Letter to CAP Tokenholders, 2022

"A dreamy business offering has at least four characteristics. Customers love it, it can grow to very large size, it has strong returns on capital, and it's durable in time – with the potential to endure for decades. When you find one of these, don't just swipe right, get married." — Jeff Bezos, 2014 letter to Amazon shareholders

Dear tokenholders and community members:

CAP's mission is to help create a fair and open financial system. This begins with giving people the ability to trade any asset for free.

CAP currently supports trading BTC and ETH perpetuals with 0% fees on Arbitrum, with more products and networks on the way. At the time of writing, over $800M has been traded. Head over to cap.finance to trade, pool, or stake.

We are in the very early days of Web3. The opportunity to reshape how people interact with money – earn, transact, trade, and invest – is substantial.

In this letter, I'd like to draw out my thoughts on Web3, CAP, and the path ahead. I hope to give you, dear stakeholder, a deeper insight into what to expect.

The State of Web3

Metrics

There is a lot of bullshit in crypto, and I say this as a major proponent. Especially when it comes to metrics.

Because there is no regulatory oversight, numbers like market cap, trading volume, and revenue are impossible to trust. A protocol can easily inflate its market cap by minting new tokens (and many do). Wash trading is rampant in decentralized finance, inflating volume metrics in an attempt to attract real volume. Revenue numbers, as a result, are also dubious.

These vanity metrics, which the industry seems to have lovingly embraced, are reminiscent of the dot-com bubble. Back then, many tech companies meticulously tracked all the wrong (but feel-good) metrics. It ultimately resulted in their demise.

A better metric to keep an eye on might be customer satisfaction and retention. We're proud that CAP's retention rate is one of the highest we've ever seen. 80% of users who submit an order place another within four weeks.

Gatekeepers

Web3 gives us the opportunity, for the first time in history, to get rid of gatekeepers. Gatekeepers slow innovation. When a platform is permissionless, even the most outlandish ideas can get tried because there's nobody to tell you "that won't work." Lo and behold, many of those ideas end up working, benefitting society as a whole.

Unfortunately, Web3 has been overrun by fee-extracting gatekeepers looking to maximize short-term profit. Take a moment to observe what we've become. It looks to me like we've rebuilt the financial cartels we were meant to replace.

This applies to legacy crypto too. There is no inherent reason for centralized exchanges to be charging millions of dollars in fees on database updates. These wide profit margins give protocols like CAP an opportunity to take market share.

Many so-called Web3 protocols are just fee extraction machines. They take money from you to line the pockets of their team and VCs. And they do this under the guise of a supposedly noble cause: decentralization.

A recent example is dYdX, a centralized VC-backed platform whose slogan is "Decentralized Leverage." They minted an inert token which they used as a marketing tool. This attracted money from a broad base of people and enabled founders and VCs to cash out at exorbitant valuations, crippling the token's price.

This is not Web3. This is a classic pump-and-dump scheme with a token slapped on it to make it look shinier. It's the same playbook banks used in 2008 to conceal lousy mortgages inside CDOs. A financial crisis occurred when people realized what lies behind the curtain.

Tokens

Chris Dixon wrote an excellent piece a couple of years ago on how tokens can help overcome the cold start problem in business, otherwise known as the chicken-and-egg problem. His basic premise is that a company can issue a token to incentivize people to use their product because they would feel like owners.

This works for some base layer protocols. But in most cases, broad token issuance does a poor job of attracting long-term users. It attracts speculators who want price to go up. This is bad because you become accountable to people who are focused on the token's price rather than on the product itself. Instead of aligning incentives, you misalign them, especially during bear markets.

Transparency

Transparency is cool but it has its limits. In unregulated financial markets like crypto, transparency is exploited by bad actors. Some examples of this include MEV, front running, and sandwich attacks.

CAP's Dark Oracle Network (DON) actively and automatically provisions liquidity, providing traders with the best possible execution while protecting LPs. By design, it is not transparent. This is to avoid front running, mask price sources, prevent market manipulation, and resist censorship.

An opaque, geographically distributed service like the DON is much harder to take down than a weakly decentralized oracle. If you're going to design an oracle that claims to be decentralized, it needs to be sufficiently decentralized (at Ethereum or Bitcoin scale) to deliver meaningful censorship resistance. Otherwise, it's just decentralization theater.

Anonymity

Anonymity makes you censorship-resistant and uncancellable. It's important.

Decentralization

In crypto, the word decentralization means different things to different people. Like freedom, democracy, or America, it is designed to make you feel warm and fuzzy inside, but has little basis in reality.

Decentralization only makes sense for things that don't change frequently, like base layer infrastructure (think TCP/IP or Bitcoin) where feature-set stability, durability, and predictability are desired.

However, for apps built on top of these base layers, decentralization can be a headwind. To remain competitive, you need to iterate, innovate, and adapt quickly in response to market needs. If you decentralize your app too much, a more nimble player will outcompete you. TCP/IP is decentralized but Google is not.

To figure out if a product is decentralized, ask: can this succeed in the long run without a team to frequently maintain it? If the answer is no, then it's probably not decentralized. Solana is not decentralized. Uniswap isn't either. How long would it take for Uniswap to be overtaken by a competitor if their team stops innovating? This is already happening, to some degree.

Decentralization doesn't make sense for most things. So why do we continue to partake in this false narrative? Maybe it makes a good story. Or maybe it's time to move on. At the end of the day, Web3 is an opportunity to build censorship-resistant, accessible financial services – and that's fine by me.

CAP Strategy

Traders

Building a great protocol starts by identifying your core customer. For CAP, it's traders. Traders bring volume; without them, the protocol withers and dies.

Traders want:

- Low fees
- A vast and desirable selection of products
- Speed and reliability

These are pillars we can build on for the long haul because they don't change.

By proactively delighting traders, we earn their trust and ensure more volume in the future, even if it comes at the expense of short-term profit. Web3 products are open source and replicable; trust might be a protocol's most potent advantage.

Flywheel

We recently reduced trading fees to 0%. This is a long-term decision. Increased trading volumes might take time to materialize and revenue might take a hit.

In the long run, however, the flywheel created by zero fees results in a stronger, more valuable, and more defensible protocol.

0% fees → More traders → More volume → More liquidity → More traders

More networks, more products, and improvements in speed and reliability will fuel this flywheel well into the future.

The Long-Term

In building CAP, we will continue to make decisions that we think will benefit the protocol in the long run. I've shared our decision-making process below so that you, as a stakeholder, can confirm whether it's in line with your expectations:

- We will focus on traders.
- We will make decisions based on long-term considerations rather than short-term revenue or token price fluctuations.
- We will maintain a lean, anonymous, and geographically distributed team.
- We will focus on censorship resistance and open access when building new products or features.
- We will choose growth over profitability for the foreseeable future because gaining market share is vital to achieving the protocol's full potential.

In a market driven by short term-ism, CAP's emphasis on durability and long-term thinking might appear odd. But we believe this is the best way to create value for stakeholders over time.

Recap of 2021

Last year marked the protocol's move to Arbitrum, a layer 2 network secured by Ethereum that offers lower gas fees and confirmation times.

We launched CAP V1, which offered Chainlink-based prices. We soon realized it was too slow to enable a great trader experience – price feeds were being front-run, hurting LPs. V2 privatized the liquidity pool. While this worked for a while, we realized that true scale can only be achieved if liquidity is accessible to everyone.

V3 was released on November 17, 2021. It enables anyone to provide liquidity and receive a share of yield. Importantly, V3 marked the release of the DON which actively manages order pricing, ensuring the best possible execution for traders.

Usage

Trading activity increases with volatility because volatility is opportunity. And leverage allows traders to amplify that opportunity.

At the time of writing, over $800M has been traded on CAP. Total value locked exceeds $3M and total CAP (token) staked exceeds $6M. CAP can generate huge trading volumes with little liquidity because LPs back profits, not full positions.

Development

We continue to fire on all cylinders. In many ways, V3 has set the standard for a simple, direct-from-wallet trading experience. We are two contributors and a range of community leaders who work tirelessly to drive organic, grassroots growth.

We've spent $0 (rounded down) developing CAP. This is why we're always perplexed when we learn about other protocols raising tens of millions of dollars from VCs and getting little usage. What are they using the money for?

Marketing

Word of mouth remains the most powerful acquisition tool we have. By continuing to serve users well and earn their trust, we're confident the good gospel of CAP will continue to spread.

We've also partnered with Token Terminal, DeFi Llama, and ImmuneFi to monitor analytics and secure the protocol with bug bounties.

The Token

100,000 CAP tokens were minted and offered to the community on Uniswap in a grassroots initial distribution.

When you own CAP, you own a piece of one of the fastest-growing financial protocols. I think the protocol is headed toward an inflection point in growth, supported both by product innovation and adoption on new networks.

When you own CAP, you are also part of a strong and loyal community, bound by a culture of holding for the long run.

CAP's price has grown 5000x from its initial price of $0.10 in mid-2020, trading at about $500 at the time of writing. And we're just getting started.

The Path Ahead

Let's move to the future. Why should you be optimistic about the future of CAP and Web3 more broadly?

The Future of Web3

We're still in the very early stages of learning how to bring value to users through this collection of new technologies that we call Web3. In many ways, it is reminiscent of the early days of the Internet, when it wasn't obvious that a network of computers called the World Wide Web would ultimately revolutionize communication, business, and much more.

The fact that Web3 is so polarizing makes it quite interesting. The lack of clarity surrounding regulation discourages big players from entering the market, leaving a wide-open space for small, nimble teams to innovate. It is one of the only markets where Big Tech won't come in and steal your idea, let alone your username.

The idea behind Web3 is a noble one. CAP must operate within that context, ethically, and not succumb to the temptation of recycling the rent-seeking behavior observed on Wall Street and in other so-called protocols, even if it might result in a short-term boost in profits.

Goals

For 2022, CAP has four major goals:
- grow volume and number of traders
- grow partnerships and community
- expand product selection
- expand to more networks

While we are optimistic, we must remain vigilant and maintain a sense of urgency. The challenges we face to meet these goals are several: aggressive, well-funded competition; execution and security risks; and obstacles to cross-chain liquidity.

We face competitive pressures not just from other protocols but from legacy crypto services as well. However, Web3 should prove to be a very large market and I expect several winners to emerge over time.

I can't assure you that we'll meet all our goals this year. But I can assure you that we'll keep our heads down focused on users. I have a strong conviction that this approach is as good for tokenholders as it is for traders and liquidity providers.

In Closing

It's quite thrilling to be participating in what might become a multi-trillion dollar industry, in which we are so tiny. The market opportunity for CAP is mind-boggling, and blockchain technology keeps getting better every day. This makes us extremely excited.

Is anyone even reading this? If you've gotten this far, let me know in our community channels. It might encourage me to make this a quarterly thing.

In the meantime, thank you for your support and for being part of CAP!

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Abe Osten
Core Contributor, CAP