

diffusetap
Virtual Event Series

R&D for Crypto Returns with Ledger Prime

Guest Speaker:

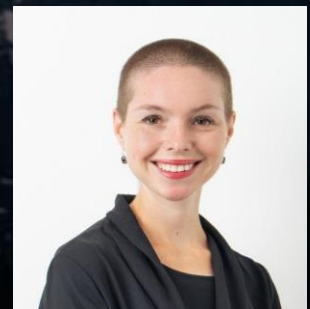


Shiliang Tang
Chief Investment Officer
LedgerPrime

Hosts:



Kenny Estes
CEO & Founder
Diffuse



Ayla Kremb
COO & Co-Founder
Diffuse



DiffuseTap: R&D for Crypto Returns with Ledger Prime

Last time on DiffuseTap, Shiliang Tang, Chief Investment Officer of LedgerPrime, talked to us about executing R&D and due diligence for brand new DeFi and crypto projects, how to get in the door of investing in new tokens pre-launch, and leveraging multiple strategies to deal with risk management and custody issues.

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DiffuseTap

This networking session is part of our weekly virtual events series. Networking (you'll bump into at least a dozen high caliber fund managers) meets purposeful (you'll tap into brand-new sources of ideas) ... straight from your armchair like a boss.

Meet the Speaker



Shiliang Tang is the Chief Investment Officer of [LedgerPrime](#), a quantitative multi-strat digital asset investment firm. With over 10 years of experience in the traditional finance markets, Shiliang has developed quantitative strategies for major financial institutions such as UBS and Bank of America. Prior to joining LedgerPrime, Shiliang was Cofounder and COO of WorldCover, a global Insurtech startup backed by prominent venture capital investors.

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About Diffuse®

We are an alternative fund platform offering differentiated investment products. From digital assets to VC funds and beyond, we identify green field investment opportunities we feel will have market beating returns and turn them into professionally managed funds. For more information, visit www.diffusefunds.com.



KENNY ESTES: Shiliang, I know I'm not pronouncing that properly. So can you please correct my pronunciation and introduce yourself briefly?

SHILIANG TANG: No, that was perfect. Thanks for having me here. My name is Shiliang Tang, CIO of Ledger Prime. We are a multi-strat quant fund specifically focused on crypto. We've been in this space since 2017 doing a variety of strategies. Most of my career was spent outside of crypto previously, in traditional markets doing high frequency trading and algo trading. I essentially took a lot of the same approaches and strategies and ported it over to the crypto markets.

AYLA KREMB: Beautiful. I will hop right in there. Your background and Kenny's background have more overlap than I had initially thought. Maybe we could start off talking a little bit about the work that you do, especially when it comes to identifying new ideas to trade on or to invest with. How do you spend most of your R&D resources in your current portfolio? Where does most of your time and attention, as well as capital go at the moment?

SHILIANG: I think the two most important resources are people and time. We try to hire the best researchers, the best quants, and the best developers. It's all about allocating time, and what they spend their time on. A lot of it is just researching and diving into datasets and various strategies, and back testing, which I would say 90 to 95% of the time, nothing comes out of it other than a hypothesis and an experiment that fails. But that's part of quant trading and research.

However, a lot of the tools and everything that we create can be reused. The thing about crypto is that it's still extremely fragmented; unfortunately, there is no overarching central source of information, or truth, or data that we can just buy and plug and play. When we first launched in 2017, there were very few external data sources. So, we chose to set up our own servers and machines and collect data.

Initially, a lot of what we spent on was just servers and machinery. Over time, the space matured and there were other things that we could look at, such as on-chain data. And so, we've gotten a bit more into collecting that data ourselves, but also interacting with third party sources to verify some of the data that we collect, and then plug in any holes that might be a result of errors or downtimes from our servers. But fundamentally, it's in our DNA to collect a lot of the data ourselves, and to clean a lot of the data ourselves, which, unfortunately, does require a lot of people and time.

KENNY: A quick follow up on that question before we move on. The data you're collecting is mostly exchange data, right?

SHILIANG: Most of it is definitely exchange data, although we are collecting on-chain data as well. Most of our strategies still involve exchange data. That includes order book data, trades data, volume data, etc.



KENNY: Okay, and then you use that to do your analysis. One good question is, how much of it is used in your analysis to find alpha, and how much of it is used to put on risk mitigation strategies or figure out how to hedge or offload some of the volatility that is inherent in crypto?

SHILIANG: It's all interconnected. Most of it is just to find alpha. Again, given the fragmentation of the markets, you can collect data for the same asset, such as Bitcoin, but you can get extremely varying data sets, with order book prices and everything else across any exchange that you're looking at.

At times, we're engaging with 30 plus exchanges just looking at one asset. And there is no NBBO or global marketplace for any one asset. Just working through that fragmentation is extremely time consuming. But within it, there is a lot of opportunity. You will find that some or most of it is geared towards signal generation.

AYLA: As a follow on to that, what are some of the strategies that you believe anybody who's interested in crypto should definitely be exploring at the moment? At Diffuse, we try to be at the cutting edge. But a lot of these strategies don't come naturally easily to anybody. Is there anything that you could share without divulging any secrets? Are there areas that are coming up which crypto investors should definitely look at the moment?

SHILIANG: I think in the short to medium term, we're definitely focusing more on options and DeFi. Especially in the short term and in the current environment, I think people should focus on those two areas because a lot of the traditional longer term strategies that have worked in crypto are getting chipped away as more of these sophisticated firms come into the space, like pure arbitrage, pure market making, and cash-and-carry.

I think a lot of newer capital and firms aren't necessarily looking at options and DeFi. A year and a half ago, DeFi itself wasn't even an investable class, at least from an active trading perspective. There was a lack of infrastructure, and it was very opaque. No data providers were servicing. You had to collect everything yourself. And to a certain extent, you still have to do that now.

It's very much akin to how centralized markets were in crypto in 2016 or 2017, which we all know that back then there were a ton of arbitrage opportunities. Specifically, within DeFi, I think there were a ton of opportunities, just in the arbitrage between DeFi and centralized markets.

And then, there are options. Just look at any other large asset class out there; options markets are typically 25 to 30x the size of spot markets. Currently, the size of crypto options markets is only about 5x the size of spot markets. Tremendous growth there is possible. Currently in the crypto public markets or electronic markets, there's only Bitcoin and Ethereum. But as we know, there are many other assets within crypto that are tradable and very liquid.

I think options for those assets will get listed in the short to medium term as well. Also, there will be other exchanges coming up, too. Even options on DeFi is something that we'll see a lot more of in the next



three to six months. There are a few interesting projects that will be coming up there, both in terms of structured products, as well as order book style trading.

KENNY: You mentioned DeFi a couple of times there, and options and exchanges. One of the big trip ups for Wall Street is custody. Specifically, in DeFi, there just isn't a custodian that has the technology and the license that you need. Even exchanges often wouldn't qualify for that. How do you deal with that? This question might be about how you're set up as an entity as well. How do you deal with the custody issue, and how do you see that changing in the future?

SHILIANG: That definitely is part of the reason why there still is a lot of fragmentation and dislocation within DeFi and centralized markets. Just the fact that there is a lot of capital on the sidelines that can't enter DeFi for custody or regulatory reasons, kind of says a lot about some of the inefficiencies. With that said, I think that in the past 6 to 12 months, the industry itself has already made a lot of leeway in terms of building out the infrastructure.

FireBlocks has even integrated across numerous chains. Just last week, they announced integration for Avalanche and Fantom. They're already integrated with many of the projects on Ethereum as well. I know Copper and FireBlocks are both going to integrate with Solana and their projects going forward, too. They're moving extremely quickly, much faster than what we saw back in 2017. Having platforms like FireBlocks and that infrastructure in place will get a lot of institutions a lot more comfortable.

At the end of the day, I think there's a lot of uncertainty with U.S. regulations pertaining to DeFi. We're set up as an offshore fund. We have people offshore, and we feel comfortable with the current structure that we have, given the opinions from our lawyers. But at the end of the day, different entities have different situations, and it ultimately depends on how comfortable people are. But yes, you are correct. I think a lot of the opportunity does come from the fact that a lot of people still can't comfortably access DeFi markets.

AYLA: On that note, people also usually can't access pre-launch tokens. You mentioned that that is something that you look at as a team as well. You're not just looking at live and running tokens. You're also looking at pre-launch projects to invest in. How do you evaluate these projects? How do you do due diligence? And where do you find them in the first place?

SHILIANG: I think the overall lifecycle of a project within crypto is so much shorter than it is in traditional fintech. Historically, in traditional fintech, it takes a couple of years to raise a round, and then the product itself takes a few years to launch and set up. In crypto, that shrinks down to 6 to 12 months. People are able to launch a test and a beta product, get people to test it, and then it goes out there and becomes traded.

For us, I think it's important to stay on top of a lot of these new products by engaging with new projects, even way before a liquid token launch or product launch. The way we think about it as a quantitative



trading firm is, how can we leverage our tech stack and existing strategies to help a new project bootstrap liquidity, market-make their products, grow their customer base, and align our interests with them?

All of that will ultimately help the token price and the product gain traction, which just means growing the pie, and having more opportunities for us as liquidity providers. We identify certain areas where we think we can provide the maximum value, which is typically in derivatives and trading products.

We look for teams that are very strong technically and come from actual financial expertise. And then, we import our ideas and infrastructure to their project, be it a decentralized options protocol, or something else. We essentially try to plug and play our existing strategies to help them immediately grow.

And then finally, we take a little bit of capital and actually live test and use their product. I think oftentimes, we find a lot of issues and help the team fix them and grow with them. And as their products take off, it just means bigger markets and edge for us.

KENNY: That makes a lot of sense. You seem pretty hands on with your relationship building. There are two questions which are more technical. First, how algorithmic is this? Do you do quantitative analysis? Do you do manual trading, or is it automated trading? The other question is, how far down the liquidity stack do you go to focus on the big 10? Do you go pretty deep down? Are you working on new projects and market making for them? Which, by the way, three years ago was the first time we met when I was working with a project and you guys were going to make markets. How do you do the liquidity stack and how automated is the process?

SHILIANG: I think it depends on the strategy sets. If you're talking about a fully automated strategy, like trend following or stat atb, then it's generally focused on the most liquid tokens, probably top 30. The ones with more robust markets where you can go long and short. The opportunity set of trading that for illiquid tokens doesn't really make much sense, and you can't do both directions often.

But then, if you're talking more about the arbitrage side of things, or the market making side of things and engaging with token projects, we're more than willing to touch the long tail of assets. I think there's a lot more opportunities there than just in Bitcoin or Ethereum. It's all about growing the opportunity set, and so we're willing to spend time and resources to grow it. Because at the end of the day, crypto is moving so rapidly.

A lot of the times, assets, tokens, and projects that were large a couple of years ago kind of fall by the wayside. You constantly have to analyze what is the next upcoming project and ecosystem, and then put your attention or resources there. We all went through 2017, 2018, and 2019, and a lot of the ecosystems that existed back then no longer really exist. Similarly, even looking at some of the ecosystems that are popular now, they weren't much 6 to 12 months ago. That's the thought process that we have.



AYLA: Given that you're across so many different strategies, how do you manage risk both on the liquid investments that you're making, and on the pre-launch tokens? How do you do due diligence, and how do you manage risk while you're in these trades?

SHILIANG: I think there's a few layers of risk. There's certainly counterparty risk. There's certainly also on-chain risk. I think we're willing to take the risk, but we're not doing it in much size at all. Internally, we have a matrix of different layers of how much exposure we want to take with any one counterparty. A lot of it depends on characteristics like, are they regulated or not? Are they getting audited? There are various features like that for centralized counterparties.

In DeFi, I think everything is pretty new. While we mitigate risks, it's not concentrating risk. Instead of focusing on one platform and putting all our assets there, we disperse it over 20 to 30 different platforms. That's because any given one of those platforms eventually might get exploited, or there might be issues there. But it's only for tens of basis points, so it's not that large. And in the grand scheme of things, for us, we only touch audited contracts. Contracts that we'll test slowly and build up over time.

Going back to the fragmentation of crypto, nothing is really fungible, especially in derivatives. You can be long one call option in one exchange, short call option on another, or long future on one exchange and short on another. Overall, you can be risk neutral. But obviously, there is no fungibility there.

And so, you have to manage the collateral. You have to manage liquidation risk. Just this past weekend, we saw certain exchanges get hit severely. Bitcoin was trading under 30,000 at one point, but not in some of the other exchanges. Managing your collateral exposure across the numerous exchanges, and not getting overexposed on any one exchange is something that we're constantly having to monitor.



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Dennis Chookaszian
Corporate Director, CME Group

DiffuseTap: Institutional Grade Governance

Sharing his decades-long expertise on corporate governance, Dennis discussed how to avoid a co-partnership going sour, the problem with overly idealistic CEOs, and the importance of keeping your board in check. [Read on](#)



Susan Brazer
CEO & Founder, LionShare Media

DiffuseTap: Media Metaverse 2022

Susan talked about the 2020 digital media landscape; the evolution of media distribution; how converging, emerging technology points to the metaverse; and the prospect of having an open, decentralized, and free Web 3.0 marketplace. [Read on](#)



Raj Mukherjee J.D.
VP/Global Head of Tax, Binance.US

DiffuseTap: Crypto Taxes Decoded with Binance.US

Raj explained the complexities of the US crypto tax landscape, how he built a dynamic tax information system for Coinbase and Binance from scratch, and how investors can profit from crypto without getting caught in a taxation mess. [Read on](#)

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