

## INSIGHTS FROM CFA SOCIETY SINGAPORE

Let's talk blockchain,  
not 'crypto'

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FOR the average person, the term "crypto" has become a catchall. It encompasses everything from non-fungible tokens (NFTs) to Layer 0s, Layer 1s, Layer 2s, staking protocols, permissioned blockchains, public chains, Web 2.5, Web 3.0, and beyond.

I cringe whenever someone asks me if I invest in crypto. The term is so overused and overapplied that it has become meaningless.

But in the sphere of institutional investing, crypto pretty much means Bitcoin. That is what draws most of the attention. Since Bitcoin's inception in 2009, traditional finance (TradFi) has struggled to understand what it is, what it will be, and whether it is a viable investment asset. Like many others, I had my doubts.

Over this same period, TradFi has wholeheartedly embraced exchange-traded funds (ETFs). This has further reinforced the prevailing indexing framework: we start with the largest market cap and work our way down. Consequently, the industry remains in a state of

anticipation, awaiting Bitcoin-related cues on how to proceed.

Institutional capital will probably stay on the sidelines until two crucial conditions are met: the US Securities and Exchange Commission (SEC) approves a Bitcoin ETF, and we receive clear guidance on which regulatory body or bodies – the SEC, the Commodities Futures Trading Commission, or some combination thereof – will oversee the various token assets.

But this approach overlooks the blockchain's fundamental significance and the opportunity it represents. As investment professionals, we have to move beyond Bitcoin and delve deeper into the realm of blockchain.

Blockchain technology's most valuable application is not through a token or coin but hinges on two distinct concepts: the blockchain itself – that is, the ledger responsible for providing the single source of truth – and the so-called consensus protocol, or how that truth is agreed to.

#### Appchains

These two concepts underpin blockchain-powered applications. This framework has profound implications. Trust develops because the inputs from all participants are validated, so every app user trusts the data on the blockchain.

The security and continuous operation of the application does not rely on one central authority or

its servers. Instead, a robust community of participants and a network of independent servers, guided by the consensus protocol, ensures its continued safety and viability. Any data that lacks validation is not recorded on the ledger.

This could revolutionise application sharing. In TradFi, a central authority must validate information. In decentralised finance (DeFi), however, users themselves conduct the validation process as a community. They trust the data because they are part of the community that validates the data.

Digital transformation already represents a substantial leap forward that has reduced or eliminated paperwork and led to significant productivity gains. But the removal of reconciliation will constitute a quantum leap and create exponential growth in both trust and productivity.

#### Custody

The custody question constitutes the principal differentiator between TradFi and DeFi. Where are our assets when they are on the blockchain?

Just as banks don't store our money in one dedicated place, on the blockchain, so long as the protocol is legitimate and adequately decentralised, the community validates our account, information, data, and balance.

When we invest in TradFi, we



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PHOTO: REUTERS

need to complete know your customer (KYC) procedures at each institution we engage with. We take our ID from our wallet, input our information, and send money. But what if our wallet is an address on the blockchain and includes an authentication certificate? Instead of conducting these KYC procedures every time we open an account, we simply link our address to an application that confirms our data has already been authenticated. Conceptually, it resembles a quasi-"Finra" chain: we complete KYC once and can seamlessly switch between investment managers (Finra is a US government-authorised not-for-profit organisation that oversees broker-dealers).

Such authentication increases both security and speed. Imagine a supply chain where the blockchain

authenticates the quality of the good. We can trust this authenticated quality across the companies that participate in and validate an application chain as part of a community. This trust allows materials to move swiftly along the supply chain and instils more confidence in their quality.

#### No weak links in the blockchain

As with any innovation, crypto has its share of bad actors and scams. But validated blockchains are helping companies scale operations and cut costs, and can serve as the foundation for more secure and trustworthy technology. Blockchains are here to stay.

Indeed, amid the ongoing hype surrounding artificial intelligence (AI), concerns about how AI systems are trained, what they are

trained on, and the outputs they generate are ubiquitous. But blockchains can address some of these concerns. AIs often suffer from a "Garbage in, garbage out" problem: their performance depends on the quality of their input data. With its validation and consensus capabilities, blockchain could prevent garbage from getting into the AI in the first place.

So, disregard all the hype around crypto in general and Bitcoin in particular. Blockchain represents the real opportunity that investors should be talking about.

The writer is an experienced portfolio manager, entrepreneur, and CFA charterholder. He is the founder of Rise and Shine Partners, a blockchain infrastructure investor and network manager.