Decentralized Trading & Community Collaborative Investing

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Abstract

The increasing adoption of cryptocurrencies and decentralized finance has brought greater interest from centralized financial services, and with them the blurring of the intent of decentralized services. The impacts of high profile and even higher value failures of centralized services only serve to tarnish decentralized financial systems, leave customers with nothing, and slow the adoption of truly decentralized services.

This paper discusses a new service called BIGCAP that provides the means for anybody to participate in learning how to trade digital assets in a collaborative manner, whilst also providing a unique approach to the collective accumulation of assets for a DeFi protocol. BIGCAP provides mechanisms for individuals to attempt trading portions of a collective treasury whilst retaining protection of its assets through loss recovery tools minimizing negative outcomes.

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Introduction

Decentralized Finance (DeFi) comprises thousands of digital assets, and hundreds of thousands of individuals trading those assets. Individuals range from those that make up the Wyckoffian "Composite Operator", to those that engage in some level of strategic and risk-managed investing.

Whilst any individual can increase their knowledge of strategic investing, the knowledge and experience required is no different to any other professional field, and those that rise to the top are also few and far between in that not everyone can achieve that level of expertise in their field.

The fundamental purpose of the BIGCAP service is to provide a means for anybody to participate in learning how to trade digital assets in a collaborative manner, whilst also providing a unique approach to the collective accumulation of assets for a DeFi protocol. BIGCAP provides mechanisms for individuals to attempt trading portions of a collective treasury, and for the treasury to retain protection of its assets through loss recovery tools minimizing negative outcomes.

Through the use of smart contracts on the Ethereum chain, BIGCAP can provide a truly community held and open collaborative experience with no limitations on who can participate.

Treasury Development

To establish the initial trading liquidity, a two-tax system will be implemented on the token contract. Transfers will inspect both sender and receiver addresses to ascertain if either is a Uniswap router contract address, and if such a contract address is identified, 6% of the transfer will be withheld by the token contract. Upon accumulation of the asset, a sell against the uniswap liquidity pair will be executed and the received ETH transferred to two interim addresses split 5% for treasury development and 1% for operations.

The operations tax will be disabled once the fund accumulates enough capital to conduct a comprehensive security audit from an independent 3rd-party provider. The treasury development tax will be retained until the community governance votes to permanently disable it. The contract tax settings cannot be reinstated once disabled.

Ladder Mechanics

A BIGCAP ladder season is a time-constrained trading event, with participants ranked on the ladder based on their trading performance.

The first ladder season will launch once the ladder smart contract has passed an independent 3rd party audit. It is worth noting that the first ladder season will be the most limited in its rules and treasury release. As the first ladder has no previous ladder results to build upon, it is designed to capture analytics of performance and participation for future seasons.

The rules of each ladder are as follows:

1. A pool of ETH is released to the ladder contract.
2. Each individual can stake an amount of BIGCAP that exceeds the value of the ETH they wish to trade.
3. Traders must open positions within 3 days of the ladder starting, after which the ability to stake will cease.
4. Staked traders can open and close positions during the ladder at will if they believe they can net a greater overall return.
5. Initial traders are limited to trading with 0.1 ETH from the treasury.
6. The ladder season runs for 1 month.

The first ladder will be limited to 10 ETH total (100 0.1 ETH positions).

Each ladder is considered a success if the net gain for the treasury is 10%. The first ladder is expected to increase the treasury by 1 ETH.

Ladders may not run exactly in sequence, as the project governance layer may vote to modify the ladder mechanics which may cause a delay in the deployment of new ladders.

Each trader that succeeds in returning 10% or greater back to the treasury in the ladder is minted a non-transferable NFT as on-chain proof of their success. If a trader receives 3 of these NFTs then they are eligible for a higher trading tier in future ladders. The trading tiers of the ladder are as follows:

1. 0.1 ETH tier (first traders)
2. 0.5 ETH tier (holding 3 successful 0.1 trade NFTs)
3. 1.0 ETH tier (holding 3 successful 0.5 trade NFTs)

The ladder restricts the possible trades to a whitelist of large market cap tokens, preventing traders from trading against high volatility or high risk assets. Once the treasury reaches a significant size and individuals have proven themselves at the 1.0 ETH tier, then unrestricted trading may become available (at the outcome of votes by the governance layer). Unrestricted traders will be required to bear on-chain proof of KYC to provide protection against sybil behavior.

Reward Systems

Individuals naturally seek incentives to participate in ladders, and so each season will determine rewards as follows:

- 6% of the profits of the season will be distributed to the top 3 performing traders in the ladder.
- The top trader will receive 3%. The second trader will receive 2%. The third trader will receive 1%.
- The reward mechanics can be changed by governance decisions, as they may need to be increased or decreased depending on the overall performance of the community.
- The service governance may also choose to redistribute treasury assets to BIGCAP buybacks and supply burns to reward all participants equally.
- The distribution of successful trade NFTs can provide mechanisms for the community to distribute other digital assets beyond ETH or BIGCAP tokens.

Loss Recovery Mechanics

As individuals can participate in trading against the treasury, the protection of the treasury is of utmost importance. A two-choice leverage system will be utilized against any use of the treasury funds. All users must stake sufficient BIGCAP, depending on its market value at the start of a ladder period, to provide insurance against their position. If a user performs a bad trade and is likely to take a loss, then they have 3 options:

1. The individual can deposit the original withdrawn ETH back to the treasury and receive their staked BIGCAP in full.
2. The individual can liquidate their staked BIGCAP to recover the original withdrawn ETH.
3. The individual can move the trade into the next ladder season if they have a positive outlook on the position for the long term.

Each liquidation will cause the BIGCAP supply to be diminished, but with limited position sizes for starting investors this impact will be contained.

If an individual pays back the original withdrawn ETH then any excess will not count towards performance in the ladder (to prevent a user depositing excess to artificially gain a higher trading rank).

Larger positions in later ladders may require higher leverage against their position to reduce the impact of a liquidation against the token supply.

Governance

All BIGCAP tokens are eligible for voting on governance decisions for the protocol. The token contract will implement OpenZeppelin Compound-based Governance to adhere to well tested and audited standards. The token treasury will be protected by a timelock contract to resist governance attacks. Governance decisions include but are not limited to:

- Forced liquidation of positions for emergencies.
- Forced liquidation of positions deemed to have a long term negative outlook (i.e. positions that have little chance of providing a positive return for the treasury in the long term).
- Forced halting of contract functionality if a security issue is identified.
- Release of treasury funds for new ladder events.
- Modification of token contract parameters, such as tax rates.

It is expected a percentage of supply will not participate in ladders and instead act as guardians of the ladder. Allocation of roles for guardians is subject to vote by the service governance.

Tokenomics

The BIGCAP token supply will be fixed at 100,000,000 tokens. All minted launch tokens will be made immediately available as a Uniswap V2 liquidity pair. No supply will be retained for any other purposes.

Disclaimer

The plans, strategies, and implementation details described in this whitepaper will likely evolve and, accordingly, may never be adopted. The decentralized governance layer of BIGCAP reserves the right to develop or pursue additional or alternative plans, strategies, or implementation details associated with the BIGCAP platform.

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