<sup>7</sup> of aid to purchase military supplies. Additionally, Ukrainian and Russian citizens were able to use cryptocurrency as a way to avoid potential devaluations in their respective local currencies. The Russian Ruble devalued by about 45% vs. USD before regaining most of its losses by the end of the quarter. While the price of Bitcoin initially fell 7% on the news that Russia invaded Ukraine, it quickly rebounded as demand for Bitcoin (and crypto more generally) increased for these purposes.



<https://twitter.com/ukraine/status/1497594592438497282?lang=en>

<sup>7</sup> <https://apnews.com/article/russia-ukraine-cryptocurrency-technology-business-bitcoin-812902c5dd1474692be3d8d040ba7bda>

## Executive Order

The next notable development in the first quarter was the Biden administration's executive order on March 9th to ensure the responsible development of digital assets.<sup>8</sup> The stated goal of the Order is to develop "a whole-of-government approach to addressing the risks and harnessing the potential benefits of digital assets and their underlying technology."

The Order lays out key legislative priorities:

1. consumer and investor protection
2. financial stability
3. preventing illicit finance
4. U.S. leadership in the global financial system and economic competitiveness
5. financial inclusion; and
6. responsible *innovation*.

The general tone of the Order was substantially more constructive than anticipated, using the word 'innovation' 6 times.

In addition to the constructive tone, our view is that the executive order provided needed clarity on the government's regulation of digital assets, which is needed for the industry to move forward. DeFi (or Decentralized Finance) is one of the most regulatorily exposed parts of the crypto ecosystem. The DeFi Pulse Index<sup>9</sup>, an index of cryptocurrencies that are involved in DeFi, rose 44% from March 16th through the end of the quarter, outperforming both Ethereum and Bitcoin, likely in response to the executive order.

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## Terra and the Luna Foundation Guard<sup>10</sup>

Another noteworthy development involved the growth of UST, the algorithmic stablecoin that is part of Terra protocol. From January 25th to March 31st, UST grew from a market cap of \$11.2B to \$16.4B - which is a staggering 750% annualized growth rate. We believe that the driver of the growth was Anchor, a savings application on Terra that offers 20% yields to depositors of UST. Over the same period, Anchor deposits rocketed from \$8.8B to \$15.2B.

A fundamental requirement of any USD stablecoin is to maintain its peg to the dollar. The primary mechanism for UST's peg to the dollar is the protocol's facilitation of exchange between UST and LUNA. When UST trades below the peg, arbitrageurs sell UST to buy \$1 of LUNA. When UST trades at a premium, the reverse occurs. During normal circumstances, this mechanism maintains a \$1 price for UST. This mechanism, however, relies on demand for LUNA to support the \$1 UST peg. In the scenario when people don't want to own LUNA, the peg can suffer severe dislocation.

Accordingly, Terra launched the Luna Foundation Guard (LFG) on February 22nd as a reserve for UST and announced it had raised \$1B to purchase bitcoin. Since then, Do Kwon, the founder of Terra, stated that the plan is for LFG to purchase as much as \$10B in Bitcoin over time. The bitcoin in LFG supports the peg between UST and USD through a secondary exchange mechanism where UST can always be exchanged for Bitcoin and vice-versa.

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<sup>8</sup> <https://www.whitehouse.gov/briefing-room/statements-releases/2022/03/09/fact-sheet-president-biden-to-sign-executive-order-on-ensuring-responsible-innovation-in-digital-assets/>

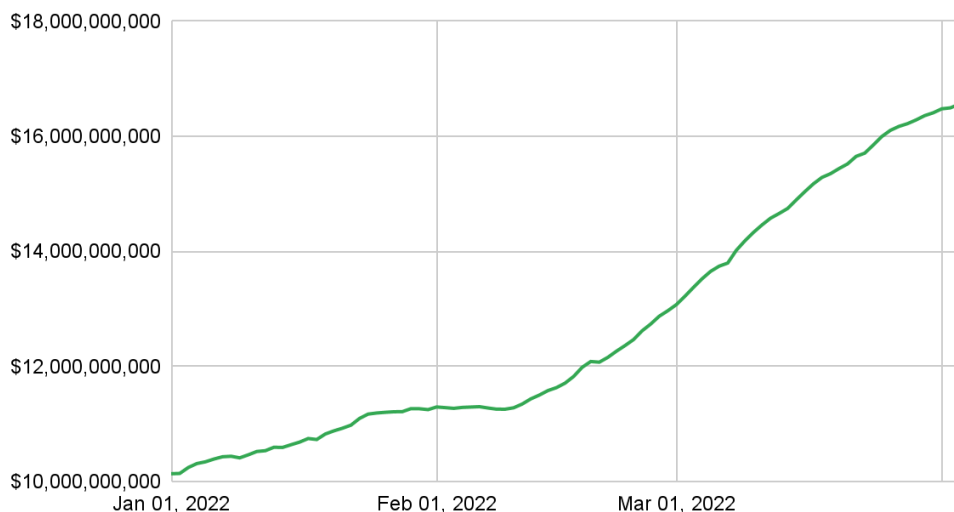
<sup>9</sup> <https://www.coinmarketcap.com>

<sup>10</sup> Source: <https://coinmarketcap.com/currencies/terrausd/>

This marks the first time that we have observed a major stablecoin backed by a true counterparty-free asset in bitcoin, something that even the USD lost when the US government removed the convertibility of dollars to gold in 1976.

**Fig. 2:** Market cap growth of UST since January of 2022

### UST Market Cap



Source: <https://coinmarketcap.com/currencies/terrausd>

## Ethereum 2.0

Finally, towards the end of the quarter, Ethereum developers successfully conducted the final test of The Merge on the Kiln Testnet. The Merge, the first step towards the completion of Ethereum 2.0, will move Ethereum to a Proof-of-Stake consensus model, and is expected to take place in Q3/Q4 of 2022.

Currently, Ethereum 1.0 runs on a consensus model called Proof-of-Work (PoW). Each miner producing blocks for Ethereum 1.0 must expend electricity (work) to earn the privilege to create the next block by solving a computationally intensive math problem. In return for producing blocks, miners earn block rewards. In a Proof-of-Stake (PoS) consensus model, validators that stake 32 ETH (~\$100k in value) produce blocks and are chosen at random to create each block. Consequently, validators who stake ETH earn block rewards.

A side-effect of the move to PoS is substantially improved economics for holding Ethereum. We expect Ethereum to be a productive, yield-generating asset via staking while also reducing token issuance (inflation) by approximately 75-90%. Since the Kiln test, Ethereum has outperformed Bitcoin, which can be seen in the rising ETH-BTC exchange rate over that period starting during the week of March 14th. (The ETH-BTC exchange rate shows the relative value of ETH vs. BTC. When ETH-BTC rises, it means ETH is becoming more valuable vs. BTC) We will release our views on Ethereum 2.0 over the next couple weeks, so stay tuned!

**Fig. 3:** Ratio of Ethereum to Bitcoin

### ETH-BTC Exchange Rate



Source: Domain Money, using data from Yahoo finance



## Conclusion

Across equities and crypto, January 25th through March 31st was marked by significant macroeconomic and geopolitical events that created substantial volatility. On March 7, the VIX index - a gauge of market volatility - touched its highest since 2020. Despite these macroeconomic developments, U.S. stocks generally showed resilience and the crypto economy continued doing what it does best, which is build.

Find below details on the performance of our Strategies as well as the top 3 and bottom 3 performing assets in each strategy and please read the important disclosures related to these performance calculations, including our methodology at the bottom of this Letter.

## Domain Edge

Overall Performance

As of 3/31/22	Domain Edge	BTC
Since Launch (1/25/22)	18.63%	23.25%

Performance results for Domain Edge Strategy represent performance of a hypothetical account created on the launch date of the strategy through March 31st, 2022. Performance results are net of fees and exclude dividends. The Domain Edge strategy results are compared to Bitcoin for informational purposes only. See information at the end of this Letter for additional disclosures.

## Domain Core

Overall Performance

As of 3/31/22	Domain Core	S&P 500
Since Launch (1/25/22)	1.04%	4.31%

Performance results for Domain Core Strategy represent performance of a hypothetical account created on the launch date of the strategy through March 31st, 2022. Performance results are net of fees and exclude dividends. The Domain Core strategy results are compared to the S&P 500 Index for informational purposes only. See information at the end of this Letter for additional disclosures.

## Domain Access

Overall Performance

As of 3/31/22	Domain Access	80% S&P 500 + 20% BTC
Since Launch (1/25/22)	6.18%	7.67%

Performance results for Domain Access Strategy represent performance of a hypothetical account created on the launch date of the strategy through March 31st, 2022. Performance results are net of fees and exclude dividends. The Domain Access strategy results are compared to the blended index containing 80% S&P 500 Index and 20% Bitcoin for informational purposes only. See information at the end of this Letter for additional disclosures.

## Domain Balanced

### Overall Performance

As of 3/31/22	<b>Domain Balanced</b>	50% S&P 500 + 50% BTC
Since Launch (1/25/22)	10.89%	13.10%

Performance results for Domain Balanced Strategy represent performance of a hypothetical account created on the launch date of the strategy through March 31st, 2022. Performance results are net of fees and exclude dividends. The Domain Balanced strategy results are compared to the blended index containing 50% S&P 500 Index and 50% Bitcoin for informational purposes only. See information at the end of this Letter for additional disclosures.

## Domain Metaverse

### Overall Performance

As of 3/31/22	<b>Domain Metaverse</b>	50% S&P 500 + 50% BTC
Since Launch (2/4/22)	-2.90%	5.19%

Performance results for Domain Metaverse Strategy represent performance of a hypothetical account created on the launch date of the strategy through March 31st, 2022. Performance results are net of fees and exclude dividends. The Domain Metaverse strategy results are compared to the blended index containing 50% S&P 500 Index and 50% Bitcoin for informational purposes only. See information at the end of this Letter for additional disclosures.

## Top and Bottom by Strategy

Name	Symbol	Return 1/25 - 3/31	Notes	Edge	Core	Access	Balanced
Terra	LUNA	64.27%	Strong demand for UST drove Luna Higher.	X		X	X
Ren Project	REN	64.05%	Cross-chain liquidity solutions outperformed based on accelerating demand for secure ways to move value between chains.	X		X	X
CrowdStrike Holdings, Inc.	CRWD	43.19%	Fear of cyberattacks by Russia lead to outperformance for the cloud-based cybersecurity software provider in the United States.		X	X	X
Aave	AAVE	37.08%	AAVE V3 launched, including cross-chain liquidity, isolated markets which expand the universe of eligible collateral and stETH lending capability.	X			
Nvidia Corp.	NVDA	22.23%	Nvidia saw a strong rebound after beating Q4 2021 earnings expectations and providing strong Q1 2022 guidance.		X		
Datadog, Inc.	DDOG	21.04%	Datadog saw a strong rebound after beating Q4 2021 earnings expectations and providing strong Q1 2022 guidance.		X		
Polygon	MATIC	4.13%	Despite a massive capital raise, MATIC finished the quarter only up slightly. Yield farming opportunities on other chains and a multi-hour outage on March 11th may have led to the underperformance.	X			
Yearn.Finance	YFI	-7.65%	Andre Cronje, the founder of Yearn, announced his abrupt exit from crypto during the quarter, weighing heavily on YFI/Yearn.	X			
Roku, Inc.	ROKU	-17.69%	Roku stock sold off sharply on a Q4 2021 earnings miss driven by supply chain constraints for their hardware.		X		
Meta Platforms, Inc.	FB	-25.92%	Meta stock sold off sharply on a Q4 2021 earnings miss driven by new Apple security and privacy features making it more difficult for advertising customers to track performance.		X	X	X
Paypal Holdings, Inc.	PYPL	-26.90%	Paypal stock sold off sharply on Q4 2021 earnings underperformance. Demand for Paypal services were pulled forward by the Pandemic and growth slowed in 2021 vs. 2020.		X	X	X
Fantom	FTM	-39.82%	Andre Cronje's exit from Crypto weighed heavily on Fantom as he was a core contributor and was in the process of building a number of apps on Fantom.	X		X	X

## Top and Bottom by Strategy

Name	Symbol	Return 2/4 - 3/31	Notes	Meta
Axie Infinity	AXS	23.07%	Axie Infinity was up substantially over the quarter driven by the anticipated Origin game update including three free Axies for new users.	X
Nvidia Corp.	NVDA	12.20%	Nvidia saw a strong rebound after beating Q4 2021 earnings expectations and providing strong Q1 2022 guidance.	X
Filecoin	FIL	14.05%	IPFS is the largest storage mechanism for NFTs creating demand for Filecoin tokens during the quarter which had substantial NFT activity.	X
The Sandbox	SAND	-14.76%	After rising substantially in early Q1, Sandbox gave much of the gains back driven by macro headwinds facing all risk assets during the quarter.	X
Render Token	RNDR	-18.57%	After rising substantially in early Q1, Render gave much of the gains back driven by macro headwinds facing all risk assets during the quarter.	X
Roblox Corp.	RBLX	-27.46%	Roblox stock sold off sharply on a Q4 2021 earnings miss and weak guidance. Usership of Roblox spiked substantially during the Pandemic and growth slowed in 2021 vs. 2020 as covid lockdowns subsided.	X

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Performance results disclosures: All performance figures for Domain Money strategies represent performance of a hypothetical account created on the respective launch date of each individual strategy through March 31st, 2022. Performance results are net of fees and exclude dividends. Any comparison to the performance of the Standard & Poor's 500 Index (the "S&P 500") is for informational purposes only. Reference or comparison to an index does not imply that the portfolio will be constructed in the same way as the index or achieve returns, volatility, or other results similar to the index. Indices are unmanaged, include the reinvestment of dividends and do not reflect transaction costs. Similarly, any comparison to bitcoin ("BTC") is for information purposes only. The S&P 500 and BTC were selected as industry recognized benchmarks that may be representative of the broader securities market and the cryptocurrency market, respectively. Reference or comparison to an index does not imply that the portfolio will be constructed in the same way as the index or achieve returns, volatility, or other results similar to the index. Indices are unmanaged, include the reinvestment of dividends and do not reflect transaction costs. Any blending of these indicators has been done to represent the approximate ratios of those assets in a particular Strategy.

As of the time of this writing, Domain Money Advisors, LLC clients are invested in all individual stocks and cryptocurrencies mentioned in this letter