Paradigm

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Founders,

In the first 2 months of 2021, crypto prices have already doubled and continue to hit new all-time highs. Bitcoin has crossed $1 trillion in market capitalization. Pixelated crypto art regularly sells for millions. Senators even have lasers for eyes! Euphoria abounds.

As co-founder of Coinbase through 3 prior market cycles (2011, 2013, and 2017), I've experienced these euphoric highs before. I've also experienced the communal despair and disillusionment that have followed. Below are some observations and learnings I've taken from living through these past crypto cycles. I share them with the hope they help you, your team, and your community prepare for whatever is ahead, so that you can avoid potential pitfalls and maximize your chances of success.

While it's impossible to predict the future, past cycles give us some sense of what to be ready for. They can help us imagine the potential aftermath of this latest wave of euphoria. And they serve as a reminder that bouts of uncertainty and volatility are to be expected given the scale of the opportunity for crypto: a technology that could transform not just money, but the financial system and the internet broadly.

Observations of Past Crypto Cycles

A (large) caveat: future cycles will almost certainly look different than past cycles. We may not even be in another cycle! But markets do tend to go through cycles, with key elements that generally repeat themselves. To prepare for future scenarios, it's worth understanding these elements of cycles past:

- **They are highly emotional.** Founders, employees, and customers quickly gain or lose large sums of money and have a hard time handling either, completely rationally. Compounding this effect, periods of "hype" have historically been short, while "normal/down" periods have been much longer. At Coinbase, we were riding high in 2013, only to experience 3 long, gut-wrenching down years until 2017. Many employees became dejected and over a third of the company turned over. Being a founder felt incredibly challenging and lonely.
- **They attract massive public attention.** The media want to talk to you. Family members ask you to explain what's going on. Friends press for investment advice. Companies or protocols are touted as "going to the moon" one day, only to have their obituaries written the next.
- **They strengthen the ecosystem.** Crypto has exited every cycle stronger than it entered. This is true across all key metrics: entrepreneurial and developer activity, academic research, infrastructural maturity, corporate adoption, public awareness, and simplistic price, amongst others. Zooming out, cycles can be reframed as volatile periods around a relatively consistent adoption curve. Despite the emotional gyrations, at Coinbase we came out of each cycle in better shape, by every metric and by many multiples, than at the end of the previous cycle.
- **They wash out weak companies.** While a rising tide lifts all boats in upcycles, poor fundamentals and flawed strategies are ruthlessly exposed in downcycles. Many fail to survive. Those who do have the tremendous advantage of having built while others perished and typically thrive when the next upcycle arrives.
- **They draw regulatory attention.** With public attention comes regulatory attention. At Coinbase we spared no expense in figuring out our regulatory strategy before regulators came knocking.
- **They push infrastructure to the limit.** This is true of companies, crypto-native apps, and the blockchains themselves. Exchanges go offline. Transaction fees rise 10-100x. At Coinbase we ran out of working capital to support the massive influx of customer demand in 2013, forcing us to pause the customers' ability to buy -- not the best experience amidst the largest influx of customers we had ever seen!

Creating Resilience to Cycles

It's challenging to predict the specifics of any cycle, and thus wise to simply be resilient to them. The most important thing you can do in times of euphoria or despair is think for yourself. But sometimes the experience of others helps in that thought process. So, with that caveat, here is what I've found to be effective in creating resilience during cycles:

- **Lead by example.** Cycles draw focus to the short term. Remaining focused on the mission gives your team and community a fighting chance to do the same.
- **Keep the main thing the main thing.** Since it feels like everything is working in boom times, it's tempting to want to do everything. Maintain a high bar for changing or expanding your scope. The same idea is true in a downcycle. The crypto graveyard is littered with the remains of companies who pivoted away from their core mission in a downcycle, only to watch with anguish as their idea started to work in the next upcycle. In 2015, a Coinbase board member suggested we start constructing private blockchains for banks because it offered a short term cash opportunity -- a pivot we are glad we avoided as off-mission and temporary.
- **Make a stress test checklist.** Assume your product sees 10-100x its normal use. What breaks? Ask this of every team lead. At Coinbase, we attempted to estimate customer support caseloads, cash burn rate, and server load ahead of time -- and we still undershot the 10x+ load spikes at the peak of cycles.
- **Consider fundraising.** Ask yourself: "If crypto goes through a protracted down cycle, do I have enough cash to survive?" Cash that is easy to come by today may not be tomorrow. At Coinbase, we found ourselves running low on cash shortly after 2013-14. Luckily, we decided to fundraise before crypto was in serious winter; had we not, we may not have survived until the 2017 spring. When we completed a large fundraise, we put half of it in a separate bank account to create friction around drawing down our rainy day fund. If your personal bank account is near 0, consider taking a small, non-life-changing amount off the table. It may help you sleep better at night and maintain focus on achieving the most ambitious version of your mission.
- **Caution newcomers.** Remind recruits that they should prepare themselves for long down periods if they join your company. Coinbase had countless employees join during the highs of 2013-14 thinking crypto was on a straight line to the moon, only to become dismayed and leave when crypto "crashed" before picking up again in 2017. Prepare your customers and community as you prepare your team. When a down cycle starts, you can quickly go from being celebrated as a visionary leader to being crucified as a scam artist.
- **Repeat your message multiple times, through multiple channels, from multiple people.** It is harder for messages to be heard during noisy, heady times.
- **Prepare yourself for a marathon, not a sprint.** So many founders flame out. Stay healthy and allow yourself to take time to clear your head. Challenging situations become easier to deal with the more you have experienced them. Give yourself the opportunity to build that experience.

Forging Ahead
Foundational technology breakthroughs carry both great opportunity and great uncertainty, the two key ingredients in the recipe for cycles. It shouldn’t be a surprise that crypto would be a more extreme example as it begins to redefine multiple large, global markets: money, financial services, and the internet itself.

Cycles are neither good nor bad; they are natural. Peak euphoria provides the opportunity for the world to dream about the future. Rock-bottom despair forces practicality and clarity. When things are good, they're never as good as they seem; when things are bad, they're never as bad as they seem.

I do not know how the current cycle will play out, or even that it is a cycle at all. I do know that every past cycle has left crypto stronger than where it started. Times when things feel like they are going well are the times to build resiliency and set yourself up for success no matter what the future holds. I hope you embrace that opportunity.

As always, we are here to support you.

Fred Ehrsam and the Paradigm team