



SWAVE TOKEN

Strategy- Backed Token:

A New Paradigm in
Cryptocurrency Investing

NOVEMBER 2022

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Legal Disclaimer

Introduction

The benefits of following a strategy-based investment include risk prevention, asset class exposure and higher returns compared to non-strategy-based investments. While following a strategy is a no-brainer, doing so brings its own challenges such as timely reallocation, access to asset class, and so on. With shüts' Crypto strategy, we were able to create a high-risk/high-reward investment instrument. However, following the strategy proved challenging to some users and created the need for the SWAVE token. SWAVE gives its token-holders the benefit of being invested using a proven strategy with ease. The token is automated and on-chain, allowing us to operate and maintain it at a low cost of 1% p.a., while the market average is 3% p.a.

SWAVE token is on Polygon blockchain. Being on-chain allows the token to be transparent and trustless - a big benefit to token-holders. One doesn't need to rely on centralized exchanges to hold or exchange tokens, SWAVE tokens can be stored on any ERC20-compatible crypto wallet, such as MetaMask, giving it flexibility and the quality of a highly liquid token.

Limiting the risk of investing in cryptocurrency makes SWAVE a very desirable token for both crypto and fiat investors. Investors who are looking to invest in cryptocurrency but don't know when to buy/sell will find access to SWAVE token very useful. Since the token tracks a proven crypto investment strategy, investors' funds are invested in assets most likely to succeed.



Typical Portfolio & Fund Structure

Three types of fund structures exist in the market:

I. Open-End Mutual Funds: An open-end fund is a mutual fund that issues unlimited shares of investments in stocks and/or bonds. Investing creates more shares, while selling shares takes them out of circulation. Shares may be bought and sold on demand at their net asset value, which is based on the value of the fund's underlying securities and is calculated at the end of the trading day. When a large number of shares are redeemed, the fund may sell some of its investments to pay the investor. Shares are bought directly from the fund administrators.

II. Exchange-Traded Funds: An exchange-traded fund is like an open-end mutual fund, but instead trades as a common stock on a stock exchange. It is not purchased directly from fund administrators. An ETF may trade at a premium or discount to the NAV but this is often very short-lived due to arbitrage by institutional investors.

III. Closed-End Fund (CEF): A closed-end fund is seeded once-off via an IPO and then traded on exchange thereafter. No further shares are issued and CEFs may trade above net asset value as buying and selling the shares on exchange has no effect on the underlying assets.

The structure of SWAVE is a hybrid of two structures: open-end mutual fund and ETF, taking the best properties of both.

- A SWAVE token can be bought(mint) or sold(burn) irrespective of the time of the day, allowing it be liquid than a mutual fund. The NAV of the token is determined by the price of the underlying assets at the time of minting/burning.
- Since the smart contract is on-chain, there is no single administrator of the fund to manage any offline activity during the issuance or sale process.
- Arbitrage opportunity like an ETF can be available to this fund on a centralized exchange once liquidity pool is created.



Strategy-Backed Index

Index funds are known to outperform funds owned by active fund managers. What makes an index fund different is there are no active tradings apart from rebalancing of assets at fixed intervals and selection of assets based on filter criteria. This principle is the basis of shüts' Crypto strategy. Since cryptocurrency is a highly volatile asset class, rebalancing is done weekly instead of quarterly, as is the case with index funds. With shüts' Crypto, the asset list changes based on the set filtering criteria of the strategy.

Cryptocurrencies individually are at an unacceptable risk benchmark for most retail investors. Factors that contribute to this volatility include a lack of regulations, smaller projects, extreme volatility, and unknown domain. The SWAVE token helps tackle some of these challenges, shielding investor portfolios from massive drawdowns, by diversifying the tokenholders investments. This is the same diversification principles that helps ETFs average out the risk metrics of multiple individual stocks. This helps move the needle for this asset class from unacceptable risk to high risk.

SWAVE token positions itself as an index fund in the cryptocurrency world. Allowing an automated strategy to pick individual assets lets token-holders maintain exposure to high-performing crypto assets while limiting risk.



Smart Contract Specifications

SWAVE is an ERC20 token on Polygon chain for the following reasons:

1

Secure & Scalable

Polygon is known for its security and scalability. SWAVE token's availability on Polygon protects the token-holder, and availability of the token is guaranteed by the chain.

2

Low-cost

Activities on-chain like token exchange, burn and mint are subjected to a gas fee/network fee. This fee is typically very low on Polygon network.

3

Highly liquid

SWAVE can be swapped for MATIC and other currencies at any time, making it highly liquid.

4

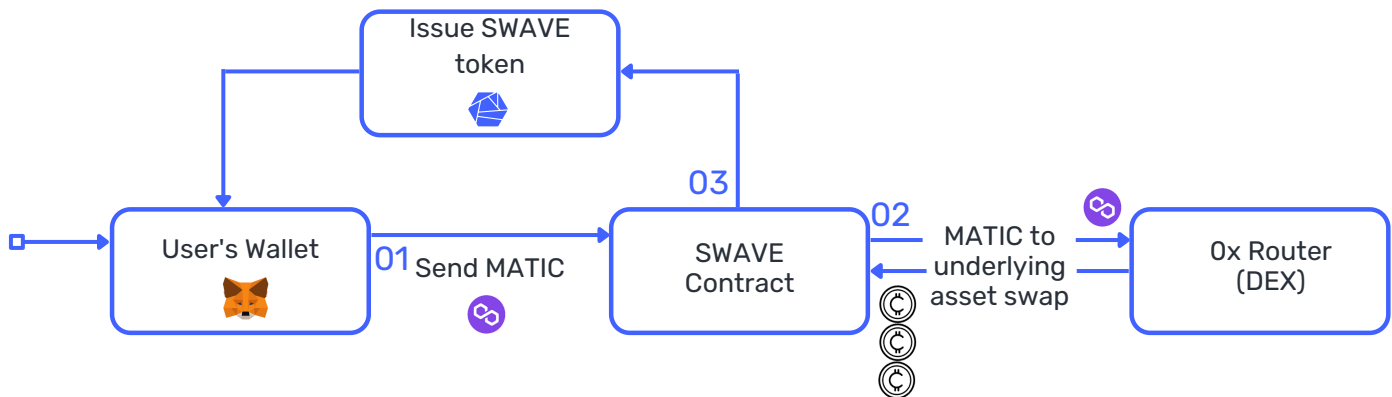
Usability

Being a part of the Polygon ecosystem, one that is rapidly being developed and used, increases the possibility of other projects building on and utilizing SWAVE token in the DEFI space for leverage and collateral.



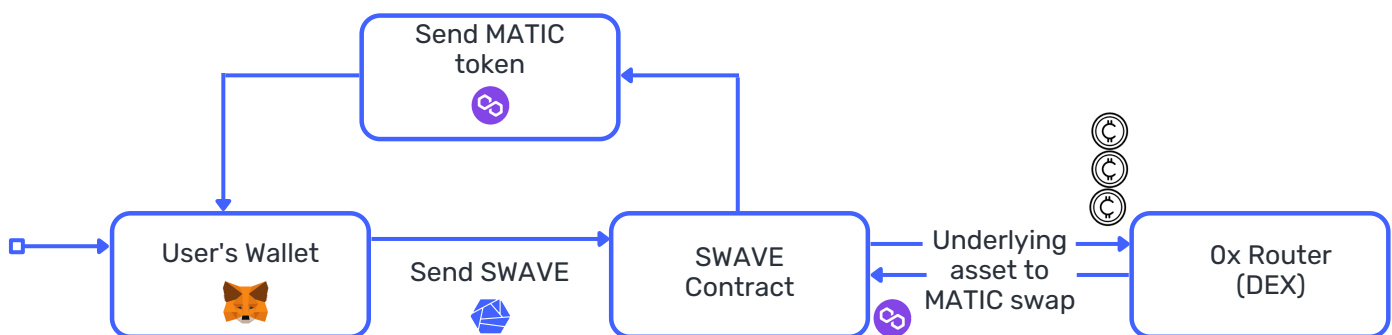
Token Mint

When a user buys SWAVE through web3 dAPPs like crypto.shutswealth.com, the token goes through the following process of minting. The mint step is executed at the start of step 3.



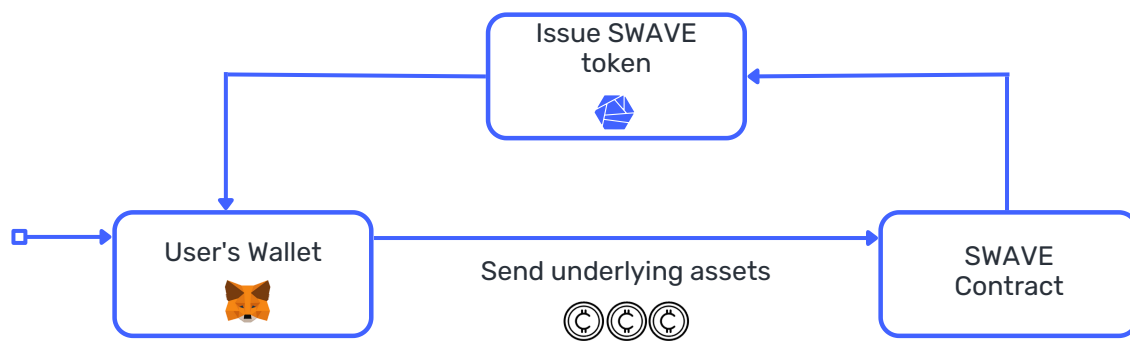
Token Burn

When a user sells a SWAVE token on a dAPP like crypto.shutswealth.com, the token goes through the following burn steps. The burn step is executed at the start of step 3.



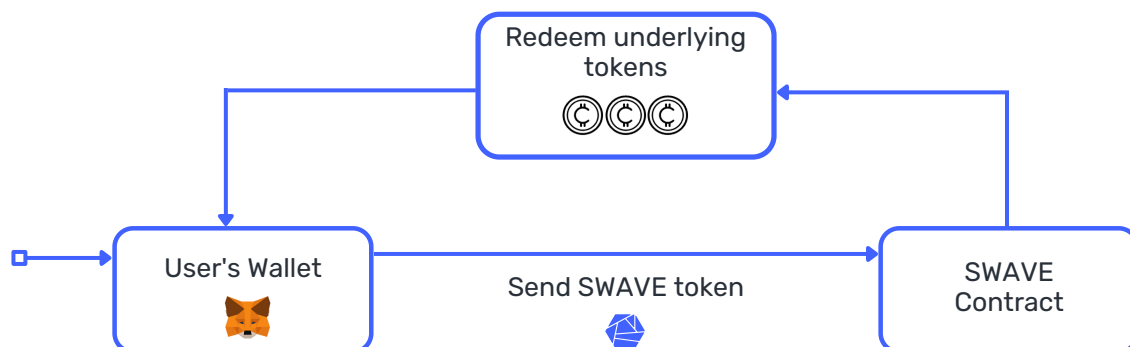
Token Issuance

As a collection of crypto assets, a SWAVE token can be issued without supplying another token for exchange. This will bypass step 2 of going to the DEX. The buyer can provide the current collateral currencies for direct minting of a SWAVE token.



Token Redemption

Another way to liquidate your SWAVE token is to exchange the token for its underlying assets, which lets you skip step 2 below. In this case, a SWAVE token burn will be executed by sending the underlying collateral to your wallet directly instead of first going to a DEX to be converted to a target currency.



Token Structure

SWAVE does not have a cap on its circulating supply. The token's minting and burning mechanisms make the underlying asset acquisition process real time. SWAVE can be minted using any ERC20 compatible token such as MATIC, USDC, and others that are compatible with 0x DEX. The four liquidation processes have the potential to affect the market capitalization and circulating supply of the token:

1. Burn
2. Mint
3. Redeem
4. Issue

Token Type: ERC20 - Polygon blockchain

Maximum Supply: No limit

Starting Price: \$7.15

Launch Date: October 19, 2022

Management Fee: 1%

Net Asset Value (NAV): Token price tracking has been derived from the performance of its underlying asset. A start price of \$7.15 had been set on token inception at launch date. SWAVE token's value is entirely derived from the quantity and price of its underlying tokens.

Rebalancing Methodology

Rebalancing is the act of periodically adjusting the underlying assets' quantities such that the token's asset allocations accurately match the target asset allocation. For SWAVE token, shüts' Crypto strategy is used to create a target asset allocation list once a week.

Once a target asset allocation is generated by shüts Crypto, the SWAVE token is locked. This will temporarily halt any minting process on the token, such that new tokens are not created while the SWAVE token is being rebalanced. SWAVE token can move its underlying allocations to any ERC20-compatible token as long as it exists on Polygon blockchain; for tokens that are recommended by the strategy but not native to Polygon blockchain, wrapped tokens are used. Currently, shüts' Crypto strategy analyzes the top 30 cryptocurrencies by market cap. Of these, 95% are available on Polygon blockchain. Considering that around 5% are not, it is possible for SWAVE token's underlying assets to not match-up perfectly to shüts' Crypto strategy target allocations.



Underlying asset swaps are made after the following tests:

- Target token exists on Polygon in native or wrapped forms
- Price impact/liquidity of the target asset at the time of rebalancing
- Proof of reserve check for wrapped tokens
- Slippage less than 1%

Scenario 1

All target allocation of shüts Crypto strategy is available on Polygon chain.

This is the most common case as over 95% of assets picked by the strategy are available on Polygon in some form(native/wrapped). In this case, the performance of the token will be approximately the same as the performance expectation of the strategy.

Scenario 2

Some of the target allocation of shüts Crypto strategy is available on Polygon chain.

In instances where some of the target tokens are not available on Polygon, the next best asset, as per the strategy, is checked until we hit a stable coin. If a stable coin is hit, the value of that allocation is moved to stable coin USDT. Consider the following as an example.

RANK	CRYPTOCURRENCY	STRATEGY ALLOCATION	SWAVE ALLOCATION
1	BNB	34%	34%
2	MATIC	33%	33%
3	LTC	33%	Not available on Polygon
4	LINK		Not available on Polygon
5	USDT		33%



To successfully follow the strategy, SWAVE token's allocations would be in BNB, MATIC and LTC in 33% equal weightage. But token LTC is not available on Polygon chain in native or wrapped forms. The next best token is LINK; let's assume LINK too is unavailable on Polygon. The next best token is then considered, which in this case is stablecoin USDT. The final 33% of allocation would then go into USDT, and SWAVE token's allocation would be in BNB, MATIC, and USDT.

Scenario 3

None of the target allocation of shüts Crypto strategy is available on Polygon chain.

If none of the target tokens are available on Polygon, we keep testing the next best token until a stablecoin is reached. Once the stablecoin is reached, 100% of allocation is moved to stablecoin USDT.

Backtests of the scenarios listed above were done and have not shown a significant performance difference. However, we are working towards bringing missing assets to Polygon as wrapped tokens so that shüts Crypto strategy can be followed as closely as possible.



Security & Transparency

As a fund, SWAVE does not own any portion of the underlying assets. The redemption and burn processes can only be initiated by a token holder. Underlying assets can only be accessed, exchanged, or retrieved by the tokenholder themselves, not by Shuts Wealth Inc and its entities or employees. Since SWAVE tokens are not stored in a vault, there is no single point of failure. SWAVE uses SET protocol as a framework for its token, and complies with all audits and bounty program of the protocol.

Transparency on-chain refers to the lack of a blackbox. The entire ownership process of the token and its underlying code exist on the blockchain, making it free of any hidden surprises or fees for the users.

Trading Strategy

A number of factors are considered before a trade is made in the underlying assets of SWAVE token. For a token to be considered as part of SWAVE's underlying assets, its market cap must put it within the world's top 30 cryptocurrencies. Additionally, the token being considered must have a certain level of liquidity at the time of trading.

The nature of SWAVE token also helps investors avoid certain pitfalls that come with stock market ETF investing. Consider for one: the S&P 500 fund's structure is one of the most popular ones and is rebalanced quarterly. Changes to the fund's allocation are announced a few days prior to the change being made. Every quarter for the last 20 years, between 25-30 out of the fund's 505 companies are replaced. In order to make an easy profit, "frontrunners" sometimes go ahead and buy the stocks of these 25-30 new companies that are about to become a part of the fund. This is done between the time that the announcement is made, and the fund making its trade. This allows frontrunners to buy low and sell high, potentially impacting the fund's value. With the SWAVE token, this isn't possible to do as no announcements need to be made on allocation changes. It's virtually impossible for an individual to know what the new week's allocations will be in order to make an unfair advantage.



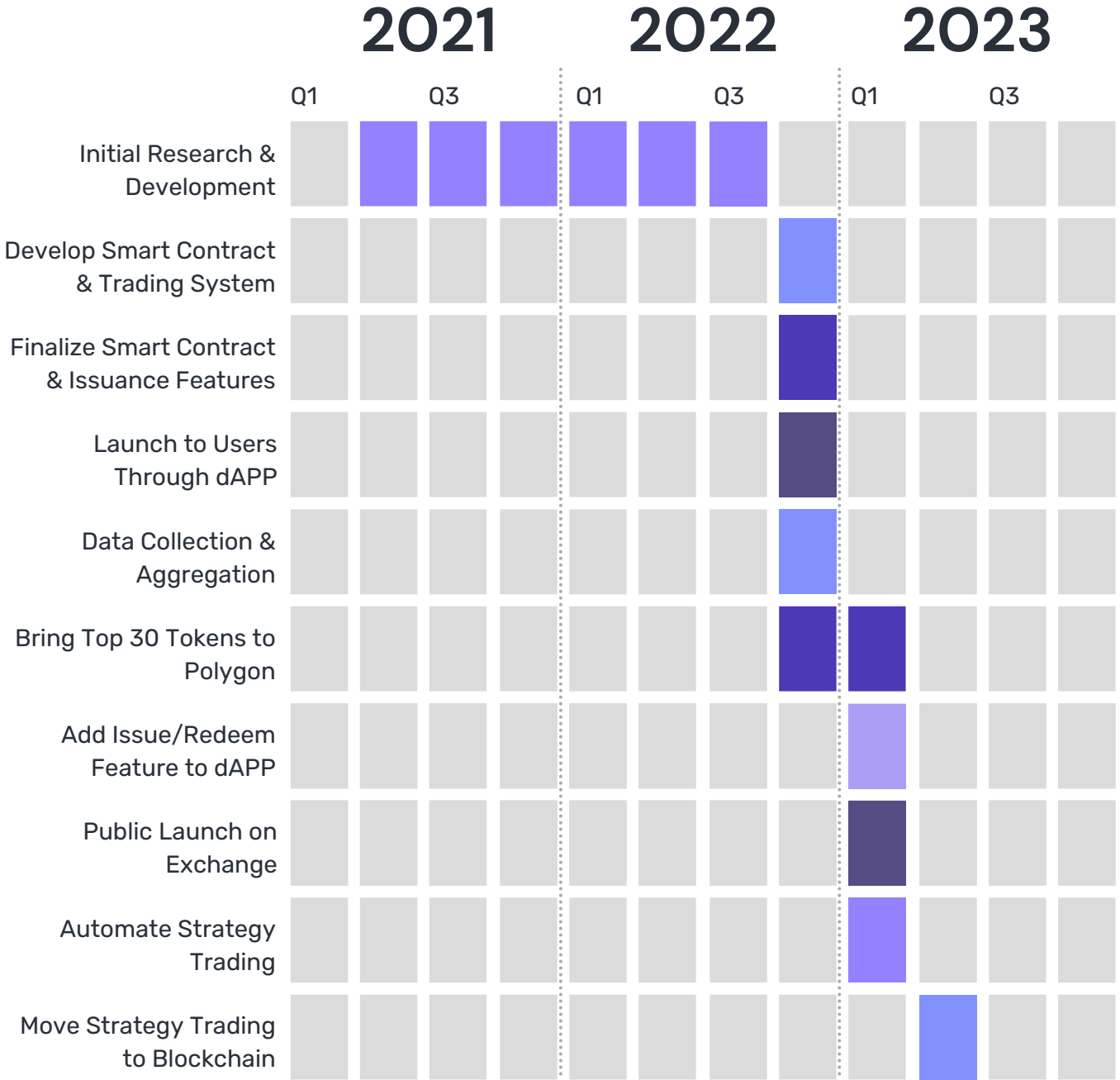
Additional measures are taken during trading of underlying assets:

1. The fund AUM is split across different DEX to carry out the trade
2. Trades are executed across varying times within the rebalancing window to avoid predictability.
3. Assets are owned and held entirely by token-holders so no single wallet/fund is used to trade, thus not letting frontrunners to follow a hot-wallet.

SWAVE token rebalances each week. As previously explained, holding underlying assets for longer than a week, in the highly volatile crypto space, without evaluation brings higher drawdowns with no positive effect on performance metrics. At any given time, the shuts Crypto strategy recommends the token be allocated in no more than three crypto assets out of the top 30 by market cap. At the time of rebalancing, the lowest weighted constituent of this strategy is 33%. Movement in the price of a single crypto asset can only affect 1/3rd the price of the SWAVE token.



Timeline



Conclusion

A hybrid of market cap weighted and performance, SWAVE token allows users to be invested in assets most likely to perform in the future, as dictated by performance metrics. The SWAVE token is ideal for investors looking to buy and hold crypto assets in the long-term, without worrying about the outcome of any individual underlying project or asset.

SWAVE is poised to set a new standard for crypto investments. Being transparent, secure and directly asset-linked 'token-as-a-strategy', SWAVE aims to bring low-fee to the mainstream with its innovative single token offering.



For more information, please visit: crypto.shutswealth.com

Disclaimer

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