Han Chang: As a finance guy, that's how you're going think, that's how you would behave, right? But the normal people are not going to behave like that in my opinion. They'll see what's on CoinMarketCap. They'll be like, "Yup. That's it. It's fine, guys. Don't worry."

Tim Tam: That's a good point. That's fair. That's fair. I think I lost that argument there.

Nate Tsang: Welcome to the CoinFi Podcast. We have a lot of random conversations about crypto in the office and we thought it would be interesting to just hit the record button and riff on whatever topics come to mind. The idea is that you get to be a fly on the wall in the CoinFi office, giving you an inside perspective on how the team members of a fast growing crypto startup look at this crazy new industry. The CoinFi team has an interesting mix of backgrounds, co-founding a hedge fund to launching a Bitcoin exchange in Shanghai back in 2013, to heading algo development for major banks, to managing data science for online brands with hundreds of millions of pages a month. And on each episode, we pull in different team members to talk about areas where they have professional expertise or maybe even just a strong opinion.

What's up, CoinFi fans? Welcome to the very first episode of the CoinFi Podcast. Thanks so much for joining us. Today, we're going to be talking about how a global recession could affect Bitcoin. Our first panelist today is none other than CoinFi co-founder and much beloved Aussie biscuit, Tim Tam. Say hi to the listeners, Tim.

Tim Tam: Hey, guys. How's it going? And yes, Tim Tam is actually my favorite biscuit. That is actually true.

Nate Tsang: Yeah, and we all love Tim Tams. Tim is co-founder and CEO of CoinFi. In a previous life, Tim was also a hedge fund trader with 15 years of experience trading in the equities markets. Our second panelist is another CoinFi co-founder and CTO, Han Chang. Han is a resident Bitcoin OG. He started a Bitcoin exchange in Shanghai back in 2013 and prior to that, he spent time writing risk management algorithms for a high frequency trading brokerage. Say hi to the audience, Han.

Han Chang: Hey. What's up, guys? I promise my background is a little bit more interesting than that but we can get into it later.

Nate Tsang: All right. Very opinionated, our CTO, Han Chang. And our third and final panelist for today is Wayne Lam. Wayne is currently the newest member of the CoinFi team. He works here as a junior product manager and also has a background in accounting. He actively invests in the crypto and equities markets with a focus on exchange tokens and equities trading in the US tech market. And finally, I'm Nate Tsang, the other co-founder of CoinFi.

So guys, I'd say thanks for being here but it's Wednesday morning so you guys are kind of stuck in the office with me anyways, so might as well talk about crypto. I'm just going to kick us with a loaded question. So what the heck happens to Bitcoin in a global recession? Does it act like gold where people to flock to it as a store of value and a safe haven? Does it drop with the rest of the markets? Does it 100x as people load up like guns, ammo and Bitcoin? I think so far, Bitcoin has been virtually uncorrelated with the traditional markets but there hasn't been a global recession since Bitcoin's existence. So maybe we'll start with you, Tim. What are your thoughts on this?

Tim Tam: Yeah, I think that's an interesting question, Nate. I think the consensus out there is really because Bitcoin is uncorrelated, in a global recession, most people are expecting Bitcoin to do well. I'm actually not so sure because from my experience trading, I think it really depends on who is actually in the market. My assessment right now in the market is more retail trade. So if you think in a global financial crisis like in 2008 type level financial crisis, people strapped with cash, strapped with money and retail investors have money in Bitcoin. I think, short-term, definitely Bitcoin is going to go down predominantly. People need to withdraw that money. And then also as the market trades down, people get more fearful and they'll be selling more Bitcoin towards cash. I guess the answer really is who's in the market. If it is like the market is right now, is predominantly retail traders, then I think it's going to trade down. However, if it becomes a more institutionalized market, the market is a little bit more official, it'll probably behave differently.

Nate Tsang: All right, great. And Han, what are your thoughts on this?

Han Chang: Yeah, I generally agree with Tim. I think that also it really depends on what caused the crisis. So something where the cause of the recession is a little bit more institutionalized, so say for example the mortgage fraud situations where people lose trust in the system and want something more decentralized, I can see them flocking more towards Bitcoin because it's like, "Oh. Government can't take my money." Or, "The Morgan Stanley, the Goldman Sachs, those guys can't take my money." And so I can see that could be the case, whereas maybe something unfortunate like a war or famine or something more along those lines where people just need access to capital, I can see a lot of capital flow from people selling off Bitcoin.

But the other thing to kind of note is also just the ability to exchange Bitcoin into fiat is a little bit limited anyways and so I think we might be surprised. Even when things get tough, it's more the difficulty of getting that Bitcoin back out in fiat that might prevent some people from selling off and that might be a self-fulfilling prophecy where people are like, "Oh. This price is holding, so maybe it's all right to just stay." So yeah, I think those are two factors to keep in mind.

Tim Tam: Yeah. I think that's a good point, Han. I think it's one of those things where there's an academic reason like what we've come up with but I think it also depends on what happens in the initial period. Because if it starts trading down, I think these things ... It's like a domino effect. People kind of get more fearful and then as Bitcoin's kind of traded down, then people are like, "Oh. Maybe it isn't a store of value." And then people start converting and then it begets more and more selling. However, I think you're right. If it kind of holds the value or even rises slightly, then it becomes a self-fulfilling prophecy. People think, "Oh. It is kind of like gold. It's a sort of [inaudible]."

Nate Tsang: Wayne, what are your thoughts on this?

Wayne: Yeah. Adding on to Han's comment. I think it really depends on the circumstances surrounding the overall markets during that time, so it really depends on the state of the Bitcoin market as well as what caused the recession. Because recessions, it really [vague 00:05:37] where I can mean a lot of different things like how big's the recession and what's the true nature of what caused it. Was it inflation or was it some other variable that caused the recession, right? So I think when we're thinking about whether Bitcoin's going to rise or fall during a recession, it really depends on how investors see Bitcoin during that time in that specific circumstance.

So for me, personally, I don't think it's specifically going to rise or fall. I think it will really depend on the nature of that recession as well as how the Bitcoin market reacts before the recession happens. And I think the essence of it is that it's really a matter of risk mitigation, right? During a time of recession, people want to go into a nest, more of a safe haven, right? So when we're looking at the price of Bitcoin before a recession, if we're going down on a super bearish market, people aren't going to think that's a safe haven asset, so they're probably going to lean more towards traditional assets like gold, or real estate, or art, or somewhere along those lines.

Tim Tam: I think that's a good point, Wayne. And there was another point I wanted to bring up where ... And this is something I learned from my years trading. I think what happens when a news event comes out, people don't really take into account this concept of ... So I'll give a concrete example. I think if we hit a recession when Bitcoin was at $18,000, what Bitcoin does when that recession hit if it was $18,000 is very different to right now if we hit a recession and Bitcoin's at six, seven thousand. Because in trading, there's this concept of positioning. So just I think logically, if Bitcoin's at $19,000, a lot of people have made a lot of money. In a recession, if people need money, because they've made a lot, psychologically, people take money off the table. Whereas if people have break even, there's different psychological concepts of whether people unwind, so ...

I'm probably not explaining 100% clearly but the price action doesn't react just to a fundamental piece of news like what happens to Bitcoin during a global recession. I think there's an additional point we all need to think about is what is the price of Bitcoin when these fundamental news hits. So it's ... The best analogy I can give is people think stocks go up or down based on earnings results, but another key point is how are traders positioned into that earnings result. It's really what if people priced in, how long or short people are and the news. The news is just one catalyst on top of trading positions.

Nate Tsang: I think that's very interesting. You bring up this point that a lot of people don't think about which is that the psychology and the way people frame the asset in their mind really makes a big difference in the way it's perceived, especially at a time like a recession where there's a lot of emotion driving the market. So with that being said, do you guys think that there's something differentiating Bitcoin fundamentally from other traditional store of value assets such as real estate, gold or as Wayne pointed out, even like a non-traditional asset like art?

Tim Tam: Yeah, maybe I'll take that one first. I think it is very different. Obviously, the first thing everyone knows is even though it's been around for a few years, it's still relatively new compared to these other asset classes. If I think through all the ones you've named, I think the first obvious difference say versus real estate is real estate is something you can touch and feel and psychologically, people ... I own real estate myself. It's psychologically, you feel like there's a real value there because there's a physical, tangible asset. The comparisons a lot of people use in the markets say versus gold is ... And I personally agree with a lot of these arguments where gold is really a concept. It's valuable because people have perceived that gold is valuable. Whether that physical lump of metal is worth $10,000, $20,000, $30,000 is really perception. So maybe that's a roundabout way of answering it but I think it is different in the sense that it's new, so it hasn't been that tested yet. The value that people ascribe to Bitcoin is really the way people look at gold I think. It's arbitrary.

Han Chang: I think there's a risk factor to take into account as well because if the price of Bitcoin does drop considerably, I think that changes the dynamics on how minors will behave. And if those dynamics change too dramatically in a short period of time, you could get stuff like 51% attacks which then will deeply wreck the value of Bitcoin. So those are also things to take into account. Yeah, it's really like price of electricity minus costs and how that kind of impacts the ecosystem.

Tim Tam: Yeah, that's a great point actually. I think we kind of discussed before on this but I think it's really interesting to bring it up where the difference, if I paraphrase, I understand it, the concrete difference between say gold as a store of value versus Bitcoin, gold is physical commodity, it's what people are willing to pay for it whereas in Bitcoin, there's these technological concepts of there could be a loss of confidence in the system if there's a 51% attack which can happen if Bitcoin price drops, there's less people mining it. These are more ... You're a very experienced technologist so you understand these concepts quite well, but I think for the average Bitcoin buyer may not even be aware that that is a risk, right?

Han Chang: Yeah. And I would say the risk is fairly minimal but it really depends on the capabilities of the miners, right? So if there's a subset of miners who are able to mine extremely profitably and those miners remain in the market, whereas there is another set of miners that are not at a certain price point, if that price point is then reached ... It's much like oil actually. I think it's very interesting, right? Because the Gulf states or whatever where you can just extract oil at cheap costs because they just have a ton of access-

Tim Tam: You're talking about economies of scale.

Han Chang: Yeah, basically. It's comes down to a price, right? So previously, OPEC kind of controlled the supply of oil because they just had access to all of it but with the American innovation and fracking which we can debate ethically is a good thing or not, but it basically lowered the price of oil because it introduced a bunch of other supply and allowed other players to play in the market and actually is cutting off OPEC. Basically, what I'm trying to say is that if there is a set of miners that are able to operate at lower costs and those are the only miners remaining, that increases the chances of a 51% attack which could increase the chances of a big downturn.

Tim Tam: So on that, I think ... Again, if I paraphrase, if it gets to a point where more people drop out, it could exponentially increase the risk of Bitcoin [inaudible] because of larger players because of all these stuff they've built on like server farms and things like that, they're more entrenched in the market. And then on that, I think for the average Bitcoin or crypto investor, Bitcoin is obviously the most tried and tested blockchain but say for some of the newer chains that are coming out that mine ... Very obvious example, say ... You're saying very confident that Bitcoin has a low chance of a 51% attack. How do you determine that? What is the risk versus Ethereum and say some of these newer blockchains that haven't been around as long, say like NEO and things like that? How do you price the risk of a 51% attack?

Han Chang: I have no idea to be perfectly honest. I will say that the lower liquidity coins are basically screwed. I don't think there's going to be enough people basically mining those where it could very easily get 51% attack, but yeah.

Tim Tam: So Han, are you able to explain to me in a layman way for me how you price the chance of a 51% attack and what is the risk of a 51% attack on Bitcoin versus, say, a new blockchain A? What are the things you look at? Is it the number of miners there are? Is it how long the Bitcoin ... Sorry. How long the cryptocurrency or such blockchain has been around? Is it how many mining pools there are? How do you ... Because you say with a lot of confidence that Bitcoin's going to be subject to it but let's say a coin like NEO or something like that.

Han Chang: Yeah. I'm definitely not saying with a lot of confidence that it wouldn't happen in a global recession, but I strongly do believe that Bitcoin is the most resistant to it in a global recession because of the things you mentioned where there is a lot of ... Most of the miners dedicate their hash power toward Bitcoin because it's a known quantity and that is sort of a self-fulfilling prophecy as well. But I think another part that people aren't aware of in terms of why Bitcoin is a little bit stronger is the actual fact that there's custom hardware called ASICs that exist that only mine Bitcoin. And the reason is because if you as a miner have committed capital to creating these custom hardwares to mine Bitcoin and this custom hardware can do nothing else, you are more inclined to continue running that, right?

Tim Tam: So this is really interesting and we've had a lot of debates like this. I'm always interested looking at financial angles. So from a pure investment approach and just pure basic supply and demand economics, as more blockchains come on, there needs to be more people mining them but if you think about this, there's a finite number of people in the world, finite people are going to commit resources to mining, so purely from an investment approach, should we be looking and investing at the blockchain coins that have been around the longest? Because over time, if you think about it, similar to how the search engines were in the dot-com boom, there's going to be a few survivors. So instead of trying to pick the next blockchain winner, doesn't it make sense to just invest in Bitcoin and Ethereum?

Han Chang: That's been my thesis the entire time. Absolutely. I strongly do agree with that and I think we're beginning to see-

Tim Tam: And CoinFi too.

Han Chang: Yeah, of course. Well, so the beauty of it is because CoinFi is a ERC20 token, we're good to go-

Tim Tam: And there's finite supply.

Han Chang: Yeah, exactly. We don't mint anything. There's no mining required, so yeah. So the number of currencies that this actually applies to is fairly limited because there's not that many that actually have their own blockchain that also require mining. Yeah, but that being said, I absolutely agree. I think it makes a ton more sense to focus on the ones that are resistant to these 51% attacks even in the face of a global recession because of all the items that I've iterated.

Tim Tam: And then how does the average user ... Let's say they go on CoinMarketCap. This is probably a dumb question but how does the average user determine whether it's a blockchain that's minable or it's ERC20 or it's a token on top of, say, the new EOS platform? Is there an easy tool out there that gives people ... That can just look at and see the category of the coin?

Han Chang: Oh, absolutely. You just go to www.CoinFi.com and you'll see exactly the blockchain technology that underlies that token.

Nate Tsang: All right. Great, guys. I love having that commercial for CoinFi in the middle of the podcast, but I'm just going to go back one of the topics you guys been talking about since I care about substance over promoting www.CoinFi.com. But just you guys brought up people should focus on Bitcoin and Ethereum because these are proven blockchains, there's an [inaudible] infrastructure that will be more resistant to a recession. But isn't there another thing to consider too which is there was a time Ethereum was just a little ICO and getting into that early gave those who believed in Ethereum early on tremendous returns? If you only focus on picking blockchains that will be recession ... Aren't you missing out on opportunities for gains?

Han Chang: Oh, absolutely. No, I'm not discounting that either at all. I'm just saying depending on your risk tolerance and threshold, in a global recession, I'm saying that Bitcoin and Ethereum are much less likely to have issues whereas these newer blockchains, yes. It's all risk and reward, right? Yes, you'll get the better reward but you're taking on more risk, especially when the recession hits.

Tim Tam: That's an interesting point with risk, reward in this kind of ... Obviously, you know me very well, Han. That's the kind of way I look at the world, right? So I think if you're more capital preservative, it probably makes more sense to put 80, 90% of your crypto ... Let's say you're investing $100 in crypto. Makes sense to put $80 or $90 into Bitcoin or Ethereum, but if you want to pint, it's almost like a BC model where maybe you put a dollar into each of these new blockchains and that's the better way to kind of manage your portfolio and financial risk. Because I think a lot of people understandably I think invest in crypto because of the potential to go up, but I think people definitely should be considering, "What is my downside and how much am I willing to lose?" [inaudible] and bet appropriately.

Nate Tsang: Just to wrap up this conversation, do you guys have any final thoughts to share on this topic? Ultimately, I guess you guys ... There's been a lot of variables we discussed. There's a lot of factors that can influence whether or not or how Bitcoin's affected during a global recession. Is there any conclusion we can draw from this discussion that you just want to summarize and present to the audience?

Tim Tam: I think for me … before we jump to [inaudible]. I think there's another important point that I think ... The way I look at the world and anyone, I'm interested in everyone's opinion on this but I think I'm a big student of previous economic cycles because I tend to think by and large in life, history repeats itself and one can learn a lot by looking at how things behaved 50 years ago, 100. And you've got a class example, great depression, what happened, people freaked out, pulled money from the banks. There was literally a line on the banks, people queuing up to get money. And I think what government learned during that period of it is it's very important to require banks to keep a percentage of their deposit money available and then also a new [inaudible], there's the FDIC where they actually guaranteed bank deposits up to $250,000. So I think in crypto, this is new and these are concepts that people are not really considering, which I think is important because the reality is crypto's not been battle-tested.

So I'll throw an actual example out there. What happens, suddenly there's a global recession and everyone's pulling money and everyone's pulling money from exchanges? What is deposit ratio that the exchanges have? What happens if everyone suddenly pulls right now from one of the large exchanges? And if you think about it, one thing that does concern me, I always think about in finance, what we call tail risk is it's like a domino effect. So people pull and the price goes down, people panic and more people sell. And then the system gets locked up because the exchange can't handle it and more people try to transfer. And what is unique in Bitcoin, the more people that transfer, it actually ties down the blockchain. So if you think about it from a technological point of view and mapping it with previous financial cycles, it actually potentially could be a disaster because the emotion drives people to sell faster. The system itself gridlocks. But because of the technology, the more people that try to transfer actually ties it down more. So I think it's going to be interesting to see what happens when there is a liquidity lockout.

Han Chang: I think it's a feature not a bug because, number one, assuming the exchanges are run correctly, most of the holding should be in cold storage. It's actually going to take them a while to actually get those funds out. Yeah. So that's one thing but I guess the other thing is, yeah, you're right in that the transaction times will slow down and that hopefully will give people more time to think about it and reconsider their options.

Tim Tam: But Han ... I think we've had very passionate debates about it. That's a great engineering answer but in finance, it doesn't work. Just logically, think about it. If you go to an exchange, you can't pull money, are you going to go, "Wow. This is a great engineer by design. It's supposed to happen this way"? You're going to freak out like, "Where the hell is my money?"

Han Chang: Sure. But I'm saying literally they can do nothing about it, right? The exchange kind of holds all the power there. So if they can do nothing about it, you can call the exchange all you want but you're not getting your money, so ... That's what I'm saying.

Tim Tam: But it will be a domino effect because imagine people start posting on Reddit, "Hey. Exchange lockout. I can't get out my money." What are you going to do? You're going to log on. You're going sell down, right?

Han Chang: Sure.

Tim Tam: And then that's going to cause more problems because it can irrationally drive the price very low.

Han Chang: See, I would agree with that except it's-

Tim Tam: And then ... It's in finance, it's called systemic risk, right?

Han Chang: Sure. No, I do understand that but ... So what I see, any exchange ... Having run an exchange myself, I would immediately shut off trading at that point, right? And so that way, you can't even do anything. So the price looks like it stays the same. Everyone's like, "Okay. You can't pull it out." But-

Tim Tam: No, no, no. That's one exchange. What will happen if people start doing LocalBitcoin and selling and ... There will be a mark, right? Somewhere.

Han Chang: Yeah. But I think by stemming that tide, because the transactions are locked down, that actually prevents the price from moving so dramatically like you mentioned and it actually should stabilize as a result.

Tim Tam: That's interesting. I didn't think of it that way.

Han Chang: Yeah. Because you're used to markets where you're allowed to continue on that downward slide. I'm saying the exchanges are going to just pull it.

Tim Tam: But I think the centralized exchange, you say they will lock out, people will call up OTC brokers and they'll trade through there. And the OTC broker will make the market wider. There will be a price. People-

Han Chang: I agree there will be a price. But because the price isn't public through OTC, that actually gives a little bit more confidence in market. The guys that are terrified and wetting their pants, they can get out if they want at a shitty price. But the public is just looking at the price and it's stuck there and it's like, "Okay. Maybe things are fine."

Tim Tam: That's interesting.

Han Chang: Especially because it's primarily retail, right? If you look at CoinMarketCap, we have no idea what the prices are actually on OTC if we're the public. We only know because we deal with the OTC brokers. But what everyone else sees is whatever's on CoinMarketCap. Every single exchange shuts down trading which is exactly what I would do if I run an exchange. That's the price that you see. Everyone is like, "Okay. I guess it's fine."

Tim Tam: But you know how the internet works. There'll be someone who posts and say, "OTC broker again in this bid." Let's say Bitcoin's at 300 on the exchange. It's frozen. OTC broker's bidding at 200. Trades are going through at that price. People will post that. It's going to drive a lot more-

Han Chang: I think you're thinking from a finance background because they can just laugh at the guy and be like, "Hey." This is the internet, right? So the guys on Reddit, wherever this is being posted, are going to be like, "You're an idiot for buying it at or selling it at this OTC price. Check out the price on CoinMarketCap you dumbass." Whatever. So I don't know, man. As a finance guy, that's how you're going to think of it, that's how you would behave, right? But the normal people are not going to behave like that in my opinion. They'll see what's on CoinMarketCap, they'll be like, "Yup. That's it. It's fine, guys. Don't worry."

Tim Tam: That's a good point. That's fair. That's fair. I think I lost that argument there.

Nate Tsang: Episode one of the CoinFi Podcast. Score one to Han Chang, zero for Tim Tam.

Han Chang: No. We're not keeping score, guys. This is not ... This is friendly debate.

Nate Tsang: Guys, you can discuss this at www.CoinFi.com. We'll post the show notes and the episode there. Tell us who you think won that debate.

Tim Tam: Yeah, vote for Tim.

Nate Tsang: It's not a fight, guys. All right, guys. This is a good place to end this. Thanks for listening to the first episode of the CoinFi Podcast. Hopefully, you've enjoyed some of the discussion here, which is just a small sample of the kind of conversations that we have around the office. We had these conversations anyway so we thought it'd be interesting to turn on the mic and just give you guys a peek at the-

Han Chang: Shenanigans.

Nate Tsang: ... kind of things that we talk about in the CoinFi office. So stay tuned. We'll be back with more. The next episode, we're going to discuss the mindset of institutional traders versus the average crypto trader, so that should be interesting. Thanks for joining us and we'll see you next time.

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