Stankevicius

2023 Global outlook

Stankevicius
Private Equity
And Digital Asset Derivatives

A new investment playbook

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Contents

A new emerged market environment tend to overstretch a potential of the best case scenario against the reality, composing new unstable elements in the international business; with a potential recession on our way, another potential COVID wave or a bulky manipulation exercise, another awkward start of the presidential campaign just a year away with yet unknown influences and consequences to the market most likely starting to take effect in late Q3 2023; the fed and interest rates plus other unforeseen and unexpected events; a combination of very impactful developments is what is coming next.

European enterprise spending kept decreasing throughout 2022 from the earlier years; Asia's competitiveness kept rising to out-stand and outlast, opportunities are still there, investors are open but market competence in Asia reaching all time highs so to say; world's economic scenarios pushed the Middle East market prices to a dangerous bubble, UAE housing experienced a 100% jump in price, Saudi Arabia announced trillion dollar projects combined, Qatar spent all time highs for hosting FIFA. US consumers spending compared to economic situation just looks weird, in fact it's not just the US but the world. After the pandemic, airports are full, crowded planes, crowded shops, traveling, spending does not seem to stop while salaries are kept the same and standard product prices have risen dramatically. Where does this end?

Equities are in trouble although new innovations are coming out yet overrated and overpriced. Tech stocks finally are getting their real valuation and worth. DJI reaching a historic run in Q4 somehow felt manipulated by the environment. The actual real numbers are always leveraged by words of those who are in power position and their future actions and events. Perhaps markets were wrongly priced in the first place due to previous COVID pandemic and now markets are trying to balance back. Digital assets also fell drastically with multiple collapses one after another. Again, an over leveraged scenario with future expectations but then the waited results just weren't fulfilled. As an investor how do you operate in fluctuating and overvalued markets, and how to not lose money? Where and how to invest?

Intro

Understanding that invested capital can be impacted directly by indirect issues

The safety logic behind investing in private equity, ETFs, futures, general commodities, startups or any business in general, is how do you as an investor successfully manage to control key factors and surroundings of your investment, and what can you do if you can't control them.

Private equity investing in private companies: startups, SMEs, large enterprises have a large number of factors and third parties affecting the outcome of the business.

Keeping control of each and every aspect of the business at some level is not just important but absolutely critical. There is no space for faith and hope.

Large number of investors end up losing their capital because they give up control and trust a powerpoint presentation and excel table with numbers.

Tesla price has fallen dramatically just recently before the end of year 2022, some to say a very speculative stock and lack of foundation and solidity of the actual car manufacturing business. Investors often jump on the rising stock without reasoning other than quick gains.

A retail investor can't control Tesla's stock price, institutional investor can, but it could be also be exposed in doing so in extracurricular activities. So how do you trade and invest?

In Q1 2022, the banks were offering retail investors with wide open hands to invest into S&P500 stocks like Tesla and Amazon, and for almost no-reason to back it up, at the same time offering very lucrative 10-20% annual returns. Today at the end of 2022, Tesla is down nearly 70% and Amazon is down over 50%.

What are these indirect issues affecting our investments one may ask? Unexpected market moves and unexpected decision making by the companies themselves including unexpected events within the company itself that are influenced by third parties. You may ask, how do you control that? Can you control that? How do you hedge? And, can you even hedge that?

Tactical views

Our new playbook

Navigating markets in 2023 will require 1) control logic in terms of controlling business stakeholders and 2) more flexibility to be able to take sharp and sudden movements in terms of derivative trading.

The table shows how we plan to execute investment business in volatile and very uncertain markets. A few key findings:

- Control and supervision in private equity investments is necessary until exit
- Investing in companies with confirmed audience and existing orders
- Volatility in digital asset trading brings profitability but you have to keep a sharp eye on risk levels

Private Equity	Digital Asset Derivatives
Stakeholder control (As an investor holding an active position in the company as individual or corporate entity is a must, to actively monitor internal and any third party business involvements and execution including quality and assurance)	**Focus on Bitcoin derivative** (Bitcoin is recommended to be the main digital asset to trade as Bitcoin has not only the longest market trading history available to analyze but is also the primary indicating leading asset in the digital asset space)
Purchase order driven investing (Investing in specific and targeted companies that have existing order requirements to fulfill for mass production or services)	**Keeping an eye on top 20 market cap** (In 2022, top 20 assets by market cap have fell significantly, few of them might see a potentially strong rebound)
User driven investing (Investing in companies having a large established user base with strong sales distribution channels)	**Shorting is not finished yet** (While 2022 has been the biggest short year so far we are not out of the woods yet. A potential large fake out could unexpectedly happen in 2023, another wave of multiple events colliding might trigger multiple short position opportunities)
Recognition based investing (Investing in companies collaborating with established brands, taking a deep dive into advisory board and board of directors individual backgrounds and their network reach)	**Keeping extensively large margins** (Leverage trading is a high risk and trading digital assets is even more riskier. Keeping extremely low leverage or even 0 leverage is highly recommended)

Digital asset derivatives

Statistically most accurate derivative trading pair BTC/BUSD & BTC/USDT

Amongst all the digital assets, Bitcoin has the longest market data available. As a leading asset, Bitcoin derivative has the most accuracy in future price predictions while at the same time Bitcoin leads the market direction of the entire space.

Digital asset derivatives are exposed to high risk due to a very high volatility of its sensitive market. The space is not big enough yet as it recently dropped and broke down the $1 trillion only market cap, and as of today 31/12/2022 the market cap of entire digital assets is under $800 billion only.

The market is small enough to be triggered quickly by small manipulations which might be influenced by completely outside events and other third parties.

Top 20 and 25 digital assets such as AVAX, SOL, ADA, LINK and numerous others experienced a dramatic fall in 2022. Liquidations of LUNA, CEL and FTT have shaped the market to new form.

We have seen S&P500 companies collapse especially in the tech sector due to overpriced valuations. As companies fail due to human error, Bitcoin still remain in the lead of its own industry as an independent and uncontrolled asset.

While institutions and so called whales are able to influence the price movement, if we take a closer look at Bitcoin's price movement, it does actually very much follow and respect historic trend lines since the beginning.

Because Bitcoin has such a long history in the market it does operate differently and has a totally different influence over the markets than a typical company-ran digital asset.

The second most traded asset in terms of statistical accuracy is Ethereum which has been also very much respecting trend lines and historic data.

While trading digital asset derivatives, we see that Bitcoin and Ethereum have the most stability and are the only ones which are worth the focus, attention and concentration.

Long positions on the lookout

Restructuring, rebound and catching the bottom

In 2022, large number of promising companies that investors were quite bullish on have suddenly collapsed, yet not one or two but almost all of them. Until now, BNB has held its position. It is unclear still what the future holds for Binance, but it could be just too big to fail as Binance technically holds the digital asset industry together.

New players most likely to emerge during this bear market. Economic factors are still indicating that a potential bear market could still be extended during most of 2023, at least until somewhere around Q3.

Alternative digital assets have demonstrated year after year large possibilities of phenomenal earnings. Retail and institutional investors will put a lot of concentration into finding the best rebound opportunity out of top 20 and 25 by market cap in 2023.

Maintaining significantly large leverage margins are critical considering that even if we're entering 2023 it does not mean the bottom is in but a continuing short; a speculative possibility of another 30-50% drop in the markets could happen but investors should be prepared for a volatile upside action as well, and keeping those margins extensively larger than usual is highly recommended.

Shorting is not finished yet

The bottom might take time to finally hit

Even though the market might seem at its lowest on the macro scale, the micro might show a different picture with more room to fall. In the catch the bottom market event, so called fake outs and retests are very common and expected. Every large rebound might continue with a bigger short keeping the same pace for quite a while going sideways.

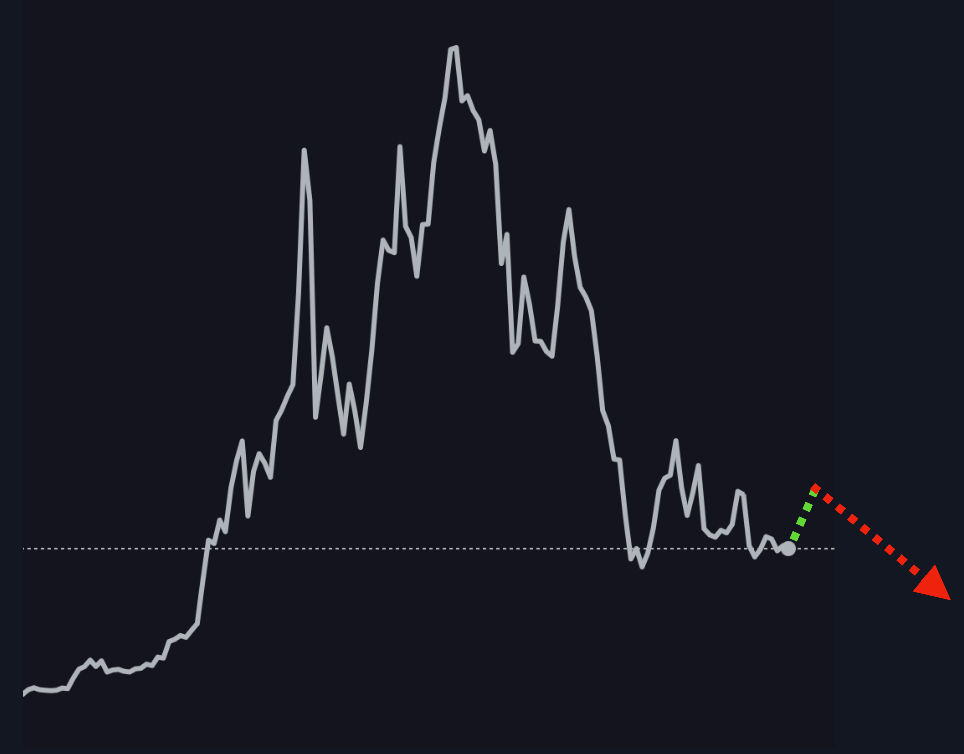
It is very unreasonable to expect that the bottom will be at one particular price, the bottom might still be on the lookout for several months or even quarters. Keeping notice at the same time how world's economic environment shapes out.

Key things to consider in such case:

Every rejected retest against higher and stronger resistance might indicate another pull back and another short opportunity.

Every bounce might also indicate a higher retest opportunity which might feel right like the right time to increase the leverage but doing so might also increase the risk because in the long accumulation phase there are a lot of pullbacks, dragging positions down and without properly large enough margin, a liquidation is a serious concern to think about.

Expecting **smaller rebounds/retests**



Dangerous **higher rebounds/retests**

Private equity resolution

New standards to look at

Institutional capital is available and ready to be invested but the standards and requirements have changed to whom and where the capital should go.

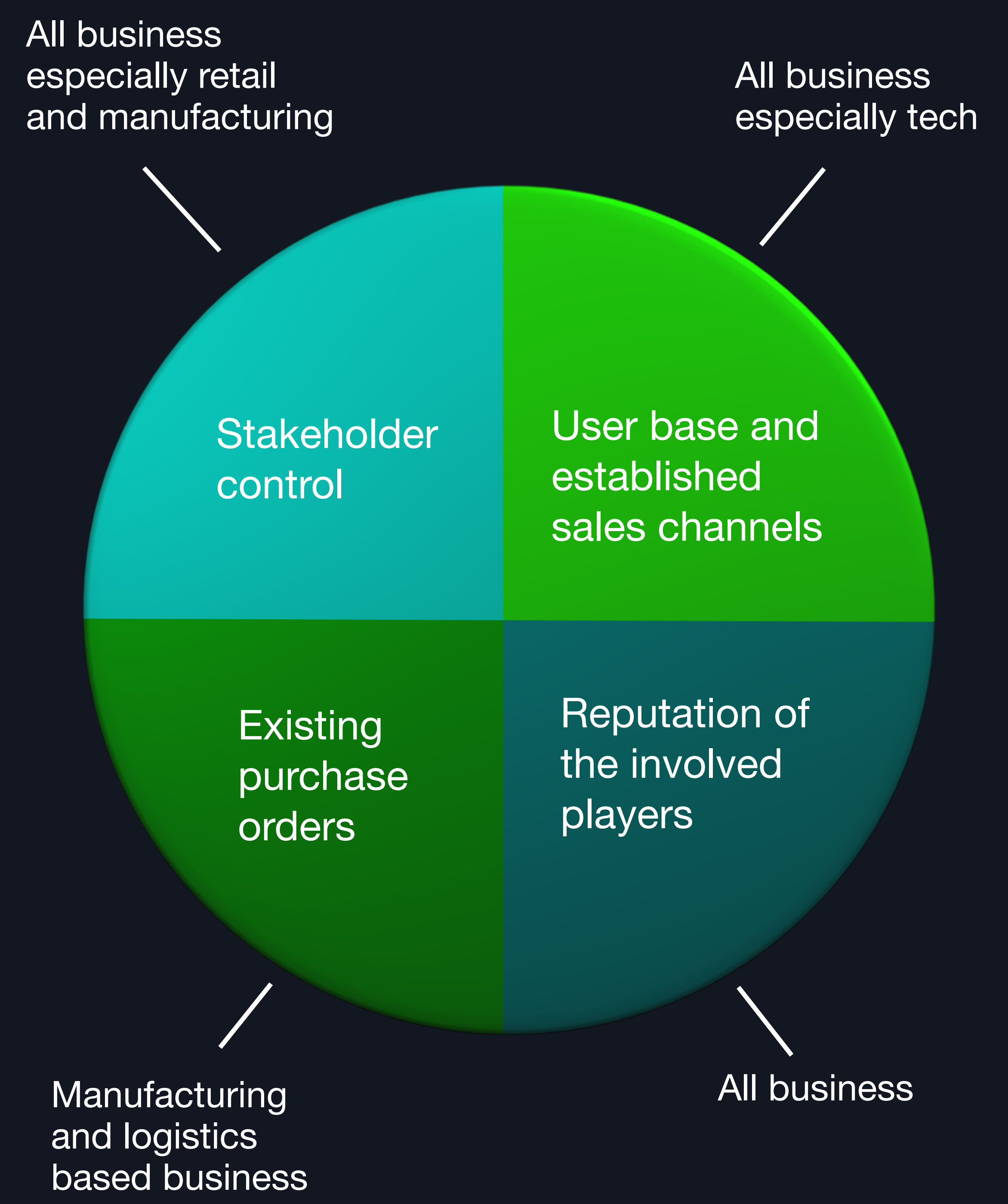
The 2014-2018 startup boom including crypto manipulations, have confused and mislead a lot of investors. Old investing metrics did not satisfy investors for a positive outcome.

The demand for more edge in early stage investing is not optional but mandatory. The hunt for the best product with the best quality is on. European fintech has emerged strong in this sector, Asia is on top, U.S. might be a little behind in certain digital infrastructures but U.S. keep attracting innovations from outside since U.S. still holds world's most powerful public listing exchanges.

Healthcare and health tech is taken more seriously after the pandemic.

Digital banks became basic but in emerging markets the opportunity is still there.

Aspects we look at when making investment deals in private equity: existing orders, possibility of control, established sales channels and audience size, reputation of the involved players.



Past performance vs. purchase order

Hedging historic data based investments against future potential

Investing in companies with past performance, revenues with existing EBITDA is the safest scenario for investors, but how do you find a rising star and getting in early?

While keeping the security measurements as tight as possible yet having a small open gap for risk; the metrics we recommend to use in the early stage companies or pre-seed/pre-revenue companies is a combination lead by purchase order initiative.

Physical businesses, engaged in international commodity trading, process large volume transactions and have one of the highest profitability ratios which have not been taken into consideration for a long time. Ever since tech emerged, investment focus has quickly turned into trying to gain multiple X returns quickly, however the most successful and sophisticated businesses in the world are based in traditional industries including trading commodities, shipping, logistics and real estate.

When markets are uncertain, investing in highly leveraged industry such as blockchain/metaverse might seem an opportunity for 10X/100X yet it can go to 0X. On the other hand, investing in traditional businesses with stable revenues and healthy profitability ratios, the invested capital would experience stable growth and be secured.

Traditional industries such as regular commodity and various product trading are based on purchase orders which hold future transaction value. Trade financing facilitates general trading businesses by providing advance financing to purchaser.

Investing in such traditional business approach requires to take involvement in stakeholder control. Additionally, a close background research on individuals and companies involved in the deal is a must.

Heavy due diligence on supplier side is required to analyze by the investing party. Investing into physical product business based on existing purchase order could have more certainty than investing in early stage app based business which has no certainty at all in the early stage.

Yet, certain risks do apply when analyzing documentations and parties involved in the general trading business and product manufacturing business.

In order to extract more possibilities out of your investments, you might consider hedging between past performance based companies with revenues and monetary results against companies with existing orders.

Past performance does not guarantee future results, and past performance could've been influenced by certain market factors in the past which aren't perpetual.

The risk falls on both sides whether investing in past performance or purchase order based businesses, that's why a hedge by investing in both could seem reasonable for sophisticated investors who are rather investing in more stable and less speculative businesses and are looking for stable long term growth rather than an explosion of multiple X.

The hunt of those multiple return explosions lead a lot of investors to losses in previous years.

Conservative approach could be a good idea to prevent losing capital.

Tech based orientated investing

Sub-sectors of tech to look at for multiple X returns

Investing in tech has greater risks involved because tech is a very wide sector and while some tech companies gain more interest and perform speculatively better than other tech specific product oriented companies, we think that in 2023 and beyond, specifically these sub-sectors of tech most likely are going to get the most attention:

- **Social media** is on the verge and new players are expected to emerge in the coming years to tackle against Meta and Instagram platforms.
- **Blockchain technology** most definitely looking to evolve more and certain cryptocurrency aspects might evolve together with it.
- **Artificial intelligence** will continue to develop and new products will be emerging including automatic trading solutions in financial services.

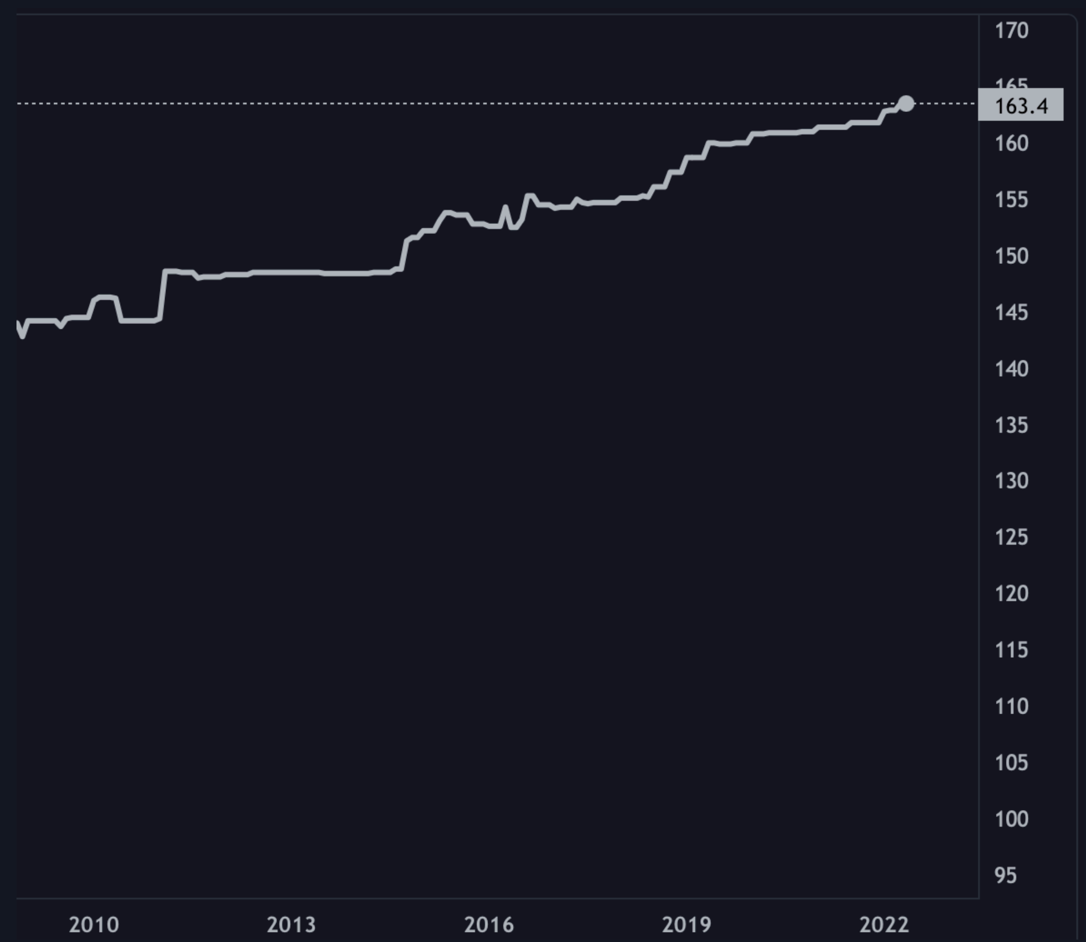
Tech has always been a very widely overlevereged industry especially when it comes to company valuations which makes the entire sector extremely speculative.

A new emerging tech startup might gain a rapid user growth for a very specific reason but maintaining that growth and the interest is another thing which is difficult, in general, and this applies to all industries.

When investing into tech a correlation between how to grow and how to maintain users' interest should be drawn into consideration.

Only very specific products succeed in the tech market the most, and we think these are mainly fintech products.

PRODUCER PRICE INDEX BY INDUSTRY: SOFTWARE PUBLISHERS: SOFTWARE MAINTENANCE, TECHNICAL SUPPORT, AND OTHER SERVICES RELATED TO SOFTWARE PUBLISHING



In the last 10 years, tech has experienced a steady growth but without disruptive spikes. US and Europe are very tech oriented, while Asia including China are also in the disruptors list, yet Asia and Middle East and also Europe, US and African economies are very much based on trade. The global economy is ran on trade business. Tech is still young in comparison but could potentially see a spike upwards within a decade considering if blockchain, artificial intelligence or other newly emerged tech would impact trade industry directly.

The take

Directional views

Our new investment playbook is both strategic and tactical that we utilize within our firm and recommend as consideration-only to others.

Take digital asset derivatives. We kept short positions during entire 2022 primarily focusing on shorting Bitcoin and at times we caught falling alternatives which was a plus. We think cryptos should have one more leg down but it's still very uncertain, however we keep our margins very extensive and leverage very low which allows us to take deep breaths even when stronger bounces appear against our positions.

In private equity, traditional markets have been our target for the past year. Purchase order oriented businesses have proven to be very real and lucrative as they carry high reward and low risk approach once all parties involved in the trade deal are analyzed and approved.

Financial technologies ran on artificial intelligence, social media and health tech remain our sole priorities in the investment space. We think that AI-ran fintech will remain very competitive and dominant tech sub-sector, health tech will continue to grow and evolve especially after the recent pandemic, and social media might experience a new comer very soon.

Directional views

Strategic (3-6 month) and tactical (6-12 month) views on digital asset classes, December 2022

Asset	Strategic View	Tactical view	
Digital asset derivatives Short	+2	-1	Strategically in short term, we are overweight digital asset derivatives in short positions as we estimate a further bearish scenario for crypto markets. Tactically, we estimate possible stronger bounces happening in the market in 2023 in Q2-Q3.
Digital asset derivatives Long	+1	+2	Short term wise, we see possible smaller retests which are good for short-term long positions and we are looking to enter larger long positions later on the 2nd half of 2023.
Digital assets Hodl	-3	+1	We're heavily underweight digital assets as we do not hold any crypto assets in this current moment as we haven't yet identified the market bottom yet. Tactically, we are estimating market change in the 2nd half of the year and will reevaluate our holding position.

Underweight **Neutral** **Overweight**

Note: Views are from a U.S. dollar perspective, December 2022. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding any particular fund, strategy or security.

Tactical views

Six to 12-month tactical views on private equity global asset classes by region, December 2022

Private Equity (Traditional trade)	View	Commentary
Developed markets	+2	We are overweight. We see trade volumes increasing as demand rises for specific professional use products and regular consumer products.
United States	+1	We are overweight. United States has been always one of the largest importers worldwide on commodities, consumer goods and products.
Europe	Neutral	We are neutral. Europe has very strict business policies and high taxation making trade business difficult.
UK	+2	We are overweight. United Kingdom holds a large number of trading firms which are doing trade business actively. UK is one of the top spots in Europe exercising general trading practices.
Japan	Neutral	We are neutral. Japan reach in terms of business access is difficult. While the country deeply involved in trade activities, getting the access to the specific trade business is still challenging.
China	-1	We are underweight. China is no doubt the leader in trade and the largest trading companies come from China, however the regulation, laws and security related policies and other issues makes it difficult to invest in China.
Emerging Markets	-2	We are underweight. We have experienced certain not friendly policies and business practices with Indonesia, Philippines and other Southeast Asian countries. We are not entirely sure if at this point investing into trade with the region would hold enough safety for the investment.

Underweight | Neutral | Overweight

Private Equity (Tech)	View	Commentary
Artificial Intelligence	Neutral	We are neutral. While AI has a definite potential of growth and overtaking the tech sub-sectors as a leader, we still think AI is early in its current development process.
Fintech	+2	We are overweight. We look at fintech as a truly leading sub-sector of tech which has definitely over the last years evolved very well especially in digital banking sector.
Health tech	+2	We are overweight. The interest in the sub-sector after the pandemic has risen significantly, health tech and healthcare have received more attention in the recent years and we are very bullish on health tech.
Social Media	+1	We are overweight. We expect new comers to enter the social media space with very new ideas that could be in a way connected with blockchain technology. The space hasn't been challenged for a while now.
U.S. health tech	+1	We are overweight. We see that regular consumers particularly in the U.S. are more interested in using health tech products/ services, and there is a definite investor interest in the space.
Asia Pacific including India and Vietnam e-commerce	Neutral	We are neutral. While the e-commerce space in APAC region is very competitive, we think that the current stage of the economy and post-COVID implications are slightly slowing the space down or at least slightly pausing it for a while.
European fintech	+2	We are overweight. In terms of fintech, Europe has actually developed very well even during the bearish markets. We see Europe developing further and Baltic region becoming the lead of fintech hubs in Europe.
MENA tech	-1	We are underweight. We see Middle East growing in the real estate and infrastructure especially in Saudi Arabia and UAE; still however the tech space is widely unexplored and quite open for opportunities, MENA focus has not yet shifted to full time tech completely.

Stankevicius Private Equity and Digital Asset Derivatives

Stankevicius Alternative Investment Banking leverages the firm's expertise to provide insights on the global economy, markets, geopolitics and long-term asset allocation – all to help our clients and portfolio managers navigate financial markets. Stankevicius strategic and tactical market views, publications and digital tools that are underpinned by proprietary research.

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