

# Value Premium, Network Adoption, and Factor Pricing of Crypto Assets

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# Very Interesting and Thought Provoking Paper!

- Two factors on top of the market, size, momentum
  - value (measured as the long horizon return reversal)
  - network adoption premia
- Perform better than 3-factor model based on a number of criteria
- Local factor models perform better than global factor model
  - factor models constructed within classification outperform factor model based on the whole cross-section
  - Mimic international trade literature
    - Country-specific factor models do better than global factor model

# Road Map

- Some observations and “guesses” on my side
- Comment #1
  - Similarity and difference between the value effect in crypto and equity market
  - Why the similarities and differences?
  - Does it tell us about something about the underlying mechanism?
- Comment #2
  - Why high network outperforms low network growth?
  - What kind of risk can explain the fact?
- Comment #3
  - Cool insight with the connection to international finance
  - Can we learn more from the exercises?
- My sense is some market segmentation is in place behind many of the results.

## Comment #1

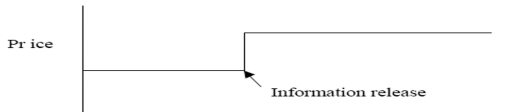
- Long horizon returns (52-week return) predict future return negatively and significantly
- Among smaller coins – long term reversal
- Among larger coins – short term momentum
- Among smaller coins – short term also some form of reversal, and no evidence of momentum
- Among large coins – long term no evidence of momentum or reversal

## Comment #1

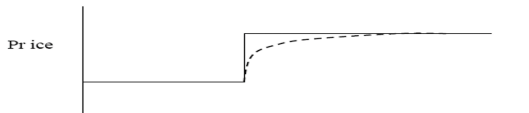
- Seems like there are both momentum and reversal, just like equity market
- But actually very different
- In the equity market: Both momentum and reversal for the same stock

# Comment #1

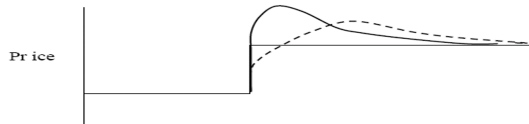
## Efficient market hypothesis



## Underreaction (*Price adjusts to news with a lag, Momentum*)



## Eventual Overreaction (*Price eventually overreacts, Momentum followed by reversals*)



## Comment #1

- Among larger coins – short term momentum
- Among large coins – long term no strong evidence of momentum or reversal
  - Only under-reaction
- Very different from equity where some evidence of momentum weaker for larger stocks – has been challenged
- Typically story is on attention

## Comment #1

- Among smaller coins – long term reversal
- Among smaller coins – short term also some form of reversal, and no evidence of momentum
  - Only over-reaction – seems to be more natural
- Maybe different investors buying small vs large coins?
- Large coins seem to be more popular, but investors are less attentive to little news events
- Small coins any news may seem to be very important and investors are way too enthusiastic -> leading to over-reaction effect
  - Have a side prediction that this would work better for good news



## Comment #2

- Why high network outperforms low network growth?
- This may be more risk-based?
- High network growth -> high expected return -> high risk?
- Low network growth -> low expected return -> low risk?

## Comment #2

- One possible hypothesis:
  - High network growth -> more subject to market crashes
  - When the whole market goes down, the ones that are growing fast suffers
- However, market factor doesn't really account for it
- Conditional model?
- Second aggregate shocks?
- Still a bit unsettled, but seems like some risk-based model may be in play here

## Comment #3

- Local models work much better than global model
- In international finance, typically explanation is market segmentation
- May check whether a local model prices coins in other classifications
- Do we have evidence on the actual holding level differences?
  - Crypto investors use coins for different reasons
  - For example, if use for transaction only, not interested in the other functions of other coins
  - Data will be great, even anecdotal evidence will be good

# Conclusion

- Very interesting paper! I recommend you all to read it
- Comment #1
  - Dig more into the different behaviors of small and large coins. May shed new light on a group of special investors
  - Definitely seems like small and large coins have different investor base – some anecdotal evidence on that
- Comment #2
  - May have a reasonable risk-based stories here
- Comment #3
  - Cool insight with the connection to international finance
  - Again, strong evidence suggesting different investor base
  - Some direct evidence will be super convincing