MATIC NETWORK X HOUSE OF CHIMERA

CONGESTION, AND THE DIRECT CONSEQUENCES

A couple of months ago, as the market was extremely bearish, Bitcoin was getting close to $3.000 and the general sentiment was that Bitcoin might go back to pre-2017 levels. The oil market crashed, the stock market hit several circuit breakers and the whole cryptocurrency market was tanking. The whole economic system was taking hit after hit and investors began to question if this was 'it'. The influential crypto accounts on Twitter went either completely silent or were talking about pre-2017 levels of Bitcoin. Fortunately, we never went there and Bitcoin slowly but steadily bounced back and made a new local high in August 2020. The whole cryptocurrency market was flourishing, altcoins were incredibly profitable, and all on the board the whole market was in green.

Average Transaction Fee on Ethereum (7DMA)
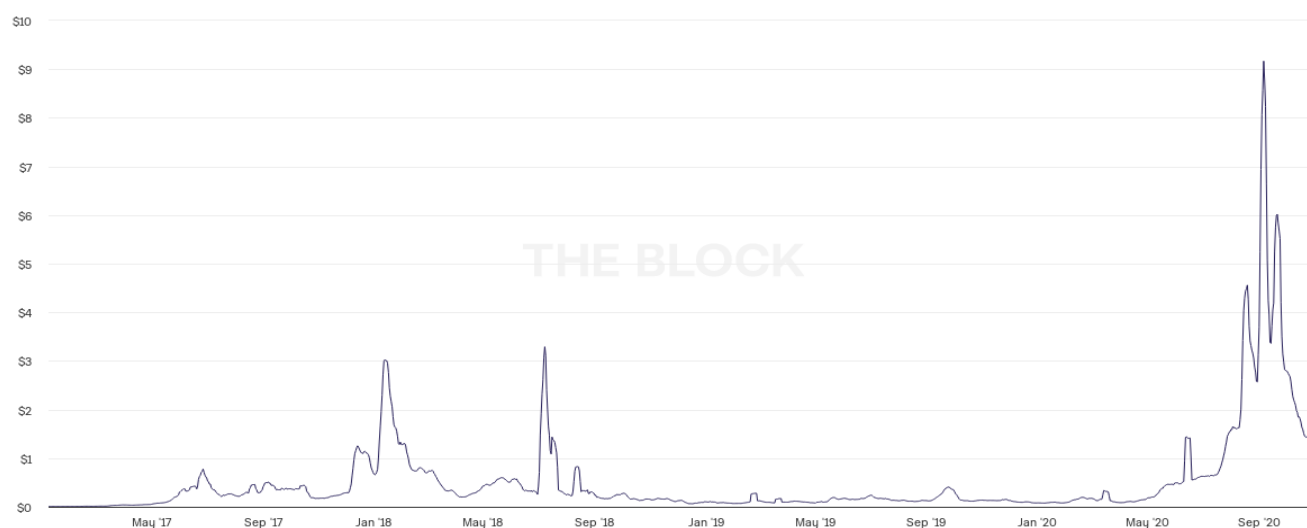
SOURCE: COIN METRICS

The most exciting thing of this summer was the whole DeFi hype after assets posted extraordinary gains in an extremely short period. Everything which had any link with Decentralized Finance turned in solid gold and the market turned tremendously bullish. The hype had negative side effects on the Ethereum network, the network couldn't handle the number of transactions, the miners of Ethereum couldn't match the enormous demand and overnight the transaction fees increased extremely. The Ethereum network was completely congested and this caused bizarre situations where small investors couldn't move their funds because the transaction fee was higher than their investment.

The DeFi hyped has been cooled off in the past few weeks and this is mainly because of the increase in value of Bitcoin which causes sell pressure on altcoins especially DeFi coins. Bitcoin has increased its dominance over the market capitalization of the entire cryptocurrency market. On September 14, it comprised 56,67% of the crypto market cap, the lowest level since June 2019. The current dominance comprises 63,5% of the crypto market cap.

Percentage of Total Market Capitalization (Dominance)

coinmarketcap.com
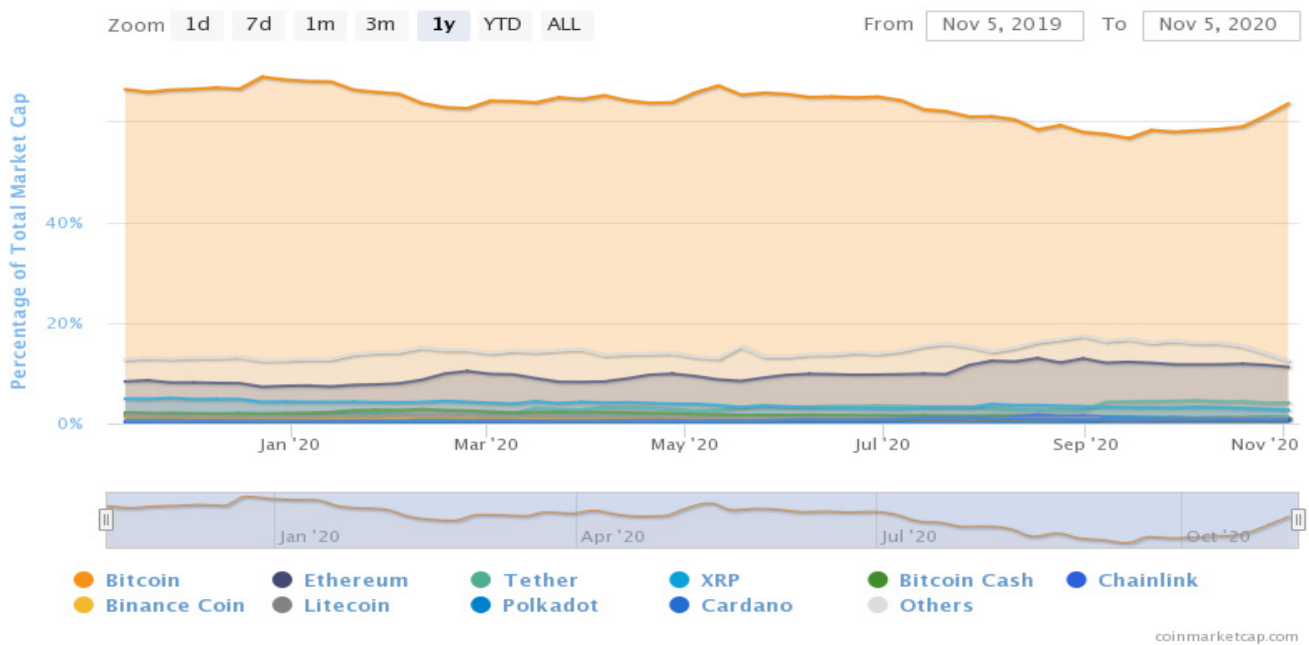
The Ethereum network earned a well-deserved breather and with the upcoming Ethereum 2.0, the scalability issues are going to be solved. Ethereum 2.0 promises eventually to facilitate up to approximately 100.000 transactions per second (TPS), the current TPS of Ethereum is approximately 30. To put this in perspective, credit card companies such as Visa handle about 24.000 TPS on average. In the past few weeks, there have been some rumors that the well awaited Ethereum update is coming in a few months. These rumors have created a false sense of the scope of the project, to 'update' a network like Ethereum, arguably one of the most influential cryptocurrency networks, it needs several years to achieve the promised 100.000 TPS.

The first stage of Ethereum 2.0, called Phase0, is planned to launch in 2020 and will release a beacon chain, the first building block of the new blockchain. The null phase will also enable a deposit contract which will let validators stake their Ethereum. The first phase will allow Ethereum to increase scalability with sharding, however, it is anticipated that the first phase will be increasingly harder than the first phase0 considering that there has to be a perfect balance in security and speed to pull sharding off. This launch of phase 1 is anticipated in 2021. The first phase is at least 6 to 18 months away from release and being fully operational. Ethereum 2.0 is in development for 3 years now, and the project needs at least another 2-3 years to fully develop and to finish the 4 phases.

SOURCE: COIN METRICS
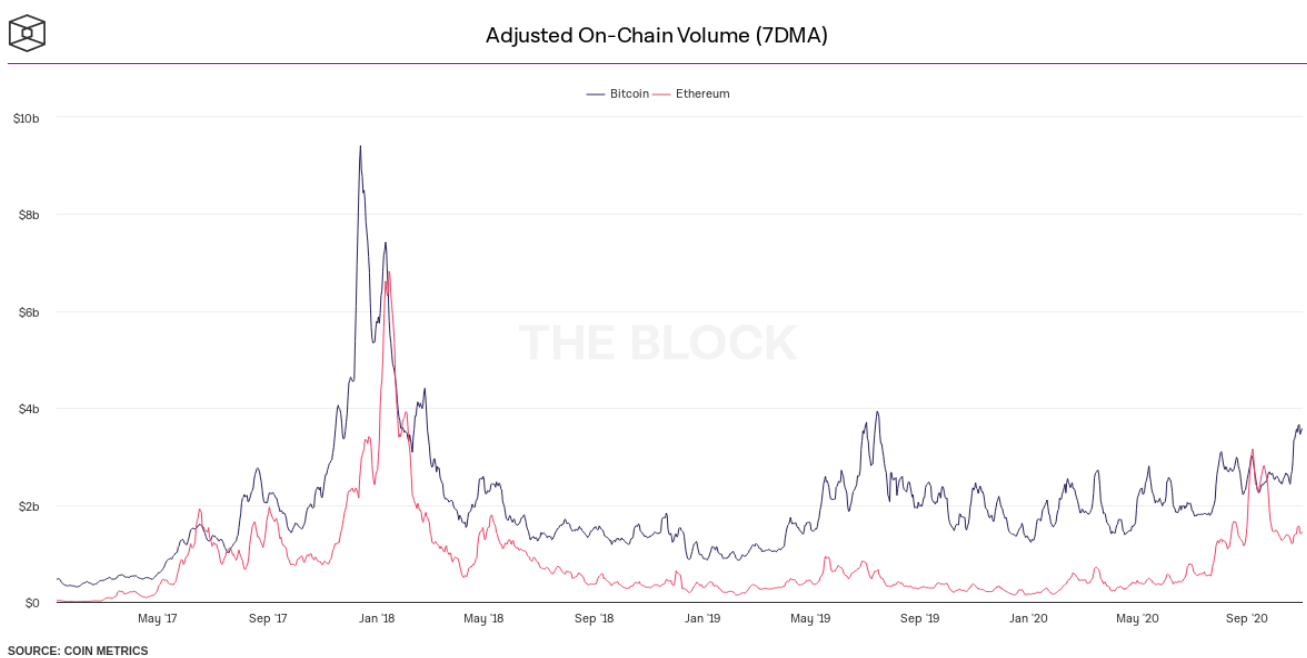
A period of 9 to 12 months is extremely long in a newly developing market as the cryptocurrency market. The issue of congestion is a serious problem, especially in the short term, considering that the cryptocurrency market is growing as a whole especially in user base. Traditional companies are getting slowly into the cryptocurrency and are either facilitating cryptocurrency transactions such as PayPal or are acquiring Bitcoin to hedge against the US dollar.

The amount of transactions on the Bitcoin and Ethereum blockchain is growing, and we are seeing levels we didn't see for a long time. This has a direct influence on the transaction fee, however, it also means that if there are more users on a particular blockchain such as Ethereum that the chance of getting congested is higher. On the other end, the amount of DApps on top of the Ethereum network is increasing, which will also increase the chance of congestion and subject projects to high transaction fees and slow block times. Besides the fact that small investors with limited capital are struggling to pay the transaction fees, it also has a direct impact on attracting new investors.

The whole technology sector is trying to make its products as accessible as possible, to attract new potential users. This is noticeable within the operating system sector, where IOS and Android are getting notably more user friendly in the past few years. This effect is also observable in the cryptocurrency market, it never has been this easy to acquire cryptocurrencies such as Bitcoin and Ethereum. However, the transaction fees are something that is a problem for especially new users of cryptocurrency.

It is a misconception that you solely need institutional investors to advance the cryptocurrency market to a new level. Besides the institutional investors, the average joe and plain jane are the investors, which is an enormous group with enormous collective capital, you have to attract to push cryptocurrency to a new level besides the institutional investors. However, there are a few downsides of this type of investor and one of them is limited capital. This type of investor won't invest enormous amounts of funds, however, collectively they will. However, if the transaction fees are on a determined value, which is a threshold, and is different for every individual it could mean that a specific set of investors decide to invest in other cryptocurrency assets which do not have such transaction fee setbacks. There are cryptocurrency assets that allow you to trade on the Ethereum network without the high transaction fees. There are a few ways to still have access to a certain Ethereum blockchain but without the inflated transaction fees, one of them is a cross-chain bridge within a cryptocurrency asset and Ethereum.

MATIC NETWORK

The accessibility of high-performing and cheap blockchains are rising, however, the switching cost of migrating the assets from one network to another is prohibitively high. Unless you can effortlessly move from one blockchain to another, you can become stuck and have to deal with performance issues and high fees like the Ethereum network has. An Ethereum cross-chain bridge brings the future of connectable blockchains closer in time, it allows you to connect any Ethereum-compatible network. There are a few coins that facilitate a cross-chain bridge, such as Syscoin, PoA, xDai, and Matic Network.


The current forerunner of the cross-chain bridge technology (Layer 2) is Matic Network. The network uses two technologies to achieve a scaling solution which is near-instant, has extremely low cost, and is flexible. Matic uses a dual consensus architecture, Plasma, and Proof of Stake (PoS) bridge, to optimize for speed and decentralization. The usage of a dual consensus architecture, allows DApp developers to balance speed and security. The reason behind the fact that MATIC is the outright forerunner of the cross-chain bridge technology is split into three sections: Adoption, Accessibility, and Fundamentals.

ADOPTION

Technology adoption is the driving force of the growth in value of an asset, if the user base increases the demand for that specific asset increases especially if there is a mechanism that forces the user base to keep buying that specific asset. The adoption of Matic is growing exceptionally, especially within the video game industry. The global video gaming industry is valued at 151.55 Billion USD in 2019 and is expected to reach a value of 250 billion USD by 2025, it is one of the fastest-growing markets in the world. MATIC Network is powering a few of the industry's largest and most anticipated blockchain-powered games such as The Sandbox and Spells of Genesis. The fastest growing industry within the cryptocurrency is arguably DeFi because even in the current state there is still 11 billion USD locked into DeFi. MATIC is actively welcoming DeFi projects on its network and is actively supporting DeFi projects by their incubator project. The largest DeFi project by market cap is EasyFi ($EASY) and is lately listed on Binance, currently 400% RoI. There are currently more than 60+ DApps being built on the MATIC infrastructure and at least 60 are in the process of integrating or are exploring integration. This makes MATIC within the top 20 blockchains platform in the industry in terms of adoption. In solely the last week, MATIC has welcomed 5 new projects which are building on the Matic Network. The user base of MATIC network continues with growing. The number of transactions increased by 11%, ~100.000 transactions, within a week, and is nearing a million transactions on the mainnet which was released on the 31st of May. A comparable trend is observable with the number of wallet addresses on the Matic network, which has increased by 6%, ~10.000 addresses, within a week.


Increase of transactions of 11% and wallets adresses by 6% in a week
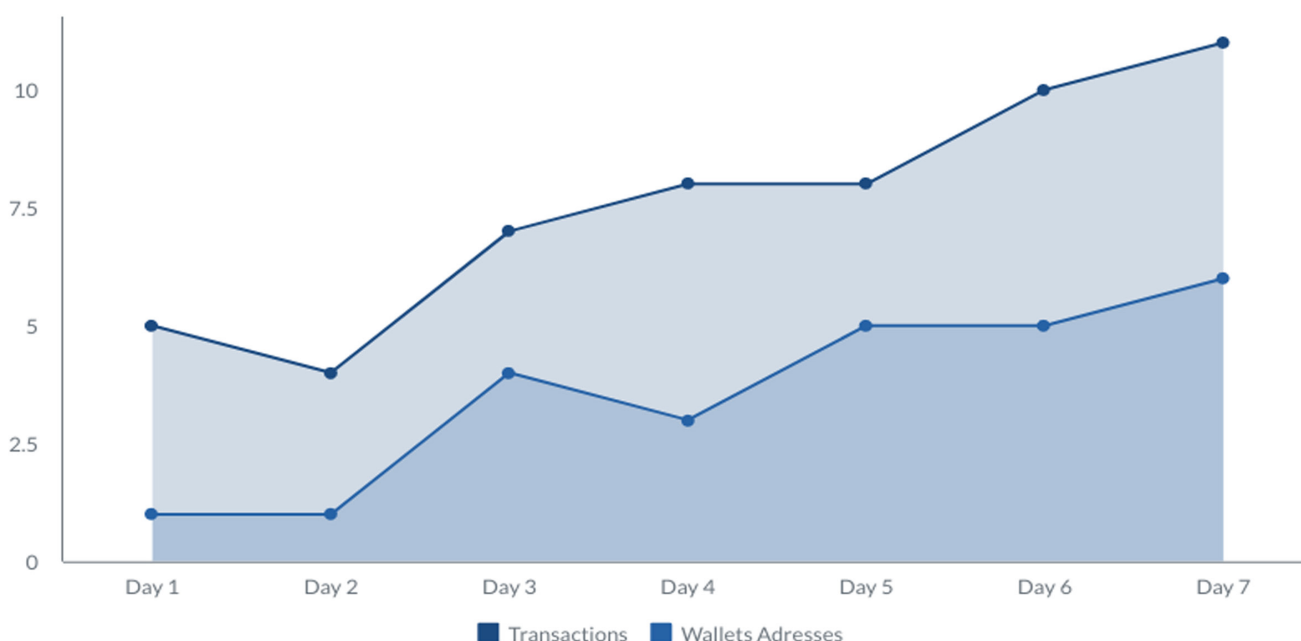
ACCESSIBILITY

Accessibility is the key to stand out from the cryptocurrency masses, there are more than 2000 cryptocurrency coins that all have their unique set of characteristics. MATIC is extremely accessible and this makes it, besides the fact that it is a high-performing and low-cost network, attractive for developers. It provides a toolkit for developers, which is considerably straight forward for a cryptocurrency toolkit. This reduces the accessibility gap and lowers the costs of switching cost of migrating the assets from one network to another. The wider the accessibility gap is, the lower the adoption will be, it appears the MATIC Network team is aware of this and is trying to lower the accessibility gap by making sure their toolkit is painless.
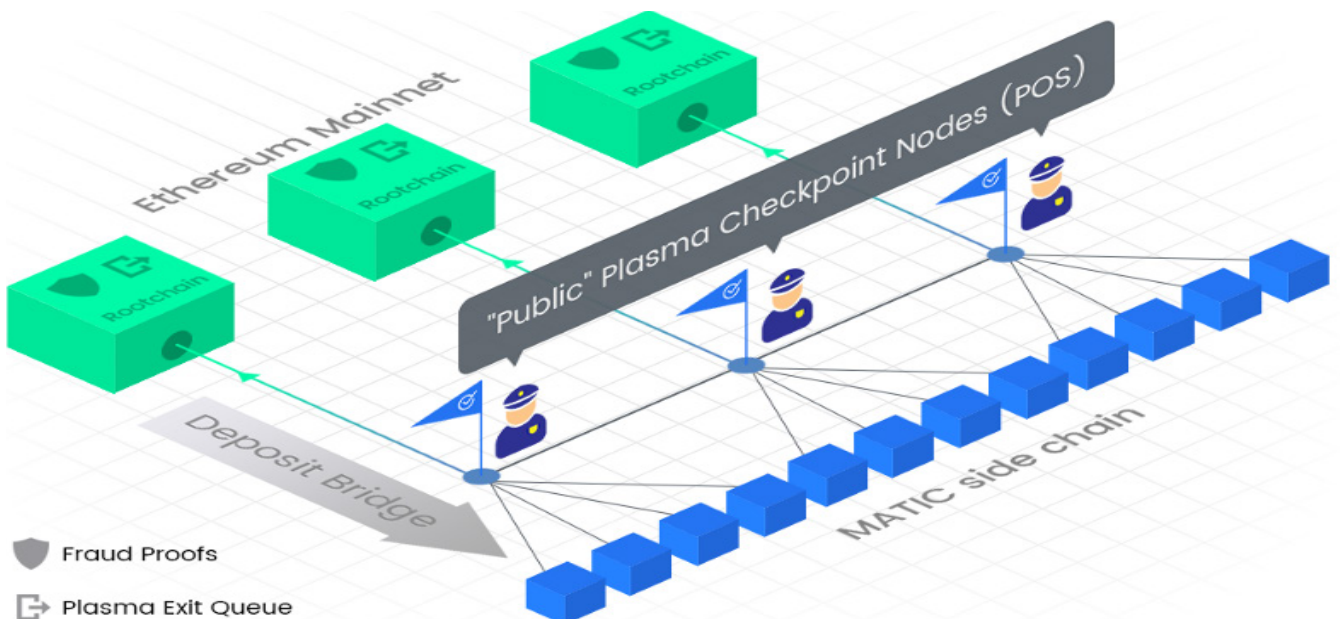
On the other end, MATIC network is widely available for crypto investors. MATIC Network is available on the most influential exchange; Binance and is available on most exchanges. This might appear like a no-brainer, however, most direct competitors such as xDai, are not available on Binance. This might appear as not such a considerable deal, however, keep in mind that at least 10% of the spot volume is being traded on Binance.

FUNDAMENTALS

The fundamentals of an asset are exceptionally important, especially on a long term investment horizon in a newly developed market. The fundamentals of MATIC network are remarkable within the long term investment horizon, the network will firstly decentralize within a few months, is currently in the race of winning the Great Reddit Scaling Bake-Off, the congestion of the Ethereum network could lead to a push of developers to Layer 2 solutions such as MATIC Network, and last but not least some closing thoughts of us.

The MATIC network is currently in Phase 2 of their Mainnet rollout and we are close to phase 3. This is the last phase of the mainnet rollout and also grant decentralization. In this phase, the temporary foundation nodes will be switched off and the delegation will be redistributed. The delegators will re-delegate to public validators and they will run the network nodes. The network will most likely release the third and last phase of the mainnet, when there are at least 100 validators are running the network. The expectation is that MATIC Network will be fully decentralized by the end of 2020, this would be a huge milestone.

The MATIC Network team has shown the capabilities of MATIC in the Great Reddit Scaling Bake-Off contest. This project is a conjunction with the Ethereum Foundation and is inviting Ethereum scaling projects to show the Reddit community how their scaling solution can be used to bring Community points (A measure of reputation within the Reddit community) to the mainnet. MATIC has shown that the network is fast and secure and is one of the favorites to win the contest, based on the shown tech.

The congestion of the Ethereum Network could push developers to explore solutions such as a Layer2 solution. As has been stated before, accessibility is key to stand out of the crypto crowd paying extraordinary fees won't help by making your DApp accessible to the masses. This is effect is already noticeable, developers are actively searching to make their DApp scalable and increasingly using Layer2 solutions such as MATIC Network. The congestion of the Ethereum Network will be here at least until they release sharding which is phased for 2021. This means DApps developers will at least until then have to search for temporary or permanent solutions, considering that MATIC is the forerunner of the Layer2 technology, the choice of investors and developers is considerably easy.

CLOSING THOUGHTS

Disclaimer: We are invested within the MATIC Project and we do benefit from an increase in the value of MATIC. The following advice is not financial advice and is considered our opinion.

MATIC Network is in our opinion highly undervalued right now, the network is constantly growing and is getting more and more noticed. There are a few very promising projects currently being built on the network such a; EasyFI and PolyMarket. The Ethereum King himself, Vitalik Buterin, tweeted about the fact that he was trying out PolyMarketHQ and that it was unique that it was built on Matic Network. The head of engineering of Coinbase Wallet posted on Twitter that the USDC growth on MATIC Network is incredible. To reflect the growth of Matic, more than 30% of the 189 Teams of ETH global are building on MATIC Network.

The current market is rough for altcoins, the whole altcoin market is bleeding because Bitcoin is increasing rapidly in value. This trend is something which we have seen often, after a period of altcoin capitalization, Bitcoin follows and comprises a huge part of the market cap. However, I do believe MATIC is getting an extra hit of the disinformation of 'a possible launch of Ethereum 2.0'. The regular investor doesn't understand the scope of this project and how long it takes to launch it stably. The launch of Phase0 of Ethereum 2.0 is imminent, the scaling issue won't be solved by this phase, so the extremely high transaction fees will roughly stay the same. The moment investors do realize the scope of the project and that there are solutions to these problems, MATIC Network will imminently rise and will see levels we didn't see in a long time. It is up to the community and the MATIC Network team to get the word out, to get this project the respect it deserves.

AMA

The AMA with MATIC Network is divided into two sections; The first section consists out of community questions and the second section consists out of questions of House of Chimera.

COMMUNITY QUESTIONS:

Question: What is the projected user base for Matic by 2022? *(By Keech)*

1 million users, projected by 2022.

Question: What will be the effect on value accrual due to the highly inflationary supply and what is the team's stance on implementing privacy in the network to protect user-information? *(By Sanjeth)*

The inflation is being balanced with a higher volume of transactions and dynamic staking rewards. Matic provides an infrastructure for a multitude of applications, including privacy-preserving data protocols.

Question: What is the projected future of Matic, what will give them the edge on other projects? *(By @Jake)*

Matic has accelerated development on Blockchain through a scalable, seamless Layer 2 Solution and will continue to be adopted by mainstream projects to escape the constraints of traditional Blockchains.

In the coming years, the quality of projects building on Matic will give them the edge over other platforms.

QUESTIONS BY HOUSE OF CHIMERA

We have followed MATIC for a while now and we are quite involved within the community! There are some question marks within the community if the supply of MATIC is highly inflationary and what the outcome of these implications will be on the long term investment horizon. MATIC is already burning a percentage of the transaction fees, however since the transaction fees are so low - this won't decrease inflation within the current medium timeframe.

Question: How will MATIC stay relevant, to reach that point that the inflation will be handled by the number of transactions?

Ethereum currently generates 1mn txns a day, Matic within its early days is seeing somewhere around 40,000 txns a day, within 1 year it is expected to touch 1mn txns a day with the current speed and within 1-2 years it should touch sustainable levels.

How will MATIC become non-obsolete when ETH 2.0 comes out and L2 might be less useful as it is now?

1. *Eth2.0 doesn't provide Ethereum infinite scalability. The best-case scenario is 64 shards*

with shards which can be similar to today's Ethereum chain. Assume a single chain improves with POS and has 50 TPS. Even then 64 shards can offer 3200 tps. The moment the supply of this TPS hits, the Dapps will start utilizing onchain aspects even faster and the demand will rise faster. We will again end up in the same situation. So we believe that Layer1s are settlement platforms, they are not meant to have the 'business activity'.

2. *Even the costs of txns which are alarmingly high today from 2$ to 5$s, even if they go down 50x, even a $0.1 txn is a costly one for any Dapp with meaningful adoption.*

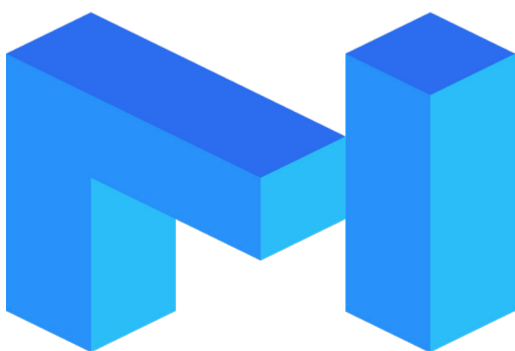**3.** *Lastly Eth2.0, a fully functional version of it which would be available for applications to run their smart contract transactions on is at least 1.5 to 2 years from now whilst the scalability on Ethereum is required today. The TPS brought by ETH 2.0 will still not be able to serve high throughput applications that require on-chain txns, and Layer 2 will build upon the experience offered by ETH 2.0 to ensure an even better experience for the end-user.*

3. The last and final question from us:

In most research reports of us, we will give a sneak peek of a feature of something excited from that specific coin.

Is there an exciting feature, listing, or partnership within the short term horizon, you would like to share with us and the cryptocurrency community?

We're fast 100 approaching 100+ Validators and a fully decentralized network, post which you can also expect exchange staking on the bigger exchanges!

MATIC NETWORK X HOUSE OF CHIMERA