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The past week was brutal for anyone holding stocks or crypto. Everything corrected and then corrected more. 💥😵💫💥

Some voices are shouting “buy the dip” while others are predicting the beginning of “a crypto winter”.

My framework for thinking about “corrections”: 🧵👇

Crashes hurt. There’s no denying the fact that when market crashes occur, confusion and panic set in. Uncertainty around what to do creates anxiety and angst.

And the “January 2022 correction” is no different. Fear is dominating many people’s head space.

But in times of uncertainty, a framework can be a guiding light that helps one navigate choppy waters.

The mental model that I’ve set as “True North” consists of two very important concepts:

Ownership Stability and Horizon Contextualization

Ownership Stability

The crypto world likes to remind “no coiners” that 1 BTC = 1 BTC and 1 ETH = 1 ETH. It took me a while to understand this perspective, but I’ve come to the conclusion that this truism has very broad application if understood at the atomic level.

The first principle that guides this truism is that the ABSOLUTE OWNERSHIP of an asset is fixed while the RELATIVE VALUE of an asset fluctuates based on market sentiment about the asset.

Internalize that nobody can take away something that you’ve bought. You own it. Full stop.

This means that if you buy 10 shares of a company's stock, nobody can take away your 10 shares. When a market corrects, you still own 10 shares. Unless new shares are issued by the company, you own the same % of the company's future earnings. Nothing has changed.

But people can't help but panic when liquid investments correct because there's a second-by-second valuation available about what your ownership is worth if you were to exchange your asset for fiat currency.

People care about this translation because fiat currency is a universally agreed upon store of value used to purchase goods and services. If you want to buy food and clothing and cars and houses you will eventually need to exchange your assets for fiat currency.

(Crypto maximalists will argue that this won't be true forever and there are signs that some tokens are becoming alternative stores of value that society will recognize and accept. I'll park this for now but it's a very interesting perspective that if true matters a lot.)

If you don't want to sell your asset now, then the exchange rate of "your asset to fiat currency" doesn't matter. What matters is the quality of the underlying asset. And what matters even more is contextualizing what the asset is likely to be worth when you plan on selling it.

Horizon Contextualization

Good companies produce products and services that their customers love and are run by management teams that know how to grow earnings and create competitive moats.

This doesn't happen overnight. Value creation takes time.

The same is true for other assets. High quality assets increase in value if their utility or their desirability increases. Asset values can spike, but typically value creation takes time. Creating utility takes effort and time. Awareness and adoption takes effort and time.

Liquid markets are very good in the long run of pricing assets but they tend to do a terrible job of differentiating the value of individual assets during times of volatility and uncertainty.

Assets move in tandem when there's a sell-off and this past week was no exception.

The important implication is that horizon contextualization matters. Once a market stabilizes and settles into a new norm, investors will do the work to properly value individual assets vs. an asset class as a whole.

Quality assets will be seen for what they are over time.

Another important concept to internalize is that liquid assets aren't always superior to illiquid assets. Liquidity is a feature AND a flaw.

Investors in liquid assets have the ability to make buy, sell and hold decisions every second SO THEY DO.

And being able to mark a liquid investment second-by-second has a massive impact on the mindset of people holding the asset.

Investors can't help but feel good when their assets are marked up nor can they help but feel bad when their assets are marked down.

But guess who else is affected by the ups and downs of a liquid asset's valuation? The people who are working on making the asset more valuable over time!

Many employees (and the equivalent in a DAO/crypto context) hold equity/tokens in the "thing" they're working on!

This can be dangerous if it's possible for talent to abandon a mission by cashing out and moving on. And even if they "stay the course", talent can become less productive if they're depressed at how much their "current net worth" has fallen.

For this reason, illiquidity is a feature for companies/projects that require long-term commitment and planning.

In the world of VC backed companies, capital is raised every 12-24 months which means investors and employees can focus on value creation vs. "today's price".

This "True North" framework of Ownership Stability and Horizon Contextualization can guide you on what to do during times of volatility like we saw last week. It's my personal guide which I've found to be very helpful and calming.

The so what:

Liquid Holdings

Periods of volatility require a re-evaluation of liquid holdings. Looking for spots where "relative valuations" appear to be mismatched can produce good returns. Rebalancing and rethinking absolute exposure levels to different assets is a good exercise.

Illiquid Holdings

As a venture capitalist, most of our companies are illiquid and therefore zero energy is spent thinking about buy/sell decisions. What matters is whether a company has the capital to weather what could be a shaky funding environment.

Given the amount of capital that's on the sidelines, capital will be available for the best companies but it might be more expensive in the near/medium term if the public markets stay depressed. Helping our companies navigate this environment will be important.

Availability of New Capital

If you have dry powder, then dips are opportunities to buy select assets at great prices. If you like a company's long-term prospects, then it could be a candidate for increased exposure. Buying at $100 is better than buying at $120!

A crypto example:

If the ETH value of a quality NFT project hasn't changed, then converting USD to ETH to buy more is a great trade.

It's the equivalent of traveling abroad when the relative value of the destination country's currency has corrected. Everything is cheaper!

In the VC world, it's possible that some "value trades" will emerge as the public market correction ripples through the private markets.

But dry powder matters because if the public markets stay depressed, raising new capital could be tough.

VCs need to internalize that many of their LPs think deeply about asset allocation. While VC investments have done well over the past decade, it doesn't mean that more money will flow into the ecosystem if the LPs care about "relative exposure" to the asset class.

If a LPs' public portfolio has fallen, venture allocations could suffer from a "reduced denominator effect" that will make asking for more money challenging.

This isn't universally true, but it will drive enough rebalancing to make raising venture capital a bit more challenging.

TL;DR: Don't panic. It's great generic advice and advice that's difficult to act on.

But long-term thinking solves so many problems and is a life skill if you can master it. Make sure to internalize that you own what you own and act accordingly!

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