TFTC 434

**Marty:** [00:00:00] Rolling.

Allen Farrington. This is

**Allen:** Marty Ben. Well,

**Marty:** this is a long time coming.

**Allen:** I can't believe it's taken this long. It's, it is a very, very long time coming. I very much appreciate you having me on.

**Marty:** Well, I appreciate you coming on, you're coming on in the nature that you are. I mean, this is a pretty big announcement from you for you.

You've been working on this behind the scenes for quite some time. Uh, I'm extremely excited to see you get your baby out into the wild and extremely, uh, humbled and honored that you are are joining me on this show to talk about it as you guys

**Allen:** launch. So, oh. Very, very much appreciate it, I should say, by the way, I'm glad you gave me an opportunity to right at the start, that just like, honestly, just how much of an honor it is to be on and, and to, again, you know, as you were saying, to, to use this as the [00:01:00] channel that we, we do a pretty significant part of the, the launch announcement, um, just, just as well not, not just you, but to everybody behind the scenes at, at Tftc.

I, I very, very impressed by the contribution that you guys have all been making and, uh, very happy that, yeah, I finally, I can in fact be a part of it. Well,

**Marty:** thank you. And I think the weight will be worth it because what we're gonna talk about today, what you've built, what you're launching, uh, is very exciting and the, the concept that you're really driving towards with Axiom, uh, really reframing how we should be viewing capital.

Uh, not only as Bitcoiners, but as a society and thinking about how we, how we build business and wealth for individuals in society at large. Uh, it's gonna be an extremely important framing. So [00:02:00] before we jump in to your excellent piece about capital that you wrote, um, let's talk about Axiom, what you've been working on behind scenes and what, what you're finally

**Allen:** launching.

Yeah. So right now, uh, we're just a Bitcoin focused venture fund. Uh, the Blue sky aim, though, is to become something more like, uh, Bitcoin Merchant Bank. Uh, so we've been doing the venture side for a while actually prior to, to this public launch. Uh, we have a couple of holdings that, uh, I'm sure your audience will be familiar with.

Um, like Voltage and Neutron Pay. There's a few more. Uh, we've been involved in Wolf from the beginning as well, so that's the, the Lightning Accelerator in New York that's run by nig. Um, we also have a, uh, some more investments that we made much more recently, but typically it's up to the companies to, to make those announcements.

So I won't steal their thunder, I guess. But, um, in the coming weeks or months, I would imagine you'll, you'll hear from them too. [00:03:00] Uh, in the longer term though, uh, we, we, we will definitely wanna keep going with the, the venture side because I think that the space definitely needs it. Um, but we also wanna broaden the range of financial products that we're offering to Bitcoin companies.

So I don't, I don't wanna talk about that too much just now. We're in too much detail, at least just now, because unlike the venture side, uh, we are still in the process of setting it up. Um, but, you know, hopefully I can come back on in six months or whatever and, and give more of an update there. But I guess just, just to tease it a little, With venture, we're providing capital in the form of dollars for equity.

Uh, but basically what if, what if that wasn't the case, right? What if it wasn't dollars? What if it wasn't equity? Uh, what novel properties of Bitcoin lend it to novel types of financing? Uh, which, which I guess actually leads nicely to this, uh, to this first piece that we put out. Cuz, you know, [00:04:00] Bitcoin's killer app is fixing the cost of capital or so I argue,

**Marty:** yeah, I mean that's one thing that's been completely perturbed over the last 50 years is the cost of capital. It's, so I guess before we jump into the piece, uh, which is capital on the 21st century and how you're viewing capital on a Bitcoin standard moving forward, maybe to set the stage, uh, And I think many Bitcoiners have a good understanding of how the cost of capital has been perturbed via the ability of central banks to manipulate interest rates and governments, uh, to be able to issue debt via treasuries.

But like, yeah. How, in your mind has the cost of capital been corrupted in recent decades?

**Allen:** Sure. Uh, I'll try to give as simple an answer to this as possible, because I think it's [00:05:00] very easy to get lost in jargon and technicalities and, and as a result completely lose your audience on, you know, why it's a problem.

Basically, what the bigger picture issue really is, I'd say it's just as simple as with the way the fiat money system works. There is a, almost always an entirely artificially too much debt. Two cheaply issued debt because those in a privileged position to issue it are not born with the real costs of doing so.

The real costs are, um, socialized effectively. And so the result of this is extremely poor capital allocation and far shorter time horizons over which [00:06:00] investments are made. And frankly, financing is thought about by, you know, almost everybody involved in financial services is, is artificially incentivized to shorten the time horizons over which they, uh, need to make whatever decisions is part of their job.

**Marty:** Yeah, and you, you touch on this in the piece, but really not in the context of explaining how we've corrupted it, but it's like really just pulling that, that. Using debt to pull future consumption forward. Yeah. To today. Yeah. And that's actually, it is towards the end of the piece, but I do think it's very interesting to bring up is like bringing that, that capital forward or bringing that consumption forward, excuse me, via debt.

Like it has afforded a lot of growth in terms of we've built more houses, we've got these laptops, these microphones, we've got all this app and all that. [00:07:00] We do have this growth. But, and that's I think one of the, the hard things that Bitcoiners have when they're making the argument for Bitcoin and the sound money standard.

People will say, look at all we've done on Fiat. We have Teslas, we have the internet, we have supercomputers in our pockets. Like, what are you talking about? Like, we've had extreme growth. Um, but I think you touch on it perfectly in the piece where it's like, yes, it's true, but. It's, it's really not like as good as it could be.

Or there, there's something is awry here where

**Allen:** Yeah, yeah. We have, we have extreme growth, but at what cost? That's maybe one way of, of thinking about it. We have, uh, rapidly accelerating revenues of already enormous companies. Uh, and yet basic infrastructure is literally falling apart. [00:08:00] Yeah. Yeah. We've got

**Marty:** the supercomputer, but our, our railroads are collapsing into rivers.

Our highways are collapsing. Yeah. Uh, the, the air fleet, that's another one. We, Matt and I talked about this in Rabbit Hole recap a couple of weeks ago, but like the, the airline industry, older fleets, uh, That's actually another thing too. Like less expertise, like uh, in terms of pilots,

**Allen:** well, yeah, exactly.

Lot of financial. Yeah. There's no, there's no, I wouldn't say maybe not. There's zero, but there's artificially diminished incentive to develop the expertise necessary to maintain critical infrastructure because there's such a pull into, I I, I'm overgeneralizing a little bit here, but finance and tech basically.

Um, one, one other thing I did wanna pick up on just before we, I, I didn't wanna move on without [00:09:00] having mentioned this, is I don't want the audience to understand my argument here as saying that debt is bad in, in kind of absolute terms. It's cuz you do hear this occasionally in. Probably more Bitcoin Twitter than the Bitcoin community at large.

But, you know, on a, on a Bitcoin standard, on any signed money standard, there just won't ever be any debt because cost of interest will go to zero. And, and, you know, your upside is capped. And I, I have a lot of sympathy for this argument. Something that we, um, or that I go into in the piece and that, you know, we are thinking a lot about in terms of the, the other products that we want to launch in, in due course at Axiom is, well, okay, what mix of financing is actually gonna be optimal for companies operating on a Bitcoin standard?

But some of that will still have debt like properties, even if it isn't literally debt. The, the problem isn't that, you know, debt, bad equity goods, the problem is debt has a specific [00:10:00] risk profile, just like equity does, just like any kind of financing does, but it's artificially, it's almost uniquely artificially distorted.

By fiat such that we end up with far, far more debt than really anybody wants, I guess, or, or at an aggregate level. Anybody has made capital allocation decisions that, uh, that make that an appropriate choice. I guess in particular, you could say that there's nowhere near enough real savings to support this debt.

Uh, that's maybe the easiest way of conceiving why it's potentially gonna be a problem. Um, because aside from anything else, uh, a lot of it is supported by a pretty serious mal investment such that, uh, it, it actually ends up representing savings for a lot of people. Uh, usually by very indirect means, but they [00:11:00] will ultimately just collapse because the, the.

Financial system as a whole, or the capital allocation as a whole has just become so fragile, uh, because debt is, are officially incentivized. So just to recap there, it's not that debt is unequivocally bad, it's that we have far, far more of it than we ought to, and that we would unsign money.

Yeah.

**Marty:** I mean, driven by the inability to properly price the cost of capital. Right. And so, mm-hmm. I think diving in to like the axiom of capital and defining capital and money from first principles, I mean, in your, in your piece you described capital as a tool. What do you mean by that?

**Allen:** I mean that I, I think that's just the simplest way to think about it.

It's back to a point I made, uh, one or two questions ago that you can get [00:12:00] very. Technical and you can invoke all kinds of jargon to, to make this point or talk about this subject in a, in a more academic way. I just don't think you need to, I think a lot of people, a lot of, you know, regular people, let's say who, who haven't worked professionally in finance will be, um, will be alienated by referring to capital to, to, you know, too much and too freely.

Cuz it sounds very abstract. It doesn't, it doesn't sound tangible. It doesn't sound like something you encounter on a day-to-day basis, but you absolutely do. Everybody does. Uh, if you think of it as tools, uh, you realize that capital is everywhere and is an enormous part of, of everybody's life. And, and even we can maybe dig into what I even mean by tools, but, uh, anything that, any, any almost item, I guess if you want it to feel really.

Tangible, um, that enables you to accomplish [00:13:00] some task that would otherwise take you much, much more time or cost or energy or however you wanna conceive it. Um, so it doesn't need to be, you know, a hammer. Uh, it could be, it could be this microphone, it could be the laptop. I'm, you know, doing this podcast on, um, tools are clearly everywhere, which means capital is clearly everywhere as well.

Yeah, and

**Marty:** this gets back to like something that we focus a lot on at 10 31 and like Bitcoin, like operating mentally under Bitcoin standard. Really sort of recalibrated by brain personally, um, and many others. I think like when allocating capital. Alright, what is the actual goal? Um, obviously we've lived under this fiat standard with a lot of debt and, uh, a hyper financialization.

Of debt and other financial products that has, uh, essentially allowed people to, [00:14:00] to lock in paper profits, uh, and pass them on to somebody else. But in a world in which capital is truly scarce, you can't print the monetary units, um, that give you access to capital. How does this change? What is the goal of allocating capital?

What happens when, you know she gives somebody money? What do you expect them to do it in return?

**Allen:** I think, again, I'll try to keep it as simple as possible. I like that we've established the framing of, of tools already. I think the main incentive is that it forces you to take more seriously what you are allocating towards in the first place and what productive capacity you are trying to create, because you can't be as reliant on just flipping it to somebody else.

Right. Um, so. One of the things we go into in the piece is, um, this idea of, of liquidity, right? [00:15:00] Or liquidity, and probably more importantly, illiquidity. Uh, the, the ultimate goal of any kind of investment is to create, uh, more bet. I use this phrase a lot just for people who haven't read it, people who have, will recognize it more, better and new, uh, things in general, but in particular tools, right?

More tools, better tools and, and newer tools. And that is how we actually generate more wealth as opposed to, you mentioned in, in the question Marty paper returns. We don't want, at the end of the day, maybe an individual wants a paper return, but society at large, let's say, does not want paper returns. We want real returns, which can only be generated by real tools.

And so, and, and then obviously, you know, like again, a hammer, for example, is fairly. Illiquid. I don't think you can, you, you can't monetize a hammer all that quickly. It's probably better you try to [00:16:00] use it to, you know, to do something worthwhile to, to try to create some value. I think that's a helpful framework to think about what the main difference will be in capital allocation that far fewer, uh, obviously not hammers, but you know, slightly more abstract instantiations of capital won't be as liquid because there's no need to monetize them because Bitcoin is money and, you know, we don't need these like defacto savings instruments that are allegedly, uh, channels of investment, therefore, where when you approach real investment, you'll have to think a lot more seriously about what kind of productive capacity you're creating in the first place.

**Marty:** Yeah. And that's, So I, I think in a world in which, like Bitcoin is money and you're able to just save in Bitcoin, you don't have to focus on investing your [00:17:00] money to, to be able to retire hoping that you pick the right stock or the right bond or the right mix of stocks and bonds, uh, to accumulate wealth over the, the, the time that you're working that you can go and retire.

Like how does that, that reframe everything? Like getting back to just

**Allen:** money working? Oh yeah, that's, that's an interesting angle too. I mean, most of the time when I think about this, and certainly the way it's framed in the piece is just a reflection of, you know, what, what my job is now, what my job has always been in, um, when I was still working in Tradify is from a capital allocator's point of view.

But of course, we're intermediaries, right? Ultimately, uh, everything has to come from, from savings. So that's arguably an even more worthwhile perspective. Um, I think the change is probably even bigger. And I'm, I, I'm a little hesitant to, to be too deterministic about exactly how people will [00:18:00] behave. Um, I, I can imagine though that probably the main difference will be that they will seek to invest far more purposefully.

Uh, what I mean by that is that, you know, as you point out, they money will actually be useful as a store of wealth. Um, they won't need to larp into stocks and bonds and whatever other, you know, potentially more exotic, more ridiculous thing just to try to preserve purchasing power. Um, but whatever they, whatever portion of their savings they do deem to be worth risking.

Um, That will, it is almost obvious from the way I've set this up, that that will become more scarce, which will mean that there will be a higher cost on that capital, which will mean that even if it's not them, again, if it's coming to somebody like me [00:19:00] to some intermediary, um, you will have to be a lot more purposeful about how you think about allocating it.

Um, and a lot more long termist as well. I think that's, that's probably worth emphasizing, cuz I dunno, purposeful maybe sounds a bit pretentious in terms of like, oh, I'm suddenly gonna start taking my job seriously. Like, I wasn't, I wasn't previously, but now it's like, oh, now it's, now I'm being purposeful in what I'm doing.

Um, I think the, the, the more obvious way this, this difference is manifested is again, back to the point about liquidity. Like you people will a, or intermediaries in particular, but ultimately anybody who's allocating capital. Um, they will have to think more seriously about the, the purpose of doing so, rather than just flipping it to get liquid and move on to the next thing.

Um, your question though was about savers. So just, just to round that off. [00:20:00] Um, they will, it is maybe interestingly different whether they're doing it themselves now that I think about it. But I, I guess in any case, uh, whatever portion of their savings is being allocated to, uh, something that is, is embracing risk more than, you know, basically none at all, which is what savings ought to be.

Uh, it'll end up being, uh, going towards something with a more, uh, well thought through, let's say, uh, long term vision of what it's supposed to be creating. I think we'll see though. I, I, who really knows.

**Marty:** Yeah, well that, I think intuitively that makes a lot of sense to me and apply, apply to an individual or a company as well.

Cause you can view mm-hmm. Individual savings as like profits they made from their jobs and paying off their month to month expenses in some [00:21:00] way for future funding. Um, in the context of a business, it's one thing. You have this beautiful flow chart and the piece that shows the relationship between a balance sheet and income statement and funding, um, to create cash productive assets, which hopefully create revenue, um, and pay off cost.

And at the end of the day, uh, you get some profit, which goes back to the funding. And again, really honing on this long term is, um, of, hey, like in a world of which we get a better cost of capital, And the goal, like the individual, you said like a lot of people's goal right now is to make as much money as possible to go, uh, consume, if you will, to go mm-hmm.

Take on like a bunch of pleasures and hedonistic, um, endeavors that, that really aren't fulfilling at the end of the day. And, [00:22:00] and that is partly possible, I would imagine, because we've had this era of cheap money and debt where it's a lot easier to consume a lot of frivolous things and experiences, um, where, what you're trying to frame it here, what you guys, how you guys view this at Axiom and, um, essentially take a long term view and really find businesses that are gonna actually profit and then reimburse that profit to get more productive assets, to expand their operations and actually build Yeah.

Sustainable long term

**Allen:** businesses. Yeah, I'm really glad that you ended on that point, cuz I was thinking of that, um, as when you brought up this flow chart and this overall point about, well how does it affect capital allocation at, at the level of a company rather than, uh, than, you know, some other financial intermediary.

And I think that's maybe even a, a better example to understand because the, the consequence is a lot more immediate, which is that they [00:23:00] need to be profitable basically. They need to have, and, and the the point that I'm making in that chart, it's a little difficult to describe. Maybe you can put it up on the screen or, or you know, do that in post, um, for people to have a look at or, or they can just look at it later.

I dunno. Um, there's quite a lot going on in this chart. I'm not gonna walk through it, but maybe just, you know, commentary on top of it, what I'm trying to point out here. Is that in the course of capital cycling through a company, um, which we are visualizing with, uh, a balance sheet and an income statement, and then feeding into one another as, as time goes on, what really matters is not that they grow their revenue, which is very often just if, if people talk about growth in finance, that's typically what they mean.

And I have argued elsewhere, but make the point again here that that's borderline nonsensical. Um, it's [00:24:00] better to think about, uh, the increase in profit that's certainly more helpful than revenue. Um, but what really matters is returns and the reason returns matters. Is that, that alone is what allows you to sustainably increase productive assets.

And this ties together a bunch of the points we've mentioned so far. Productive assets are tools, right? They're, they're capital, but they're capital made illiquid, uh, so that you can create something that's actually valuable and the, the existence of productive assets at all, right? Or the, the structure of incentives that, that even allows for them to come into existence.

That's what creates everything else. That's what creates revenue. That's what creates profits. That's what legitimizes the entire enterprise of, of allocating capital. And, you know, they're even being intermediaries who specialize in this. Um, and so I think you're absolutely right to point out that the onus on [00:25:00] companies will be to generate as high returns as they can in part, because I, I use kind of an interesting word.

There, which I think this gets a lot of, uh, a lot of flack for its misuse in, in wider finance, which is sustainable. Right. It's almost like a, it's like a euphemism for mm-hmm. Uh, for wealth. It, it is literally one of the, no, no, the s and e s G is, is social, I guess. But they, they're used kind of interchangeably as, you know, bringing up e s G's.

Oh, is this sustainable or not? Ultimately, what makes a business sustainable? It's got nothing to do with E S G. It's, its returns. And what that is capturing is that they are growing their productive assets. And so you wanna contrast this to, uh, the, what we've just become used to in fiat. And also I think why, uh, why what I mentioned before about regular finance saying growth, the saying the word growth, and really meaning just revenues going up.[00:26:00]

Um, it gets around this point about sustainability really. Well, nicely, I guess from their point of view, but awfully from our point of view, because revenues could be going up while making a loss and while loading up on debt like that could literally be the reason that revenues are going up, that whatever the company's doing is a complete waste of time.

They're, they're allegedly productive assets are not, in fact productive as judged by the market, but they keep taking on more and more debt so that they can keep juicing the revenue number. And everybody's fine with that because why not? Why not destroy capital in that way if you're, if you are incentivized to, uh, treat your investments as if their liquidity is the most important thing.

So you can always just sell out of something like this if, um, you know, if the sentiment turns on it. Um, and if, um, yeah, if, if the, the, [00:27:00] the existence of the sentiment that is pricing this in the first place, you know, for whatever reason, just doesn't care about. Returns anyway. You know, doesn't care about returns, doesn't care about profits, doesn't care about productive assets, just cares about growth.

It's gonna be good when we leave this behind. Well,

**Marty:** I think we're beginning to see the, the repercussions of this, obviously with the Fed raising rates, uh, as aggressively as they had, and they're not alone. Rates have been raised across the board and the ecb, the boe, uh, and we're beginning to see the products of that, like the, the companies going into the same amount of debt.

So like really focusing on revenues instead of actual profits. Uh, once that cost of capital is artificially manipulated higher by the central banks, the tide comes in and they've got all this debt. Yes, they may have all this revenue, but the cost, uh, of their debts has gone up significantly. They can't pay it off.

And as a result, I think Germany [00:28:00] has the highest number of bankruptcies. It's had decades. I think we're at 2000. Seven levels here in the US in terms of company bankruptcies. And that's one interesting thing the company is that have been operating under the fiat standard in, in that framework of, yeah, we just raised bo debt, juice revenues and that's our, our growth.

It's not, it's not actually sustainable. I'm very happy that you define sustainable in that way. Cause Parker Lewis does the same exact thing. And that's particularly, we talk a lot about it in the context of bitcoin mining. It's like people talk about bitcoin mining sustainability and the context of their energy mix.

**Allen:** Oh yeah. That must be infuriating. I I can see the contrast in that, in that domain for sure.

**Marty:** Yeah. The most sustainable miner is the one that can produce Bitcoin at the lowest cost and block in profits and data is most sustainable. [00:29:00] Um, but again, like. Repercussions of the manipulation of the cost of capital.

But yeah, it's good when it's working in your favor, but as soon as it turns against your favor, like you're shit outta luck and your inability to focus on an actual sustainable, profitable business model is gonna come back and bite

**Allen:** you in the ass. There's, there's two points I'd make there though, that it's, uh, it's great for you while it's working in your favor, but it's bad for everybody else because what's ultimately happening, uh, maybe I'll refer to that chart again for people who, who do have it in front of them, but hopefully this should make sense anyway.

What's ultimately happening is that, um, you're allegedly productive assets are being prioritized and. What you might think of as actually productive assets somebody else might want to invest in, uh, are are being inflated, right? Because it, there's, at the end of the day, there is only so much real capital.[00:30:00]

There's only so much real tools can print as much money as we want. But it's just, you know, as, um, I'm pretty sure this goes back to safer, at least I, I heard it from safe. Um, this, this framing of it, you know, money's not wealth, money's just claims on wealth. So the more claims on wealth we have, obviously the more this is inflation essentially, right?

This is inflation, but in capital goods markets. Um, and so you were saying that yeah, it's good for you while rates are coming down, while money's being printed more freely. Uh, but it's, even then it's bad for everybody else because you're just being artificially subsidized in something that is not. In fact, sustainable.

And so, you know, there's this, this, this is a very common sort of Austrian trope. I think to some extent it's coming into to Bitcoin now too, because we've been through enough cycles and people are starting to realize this. I think, you know, particularly in, in mining. But th when you have, when [00:31:00] you have a, a bust as opposed to a boom, um, that's just, that's like a reality check.

That's like all the prices going back to what they should be. It's the boom that's the problem. It's not, it's not the bust. I'm almost, I'm, I'm kind of tiptoeing towards the, I dunno if you're familiar with the lyrics from the, the Hayek Cannes Rap Battle. Does that ring a bell? Yes. Yeah. Yeah. I mean, I think I actually, I think I actually know this.

Just gimme a second. What is it? It's like, it's, uh, The place you should look at isn't the, I do actually know this yet, right? The place you should look at isn't the bust, it's the boom. That should make you feel leery. That's the thrust of my theory. Capital structure is key. Mal investment wrecks the economy.

There you go. That's the whole podcast. That's, those guys said it way better than I did. Well, no,

**Marty:** I mean, it's, I mean, in the mining it's pronounced, it's exacerbated. [00:32:00] And we learned this during the last boom, 2021. Like I remember being in the middle of it, uh, and it was a very, very good lesson for me individually, like about these mining cycles.

Like whenever things get, get very, the price is running, people are screaming, people are saying, we're gonna get Asics at $200. A Tara hash. Like, gotta get 'em now while you can, while they're at 115 bucks, a Tara hash. Um, we have. Uh, exotic dead instruments using asics as collateral, which in retrospect was, um, a very bad idea.

Uh, but it's true, like in the boom, just, I mean, it happened all throughout the industry, but a mining people were buying infrastructure locking in PPAs at higher prices, buying Asics forwards, like nine months out. Um, doing those collateralized, those asic [00:33:00] collateralized loans. Uh, yeah,

**Allen:** people, people afraid.

Yeah. This is, this is super interesting cuz I think you definitely know a lot more about the, the intricacies of mining than I do. So nothing like this is in that piece, although I kind of now wish it was, maybe this could be material for something, for something in the future. But I think a really nice way of framing all of this is that, uh, in mining in particular, but we would.

Argue, we would hope as well, just in anything that, that becomes more Bitcoin centric, that naturally operates on a, on a Bitcoin standard. Uh, you just can't play these fiat games because, you know, reality will, uh, reality catches up with you almost immediately. Uh, I, I'm just trying to think of like, I don't wanna be, I don't wanna be too, uh, I don't wanna generalize too much about mining because again, I'm not as familiar with the, the economic intricacies as, as I'm sure you are.

Maybe you can comment on this afterwards, but I'm just thinking through that. Mining [00:34:00] is, first of all, it's, it clearly forces you to be on a Bitcoin standard because a hundred percent of the revenue of miners is, uh, comes in Bitcoin and that's basically unavoidable. Um, it's also obviously cyclical, um, but in quite a.

It's a harsh cycle. It might be, you know, the most, the harshest cycle of any, uh, relatively large industry of that kind. And so what I think is quite, what is, what does make quite a nice framing for all of this is that, you know, all those exhaustive financing instruments you just described, they're basically like, they're, they're pretty fiat, right?

So the more, the more fiat your capital structure as a minor, the more likely you, you're just gonna get wiped out in, in a way that is actually true, or sorry, should actually be true everywhere. Like in, in every industry, in every, uh, sub-domain of the, of the [00:35:00] economy, in anywhere where there's any capital structure, where any financing decisions have to be made.

But because of fiat, uh, it is, you know, everything is artificially subsidized to, to some or other extent, but, Mining is like the canary in the coal mine of what's coming on a Bitcoin standard because, you know, you play fiat games, you, you win the fiat prize of just almost immediately going bankrupt. Cuz there's, there's, there's, there's no bailout, there's no, nobody's printing more Bitcoin to save you.

No,

**Marty:** I, I think that's exactly right. Like, I think all the mining operations that I'm involved in, um, debt will be something that is very heavily scrutinized before it's added to any in balance sheet. Um,

**Allen:** oh, I can make another really great connection here, by the way. So we're going back to, you know, what does the word sustainable actually mean?

It definitely doesn't mean, you know, you get a good ESG score. It [00:36:00] shouldn't mean you get a good e s G score. Uh, it should mean that you have high returns and dependable returns. And also, as a good link to the comment I made at the start, I, I'd wanted to clarify that. You know that I'm not against debt in any absolute sense.

I'm just against the artificial proliferation of debt. So a a pretty obvious, this isn't insightful in any way. This is kind of straightforward, like corporate finance 1 0 1 is that the debt is a, is typically a good idea to the extent that the operations of a business are actually sustainable, right?

That they're, uh, that the returns are decent and they're predictable. And basically what you're kind of saying there is that you have very high quality, productive assets, right? They're, they're actually generating a profit. It's not speculative. Um, and it's, you know, your service is, is valued, or [00:37:00] your good or service, whatever it is, is valued enough that you can.

With some confidence project out into the future. The more that's true, the better an idea debt becomes because you're more robust in the first place to the financing shock that debt is going to attach your business. Um, but obviously there's a trade off there, right? It, it lowers your overall cost of capital, provided you're, you're in the right shape to take that shock.

And it's now just occurring to me how good an example mining is of all of this. Because back to your point about, I think the, what brought this up in the first place, um, what it actually means to be a quote unquote sustainable minor, right? If you're actually a sustainable minor, it really just means that you have the lowest cost of power.

Um, there's, I, again, I'll defer to you on, on more intricacies there, but, uh, that seems to me would be the most, uh, or the [00:38:00] best way of, of achieving robustness, you know, Low cost of power and predictably low cost of power and predictably low cost of whatever else. Uh, the more you are that, the better an idea debt is.

But if you're not, it's a terrible idea. And I think that's what you were saying, that people have finally realized that some people have finally realized that. Yeah. And it, it,

**Marty:** so mining is hyper cyclical, right? And it all comes back to timing. So like, I do agree that debt does make sense. That's why I said like, yeah, if you're gonna add debt to your operation, you're gonna heavily scrutinize it.

And by that, you're gonna try and determine where you are in the mining cycle. Like maybe it does make sense maybe right now or six months ago, uh, to go into some debt in the mining industry, even though economics are bad. It's like, all right, we can assume that we're a little bit, uh, we're close to having a year from the having.

Um, uh, I don't think it's gonna go [00:39:00] much lower. Maybe we go into debt now. Um, to expand operations and increase revenues hoping that Bitcoin does what we think it's gonna do, continues. Adoption, which naturally drives up price. And then we have all this infrastructure built out, um, that has created profits for us as the price goes up.

And then another thing too, I think another big lesson, it's not really spoken about as much that should have been learned last cycle is inventory management. So that's the thing, like essentially what a minor does, they produce Bitcoin and they have Bitcoin inventory that sits on their balance sheet.

And the profit on that inventory is not realized until you sell it to the market, right? And so that's one thing, but I think a lot of miners, some of which went bankrupt and are going through bankruptcy proceedings right now, had massive Bitcoin treasuries, uh, And did not sell any, when Bitcoin hit 60 K, um, in 2021, they, they [00:40:00] held it or like were accumulate, accumulate, accumulate.

Uh, but then they finally relented and their hand was forced and they sold at 20 k, um, later in 2022. Yeah, so that's another thing too. Like the bottom of the market may, maybe it does make a lot of sense to, to go into some debt, to expand operations, to increase revenues and, um, basically, yeah, set yourself up for the next bull market.

And then it's always hard to do as an individual, as a minor, as a company, as a Bitcoin or generally, but like when we're screaming in a bull market, like I think the inventory management, like you, you produced Bitcoin that's sitting on your balance sheet at a very low cost now. The cost of Bitcoin in, in the bull market is 10 x that lock in a 10 x.

That's, that's when the profit is realized. Yeah. When you actually sell it back to the market. So

**Allen:** lock that in. So, let, lemme me know if you think I'm pushing the reasoning a bit too far [00:41:00] here, but I think I have a nice way of explaining even this in terms of some of the concepts that we've covered so that I know you're giving a deliberately kind of exaggerated example, although I'm sure there are some companies you're aware of that, that fit that profile more at the, the extreme of the risks spectrum.

That's, that clearly represents, to me at least, it, it, it clearly suggests pretty poor, uh, at least treasury management, if not just corporate governance as a whole. What I suspect is going on there is that, The, not even so much the management, but the shareholders in these companies. Probably management counts as a decent chunk of that now that I, now that I think about it.

But, you know, the shareholder base is viewing this entire enterprise, this entire, you know, channel of capital allocation, if you like, as a way of, [00:42:00] uh, effectively levering up on, on Bitcoin. That, that would be my guess as to why they would make those decisions within that corporate structure, even though it's clearly, okay, obviously hindsight's 2020, but even at the time, I, I think you would argue it's, it was a, at least a very risky idea, like an unnecessarily risky idea.

Uh, and not prudent management of the company or companies. Um, And maybe the, the better way for everybody involved to achieve what they actually wanted in all of this would've been to just go buy Bitcoin, right? Because that's, they just want Bitcoin exposure. But the fact of there being so much cheap debt gave them this avenue to get levered Bitcoin exposure instead, but in exactly such a way that the leverage ended up ruining the whole thing.

Do do, does that, like, does that ring a bell? I just came up with that [00:43:00] now, but it does, uh, it doesn't sound too farfetched as I'm saying it for the first time.

**Marty:** No, not at all. I mean, people view Bitcoin miners as sort of like, uh, like, uh, like a leverage Bitcoin play. If you'll, especially if they could produce,

**Allen:** which is interesting cause I don't think they should, I dunno if you think they should, but, well, maybe that's a bit No, shouldn't say how people should or shouldn't value things, but it doesn't seem, um, It doesn't seem prudent from their point of view in terms of capital allocation.

And I, I'd probably argue too, it's not healthy for the industry at large because it exacerbates the cycle.

What the,

**Marty:** the idea that Bitcoin miners should sell at the top

**Allen:** because it's like a high No, no, not, not so much that, not the, not the treasury management decisions. I mean, the, the fact that this external [00:44:00] incentive exists to, uh, in short, massively lever up into a bull market to mine. Uh, and then to tie it back to some of the stuff we've been talking about before, that if capital were priced properly, they wouldn't even have the opportunity to do that.

They would just go buy Bitcoin instead. Uh, and then the, the swings in the cyclicality of mining would be less extreme as a result.

**Marty:** Yeah, no, I completely agree with that. And that will this, and it all gets back to like sustainability of

**Allen:** the business too. This is probably, this podcast is probably like by far the most times you've said sustainability at least.

No, at least seriously. Like not, not ironically to make fun of some, uh, ESG thing. No, but it

**Marty:** said yes, exactly. If we're using it in the correct context and the correct meaning, and I'm [00:45:00] happy to say sustainable. Yeah. Like sustainable businesses. Cause you think, and it is, I would argue the responsibility of management being good stewards of the capital to be able to realize and maybe go against some of the shareholders' wills who aren't really, um, experts in this particular domain.

Mm-hmm. Yeah. To lock in some profits at what can be deemed to be a height cause. Especially if you have some debt in your balance sheet or you wanna expand operations, you have to dip into your, your treasury in the middle of a bear market. Like you're gonna have more Bitcoin under your balance sheet at the end of the day.

Yeah. It may stink to do it when

**Allen:** the price is. I think, I think we could push this even further, further by the way, and like link it to, not that we need to jump to exactly this point in the piece, but link to something that, uh, that I mentioned right at the end, that the desire to to, to do this process, to [00:46:00] go right to the extreme of the risk spectrum and, and capital allocation within a mining company, uh, and viewing it as a proxy for leveraged Bitcoin exposure rather than a business that ought to be sustainable in its own right.

I think it's fair to, to argue that that represents a focus, probably not as dumb, a focus as I described before in terms of only caring about revenue, but maybe at least only caring about. Profit, well, maybe revenue as well. If you're, if your, if your attitude to it is sort of, so short term is that it's like, I want the, you know, I want the amount we mine to be as high as possible, because that tends to be how public mining companies are valued.

And then I can just dump my position when it, you know, when I have a, a satisfactory paper return. You know, something like that versus the healthier attitude, the, the sustainable attitude, which is that it's not, it's certainly not the revenue that matters. It's not even really the profit. [00:47:00] It's more the productive assets You want to grow the productive assets in the business.

And obviously in the case of mining that is very, very closely connected to Bitcoin, the asset. But I would argue that, It's not exactly the same thing. What actually matters for a mining business? What, what really represents the productive assets? Whereas I'd say Bitcoin is effectively just cash to it, or, or, you know, a at worst inventory as you're, as you're pointing out, given that there is still dollars involved, what they should really be caring about is how effective their, um, uh, I just keep saying productive assets.

Again, how, how effective their productive assets are at generating energy as cheaply as possible. I would argue that that is the healthier way to view what a mining business even is. Bitcoin is the, is the reward for doing that well, but it, [00:48:00] that's not exactly the same thing as Bitcoin as the goal. And it's certainly not, you know, if, if you have made that distinction already, then you don't get outrageously levered and, and go bankrupt because you realize that the point is, Sustainability.

Mm-hmm. And I

**Marty:** would add it's not only driving down the electricity cost as much as possible, it's being cognizant of how efficient each machine can be with the electricity up available to you at any given point in time. So mm-hmm. Um, obviously input cost, electricity, we want that as low as possible, but then on top of that, once everything's plugged in, creating, um, dynamic systems that allow you to uber clock or under clock to be as efficient as possible in terms of profit margin at any given point in time, depending on where the price and hash rate overall hash rate of [00:49:00] Bitcoin

**Allen:** Yeah.

Is, which I think you'll agree, right, is a very domain specific articulation of maximizing returns because you're not saying yes. We need to get as high hash rate as possible, which would be the equivalent of revenue. Like just maximizing aimlessly, maximizing revenue. You're acknowledging not just that there are costs, but I think more importantly that there are opportunity costs.

And so this is like, this is just a, a great way of, I'm so glad that we kind of stumbled into this cuz I, I hadn't thought about this exact way of framing it previously. That mining is unavoidably on a Bitcoin standard. And so all the lessons that, uh, you, you know, you could come up with from first principles, but now I think luckily a lot of people have had to live through, uh, that's what's coming for everything.

And it's good because, because it's promoting genuine sustainability, it's promoting, being mindful of cost and opportunity [00:50:00] cost, uh, acting in the world as if capital is in fact scarce. Um, And, uh, and yeah, and, and growing the base of actually productive assets and not just paper wealth. Yeah.

And

**Marty:** it's incredible too cuz the, the positive externalities, I mean, staying on mining, it's a love mining.

It's such a fascinating topic. It's a very masochistic industry, but, uh, it's, it's so fascinating, but it drives efficiencies everywhere. Like again. Mm-hmm. Like, once you figure out like the under clocking, overclocking, um, strategy that you want to employ, you then have to go to your, your utility operator, the person giving you the electricity, and go to them and work out like a special contract.

Like, Hey, I'm a very unique type of customer for you. Like, I'm gonna be [00:51:00] ramping up and down depending on the price of Bitcoin and the overall network cash rate. I need you to be flexible for me, um, to, to allow me to do this so I'm not overpaying for electricity at any given point in time. And so that's driving like business innovations at the utilities level.

Mm-hmm. And then for reliability, minors want to have the most uptime as possible. Ideally a hundred percent uptime. So that's pushing them to bolster, to invest in productive assets that aren't directly related to producing hashes at a machine or electricity, but making sure all that stuff, uh, stays up and running.

Right? So like you, you get your profits and you reinvest in productive assets that ensure that the electricity is gonna be delivered in a certain way on time at a certain cost, day in and day out. And you have people like, [00:52:00] uh, riot building gigawatt facilities. Um, We at standard Bitcoin are going out and taking advantage of excess capacity, uh, that exists at substations, playing that arbitrage game all throughout Appalachia.

And that's helping to, to drive cost down for residential, uh, electricity consumers because the utility is able to buy electricity in bulk. Cause their minors willing to show up. Yeah. And, and,

**Allen:** and buy like, uh, or like Sonota who I listened to that episode. You had those guys on what, just a couple of weeks ago.

I think. Forget exactly when, but again, it's just absolutely fascinating what they're doing. I not possible without Bitcoin as far as I can tell. No. Well

**Marty:** that gets actually a good segue into the part of, um, capital on the 21st century where we touch on lightning cause it changes payments mm-hmm. In many ways.

And the way it changes payments in use cases, [00:53:00] Sonota. Does incredible things for opening up capital for utilities, uh, providers and, and miners that are engaged with them just due to the instant settlement finality that exists.

**Allen:** Mm-hmm. Yeah, and I mean all over the place. Like none, none of this is remotely original on my behalf, but I I, your audience will certainly by now be more than familiar with, uh, even if it hasn't, this is an interesting, uh, caveat, even if it hasn't happened yet or nowhere near fully happened yet, all of the opportunities people are discovering as to where, uh, flows of capitals, but it as generally as possible are slow or clunky or just expensive.

Um, ultimately because of fiat being slow and clunky and expensive, but in ways that people never really think about because, uh, There's [00:54:00] never one, there's never been an alternative. And two, probably for most people, they're not really familiar with the payment process behind it. So it's just a cost that's, you know, eaten somewhere in the backend and then they get a higher, you know, energy bill, um, or a higher remittance fee or whatever.

But they don't, they don't really realize why it is what it is. Um, yeah, that's, that's something that's, you can imagine, especially from the point of view of somebody involved with a, a venture fund, I guess, as you are too, right? That, uh, that's very exciting to see people discover this and try to fix it.

**Marty:** Oh yeah. It's, uh,

I mean, it really leads me to believe that I'm not crazy. Cause there was a time that, yeah, first, uh, first eight years in Bitcoin, I was like, is this so crazy? And then you see things come to market, whether it be trying to solve the. The settlement risk that exists between [00:55:00] electricity, um, consumers and the people that provide that electricity vita, um, trying to solve problems.

Yeah. Yep. At the telecom. Then you see what Lightning Labs launched yesterday with the AI tools.

**Allen:** Yeah.

**Marty:** And I mean, it's enabling lightning, particularly enabling these types of payments, uh, at prices and speeds that just simply are not possible. Uh, in the incumbent system

**Allen:** as they open up. Yeah. I should, I should do a quick plug, by the way, cuz uh, I don't, I don't wanna pass these thoughts off on my own, but, uh, as my own, sorry.

Fellow, uh, fellow Bitcoin Venture capitalist, uh, max Webster wrote, uh, like really fascinating piece on this. Not, not on the Lightning Lab news that came out yesterday, I think it was a month ago or so that he posted it. Um, but he was probably aware of it though because I know that he [00:56:00] knows the Lightning Ns team pretty well.

I think if, I think it's just called ai, I think it's, it's on his blog. If you either find him on Twitter or you Google something like hivemind ai, you'll, you'll find it pretty quickly. But, um, that was, that was one of the most interesting things. Uh, in interesting bits of Bitcoin content I have read recently.

Um, yeah, I mean, you can imagine what the argument is. No, not to, not to downplay it because he, he goes through it very meticulously. But, uh, essentially that, uh, lightning is by far the, the most obvious, if not so obvious, is to be the only way to effectively monetize, uh, at the very least large language models.

Uh, but probably, uh, probably many alternative forms that ai beyond that, that require some kind of human input for training for one, and [00:57:00] also for which there just isn't an obvious way to charge end customers for it other than micropayments. Um, so I wouldn't say any more than that because again, the point of that was to show his piece, which I encourage everybody to go read.

**Marty:** Yeah. The, um, You're already seeing it, right? Like companies like Stack Work mm-hmm. How they're, um, using micropayments to pay out humans to do micro tasks, to to feed LLMs. Um, that's been around for a couple years now. Um, yeah. What Lightning Labs launched yesterday is to make it as easy as possible for developers to implement these lightning enabled paywalls for these API calls.

Yeah. Is gonna do massive things. So I think about it, like for the Bent, I use Mid Journey for the thumbnails and I would love to be able to just [00:58:00] use Albee or Collider. Yeah, yeah, yeah. Extension wallet to just be like, alright, here's,

**Allen:** here's 10 sets or whatever.

**Marty:** Yeah. Instead of paying like 35 bucks a month, whatever I'm paying, like I'd actually Yeah.

Like to pay for what I'm

**Allen:** consuming. Yeah. Yeah, I mean that's, um, just referring back to the piece, I think this is what you had in mind when we, when we moved on this topic anyway, but right after, uh, towards the end, right After talking about what, you know, the, I think a better way to conceive of what mining is and how it contributes to capital accumulation.

And it gets us, uh, again, this phrase I'm trying to like, make into a meme basically, right? Like more newer and cheaper energy. Uh, exactly the same thing with lightning, more newer, cheaper payments. And, and now we're, we're seeing, or maybe we're only just starting to see what that in turn can [00:59:00] enable, um, which even that you could, you could very easily, I think without it being forced at all, you could frame as yet more capital accumulation, right?

Because clearly these tools are. Incredibly useful. This is kind of as what Max is going into as well. A, a decent part of his piece is sort of anti AI m um, but they're clearly very, very useful productive assets. Right. Very useful tools. And part of what Lightning will hopefully be able to do is, uh, make them more sustainable ultimately.

Right? Like that's basically what you're saying. If the, if, if the big question mark is how do you monetize this? You know, it's clearly a useful thing, but you know, how do you turn it into a business rather than just a toy? Um, that's, uh, if, if part of the answer to that is lightning, that's incredibly exciting.

Cuz that, that means that you know, it, it won't just be the, the capital that has to be put up to create the tools in the first place can then [01:00:00] become sustainable. It doesn't have to just be like charity or whatever, or like a bad VC investment. Right. That it, it can actually become a real business. Yeah.

You're.

**Marty:** Not gonna be dependent on like Sequoia or Tiger. Yeah. Coming

**Allen:** in and just throwing or or Microsoft be like, oh, this is cool, have 10 billion. Yeah,

**Marty:** exactly. And then eventually down the road, gravity comes in the play and she's like, oh, this actually isn't a sustainable business model. We've just Yeah.

Raising venture funds and debt to, to try to make this a thing. But lemme see if the Uber still hasn't been profitable. Maybe one quarter. I believe they've been profitable ever. Oh

**Allen:** wow. Really? Um, I, yeah, I haven't thought about them in quite a long time. It's, uh, it's no longer my job to, but I didn't realize it was that bad.

That's

**Marty:** pretty sure. I could be wrong, but I'm pretty sure that still stands today. Um, yeah. [01:01:00] And like another part of like building a profitable business is like being a, a smooth operator that actually knows. How to scale a business, number one, but scale a team too. Like how do you view

like the idea of burn? Like how should founders building and Bitcoin, like think about like how they're actually building their company, building a sustainable,

**Allen:** um, is that, yeah, that's a really, really good question. I don't want to, I don't want my answer to seem like basically I figured this out and you should just come to me for, for wisdom on the topic.

I don't think that's the case at all. I think probably a lot of founders know the answer far, far better than I do. I certainly, I would hope so in the case of their own business rather than just in general. I think maybe a more interesting comment that I can make though is that, um, [01:02:00] if you are building in Bitcoin in the first place, you should be cognizant of.

Exactly the dynamics that we just went through in mining. Cuz like I said, uh, and maybe more like, I hope this is coming for everything, right? This merciless punishment of poor capital allocation, uh, will eventually, if, if we're even remotely right, this will eventually arrive in every domain, uh, to the extent that they're, that they themselves have transitioned to a Bitcoin standard.

And so that's kind of, that's by definition true in the cases you're talking about because if you're building a, a business in Bitcoin, then that's, that's surely is largely true from the start. So I, maybe I can frame the answer more in terms of advice that don't be fooled by what has. Emanated from Silicon Valley and to, I think to some [01:03:00] extent seeped into the culture beyond just finance and beyond just tech.

That, you know, you have to again, quote unquote grow by which the people saying that actually mean in increase revenue. You have to grow at all costs, cuz there will always be more venture money if you're doing so. Yeah, that was, you know, like you were saying that was true when rates were going down forever.

When, when basically there was a far more, there was a far larger and more important macro, macro play at work that these people were benefiting from entirely without realizing, right. They're just thinking that actually everything they were doing was a result of their own genius when it's really just bond markets.

Um, to channel, to channel Greg Foss a little bit. Uh, I'm sure every Bitcoin founder probably again, everybody e even tangentially involved in, in tech or finance professionally over the past five or 10 years, will be aware of these memes. Uh, my advice is reject them. [01:04:00] Um, focus as much as you can on sustainability, on, on creating genuinely productive assets.

Maybe not exactly, not as quickly as you can, but as purposefully as you can. Uh, because costs are real, opportunity costs are real. No one's printing Bitcoin to bail you out. Um, there will not be an endless wave of VC money to also bail you out. That's, that's probably, I'm comfortable saying that I'm not comfortable, uh, giving entirely generic advice as to like how, how you should manage burn.

That'll vary from one. Company to another. But the more, the more the founders and the operators can reject this now somewhat annoyingly, culturally ingrained meme, the better. [01:05:00] Yeah.

**Marty:** And I think, I mean, two great examples of companies that have gone slow, done it the right way, uh, disclaimer of both 10 31 portfolio companies.

But I think considering everything that's going on in the last year, specifically unchained in river, um mm-hmm. I mean River, yep. The last month alone with the Prime Trust blow up, uh, it has become very apparent to, to the market and very clear that their decision to build their own infrastructure, build their own exchange, build their own wallets, their own lightning, um, libraries like, yes, it took them a long time to do that, but.

It turned out to be the right decision.

**Allen:** Yeah, well, that's the thing, right? Again, I'm, I'm more or less quoting from the, towards the end of the piece, but creating real capital does take a long time. Like you, uh, um, [01:06:00] you're not gonna expect anything, uh, anything worthwhile to have happened in, in three months.

So I know all these pub, uh, all these, um, companies, sorry, aren't public anyway. But again, there, there's kind of a, there, there's a similar element more from, from finance and from tech around, you know, quarterly earnings and like pumping the numbers and so on. Uh, hypothe, hypothetically, if River had been a public company, they would've been absolutely destroyed for that decision.

Like, what on earth are you doing? Your, your quarterly numbers are shit, like, everything's in the red. What's wrong with you? How dare you construct productive assets? How dare you build tools? Just, just give us revenue, you know? So no, good for them. Good for Alex. I like him a lot.

**Marty:** No, I mean, it goes to like that long term view, like having the vision and the confidence to make a call.

Like, Hey, I don't think, um, many people being dependent on third party custodians, like Prime Trust is the right [01:07:00] way. I think eventually the market will realize this, and if we build something, when the market does realize that they will come to us similarly with Unchained and their lending desk, with, uh, the Multisig collaborative custody and the 40% ltv, the, the crazy over collateralization, they watch Block by Celsius and everybody blow up.

Mm-hmm. Um, the decisions they made, people coming to them now, similar thing like, Hey, I think that's an extremely way to run a lending business. Uh, if we built this the right way, eventually over time, the market will realize, um, but. High time preference, Fiat times it's very contrarian view and hard view to take.

Cause like you said, you could be sitting there, especially if they were publicly traded companies where the quarterly isms that exist in our world, unfortunately just don't allow people, the general public and analysts to, to actually [01:08:00] take a long

**Allen:** term view on anything anymore. Yeah. And, and a great contrast to, uh, to what we already described with mining, right?

That, um, you know, whoever Celsius block by everybody else, I've probably forgotten who most of them even were by now. And, but they, they didn't, I guess they didn't exactly get levered up, but they kind, they did the equivalent in slightly more, um, slightly more convoluted ways. Whereas Unchained was deliberately, very purposefully, as I understand it, robust, right?

They, they have. Not just, you know, a coincidentally robust balance sheet, but the, the entire, the point of that business, again, as I understand it, I don't have any involvement with them. Um, but the point of that business is to, to build robustness into how they operate and how they nudge their customers to operate as well.

Whereas everybody, they're now replacing who had, you know, again, amazing revenue [01:09:00] growth for a time, for a couple of quarters there they were, they're doing, they're doing pretty well, but, uh, obviously they, in, in, in reality they weren't at all. And, and even that, that's maybe back to like, it flushes out in the bust, but the, the damage was all done in the boom.

Yep. Yeah. And like how do you have the

**Marty:** temperance during the boom? I think that's the one thing that 2021, it was really shook. Cause that's my. Third cycle. Third bull cycle. I guess it was like 20 13, 20 14, 20 17. Yeah. 2021 and first two. For me, it was like learning all right, shit, quins are nothing. They may have like a good pitch and get very, like, confuse a lot of people and like 20 16, 20 17, I was like, alright, Bitcoin only let's lead into that.

Then this last cycle, it's really been like, alright, this is the third cycle. You starting to have pattern [01:10:00] recognition come in. It's, yeah.

**Allen:** How do, how do you avoid, I think I'm, I'm do one cycle behind you in terms of my, uh, my involvement in this space, but, uh, I'm curious, your take on this are, are you not, I feel like I'm here already, so I'm amazed that maybe if you have the patience not to be, but like how do people not.

Get it yet? Like how many more, how many more iterations of this do we need? Or is it different? Maybe it's different people every time that's, that's, maybe that's like a less cynical view. I don't the,

**Marty:** um, this cycle, I mean, 20 15, 20 16, it was like coming out of that bear mark was right after Ethereum launched.

So like there's a lot of hype around that. Then obviously in 2017, the ICOs, then you had this defi stuff in 2020 and 2021. But as it sounds today, like I'm not seeing any, I don't know, I could be wrong. Maybe I'm not [01:11:00] paying enough attention to it, but I'm not seeing like any hype comparable to those two cycles from

**Allen:** the alt Oh, just you wait, just

**Marty:** I know.

**Allen:** I mean, ordinals having, and what, what is it like 10 months away now? 10 months? Yes. Yeah, it just. You have no idea what fresh hell awaits. Right. But what could they, what

**Marty:** else could they do? I mean, the big meme I'm seeing like Wall Street Run with, is like tokenized financial assets, like stocks and stuff.

It's completely boring.

**Allen:** Is that gonna be a, a crypto thing? I mean, what do you, what do you do after Defi? Well, I guess where, where I was going with that was how do you shove printing tokens into that? I don't, I don't really see it. It's a bit tangential to this. I don't know how, how deep you wanna go in.

It's certainly, it's not something we talk about in [01:12:00] the, in the piece, but I'm actually relatively bullish on, on tokenizing financial assets. But that's entirely like downstream of the, the Blockstream connection. I think I'm the, I I said this in the, the BlackRock ETF piece, which I know that you, I know you read, um, I said it in an entirely sarcastic way right at the start, but I'm like the only public liquid bill that I'm aware of.

So I, I actually like that idea. But, um, but I think if anything, that's kind of, that's why I'm, uh, reflexively a against it becoming a crypto thing, cuz I'm like, no, but that actually makes sense. Like they never do anything that makes sense. Like there's no, there's no scam there. That's a good idea.

**Marty:** Well, exactly.

Well that's the thing. No, they can't make money for, you're just literally, yeah. Um, creating provenance for these securities on like a liquid token, but like, they're still gonna have idea, like once they're launched, [01:13:00] they would trade similarly to how they would on the stock market now. Like people read quarterly reports and look at balance sheets and income statements and try to value that stock represented by a token correctly.

It's not gonna be.

**Allen:** It's boring trading shit. I'm well aware of that. Exactly. Yeah.

**Marty:** Um, and actually I, I'd love to talk to you about this cause I've been saying in a rabbit recap for months and to others, like, I love liquid too. I think it's really great product. I just think they launched it too early. Um, liquid

**Allen:** launch.

Oh yeah, I have, I have a lot of sympathy for that. I, I'm not sure, I would say I'm not disagreeing with you. I, I, it's more just, I, I don't think I have a view at all on the timing of the launch. Um, I, if anything, I almost feel like not really qualified to comment on that cuz I, I mean, aside from anything else, if you've, if you've built it, you, well, you're just gonna sit on it secretly for like five years or whatever.

I, I don't know. I, I don't, I [01:14:00] had no connection or involvement with Blockstream until many, many years after, um, even it was launched, nevermind the, the, the design and building process and so on, but. Uh, I, if you tweaked that claim slightly, I would absolutely agree with it, which is that its best use case even now doesn't really exist and it certainly didn't when it was launched.

So again, I'm not quite confident to, to come right out and say, oh, they made a mistake launching it when they did. Um, but hypothetically, yeah, I dunno. Had they, had they launched it today, it would be a lot more obvious what it was for. I think. I think part of it too, this is a little tricky because again, I wasn't involved when this was happening, so I'm, this is very much secondhand, but my impression is that.

The original pitch, not for the entire project, but more for like, okay, well how should you use it right [01:15:00] now was for transferring between exchanges. So both, um, both L B T C and the, uh, is it, is it called U S D T? I forget, but the tether on liquid, which are obviously the, the two primary assets that, that trade there and the original proposition or the, what they tried to make the proposition, what they were sort of pushing to market was, you know, everybody involved in, uh, in crypto trading.

Uh, this is a far, you should integrate this into your trading process because one, you can get confidential transactions, so that starts people front running you, uh, you get far faster confirmation times on chain. I realize with liquid on chains a little bit iffy, it doesn't mean quite the same thing as it does with, with.

Real Bitcoin. Um, but in so far as you trust the federation, then uh, you can, you can kind of think of them as interchangeable, I guess, but that [01:16:00] those characteristics would make arbitraging between exchanges, uh, a lot more attractive. And my understanding of what happened was basically that, uh, while that in theory could be done, it was easier and also far, far better marketed to just use, you know, something like Ethereum or eventually even Solana for this.

Um, and so it was kind of a weak, uh, even potential use case. Nevermind, you know, real one. It was just like the best thing they could think of at the time, given that the, the two. Like significant novelties of it were confidential transactions and asset issuance. And, and I think how they arrived at this was like, okay, well how can we, how can we like plug these into something that does actually exist now, even though I'm pretty sure [01:17:00] they, they did know at the time or did at least think at the time, uh, more or less the view that I have now, which is that the optimal use case for it is tokenized securities.

And so you can see why both that you need assets, actions for that to even be possible, but even confidential transactions, you know, it's, it, I would argue it's, it's far more important that you not be front run in like a legitimate capital market, like a, like a trillion dollar capitalization capital market rather than, um, trading in and outta share coins.

So, uh, yeah, I went on for a while there. I dunno if you wanna pick up on any of that.

**Marty:** No, I, I agree. Um, With that original use case. And then, yeah, I've, I always thought like if liquid, and I'm not saying they launched at the wrong time or maybe I am, but the, if they launched like this year, next year, I think

**Allen:** it would, yeah, it would've been [01:18:00] better had they launched, like right now, for example.

For sure. Yeah. The, the one other thing I'd say though, just cuz this does, I, it comes up enough on Twitter that I've kind of made a joke out of it where I'm like, I'm the only person who even likes this as far as I can tell is that I think part of the pure marketing around it. Uh, and certainly something that wasn't helped by exactly that use case of, oh no, we wanna get this involved in, um, in, in trading.

Because that sort of makes it seem like even though I don't think that they ever articulated exactly this way, But it's not that far off. Like if somebody did come back with this, you couldn't really argue with it. That, that seems like it's for scaling, right? Like you think back at ev everything I described as like why this potentially would be useful to integrate in a trading setup between exchanges.

You're basically saying that, uh, for this use case, it's better than doing it [01:19:00] on chain. Um, and hence that's, that's like almost the definition of well minus some much, much more important technical criteria From a use case perspective, that's kind of what people mean when they say scaling solutions. Um, I think that was probably the biggest mistake of all because that, that seems to have stuck and seems to be a reason people dislike it.

That I think is kind of irrelevant. And the reason that I think that it's particularly suitable that basically it's, maybe it's only use case, but certainly it's best use case is tokenized securities. Is that you have to, first of all, you, this is true for any scaling mechanism, but you have to acknowledge the trust tradeoffs, at least otherwise you're just delusional.

Um, I'd probably go further and say that in most cases you should lean into whatever the trust tradeoffs are so that you're not blindsided down the line. And in this particular case, there's obviously a huge amount of [01:20:00] trust with the, the way the federation works. But what I see as quite nice is that there's significantly more trust than that in, in legitimate security.

So actually you're, you know, if you're, if you're willing to enter into that trust relationship, you should almost by definition, be willing to enter into the liquid trust relationship. And so you're just inheriting all the superior features of. A system in which the title to an asset can be transferred.

Um, and you shouldn't really care about, you know, the how, how the federation multi seg works, for example. Whereas if you, um, to go completely to the other end of the, the spectrum, if you're comparing it to like lightning as a, as a, a way of scaling Bitcoin, I think that's just insane. Uh, you, you shouldn't, you shouldn't do that.

It's just obviously, it's obviously inappropriate and, and you're, you're doing the exact opposite of what I [01:21:00] described. Not only are you not leaning into the trust trade offs, you're just ignoring them. You're just, you're just being delusional about what they even are in the first place. So that, that's how I think I've ended up in this position of, you know, the self-described only public liquid bull.

Um, that I find that use case interesting, and I think the wider perception about what it's even for is almost entirely wrong.

**Marty:** Yeah, I would agree with that characterization. I think that distinction is really important. Like, it's not a scaling solution like lightning. It's another thing in and of itself. Mm-hmm. Um, issue.

Yeah. Liquid man. It's gonna have its day. It's gonna have

**Allen:** its day. I sure hope so.

**Marty:** It's gonna have its day. The, uh,[01:22:00]

well, this piece is incredible. Is it available to everybody now? Is

**Allen:** this only going out? It should be, yeah. Yeah. No, by the time this comes out, that is very much the intention. Yeah. Yeah.

**Marty:** Right, because it's very, it's, I must commend you. It's one of the shorter pieces that you,

**Allen:** yeah. Well, you gotta give it right now.

This is, um, this is, this is the first of hopefully many I should add, uh, sort of official content from the, from the business. Um, I did mention that at the start, by the way, it's obviously not as important in terms of what we want the business to be. It's, it's more of a branding thing, I guess, in a commercial thing.

But that is quite a big part of, of what we wanna do. We want to have not, not too often or not so often that we set a pace we can't keep, but as fairly regular cadence of releasing this kind of content. [01:23:00] Um, and so we have, we have a few in the pipeline actually, uh, that I'm really excited about. What some of 'em, I don't wanna put too much pressure on the authors, uh, cuz most of them aren't, aren't finished yet.

They've just been kind of chugging along in the background for, um, Until we decided to do the announcement, but one that is nearly done and, and should follow not too long after this one. Uh, I'm so happy that, um, that we, we, that I talked these people into it, that we, that we were able to do this at all.

So it's, uh, Dru Sal and Ryan Gentry, uh, from Unchained and Lightning Apps, both of which we have mentioned earlier in the podcast. Uh, they gave what, what I still think is probably the best talk about Bitcoin that I've ever seen. And I, and I, I completely mean that I'm not just, I've, I've said that publicly before Anyway, so, you know, they will know that I'm not just saying it now.

Uh, Miami 2021, I encourage people to go watch this. [01:24:00] By the way, it's obviously 15 minutes, 20 minutes, something like that. I, I think the talk is called the Bitcoin stack. Um, and it's, it's basically like. It's like a first principles argument as to why in order to do anything that crypto at large allegedly wants to do, uh, you would need to start with money anyway, and therefore you should start with Bitcoin and that crypto in the most charitable possible conception, you know, it's very kind of technically focused.

They, they don't call anybody a scammer or anything like that. Um, in the most charitable interpretation of, you know, okay, assume everybody involved in this, you know, really is trying to build something worthwhile. Uh, which I, I think is true for the most part. I think actually most people, um, most people who do work in in crypto, certainly as developers, do have that attitude.

And Ryan and Drew's point is that the, the reason they should consider Bitcoin, at [01:25:00] least from that starting point, um, You know, assuming that it's not like, oh, number go up or whatever, is that actually whatever their technical goals are, uh, they'll be far more likely to be able to achieve them. Um, if they, if they have this, you know, if they have the right framework around how all this stuff should work.

So amazing talk. Highly encourage everybody to go listen to it. Like right now, don't wait for our piece. Um, but what I am very happy I was able to talk both of them into doing is just turning that into something written as well. Uh, in part because even I, I said this to them like I, I don't know, a year and a half ago or so, that it just should exist as a written piece as well there.

Not that there's anything wrong with the talk, obviously I've already said how much I love the talk, but it would, I think, be even more useful if it, if it existed in written form, um, as well. It just opens up even more, uh, distribution and, and a higher potential audience, I think. But the other really interesting thing is that just given the delay, since they gave [01:26:00] that talk, a lot of the things that they said have.

If not literally completely come true, um, are a lot more obviously true than even they were at the time. So it's not just this, this piece that we're intending to put out not too long after this one. Uh, it's not just this transcription of that talk. I mean, that doesn't work in part because you know, obviously people you have to write differently than how you speak.

Uh, but it's also kind of an update as well. So there's, there's some stuff that they said about, uh, like lightning in particular that is now way further along as in, in real life. It's way further along than what they, they said at the time in the talk. Um, but even some of the stuff they said kind of foreshadows, noster, I wouldn't say it predicted.

I don't think even they would, you know, claim that they, they, they had exactly that foresight. But I think people, if people go back and watch the talk now, it, it won't at all be difficult to read into it that. Something like [01:27:00] Noster probably will appear before too long. And so obviously we've incorporated that into the new version.

So I'm very excited about that. That'll be coming out not too long after. And then, yeah, there's a few more, which, like I said, I won't, I won't shell quite yet. But then again, that's kind of the whole point of, um, you know, the, the social media presence that we wanna have is, is pretty much exclusively to shield this stuff when it becomes available.

Yeah.

**Marty:** No, I mean, I completely agree that talk was incredible. Ryan and Dru think about this space, like on a completely different level. I mean, d Drew bringing his physicist mind to the space with Ho Waves, uh, center of hash Bitcoin space. Uh, recent talk of Bitcoin 23 about Bitcoin and ai, his ideas around,

**Allen:** oh yeah, yeah, that was, that was excellent too.

Yeah.

**Marty:** It's, uh, yeah. Excited to see that [01:28:00] piece and agree. I think we're seeing it in real time right now. This is like one thing that I believe strongly and I've written about for years, and partly because of the way Drew and Ryan sort of framed it in that conversation is like the, the world like crypto ones of Web 3.0 of all these distributed, decentralized applications on blockchains, like never made sense.

Like we just need to take open source money, leverage the open source money protocol of Bitcoin and inject it into every other open source. Mm-hmm. Content media, asset distribution protocol out there, like whether it be noster, http, sip, VoIP, uh, what else is there? Um, podcastings RSS feeds, like mm-hmm.

Just get it into all of that stuff that is Web 3.0, all these

**Allen:** things. So basically exists. I'm just trying to think who, who we have already mentioned on this podcast. Uh, Albi [01:29:00] Vida, uh, lightning Labs I guess too. Yeah. I mean people are acting it out, right? That's like, that's maybe a good way of tying it all together.

This is, you know, it started off just as ideas, uh, the presence of a Bitcoin standard enables people to channel that into productive assets. Yeah, it happen. It happen.

**Marty:** Well, can't believe it took us this long to do it, but I'm sort of happy it did because we had a lot of really cool things to actually talk about.

Um,

**Allen:** yeah. I'm gonna need to watch it back by the way, cuz I wanna turn all this mining stuff into like, maybe you can do, you can do a guest, uh, a guest post for us, you know, we'll get the, the Bitcoin stack one, we'll get one of the other two or three that we have in the pipeline and then it can be Marty Ben, uh, I dunno what we'll call it.

So it will have the word mining in the word capital as seen on tftc. Yeah. Yeah.

**Marty:** Mining is the, [01:30:00] uh, mining is the most masochistic part of the

No, it's, there's so much going on. Right. I dunno about you, but to me this is the most exciting time that's ever been in Bitcoin. And maybe it's like the Chinese proverb, or every, every moment in time is like the most chaotic or exciting time. Yeah. Truly. When it comes to the building that's going on, the maturity of the lightning network, the maturity of the mining industry, the, um, the emergence of noster and people really creating creative solutions there.

Um, things like mini script coming to market, the lessons learned mm-hmm. The last two years and how to do, um, Bitcoin financial products the correct way, like got a lot of, not only we learned a lot of lessons the last two years, not only has the tech, um, reached like a point of [01:31:00] maturation where you can build really cool stuff, but I feel like there's enough people that have been in the industry long enough that have had gone through the cycles and had the pattern recognition now to be like, alright, here's what we need build, here's how we need to

**Allen:** use our capital.

Yeah. No, no. I mean, I, I, I completely agree. I can even tie that to kind of, uh, partly I guess a personal anecdote, but that relates to, to the business, to Axiom as well, that, so I was, you were mentioning before how many cycles you'd been through. I'm a little newer to the, to this space than you are. I'd say I, I was kind of interested in this space, but in no way public from around 20, maybe 20 15, 20 16, only started to get involved publicly in 2019.

But that entire time was working in Trad Fi and it was only in 2021 when in my previous role we, uh, we made the investments in Blockstream and then in Lightning Labs. For me [01:32:00] doing that, or at least doing the work that led up to that was kind of the excuse I'd been looking for. To just dive a little deeper on the, cuz my, my job was, you know, on paper at least, it was, uh, public equities, analysts, so it had nothing to do with this.

But I was as, I guess won't be any surprise whatsoever, I was like the resident Bitcoin not, um, lining Labs and Blockstream was the excuse to get more stuck in. And basically once I did there was, there was two things that struck me. So one was just how much activity there was, um, but like legitimate business activity.

I think this was the interesting thing cuz being on, you know, on Bitcoin, Twitter, I guess. You, you always have a sense that there's a bit of a buzz about, oh, people are doing this, people are doing this. But I had never quite appreciated how much of it was, uh, was manifesting as real businesses. Um, I'm not sure that's even a timing thing or, or rather the timing is more about me [01:33:00] rather than about any of them.

It's like once I had the, the opportunity to look, I was very excited by, by what I saw. But then the other interesting thing too is that it touches on a whole bunch of things that we've talked about just now is it wasn't just, you know, oh, I'm now aware that these businesses exist. It was given what my job actually was.

It was a bit more involved in that is, you know, thinking about how they work as businesses, you know, and ultimately would they or wouldn't they be good investments? And that was what got the ball rolling on. They're gonna need a different kind of financing. Not, not radically different cuz obviously in that position what, what we were even talking about was Dollar Venture Finance.

And as Axiom stands today or when this is released, that that still is all we're talking about. But the picture was starting to form that, you know, on a Bitcoin standard, things are gonna be different. [01:34:00] Uh, that was also, that was very exciting. That was probably, I'd actually say was, was more exciting, at least for me.

Uh, cuz that more, more strongly led to, you know, to where, to where I am actually making the decision to, to wanna do this. Yeah.

**Marty:** And we're not gonna wait many years to have you on again, because I hope not. Yeah. When we're allowed to talk about it. It's something I really wanna dive into. Cause I do think

**Allen:** that's, well, yeah, it's tricky.

It's, it's not, it's not, we're not allowed. I mean, we're not allowed to because I said we're, we're not allowed to. Um, I teased it a little bit before. The other thing I can say on it though, just to, to now elicit some sympathy, is, um, this stuff is extraordinarily, highly regulated. Uh, and it will come as a shock to nobody.

It should come as a shock to nobody that regulators don't really [01:35:00] like Bitcoin very much. So that's, that's part of why Yeah. It's taking a little longer than I would've hoped it. What, what it is we want to do is a lot simpler on paper than, or it's a lot simpler in theory than, uh, it has turned out to be in practice.

But I would like to think we're getting there. I, I hope I do have a chance to come on and talk about that too. Well,

**Marty:** uh, Selfishly, I'm happy it's taken you out a bit longer so we have something else to

**Allen:** talk about, rather. Yes, so the content can multiply.

**Marty:** Well, Alan, this has been a pleasure. Thank you for doing Yeah, likewise.

Prolific writer, prolific thinker, like the way you frame things and really, um, get people's perspective on Bitcoin to sort of shift and, and approach it from different directions. I mean, Bitcoin and Venice is one of the books that [01:36:00] really makes people think about Bitcoin differently, and

**Allen:** I Oh, thank you.

You recognize, you do realize how biased you are in saying that though, or do you, I'm not sure. Do you know what I'm talking about? I mean, I am referencing the book exactly. Yeah. I, I, I mean, obviously, correct me if I'm wrong, I don't mean this to be in any way insulting, but I don't think any other Bitcoin book quotes you.

**Marty:** Uh, I There is one. There is one. Oh, really?

**Allen:** Yeah. Yeah. What, what? What's the quote? What are you, what did you say?

**Marty:** Uh, I think it was like Bitcoin will change us more than we change Bitcoin, which is actually, that's

**Allen:** pretty good. I mean, obviously I now have to, unless you remember it and you wanna say the quote from Bitcoin is Venice, which I think is better to be completely honest.

Do you remember it? Um,

**Marty:** yeah. Turn off What as

**Allen:** and put on a Bitcoin podcast. Exactly.

**Marty:** Stop listening to WA out there. [01:37:00] Come on. We gotta fix the culture.

**Allen:** Yes. I endorsed this message,

**Marty:** message. Bitcoin fixes this. That's actually, yes. A good thing to end on. That's essentially the, the conclusion of, of capital in the 21st century. Yeah.

**Allen:** Bitcoin. Bitcoin fixes the cost of the capital, uh, at the very least, hopefully.

Hopefully a lot more than that. Yeah.

**Marty:** Well, I'm excited, uh, to see Axiom, um, more people become aware of what you guys have been doing on the venture side and then eventually put on that tape is gotten through, uh, what you guys have planned, um, on that side of business and just keep fighting, man. We're, uh, we're gonna win.

We are winning. I think we're winning. I think so. Uh, even though the regulators hate us, I think we do have, uh, truth on our [01:38:00] side and undeniable truth in terms of increased utility and productivity and value accrual for humanity in Bitcoin. And the industry's going around

**Allen:** it very much. Agreed. All right, Alan,

**Marty:** go enjoy your weekend.

You must be like happy hour where you are. Thank.

**Allen:** Oh yeah, it is, right? Yeah. I to fair. I have a, I have a wedding tomorrow. I don't wanna get too wasted right now.

**Marty:** Well, enjoy the wedding. Enjoy your weekend. That's all we got today for Peace of love.