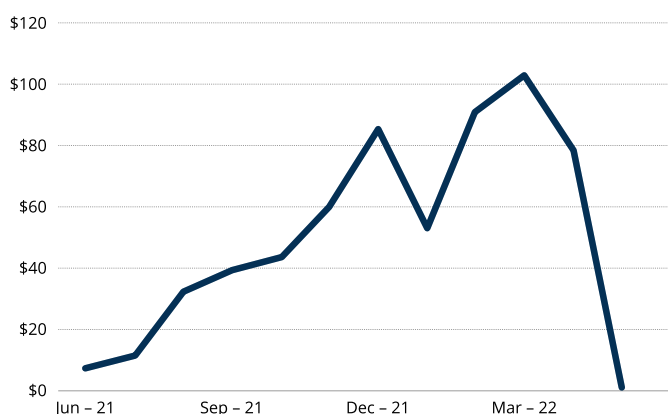


Teza Capital Management is a global quantitative asset management firm. We pride ourselves on attracting and retaining top talent, developing strategies with a data-driven and science-backed methodology, and continuously innovating in pursuit of alpha for our clients. Our Manager Insights pieces delve into our “quant’s eye view” on markets, investment strategies, and industry developments.

The digital assets space just underwent arguably the most significant blow to its credibility to date – and some people believe Wall Street is to blame. Whether or not these speculations are correct, one thing seems certain: it was a clear case of market manipulation.

One of the top digital assets projects - TerraLabs with its token Luna and “stablecoin” UST - has been, for all practical reasons, forcefully bankrupted. Folks in the crypto space have taken to Reddit and Twitter, where they’ve expounded a variety of theories on the swift takedown of Terra. A [Twitter thread](#) with thousands of likes, retweets, and comments makes the case that the attack was a coordinated attempt by Bitcoin shortsellers on Wall Street. They believe that a large player recognized that unstaking millions in UST at once would cause the stablecoin to depeg from the dollar, forcing the Terra team to sell significant Bitcoin reserves to repeg the stablecoin. Once investors became aware of the situation, they would also unstack and sell UST, requiring even more Bitcoin reserves to be sold and creating a huge opportunity for Bitcoin shortsellers.

Figure 1. Terra to USD Price Chart



Source: [Yahoo! Finance data](#)

More likely, though, the attack had nothing to do with Bitcoin, as it is hard to create a certain movement in a more liquid product by manipulating a less liquid one, particularly when there is no direct link between the two. However, pushing UST to the point of clear depegging and forcing a wipe out of the multi-billion dollar market cap of Luna in the

process is much more doable. The attackers likely held a short position in Luna and started to sell large amounts of UST, which by itself should be a “market neutral” activity (as UST is a “stable” coin). When both coins started to give in, reinforcing each other’s drop, the avalanche happened.

In either case, a well targeted run-on-the-bank reinforced by a positive feedback loop from Luna’s own algorithmic setup resulted in a swift devaluation of assets and transfer of money from Luna and UST holders to attackers’ pockets.

On May 12, Caetano Manfrini, the legal officer at GEMMA, a crypto firm based in Brazil tweeted that the crash was “deliberate and coordinated” citing a “massive 285m dump on Curve and Binance by a single player.” He dubbed the situation “pure staging,” and speculated that “the project is bothering someone.”

Clearly capital was deployed strategically and at scale to depeg Terra. Whether or not big banks were behind the attack remains to be seen. However, Wall Street is ripe with historical examples of such “inventful” trades. From [currencies manipulations](#) to the “[Dr. Evil](#)” trade, for decades traders have (legally or illegally) looked to profit from market manipulations.

While certain assets (typically those that are deemed “securities”) are “protected,” others (such as currencies) are not. When we say “protected,” it does not mean that the losses in these schemes are always recovered. Rather, violators are more likely to be prosecuted, deterring them from manipulation of these assets in the first place.

At this time, the cryptocurrency space is akin to fiat currency trading in that no individual, entity, or regulatory body has the authority to control them. They are *decentralized*.

Thus, “manipulation” in the digital assets space is just “trading.” And this is what happened to Luna. TerraLabs has (had?) a slogan – “Terra - powering the innovation of money,” but classic market manipulation powered it into the ground. While digital assets still promise to revolutionize finance, the space is only

PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. See disclosures on p. 2.

beginning to experience many of the sharp teeth and claws of traditional finance.

The most important lesson here is that the idiosyncratic risk of each individual project in the digital space at this early age of its existence is way too high. Until the space matures, the savvy investor should look for exposure to growth in web3 through a well-diversified basket or an index.

## DISCLOSURES

This document does not constitute an offer to sell or the solicitation of an offer to purchase any security or investment product (each, a “Product”) and should not be relied on in making any investment decision. Any such solicitation or offering may only be made by means of delivery of an approved offering document and relevant subscription documents, all of which must be read in their entirety. No offer to purchase shares in a Product will be made or accepted prior to receipt by the offeree of these documents and the completion of all appropriate documentation. No offer to sell (or solicitation of an offer to buy) will be made in any jurisdiction in which such offer or solicitation would be unlawful.

No representation is given that any statements made in this document are correct or that Teza’s objectives will be achieved. This document may contain opinions of Teza, and such opinions are subject to change without notice. Information provided about positions, if any, and attributable performance is intended to provide a balanced commentary, with examples of both profitable and loss-making positions; however, this cannot be guaranteed.

It should not be assumed that investments described herein will be profitable. Nothing described herein is intended to imply that an investment with Teza is safe, conservative, risk free or risk averse. An investment with Teza entails substantial risks, and a prospective investor should carefully consider the summary of risk factors included in Teza’s Form ADV Brochure (and the relevant offering document) in determining whether an investment with Teza is suitable. The risk of loss in trading futures is substantial. This document does not consider the specific investment objective, financial situation or particular needs of any investor and an investment with Teza is not suitable for all investors. Prospective investors should not rely upon this document for tax, accounting or legal advice. Prospective investors should consult their own tax, legal, accounting or other advisors about the issues discussed herein. Investors are also reminded that

## Teza’s Edge

Teza has built an institutional-strength organization consisting of a highly talented group of world-class researchers and investment professionals driven by success.

- **HERITAGE:** Our endeavors in institutional asset management are based on our 10+ year tenure as a proprietary, algorithmic low-latency trading firm, as we strive to leverage the extensive synergies we’ve identified between the two models.
- **TEAM:** We have world-class talent with over 60 employees in 4 locations. Our 30+ accomplished researchers and investment professionals hold advanced degrees from renowned universities in science, technology, engineering, and mathematics.
- **APPROACH:** We follow a rigorous, scientific process and have deployed state-of-the-art portfolio construction and optimization.
- **EXECUTION:** We have highly developed futures execution capabilities given our quantitative trading roots.
- **RISK PHILOSOPHY:** We ensure controls and checks and every key step of research and operations.
- **INFRASTRUCTURE:** As a result of significant investments into our operational infrastructure, we have created a scalable, robust platform.

## Founder Biography

Misha Malyshev has led Teza Group as the CEO since the company’s founding in 2009. He earned his Ph.D. in Astrophysics from Princeton University in 1998. He also holds an M.S. in Theoretical Physics and a B.S. degree summa cum laude in Physics and Mathematics from Moscow Institute of Physics and Technology. Dr. Malyshev worked for Bell Labs conducting scientific research until 2000. From 2000 through early 2003, he worked as a consultant with McKinsey & Company, where he developed substantial experience working for asset management and investment banking clients. Dr. Malyshev joined Citadel Investment Group, L.L.C. in April 2003 as a member of its strategy group. In 2004, he moved to Citadel’s Quantitative Analytics group, where he developed a quantitative trading business. Dr. Malyshev was rapidly promoted to the position of Managing Director and Global Head of High Frequency Trading at Citadel, which he held until he resigned in the winter of 2009. Dr. Malyshev is an avid supporter of education initiatives, and has partnered with organizations that inspire young people, particularly women and minorities, to pursue careers in science, technology, engineering and math. He is currently on the global leadership council of buildOn, an international nonprofit organization that runs youth service after-school programs in United States high schools and builds schools in developing countries.

past performance should not be seen as an indication of future performance and that they may lose the entirety of their investment. No recommendation is made positive or otherwise regarding individual securities, futures or other investment products mentioned herein. There can be no assurance that any Product advised by Teza will implement the strategies or trading signals referred to herein, or that if implemented any such strategies or signals achieve their investment objectives.

Certain information contained in this document constitutes “forward-looking statements,” which can be identified by use of forward-looking terminology such as “may,” “will,” “should,” “expect,” “anticipate,” “project,” “target,” “estimate,” “intend,” “continue,” or “believe” or the negatives thereof or other variations thereon or other comparable terminology. Such statements are based on the current expectations and certain assumptions of Teza and

are, therefore, subject to certain risks and uncertainties. A variety of factors, many of which are beyond Teza’s control, affect the operations, performance, business strategy and results of the accounts that Teza manages and could cause the actual results, performance or achievements of such accounts to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements or anticipated on the basis of historical trends.

Tables, charts and commentary contained in this document have been prepared on a best efforts basis by Teza using sources it believes to be reliable, although it does not guarantee the accuracy of the information on account of possible errors or omissions in the constituent data or calculations. No part of this document may be divulged to any other person, distributed, resold and/or reproduced without the prior written permission of Teza.

\* \* \*

Teza® is a registered trademark of Teza Technologies LLC.