Bear Forage

Portfolio Management

Surviving is thriving

Although there are ways to make money in crypto no matter the portfolio size, your risk management strategies should evolve as the portfolio grows. This guide is written to help you reallocate funds as you move up in the crypto world from a shrimp to a whale.

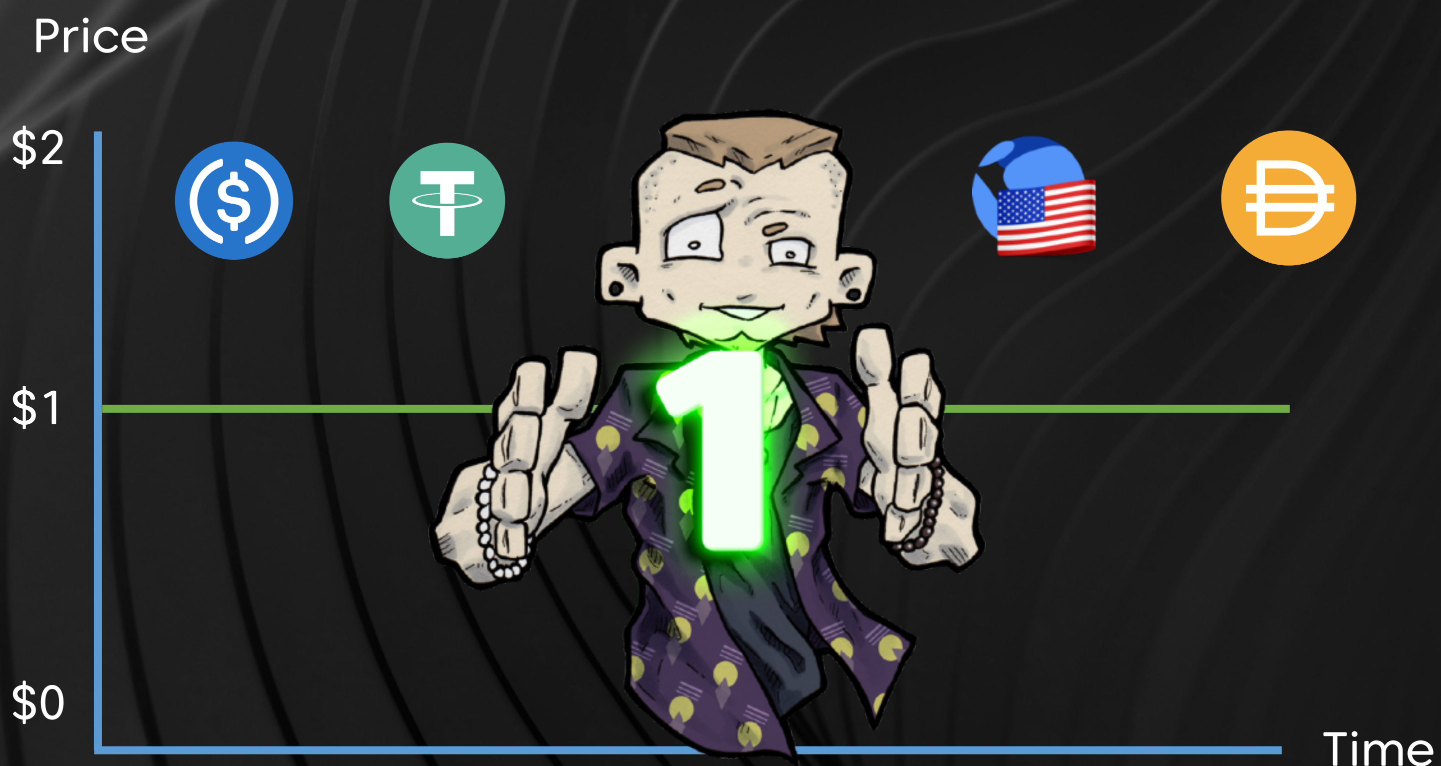
It’s important to note that this guide assumes you have no other liquid financial assets such as stocks, bonds, etc. If you have significant investments outside of crypto, it’s probably fine to take on more risk than this guide suggests. Losing less than 1% of a portfolio to lousy timing or an overly emotional day is not financial ruin.

Before we start, let’s go over the different types of crypto investments you can make. In general, there are four main buckets in every crypto portfolio (ignoring NFTs). These buckets are based on their risk profile: the further out on the risk spectrum you go, the greater your expected rewards, but the closer to 0 it's likely to trend.

DISCLAIMER: NONE OF THIS IS FINANCIAL ADVICE. I AM NOT A FINANCIAL ADVISOR. THIS IS SOLELY FOR EDUCATIONAL PURPOSES ONLY.

Crypto Investment Categories

Risk Level 1: Stablecoins



Stablecoins are an important part of a portfolio for two reasons: 1) they can be used as “dry powder” in market crashes to buy dips, and 2) you can earn amazing returns on stablecoins relatively risk-free.

Having stablecoins in a portfolio, especially a larger one, can help you ride through downturns and manage your emotions. With a healthy USD position, market crashes become opportunities not disasters. Furthermore, you can earn solid returns on this portion of your portfolio through yield farming. For more info on yield farming you can read my other article on making money make more money.

Returns tend to vary from 10-20%, which is still better than the stock market and banks, so I encourage crypto investors not to shy away from a reasonable stablecoin position once they’ve reached a portfolio sizeable enough to generate about $50k/year. Unstable coins are more fun and potentially more profitable, but just like insurance, no one likes unproductive assets until they pay off.

Risk Level 2: Bitcoin and Ether

Although Bitcoin is undeniably the king of cryptos, at this point Ether has established itself as an asset of equal strength.

For the purposes of portfolio management, I feel these assets serve the same purpose, despite their different risk levels and expected future returns. They're both solid and non-inflationary stores of value with institutional backing and thorough regulatory clarity. Bitcoin and Ether are the only cryptocurrencies with 100% clearance as non-securities, making them as investable as any other commodity like gold or oil. I'd even view these assets as the gold and oil of web3.

Gold and Bitcoin are fantastic places to store wealth, and both Ether and Oil are needed in large quantities to power the physical and digital economies, respectively. In my opinion, these assets will continue to offer the best risk-adjusted returns in crypto - especially Ether.

Risk Level 3: The Majors

Generally referred to as the "Majors," these altcoins are in the top 10 by market cap. They have established investor bases and represent "ownership" in the most widely used blockchains in the space. These are as "bluechip" as it gets with respect to altcoins, and they're likely to be around for the foreseeable future. This category includes SOL, AVAX, LUNA, MATIC, etc.

Despite the designation of Major, there's still enormous upside here as a couple of these will evolve into serious competitors to Ethereum. BNB - the largest of these coins - is only 1/5 the size of the Ether by market cap. I can see one of these easily reaching 50% or even 75% of Ether's market cap, representing a 200-300% upside from here. A lot will happen in the coming years.

We must remember that narratives quickly change, and capital flows between the Majors and every other category. Some of these coins can and will go to zero in a bear market, so it's important to diversify amongst them when we don't know what will survive. Generally, these coins run based on a narrative and capital rotation. In 2021, capital flowed from Binance Smart Chain to Polygon to Solana to Avalanche and finally to Terra. Now we see a rotation to Near. There will be new layer-one blockchains that establish themselves as Majors in the future, so diversification is important and adapting is necessary.

Risk Level 4: Mid-Low Cap Coins

Investments in tokens with market caps under 1 billion dollars require a lot more research as these projects are often over looked and dramatically mispriced. These types of investments require a massive amount of conviction as they're incredibly volatile. You're likely to be down 50% or more at some point. You have to be truly willing to let any investment in these coins ride to zero on the downside and you should settle for nothing less than a 5x or 10x on the upside. I would put any coin with a market cap of less than $1B in this category.

The strategy with these coins is to find as many you can that display value-add at scale, with a team that looks like they have the ability and motivation to deliver year after year, and hold them until the thesis has played out.

Buy right and sit tight. Some will go to zero, but the ones that don't should more than make up for your loses. Again, research here is more important than anything else. Tokens in this category are exponentially more likely to be rug pulls, over-complicated ponzis, or financial experiments instead of business models.

Portfolio Allocations

$1,000 - $10,000

At this size, it's all about building capital quickly and allocating to high conviction altcoin plays no more than what you can afford to lose. Personally, I would avoid diversification and instead focus on **1-3** bets you genuinely believe in and ride them out to the end of your thesis: big money or bust.

At this size, there's no need for stablecoins, bitcoin, or Ether in your portfolio – you want to stick with coins that can quickly multiply by **5-10x.** Be warned: these are closer to bets than investments. This approach with money you can't afford to lose can be devastating on a streak of bad signal.

Allocation

- BTC / ETH: 0%
- Majors: (Top 10 L1's) 50%
- Mid and Low caps: 50%
- Stablecoins: 0%

$10,000 – $100,000

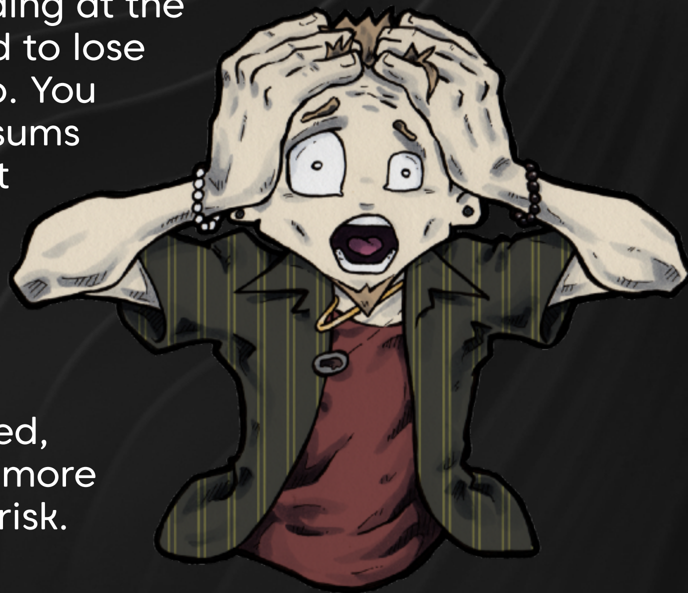
You've now built up a decent amount of capital – congrats! This range is a place where a 2x or 3x on your portfolio is a significant return. This is when you should be especially careful not to lose everything, so there's no need to take unnecessary risks. It's crucial for portfolios of this size to hold time-tested stores of values such as Bitcoin and Ether. The bulk of your capital should be in these two coins, while mid and low-cap coins should be reserved for smaller bets.

Allocation

- BTC / ETH: 50%
- Majors: 30%
- Mid and Low caps: 10%
- Stablecoins: 10%

$100,000 – $1,000,000

This is where your focus should turn to yield farming. And it's probably okay to start playing around with trading at the margins on an isolated account. You can afford to lose 1% on a trade without destroying your portfolio. You also have enough collateral to borrow decent sums of money against. You can use a money market like Aave, BenQi, Mai, Solend, or Geist to borrow stablecoins against your core BTC and ETH holdings and yield farm.



Just like tokens, dApps fall on different parts of the risk spectrum. They can be hacked, exploited, and broken, so dApp diversification can give a more stable average yield while mitigating platform risk.

Allocation

- BTC / ETH: 60%
- Majors: 10%
- Mid and Low caps: 5%
- Stablecoins: 25%

$1,000,000+

At this point, you've essentially made it. Your portfolio is likely generating more yield than you'd spend in an average week. Capital preservation is now the number one priority. Avoid unnecessary risk. You now have enough BTC and ETH to borrow significant sums against at a negligible liquidation risk.

Take advantage of the capital you have to earn passive income and subsidize your lifestyle. On a portfolio of this size, you should be able to safely generate $50,000+ a year farming. You can now safely gamble on small caps, follow our VC allocations 1-for-1, and/or learn to trade, with and without leverage. Losing less than 1% of your portfolio is pretty minimal downside with the potential for meaningful upside.

Allocation

- BTC / ETH: 40%
- Majors: 9%
- Mid and Low caps: 1%
- Stablecoins: 50%

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Patience is key. Even small caps can have a vision that takes years to realize, so buy right and sit tight! $1 million may seem far away, but technology grows exponentially, and well-allocated capital follows. That's why strategy is critical. You need to know which of your investments are long-term and which you're happy to sell at a profit. Holding on to the wrong tokens for too long or the right projects for not long enough is money either lost or not made at all.

Plans don't have to be complex, and "exit strategy" doesn't have to mean all out. Set a price target for short-term holds, experiments, and gambles and start selling once the target is hit. If you like, keep a moon bag, but in an environment where >90% of projects fail, don't make the moon a round trip. For long-term holds, you may never want to sell bitcoin, and instead, keep it as collateral to fund the rest of your life.

I hope you found this framework helpful in thinking about your portfolio. Find more insights on DeFi and crypto investing -> twitter.com/0xZubin. Thanks for reading!

If there is anything you would like us to cover, focus on, help you with, or hear your valuable feedback, please raise your voice and ask for. That's the point of a group effort. We win when you win, and you win when we win. It is, of course, a group effort, and our goal to build and bring on other analysts will continue as time and funding allow. So all of your insight into how we are doing is valuable to us so we can do our best to incorporate this information into everything we produce. Simply email me at info@arcanebear.com and I will add it to our daily work.

Many thanks,

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“ **Buy right, sit tight.** ”