

Is Coinbase still a buy?

By winkler · April 8, 2024

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What We'll Discuss

- Welcome back, insiders! As you may know..
 - Crypto has been on a massive run since it's crypto winter lows
 - BTC up almost 4x and many Alt's way more..
 - Like Soland up 30x
 - and COIN which we'll discuss today is up 8x

- So, whether you're a crypto HODLER and/or coinbase investor this video is for you.
- Here's what we'll discuss:
 - Coinbase Current Situation:
 - Risk Factors: SEC lawsuit, Short-Term Prices, and maybe fundamentally overvalued?
 - But since when did those matter?
 - Upsides: Finances, Brian Armstrong, and...
 - Crypto Macros (arguable for bother directions)
 - Institutions ETF's, stablecoins and Halving on everyone's mind
- I'll try and keep each topic short because a lot is going;
 - if you want me to expand in any individual topic (like the best platforms for staking your crypto) I'd be happy to do so.
 - Just LMK in the comments below.

Coinbase Current Situation

Coinbase, as of recent reports, is positioned as a leading platform in the cryptocurrency exchange market with a **significant revenue of \$3.1 billion in 2023**. Its **market capitalization stood at \$60 billion start of Q2 2024**, showcasing its substantial presence in the financial and technology sectors ([Craft](#)).

Risk Factors

1. Issues With SEC

The U.S. Securities and Exchange Commission (SEC) has charged Coinbase with operating as an unregistered securities exchange, broker, and clearing agency. This lawsuit, filed in June 2023, also accuses Coinbase of failing to register the offer and sale of its crypto asset staking-as-a-service program. This action is part of a broader SEC crackdown on crypto companies following the collapse of FTX ([SEC.gov](#)).

Unregistered Securities Broker

1. Some Crypto Are Securities (Chiliz, Solana)

- Coinbase's profitability may face pressures from various directions, including regulatory challenges. For instance, a dispute with the SEC over the

classification of USD Coin (USDC) as a security led to the shutdown of Coinbase's "Lend" project. Comes down to the Howey test for securities and how the SEC rules them compared to Coinbase.

2. Crypto Staking

- Another one of Coinbase's revenue streams under attack by the SEC
- 25-35% of staking yield - a lot - Stakefish offers 0% fees
 - Read more in "[All About Staking Fees, Coinbase vs Stakefish](#) All About Staking Fees, Coinbase vs Stakefish" section

From the initial filing to a final decision, cases like these can take anywhere from a few months to several years. If there are appeals, which is common in high-stakes litigation, the process can extend even longer.

New developments:

- [Coinbase wins latest lawsuit on alleged securities violations](#)
- [Coinbase now registered as a Restricted Dealer in Canada](#)

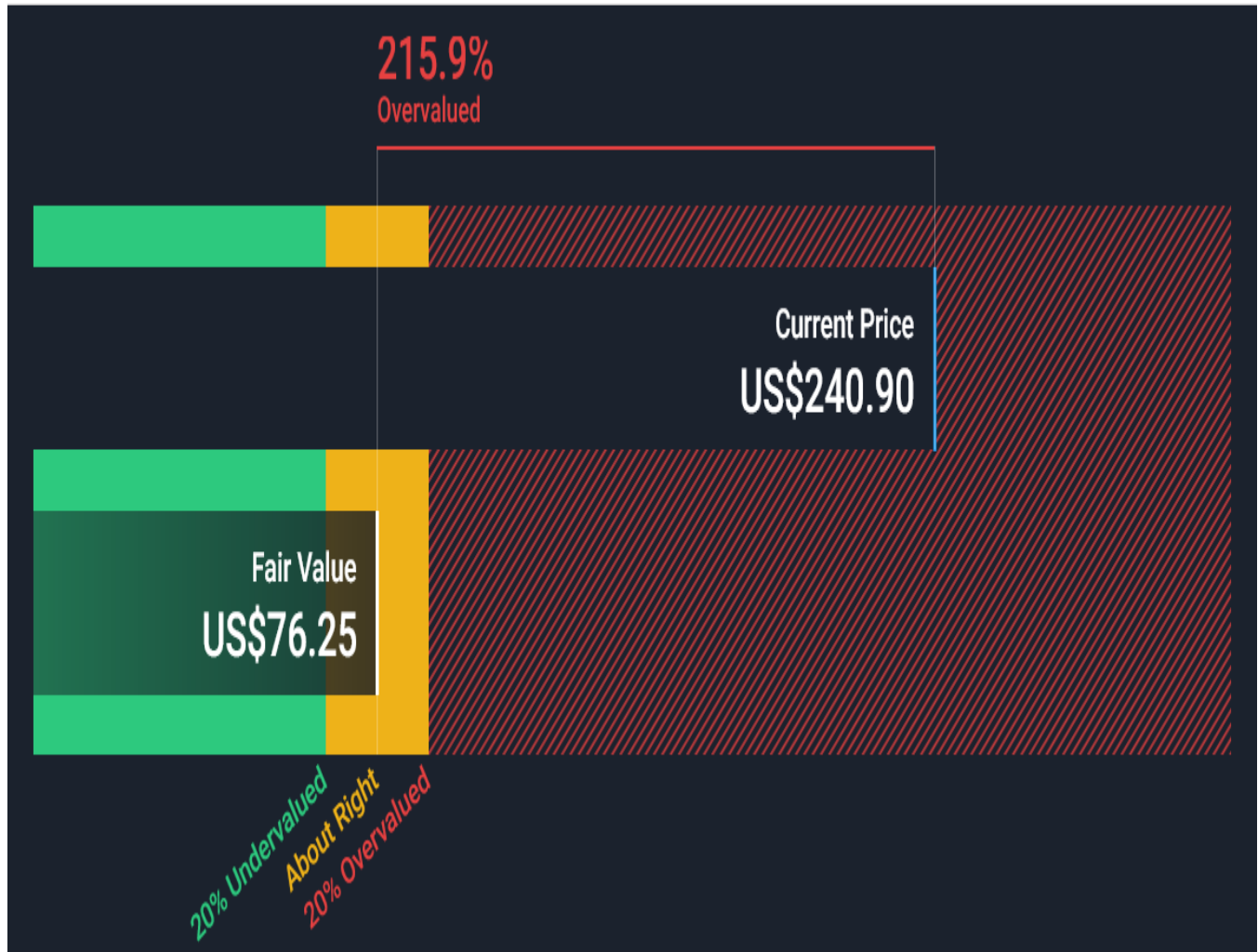
2. Crypto Winter / Elevated Prices Short Term

The company's performance is highly sensitive to the volatility of cryptocurrency prices, regulatory changes, and competitive pressures. A major risk highlighted includes the potential for another "crypto winter," similar to the downturn experienced in 2018, which could significantly impact its operations and profitability ([Decrypt](#)).

The company's reliance on trading fees from major cryptocurrencies like Bitcoin and Ethereum is another point of vulnerability, especially if market conditions shift unfavorably ([Yahoo Finance](#)).

3. Overvalued Based On DCA

- Below Fair Value: COIN (\$240.9) is trading above our estimate of fair value (\$76.25)
- Significantly Below Fair Value: COIN is trading above our estimate of fair value.
- **Already ran almost 8x from its lows.**



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Upside

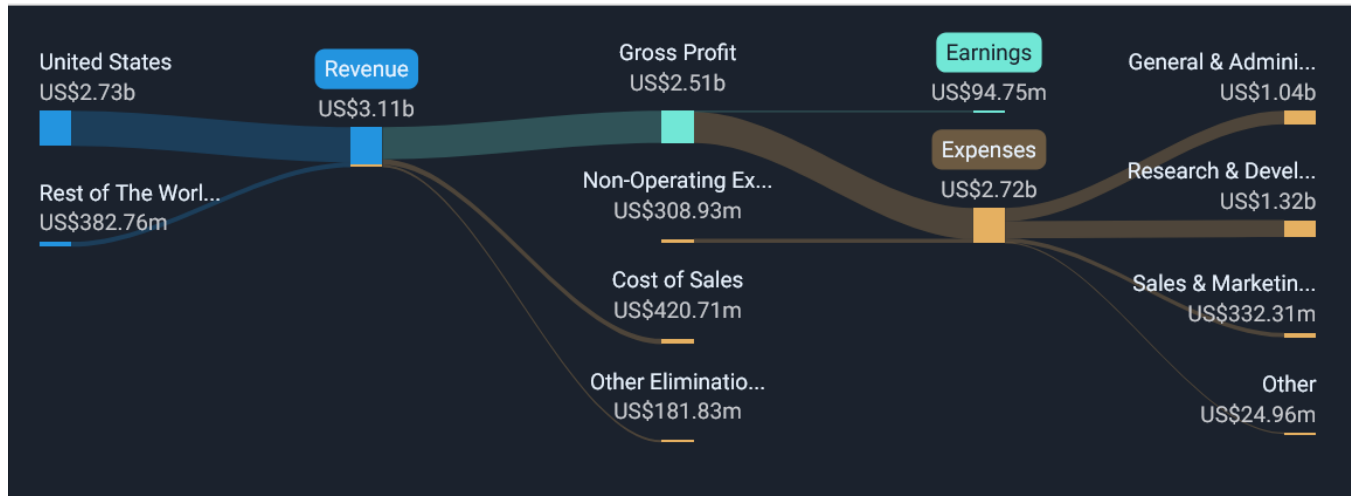
1. Funding Secured

Coinbase has also undertaken strategic financial activities, such as issuing senior corporate bonds, to bolster its financial standing and support future growth initiatives. This move indicates the company's confidence in sustaining its operations and profitability over the coming years ([Yahoo Finance](#)).

Coinbase Global's earnings have been declining at an average annual rate of -37.5%, while the Capital Markets industry saw earnings growing at 9.9% annually. Revenues have been declining at an average rate of 11.4% per year. Coinbase Global's return on equity is 1.5%, and it has net margins of 3.2%.

- Short & Long term assets greater than liabilities
- Debt Level: COIN has more cash than its total debt.
 - Cash on hand has always been my favorite part about COIN
- Debt covered by cashflow, can survive though macro envs.





2. Stong CEO

Brian Armstrong, the CEO of Coinbase, has been quite active and influential in the crypto space, continuously pushing for innovation, regulation, and crypto adoption growth within and beyond Coinbase. There's so much to cover about him that I'll save it for another video. But he's one of the entrepreneurs to follow, without a question. One great example was how he quashed the woke uprising at his company when other CEO's were still scared to speak up about it.

Here are some highlights of his recent activities and contributions:

- **ResearchHub Funding:** Armstrong co-founded ResearchHub, a platform aimed at accelerating the pace of scientific research through cryptocurrency. It recently raised \$5 million in a funding round, showcasing Armstrong's interest in leveraging crypto for broader societal benefits ([CoinDesk](#)).
- **Leadership in Crypto:** Amidst the shifting landscape of the crypto industry, Armstrong has emerged as a pivotal figure. With major players facing challenges, Armstrong's leadership at Coinbase has been crucial in navigating through the industry's ups and downs. Coinbase has launched its own layer-2 blockchain and derivatives exchange, with ETFs also on the horizon for 2024, positioning it strongly for the next wave of crypto innovation ([CoinDesk](#)).
- **Q2 Performance and Vision:** Armstrong discussed Coinbase's Q2 performance, highlighting strong results, operational discipline, and efforts towards regulatory clarity. He emphasized Coinbase's commitment to creating a trusted platform for

retail, institutional, and developer customers, showcasing a vision for Coinbase to become a comprehensive financial management tool leveraging decentralized protocols ([CryptoGlobe](#)).

- **Innovative Ideas:** Armstrong shared his vision for the future of crypto with ideas like democratizing fundraising to unleash global entrepreneurial energy and creating a marketplace for crypto jobs. He's also interested in bringing privacy to layer-2 solutions, indicating a forward-thinking approach to blockchain and crypto's development ([Cointelegraph](#)).
- **Marketing and Branding:** Under Armstrong's leadership, Coinbase has excelled due to strategic marketing, a focus on user experience, and a strong brand as a safe and compliant platform. This approach has attracted a vast number of users, helping to establish Coinbase as a leading figure in the crypto exchange market ([BeInCrypto](#)).
- **Interest in "Flatcoins":** Armstrong expressed interest in "flatcoins" as the next iteration of stablecoins, a concept that points towards ongoing innovation and adaptation in response to the evolving crypto landscape ([Decrypt](#)).
- **Political Move:** Armstrong's strategic moves have not just been confined to the crypto industry. His foray into the political arena, especially in the context of regulatory and policy-making efforts, underscores his broader vision for crypto's integration into mainstream economic and social systems ([Coinpedia Fintech News](#)).

Crypto Macros

The cryptocurrency landscape in 2024 is shaped by several significant trends and predictions, highlighting the industry's dynamic nature and its response to technological advancements, regulatory pressures, and market demands. One could argue for each it's bull or bearish case. We'll present the major ones here:

- **Regulatory Developments:** The cryptocurrency sector is witnessing an increase in regulatory attention, particularly in the United States, where the SEC has become the most active regulatory body. This heightened scrutiny follows the crypto market disruptions in 2022, leading to actions like the lawsuit against Coinbase for not

registering as a broker. Such regulatory measures are sparking discussions within the industry about the clarity and impact of these regulations ([Exploding Topics](#)).

- **ETF's & Stablecoins:** Stablecoins are seeing significant growth due to their ability to combine the benefits of cryptocurrencies, like speed and transparency of transactions, with the stability of traditional fiat currencies. They offer a less volatile option for crypto users, making them ideal for daily transactions, trading, and hedging against the volatility of other cryptocurrencies. Additionally, stablecoins are increasingly used in the DeFi ecosystem for lending, borrowing, and earning interest, further driving their adoption and growth.
- **Bitcoin's Halving and Price Projections:** Bitcoin's fourth halving is anticipated in April 2024, expected to decrease the block reward to 3.125 bitcoins per block. This event, coupled with speculation around ETF approvals, could significantly impact Bitcoin's price, with some experts predicting a surge that could reach unprecedented levels. This optimistic outlook is further supported by expected developments in ETF offerings and the overall demand within the crypto market ([Gemini](#)).
 - Actual = Supply down
 - But does demand stay constant / go up?
 - Price needs to go up to maintain the attractiveness of mining. Generally, if there are fewer miners, the remaining miners could find it more profitable. This is because the rewards from mining (new Bitcoins and transaction fees) are shared among fewer participants. However, if too many miners exit and the network's hashing power decreases significantly, it could affect the network's security and transaction processing speed until the difficulty adjusts.
 - [Stock To Flow Model above 365 moving average](#). Usually a bullish sign to follow the trend.
- **AI Integration in Cryptocurrency:** AI tokens and projects are gaining traction within the cryptocurrency space, involving blockchain protocols, decentralized web platforms, and machine learning platforms. The value of AI tokens has seen a

significant increase, indicating a growing interest and potential for AI's role in advancing cryptocurrency technologies and applications ([Exploding Topics](#)).

- **Environmental Concerns and Initiatives:** The crypto industry's environmental impact, particularly from energy-intensive processes like mining, remains a concern. Efforts like Ethereum's The Merge aim to address these issues by significantly reducing energy usage, signaling the industry's commitment to mitigating climate-related impacts ([Exploding Topics](#)).
- **Emerging Crypto Ecosystem Trends:** Several trends are shaping the future of the cryptocurrency ecosystem, including the rise of tokenized social experiences, bridges to traditional finance (TradFi), and the growth of prediction markets. Furthermore, a major update to Ethereum is expected to drastically lower gas fees, enhancing its appeal and competitiveness. NFT markets are poised for a resurgence, driven by new collections and technological innovations. Additionally, the integration of Know Your Customer (KYC) protocols into decentralized finance (DeFi) platforms could attract institutional liquidity, marking a significant shift towards r

Other things happening:

- [Crypto Fear & Greed Index](#): Extreme Greed. Sign of further escalation but in overbought territories.
 - A crypto report isn't a report without Crypto Fear & Greed Index

All About Staking Fees, Coinbase vs Stakefish

Aspect	Stakefish	Coinbase
Fee for Ethereum Staking	Zero protocol fees post-Shanghai hardfork. Priority/MEV fees: 25% (stakefish).	Standard commission of 25% for ETH (Elementalcrypto.com). For Coinbase Prime users, a 10% fee invoiced monthly on earned rewards (Coinbase Help).
One-time Flat Fee (if applicable)	For early Ethereum 2.0 stakers, a one-time flat fee of 0.1 ETH per validator (stakefish).	Not applicable.
Additional Costs or Fees	No additional fees mentioned for staking.	No fee to stake or unstake. Commission based on rewards received from the network (Coinbase Help).
Rewards Distribution	100% of protocol rewards and up to 75% in priority and MEV fees (stakefish).	APY varies but incurs a commission fee from the total rewards (Elementalc

What are Priority/MEV fees?

Priority/MEV (Maximal Extractable Value) fees involve gaining an advantage by strategically placing transactions within a blockchain block. This concept is particularly significant in high-frequency trading and decentralized finance (DeFi), as it can affect the outcomes of trades and profits. Although MEV isn't inherently negative, it has raised concerns about fairness, network centralization, and security ([Shutter Blog](#)).

Could you argue Stakefish is 0% fees and coinbase is 25%? What's an example of let's say 1 ETH Staked?

For a simple example with 1 ETH staked:

- Stakefish: Since Stakefish has zero protocol fees post-Shanghai hard fork for Ethereum staking, you'd mainly consider the Priority/MEV fees, which are about 25%. However, the calculation for rewards after these fees would depend on actual MEV generation, which isn't straightforward to predict.
- Coinbase: With Coinbase's standard commission of 25% on ETH staking rewards, if the gross reward on 1 ETH staked was, say, 0.05 ETH in a year, you'd receive 0.0375 ETH after the 25% fee is deducted.

These are simplified scenarios; actual rewards can vary based on network conditions and total staked amounts.

Does the average stake look for Priority/MEV rewards?

The average stake for Priority/MEV rewards isn't a fixed value, as it highly depends on the blockchain's activity, the staked asset, and market conditions. MEV rewards can fluctuate significantly based on the strategies used and the overall network congestion. For Ethereum and other cryptocurrencies, MEV opportunities and their rewards are highly variable and can be complex to predict without specific transaction and network data.

User

Are Priority/MEV rewards are different than normal staking rewards?

Yes, Priority/MEV rewards are different from normal staking rewards. While staking rewards come from participating in network security and consensus mechanisms, Priority/MEV rewards are earned by strategically ordering transactions within a block to gain an advantage. This can involve strategies like front-running or transaction ordering for profit. These two types of rewards stem from different activities within the blockchain ecosystem.

This is what stakefish helps do for you, so they charge for this part?

Yes, Stakefish charges for the management and optimization related to Priority/MEV rewards. They implement strategies to maximize these rewards for stakers, hence the fee. This fee is specifically for the services that help stakers gain additional rewards

beyond the standard staking returns, by optimizing the transaction ordering in a way that maximizes the stakeholder's benefits from MEV opportunities.