



Monthly Musings-The Big One

February 27th, 2025

'The difference between the impossible and the possible lies in determination'

Having fun yet?

Given our continued appreciation for football analogies, at BlockBytes Capital we believe determination is the attribute that separates successful crypto investors from the rest. Much like how football clubs maintain discipline during challenging stretches of a season, our investment approach **emphasizes** resilience and strategic **patience** during periods of market volatility.

Just as championship teams focus on long-term objectives while navigating the weekly challenges of a season, we have maintained our approach through recent market movements. By balancing defensive positioning with calculated offensive

opportunities, we have positioned client portfolios to benefit from emerging trends while protecting capital during periods of uncertainty.

Let's get into it.

ByBit Hack and Its Implications:

In what has now been confirmed as the **largest** cryptocurrency heist in history– and possibly the largest theft of any kind ever recorded– Dubai-based exchange ByBit suffered a devastating security breach on February 21st, 2025, resulting in the loss of approximately **\$1.46 billion** in crypto assets (**Ethereum**). This sent shockwaves through the industry, surpassing the previous largest hack of Poly Network in 2021.

- **The Attack and Response:**

According to security researchers, the attackers employed sophisticated malware to trick Bybit's systems into approving unauthorized transactions, systematically draining funds from the exchange's 'warm' wallets. The response from Bybit was impressively swift and transparent. Within hours of detecting the breach, the exchange had:

1. Isolated affected systems to prevent further damage
2. Notified users through multiple channels
3. Engaged top-tier blockchain sleuths and firms including Elliptic
4. Implemented emergency security protocols
5. Communicated a **comprehensive** plan to make customers whole

What particularly stands out in Bybit's response was their commitment to provide transparency throughout the crisis. Unlike previous major exchange hacks where information was limited and delayed, Bybit provided hourly updates during the most critical first 24h, maintaining clear communication with their user base. This approach significantly reduced panic selling in the broader market that typically follows such incidents.

The FBI and Elliptic have attributed the attack to North Korean state-sponsored hackers. This fits a concerning pattern, as North Korea-linked hackers have now stolen over \$6 billion in cryptoassets since 2017, with intelligence reports suggesting that **these funds directly support the country's weapons programs**. Within minutes of the theft, the attackers began exchanging stolen tokens using decentralized exchanges.

What has provided remarkable comfort to Bybit users is the exchange's immediate guarantee of full reimbursement for all affected customers. Within 12 hours of the incident, Bybit announced they would use their substantial insurance fund and corporate reserves to ensure no customer would lose assets as a result of the breach. This decisive action stands in **stark contrast** to historical exchange hacks where users often faced prolonged uncertainty or partial loss.

Critically, through the entire ordeal, Bybit **never halted withdrawals**. This operational continuity provided immense reassurance to users and starkly contrasts with the FTX collapse, where withdrawals were suspended days before the exchange was ultimately found to be insolvent. The ability

to maintain normal withdrawal operations during a security crisis of this magnitude demonstrates exceptional financial reserves and operational resilience from the Bybit team.

Furthermore, this incident represents a significant show of strength for the broader cryptocurrency ecosystem, especially in light of the trauma inflicted by the FTX debacle. Where FTX revealed fundamental weaknesses in exchange governance, reserve management, and regulatory compliance, the Bybit response showcases the industry's **evolution toward institutional-grade risk management and customer protection**. The transparent handling of this crisis has helped restore confidence that was severely damaged during the FTX collapse and its aftermath.

The response from the broader industry has also been very encouraging. Major exchanges including **Coinbase, Binance, and Kraken** rapidly implemented enhanced monitoring of the stolen funds. Blockchain analytic firms deployed their resources to trace the movement of assets, resulting in some seizures. The coordination between private entities and law enforcement has demonstrated the **maturing incident response** capabilities within the cryptocurrency ecosystem.

At BlockBytes, we continually evaluate the security practices, insurance coverage, and custody solutions of exchanges where client funds are deployed. This event has only reinforced our **existing practice** of exchange diversification and, more importantly, the use of **SELF-CUSTODY**. A topic we have personally addressed with all of you over the course of this cycle.

While historic in sheer magnitude, it has resulted in minimal disruption to the broader market. With price action maintaining our overall expectations.

Now for the fun stuff. Let's examine our current 'line-up' for this next leg in the market. As always, please remember this represents our **core** philosophy rather than the complete squad. We continuously evaluate assets and sectors, make strategic adjustments, and rebalance positions to align with evolving market conditions.

Formation: 4-3-3 (Aggressive):

After analyzing current market indicators, we have shifted to a more aggressive approach for the coming rotation. With institutional adoption accelerating and regulatory clarity improving in key markets, we believe the **risk-reward** profile now favors a more opportunistic approach.

Goalkeeper: USD (Cash), USDC/USDT (Stable Coin):

Our cash position remains a critical defensive anchor. Though we have reduced this allocation in favor of higher-conviction positions, maintaining adequate reserves continues to provide both protection during volatility and dry powder for emerging opportunities. This goalkeeper position allows us to play with confidence, knowing we have security against unexpected market movements (thank you, Powell).

Defenders: ETH, AVAX, INJ

Our defense has undergone a strategic reorganization with ETH now anchoring the backline alongside AVAX and INJ. Ethereum continues to serve as the foundation of the DeFi ecosystem, while AVAX has seen consistent growing institutional adoption.

Injective (INJ) joins our defensive core based on its unique position as a fully decentralized exchange protocol with cross-chain capabilities. INJ has demonstrated remarkable resilience, consistently expanding the ecosystem and transaction volume. Its layer-1 blockchain, purpose-built for finance applications, offers **institutional-grade** performance with sub-second block times and **near-zero gas fees**. The protocol's interoperability with Ethereum, Cosmos, and other major chains creates natural liquidity bridges that reduce market fragmentation.

These three assets provide both stability and technological diversity to form a resilient defensive foundation for our portfolios while capturing exposure to next-gen use cases.

Midfielders: ARB, OP, UNI

Our midfield has been configured to capitalize on the strength of Ethereum's Layer-2 ecosystem and DeFi infrastructure. **ARB** remains a key player due to its position as a leading Ethereum scaling solution with significant developer adoption and a robust ecosystem of applications (Smol Brains say EEEE). **OP** joins based on its complementary approach to Ethereum scaling and impressive growth metrics in both TVL and transaction volume.

UNI rounds out our midfield trio, providing exposure to the foundational DeFi infrastructure that continues to power this decentralized economy. As the governance token of the **largest decentralized exchange protocol**, UNI benefits from consistent trading volumes across multiple blockchains. The recent V4 upgrade has significantly enhanced capital efficiency and introduced innovative features that strengthen Uniswap's competitive positioning.

This midfield creates a balanced approach to capturing value from both the scaling solutions addressing Ethereum's limitations and the core DeFi applications driving real utility. Like versatile midfielders who connect defense to offense on the pitch, these assets bridge the gap between our stable defensive core and our high-potential strikers, providing essential functionality while offering significant upside potential of their own.

Strikers: PEPE, APE, DOGE:

Our strike force has pivoted toward the meme token sector, specifically high-cap memes. **PEPE** leads our attack based on its continued cultural relevance and impressive liquidity metrics that have outperformed many utility-focused tokens. **APE** provides exposure to the intersection of NFTs, brand recognition, and metaverse development through its connection to the Bored Ape Yacht Club ecosystem and ongoing Otherside metaverse project.

DOGE completes our front line as the original meme token that continues to benefit from its massive community and high-profile supporters. Its longevity in the market has

established DOGE as more than just a passing trend, with increasing merchant adoption and potential integration with social media platforms enhancing its utility proposition.

This trio of meme-focused assets may seem unconventional in a serious portfolio, but they serve a strategic purpose. Like unpredictable strikers who can change a match with a moment of brilliance, these tokens have demonstrated the ability to generate explosive returns during market uptrends that outpace fundamentally strong projects. Their inclusion represents a **calculated risk** allocation that has historically rewarded investors during bull cycles when participation surges. While more volatile than our defensive and midfield positions, these strikers provide the potential for outsized returns that can significantly enhance overall portfolio performance.

As with any dynamic market environment, we will continue to rotate these positions in response to shifting narratives and momentum. Through market cycles, different sectors capture retail and institutional attention— from DeFi to NFTs, from gaming to AI, and meme tokens. Our **active management** approach means we won't hesitate to substitute these positions when market sentiment shifts. This flexibility with our portfolios has been a key differentiator in our performance throughout various market phases, allowing us to capitalize on emerging narratives while they are still developing rather than after they have already matured.

Thoughts on the Current Market:

Bitcoin's dominance in the overall cryptocurrency market has been on a pronounced downtrend over recent weeks, a key indicator that deserves our attention. This declining dominance metric illustrates a significant rotation of liquidity from Bitcoin into the altcoin sector. The volatility we have witnessed across markets is directly attributed to this substantial **reallocation of capital**.

When Bitcoin relinquishes market share, it typically signals a **maturation phase** of the market cycle where **risk appetite increases** and capital seeks higher potential return in smaller market cap assets. These rotation periods often bring enhanced volatility as money moves rapidly between asset classes.

Despite the seemingly chaotic price action, these liquidity shifts follow predictable patterns we have observed through multiple market cycles. The current volatility represents a natural progression rather than a cause for concern. At BlockBytes, we have positioned client portfolios to benefit from this rotation while maintaining appropriate risk parameters.

For clients who would like a more in-depth analysis of these market dynamics and our strategic approach to navigating them, we invite you to join our client video chat this Sunday. We will provide detailed insights into our market outlook , address specific questions, and offer guidance tailored to various risk profiles and goals.

Always remember that periods of heightened volatility often recede significant directional moves in the market. By

maintaining our disciplined approach and understanding the underlying mechanics of these liquidity rotations, we are well positioned to capitalize on emerging opportunities while managing downside risk.

NFT Market Revival and the OpenSea Airdrop:

The NFT market is showing strong signs of revival after a period of consolidation through 2023 and early 2024. This resurgence represents a significant opportunity for investors who maintained conviction in the long-term viability of digital ownership.

Several key trends are driving renewed interest in the NFT ecosystem:

- 1. Institutional Adoption;** Major brands and entertainment companies continue to enter the space with strategic, utility-focused collections. These enterprise-backed projects typically future sustainable tokenomics and tangible benefits for holders
- 2. Infrastructure Maturation;** The underlying technology supporting NFTs has significantly improved, with more efficient minting processes, reduced gas fees, and enhanced metadata standards creating a better user experience
- 3. Cross-Chain Expansion;** NFT activity has diversified beyond Ethereum to chains like Arbitrum, Avalanche, and Injective (remember those?). This has reduced congestion and oversaturation creating new opportunities for creators, collectors, and traders
- 4. Improved Liquidity Mechanisms;** Fractionalization protocols and NFT lending platforms have addressed

previous liquidity constraints, making the market more accessible to a broader range of participants

5. **Integration with Physical Assets;** The bridge between digital and physical ownership continues to strengthen, with NFTs increasingly tied to real-world items and experiences

Trading volumes across major NFT marketplaces have seen a notable uptick in Q1 2025, with particular strength in gaming assets, pfp collections with utility, and digital art from established creators.

The OpenSea Airdrop: A Game-Changing Development:

The recent announcement of OpenSea's long-anticipated token and corresponding airdrop has brought excitement back to the world of Jpegs. As the largest NFT marketplace by historical volume, OpenSea's move to tokenize its platform represents a watershed moment for the NFT space.

- **Token Utility:** The \$SEA token will serve as the platform's governance token, allowing holders to vote on protocol upgrades, fee structures, and curation standards. Additional utilities include fee discounts, exclusive access to drops, and staking rewards
- **Airdrop Eligibility:** The retroactive airdrop will reward users based on their historical activity, with criteria including trading volume, frequency of transactions, and length of platform usage dating back to OpenSea's inception in 2017. Additionally, current traders are actively accruing XP points through continued use of the platform, which will factor into

their airdrop allocation. This experience-based system rewards ongoing engagement and creates incentives for new users to participate in the ecosystem ahead of the token launch.

OpenSea's tokenization carries significant implications beyond the immediate value of the airdrop itself. This move is likely to trigger similar initiatives from competing marketplaces, creating additional opportunities for active NFT traders.

For BlockBytes clients, we have been strategically positioning portfolios to capitalize on this development in two key ways:

- 1. Strategic NFT Acquisition;** For clients who have specifically reached out to us regarding NFT exposure, we have selectively acquired NFTS that offer both appreciation potential and the opportunity to establish platform activity ahead of potential snapshot dates for future rewards. We only take positions in NFTs for clients who have **explicitly** requested this type of exposure.
- 2. Ecosystem Exposure;** For clients who have specifically expressed interest in the NFT sector, we have increased allocation to tokens that directly benefit from NFT market growth, including marketplace tokens, NFT infrastructure projects, and metaverse platforms where NFTs serve as key assets. As with direct NFT acquisitions, we only implement these strategies upon specific client requests.

The OpenSea tokenization represents more than just a one-time airdrop opportunity– it signals the start of the evolution of NFT marketplaces into participatory platforms where users **share** in the value they help create. This trend towards community ownership aligns with our long-held view that the most sustainable crypto business modes will be those that distribute value to their users rather than extracting it from them. As the launch date comes closer, we will continue to monitor developments closely and adjust client positions to maximize potential benefits while mitigating associated risks.

Closing Thoughts:

As we progress through Q1 2025, all indicators point to the **continuation** of what can only be described as a historic supercycle for digital assets. Unlike previous cycles constrained by limited infrastructure and adoption, this bull run is powered by unprecedented institutional entry, regulatory clarity, and real-world utility that has expanded far beyond early adopters into mainstream applications.

The momentum building across multiple sectors of the crypto ecosystem is remarkable. From DeFi's integration with traditional finance to NFTs revolutionizing digital ownership, from Layer-2 solution dramatically enhancing scalability to the **explosion** of AI-blockchain applications. We are witnessing simultaneous **maturation** of multiple technological advancements. Most of which were only theoretical concepts of past cycles.

What truly distinguishes this cycle is the robust foundation upon which we have started building. The market is now

supported by sophisticated institutional capital with longer time horizons, regulatory frameworks that provide certainty with the ability to innovate, and infrastructure that can handle mainstream adoption without buckling under pressure. These structural improvements have fundamentally altered the risk profile of the asset class.

The path forward will not be without volatility. The scale of capital flows entering the space guarantees periods of **dramatic** price action. However, each market correction should be viewed as an opportunity rather than a threat in this **current environment**. The underlying technology and adoption trends driving this supercycle are simply too powerful to be derailed via short-term volatility.

At BlockBytes Capital, we maintain both **discipline and conviction** as we navigate what history will likely record as the most significant wealth creation opportunity of our generation.

Stay Tuned