ISSUE REPORT | TERRA(LUNA)

Analysis on Investment Value of Luna

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Abstract

In the cryptocurrency industry, the introduction of Decentralized Finance has revolutionized the legacy financial market. Notably, PoS staking offered on multiple platforms have transformed as a new profit model for long-term investors. Many consider staking as a new form of financial service, mainly because the profit gained from staking is generally recognized as interest.

Staking is the process of delegating cryptocurrency to the validators who operate the network, and the validators distribute a portion of the rewards gained for validating blocks to the delegates. It is quite different from the stocks, which receive dividends for yearly business performance, and bonds, which are eligible to earn fixed coupon interest.

However, unlike the financial products that guarantee stable investment return, most of the staking services compensate rewards to stakers through negative token inflation, often resulting in loss of the original investment. In this situation, is it safe to assume that the interests of staking services have the proper value proposition?

Advancement of the financial and capital market has expanded the investment criteria and target sectors, while investors are aggressively searching for the next blue-chips. The valuation process is a critical task not only for the equity analysts but also for various entities involved in the capital market, such as strategic investors, financial investors, private investors, CRC, VC, and many more.

The purpose of this paper is to discuss the valuation of Terra based on the Luna's cash flow and to review the change of interest rate from the increase in staked Luna. Hexlant would also like to assess whether staking services can be introduced as a new form of financial products.

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I. Terra

1. Project Outline

Cryptocurrency's extreme price volatility, low transaction speed, and the lack of network effect for stablecoins have all been obstacles to introduce the cryptocurrency into the mainstream payment system. Terra has issued stablecoin based on the supply and demand model and launched the mainnet called Columbus. To create the network effect of the currency, Terra has allied with many partners, bringing more users into the ecosystem while actively developing practical use cases of blockchain.

Up to now, service platforms with large userbase such as TMON, Baedal-ui-minjok, Yanolja, and many more have joined Terra alliance. The collaboration between these service providers and 'CHAI,' a blockchain-based simple payment service, is maximizing the network effect for Terra. Just seven months in, Terra has reached over 1 million registered users.

Terra utilizes both native mining 'Luna' token and 'Terra' stablecoin following the supply and demand model. The currency used in the Terra payment infrastructure is Terra, which is pegged to each country's fiat money, and Luna is used for price stability and network governance participation. Luna holders can delegate Luna to each validator and receive a portion of the transaction fee as rewards. The validators who stake Luna on nodes are eligible to receive a transaction fee and to participate in network governance.

2. Token Economy of Terra

The price stability of Terra follows the simple rule of supply and demand.

Supply and Demand Model Suppose all other conditions are identical. 'If the price of Terra surpasses the fiat money (1)', supply is increased to lower down the price range. Conversely, 'If the price of Terra falls below fiat money (2)', supply is decreased to elevate the price range. To implement this mechanism, Terra system actively utilizes arbitrage between Terra and legacy currency.

Case (1) Terra > Fiat – Arbitragers send Luna to the system, and receive Terra in return. The system issues Terra to receive Luna.

Case (2) Terra < Fiat – Arbitragers send Terra to the system, and receive Luna in return. The system issues Luna to provide to the original senders.

As we see in the supply and demand model and arbitrage, the price volatility of Terra adjusts Luna's supply volume. This consequently sends Terra volatility to the miners who are very sensitive to the supply of Luna. However, changes in Luna supply derives unstable fluctuation in Luna's value, and it ultimately decreases the demand for long-term mining, threatening the security and stability of Terra network.

The value of rewards for mining should be somewhat predictable to drive a stable demand in mining. To address this, Terra offers miners **'transaction fee'** and **'seigniorage.'** To prevent the unpredictability of the rewards value, Terra has designed the following models of which transaction fees are adjusted.

Transaction fee All transactions on Terra are charged with a small portion of transaction fee. As of now, the Columbus 3 update fixated the transaction fee at 0.5%.

Seigniorage effect It is often referred as the difference between the face value of money and the cost to produce it. When the price of Terra surges due to the increased demand, the system issues new Terra and gain Luna, receiving seigniorage effect. A portion of acquired Luna is burned, preventing the decreased value of Luna and inflation.

Case (1) Terra > Fiat – Transaction fee and Luna burn decreased

Case (2) Terra < Fiat – Transaction fee and Luna burn increased

Project Risk

Terra's supply and demand model, the use of arbitrage, and the foreseeable rewards mechanism for miners are well-designed compared to other stablecoins. Yet, it still has the limitation typical for stablecoins, which is '**the need for constant currency supply.**'

The limitation of supply in currency is more critical to crypto-based or algorithm-based cryptocurrencies, rather than to stablecoins, which is pegged to real assets. The representative example is the Basis coin. Terra and Basis are very similar in a sense that both utilized second token, which all function as price stability mechanism, and seigniorage model. Even though Basis coin terminated the project due to the compliance issues around the US securities law, but beforehand, unstable price of Basis stablecoin has decreased demand in bonds and stocks, which all functioned as price stability mechanism, and the price had started to crumble. To prevent such situations, Terra must drive a stable demand for the currency.

Another limitation is the **Terra price stability mechanism being heavily focused in the transaction fee**. The change in commission fee can also influence the Luna staking rewards and the staking attractiveness based on this.

If Terra lowers the transaction fees to dominate the market, there will be smaller rewards → staking attractiveness will be decreased → staking ratio will also be reduced. This can lead to a monopoly of staking by a single entity, threatening the entire Terra ecosystem. If the only mechanism that supports the price stability model is the transaction fee, the forecast for stable rewards will only be short-term basis, and the Terra economy will be even more vulnerable to the volatility of the price of Luna.

Besides, there are some cases where the stability of stablecoin is affected by the **governance mechanism**, which determines the price exchange ratio. The delay in reflecting the appropriate Oracle price and malicious price manipulation attacks by the Validators are demonstrated more in detail in the technical section.

After the last attack on market price, Terra has delayed the MA time, added new listing exchanges (injecting liquidity), and introduced swap spread of a minimum of 2%. However, swap spread is dependent on the scale of the swap, and most of the swaps are a one-way; thereby, there would be some degree of limitation in arbitrage activity.

Comprehending the limitations mentioned above, the pursuit of constant supply in currency fosters the Luna burn and lowers the liquidity of exchanges. This has the possibility of building a similar environment where the first malicious attack took place. The increase in swap spread and MA time to prevent the attack caused the price gap between the Terra system and crypto-exchanges. As Terra's economic ecosystem expands, finding the appropriate level between two extremes through Terra Treasury is needed.

However, the existence of Terra Treasury, policymaking through continuous research, and the practical use cases all make Terra stand tall among other stablecoins.

II. Financial Valuation

Terra was selected as an analytic case to determine whether the staking rewards hold actual value of interests of legacy financial products, based on two reasons: 1) Besides Terra transaction fees, the currency also has use cases outside of the Terra ecosystem, ensuring stable token flow, 2) the value-based rewards mechanism utilizing stablecoins instead of the inflation-based rewards mechanism of native tokens displays more stable value flow. Similar to the legacy assets, Terra is capable of deriving net present value to a part of value flow without imposing volatility on intrinsic assets.

Before executing the value analysis on Luna staking rewards, three cases that can fluctuate the real value must be stated: 1) increase in Terra transaction fee, 2) growth in Terra transaction volume, and 3) increase in Luna staking ratio.

Referenced Equation:

$$Block\ Reward = \frac{Terra\ Transaction\ Volume * tax\ fee(1 - comission)}{Staked\ Luna}$$

With the recent launch of Columbus-3, the fee charged by the protocol for all Terra transactions was raised from 0.11% to 0.575%, and the transaction volume grew 35% month-over-month. Project Santa launched by the Terra validators to promote the Terra staking rewards has successfully re-distributed 21.7 million Luna over a year as block rewards subsidy, making yearly expected rate of return on staking 9.8%. All of these activities contribute to the increased value of block rewards. On the other hand, the maximum transaction fee on a single transaction is 1SDR.

* Project Santa is terminated in mid-December. As of now, staking rewards are all from transaction fee

1. Asset Class of Luna

According to the "What is an Asset Class, Anyway?" published by Robert J Greer, there are three *superclasses of assets.*

Fig. 1: Superclasses of Assets

	Capital Assets	Consumable/ Transformable Assets	Store of Value Assets
Equities	x		
Bonds	x		
Income-producing Real estate	x		
Physical Commodities		x	
Precious metals(e.g. Gold)		x	x
Currency			x
Fine Art			x

Source: "What is an Asset Class, Anyway?" Robert J. Greer, 1997, The journal of Portfolio Management

- ### Capital Asset: CA

  Capital Asset is the ongoing source of something of value; it is valued on the basis of the net present value of its expected returns. In other words, CA is the asset capable of achieving cash flow in the future. The interest rate (discount rate/required rate of return) serves as an essential role in understanding the level of valuation.

  e.g. stock(dividend), bond(interest/coupon), real estate(rent)

- ### Consumable/ Transformable Assets: C/T

  C/T is a consumable asset. It also can be transformed into another asset. Unlike Capital Asset, it does not yield cash flow in the future, but the law of supply and demand determines the market price of C/T; therefore, it holds economic value.

  e.g. oil, gold

- ### Store of value Assets

  Store of Value Asset shows neither of the above characteristics. Even without the cash flow nor the direct utility, SoV has the intrinsic value; thus, it holds the economic value.

  e.g. fiat currency, art

With many cryptocurrencies, the blended characteristics of capital assets and consumable/transformable (CA + C/T) are demonstrated. CA can be seen as an adapted DCF model for cash flow analysis, and C/T utilizes the MV=PQ equation for valuation. Token velocity and the Inflation-related hypothesis are excluded in this report. This report focuses more on the value flow of Luna.

2. Analysis Method

In this analysis, we apply the relative valuation method and income approach method, excluding the asset valuation method, which is mainly used for liquidation purposes. Terra, which provides real-time compensation in the valuation method, is replaced by DCF.

For relative valuation method, PER analysis is executed, but the multiples analysis is added to accurately determine the suitability of the value.

This is because of the characteristics of the PER. The valuation can be done through short-term comparisons, which can lead to neglecting key factors; furthermore, when the earnings volatility widens, it can cause a lack of significance in the analysis. Also, the stock price at any given time reflects the market expectation of the expected earnings in the future rather than the past earnings. In particular, we applied a 20% discount rate to the average value of the industry, eliminating the expectations of other business groups.

Income Approach Method: It is a type of valuation method that captures the present value with appropriate discount rate under the premise that the company permanently operates.

- **Discount Cash Flow**

  Entity Valuation, in which free cash flow (FCF) is discounted to the weighted average cost of capital (WACC) for company valuation, and Equity Valuation, in which free cash flow to equity (FCFE) is discounted to cost of capital (CC) for company valuation, are commonly used.

- **Dividend Discount Model**

  Except the fact that DDM uses the dividend instead of cash flow, it is identical to the DCF. However, since many growth stocks does not currently pay a stable dividend, DDM is rarely adopted for use.

Multiples Approach Method: It is also called the Price Multiple Valuation Model since the value of a stock is calculated based on the multiples between stock price and financial statement of a similar listed corporation. In the sense that it is an analysis method that seeks to value similar companies using the same financial metrics, it is also called Market Approach.

- **Price Earnings Ratio**

  PER is the ratio of the company's stock price to the company's earnings per share. It is an index that shows how much investors pay for one share of stock regarding the EPS the company created.

3. Hypothesis

Valuation is the process of determining the fair value of any given subject. Generally, the value of a company portrays the capability to generate profit in the future. Therefore, the value of LUNA is assumedly captured by the block rewards distributed for each Terra transactions, and the CF is estimated based on this.

Fig. 2: Hypothesis used for analysis

	Condition	Hypothesis
Terra Transaction Volume	Growth Rate of 35%	Growth Rate of 15% MoM
Staking Volume	As of now 220mm	Assumed that entire volume of staking rewards is reinvested. Analysis on Interest rate related to the staking volume is separately provided. (Fig. 7)
Verification Commission	0~30% depending on Validator	Commission Average (7.22%)
Staking Period and Commission	1) Upon termination, the deposit is possible after 21 days and the staking interest during this period is not eligible to claim. 2) Commission for termination, exchange, and delegation is charged all separately.	1) Assumed that rewards volume is staked without termination (Fig. 6 for adjustment in staking ratio) 2) Commissions occurred during Luna staking are disregarded.

Source: Hexlant Research

Since the majority of transactions are in KRT, rewards for LUNA staking are also paid in KRT. KRT must be exchanged to LUNA in order to stake the rewards. In this case, there are three judgements investors can make.

1) All staking rewards are exchanged to LUNA and re-staked

2) 40% of rewards volume is exchanged to LUNA and re-staked, while the rest is either withdrawn or deposited

3) All staking rewards are either withdrawn or deposited

In the case of 1), yearly growth rate of staking volume has reached 46%, and in the case of 2), 18% of growth rate can be expected.

4. Analysis

Fig. 3: Luna Target Price Highlight

| Staked Luna Volume (Thousand)	2020.12(E)		
	Reward Volume 100% reinvested (+ 46% YoY)	Reward Volume 40% reinvested (+ 18% YoY)	Entire Reward Volume is either Withdrawn or Deposited
	323,296	262,025	221,178
Yearly Block Rewards (1B.)	12		
Fair PER (Ratio)	24 (20% discount applied to industry average of 30)		
Fair Price (KRW)	897	1,106	1,311
Current Price (as of 1/20)	227		
Upside Potential	295%	387%	477%

Source: Hexlant Research
* KRT ↔ LUNA SWAP RATE is assumed as 240. Swap commission is disregarded.
* Assumed that transaction fee and commission of 15% MoM Terra transaction volume are fixed
Therefore, lower the staking volume MoM, higher the RPL (Rewards Per Luna)

Fig. 4: Luna valuation Estimate in 2020

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Terra Transaction Volume (1B.)		217	250	287	330	379	436	502	577	664	763	878	1,009
Staking Volume (Thousand)	100% Reinvested	221,178	225,372	230,195	235,741	242,120	249,455	257,890	267,591	278,747	291,576	306,329	323,296
	40% Reinvested	221,178	222,856	224,785	227,004	229,555	232,489	235,863	239,743	244,206	249,337	255,239	262,025
	0% Reinvested	221,178	221,178	221,178	221,178	221,178	221,178	221,178	221,178	221,178	221,178	221,178	221,178
Block Rewards (1B.)		1.01	1.16	1.33	1.53	1.76	2.02	2.33	2.68	3.08	3.54	4.07	4.68
RPL	100%	4.6	5.1	5.8	6.5	7.3	8.1	9.0	10.0	11.0	12.1	13.3	14.5
	40%	4.6	5.2	5.9	6.7	7.7	8.7	9.9	11.2	12.6	14.2	16.0	17.9
	0%	4.6	5.2	6.0	6.9	8.0	9.2	10.5	12.1	13.9	16.0	18.4	21.2
Fair Price (KRW)	100%	240	248	256	265	274	284	294	304	314	325	336	348
	40%	296	306	316	327	339	350	362	375	388	401	415	429
	0%	350	362	375	388	401	415	429	444	459	475	491	508

Source: Hexlant Research

Fig. 5: Luna PER BAND
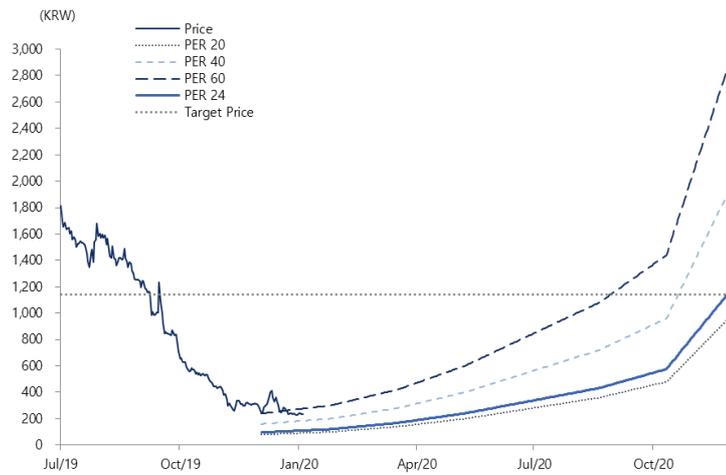
Source: Hexlant Research

Based on the monthly transaction volume estimate in 2020, if the future earnings from Luna staking are calculated in present value, the appropriate price of Luna is about 1,139 KRW. Using the continuing value approach, the price of Luna is 1,592 KRW.

Fig. 6: Perpetuity approach

	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
Block Rewards (1B.)	12.08	24.16	48.31	96.63	193.25	251.23	326.60	424.58	551.95	717.53
Discount Rate	50%									
Growth Rate	30%									
Terminal Value (1M. KRW)	4,664									
Staking Volume	221,395									
Luna Value (KRW)	1,592									

Source: Hexlant Research

Change in Staking Return

The better the staking rewards are, the more cryptocurrency volume will be staked. In this circumstance, Terra's token economy internally adjusts the transaction fee, maintaining the equilibrium. Below is the expected rewards rate reflecting the increase in Terra transaction and staking volume compared to the total issuance.

Fig. 7: Staking Rewards Rate (Staking·Commission·Transaction Volume)

Staking Rate (Expected Commission Rate)	Daily Trading Value			
	7.5 Billion KRT	10 Billion KRT	12.5 Billion KRT	15 Billion KRT
22.14% (0.5%)	25.79%	34.37%	42.98%	51.57%
40% (0.52%)	14.94%	19.92%	24.90%	29.88%
60% (0.54%)	10.34%	13.79%	17.24%	20.69%
80% (0.56%)	8.04%	10.72%	13.41%	16.09%

Source: Hexlant Research
* Staking Rate = Staked Volume / Total Issuance Volume

III. Technical Analysis

1. Technical Specification

Technical Base

Terra mainnet utilizes Cosmos SDK and Tendermint algorithm. Cosmos SDK is designed in a modular structure, so it is easy to implement blockchain ecosystem suitable to each application.

Performance

The block creation cycle for Terra takes typically about 5 seconds or so. Terra has a relatively fast transaction speed due to the limited number of nodes for block verification and simplified block expansion process.

Feature

Atomic swap is a smart contract technology that enables the exchange of cryptocurrency within the system, without the need to go through external crypto-exchanges. It offers functions that allow easy exchange process for many different stablecoins.

2. Mechanism for Price Stability

In Terra ecosystem, stablecoin must be pegged to fiat currency or assets. There are three components in Terra's mechanism for stabilizing the price.

Swap

Ensuring the price stability of Terra through Luna is called swap. In a case when TerraSDR's price is less than the 1 SDR, arbitragers transmit 1 TerraSDR to the system, and the system responds by issuing 1 SDR worth of Luna and sending the same amount to the original sender. In an opposite situation, arbitragers transmit 1 SDR worth of Luna to the system, and the system responds by burning the transmitted Luna and sending 1 TerraSDR to the original sender. Regardless of the market condition, the volatility of Terra's exchange rate is kept in a narrow range due to the target exchange rate.

Oracle

To internally exchange within the system, the exchange rate must be pegged to the market price. Since the market price is off-chain data, the issues around Oracle occur. Terra has delegated this role to Validator. Oracle mechanisms are as follows.

1. Validators vote on the expected exchange rate of a subjected currency.

2. Based on the medians of Validators' votes, the exchange rate is determined.

On this occasion, not all Validators participate in voting with same weighed value; instead, the weighted value is calculated based on the Luna staking volume.

3. Based on the selected medians, Validators within the range of 1 standard deviation are offered incentives, and Validators who voted outside may be punished via slashing of their stakes.

Stability Levers

Stability levers are adjusted in response to changes in unit mining rewards. Unit mining rewards are adjusted by the transaction fees and the rate of Luna burn, and it is redefined for a certain period of time. For the above mechanism to work, there must be extensive simulations to stress-test on a wide range of cases, and Terra has disclosed the stress-test result on the following channel.

3. Vulnerability in Governance Structure

For Terra's mainnet to operate smoothly, the price stability of the stablecoin is crucial. The price stability logically follows the exchange ratio between Luna, whose price is determined by the Validators' price feeds, and stablecoin. Therefore, under the governance mechanism in which the price exchange ratio is determined, the stability of Terra stablecoin is somewhat affected. Here are some ways and the possibility of malicious attacks that can manipulate the price exchange ratio.

Risks from Malicious Price Feeds by Validator

This is one possible attack when several Validators intentionally stop offering the price feeds. If one Validator or a small number of Validators participate in the voting process, the result can be the manipulated price feed. This can be prevented from happening by configuring the standard deviation or validation process, but the continuous non-participation by the Validators can create an alternative malicious attack route.

Price Manipulation Attacks by Validator

Based on the voting power, Validators participate in the Oracle pricing process. Some malicious Validators intentionally fail to provide an appropriate market price. Instead, they manipulate the price and participate in voting. However, this kind of attack is almost impossible due to the penalty imposed on wrong participation and the fact that more than 50% of the voting power must be guaranteed to carry out the attack. Also, the majority of Validators with influential voting power are seed investors, so this kind of attack is highly unlikely.

Attacks from the Market Price Manipulation

This kind of attack is first carried out by adjusting the market price of crypto-exchanged with low liquidity. Consequently, the exchange rate of the system is manipulated, and the attackers take the marginal profit. There are some real cases of the attack since July 2019. After the initial profit-taking attack, Terra has implemented 15 minutes of Moving Average(MA) on Oracle price.

However, profit-taking attacks continued to occur. The attackers have made a high spread on both ends, maintaining the market price while manipulating the Oracle price. Implementation of 15 minutes of MA did, in fact, increased the costs needed for the attack, but the expenses required in the exchanges with low liquidity were minimal compared to the gains. To address this, Terra has implemented 30 minutes of Mid-price MA on Oracle price.

There is also a possibility of attackers dominate the entire exchange market, manipulating the Mid-price as the latest market price. However, since the attacks, few other exchanges also have listed Luna, increasing the liquidity while making the expense for the attack so much more expensive. The time needed to reflect the Oracle price has also dramatically decreased. Therefore, the possibility of attacks still exists, but these attacks are more likely to fail.

Ⅳ. Conclusion

1. Investment Value of Luna Staking Model

If the long-term profit through Terra token economy is proven to be effective while the staking rewards rate can be estimated, is it safe to consider Luna a new form of the financial product? First of all, what sets Luna apart from its PoS peers with inflation-based rewards mechanism is that staking rewards are the result of each transaction on Terra, and stablecoin is given as the rewards. Still, if Luna is to be considered a financial product, both **'entering the mainstream'** and **'attractiveness as an investment product'** must be ensured.

1) Entering the Mainstream

In the United States, China, and Japan, whether or not cryptocurrency should be admitted as one sector of the financial industry, the authorities are discussing how to classify and treat this never-seen-before asset. Hong Kong cryptocurrency exchange is preparing to enter the mainstream through a regulatory sandbox, while the Chicago Mercantile Exchange (CME) has launched Bitcoin options. The reason why Fidelity Digital Assets and German banks has initiated cryptocurrency custody service lies here. In this global trend, the entire crypto-industry is insisting on the need for guidelines to enter the mainstream.

2) Investment Attractiveness

From the investor's perspective, Bitcoin or staking services that guarantee high profitability are attractive investments under the low standard interest and stagnant economy. As mentioned earlier, severely undervalued value-flow of Luna, and the rewards given as KRT are recognized as economic moat offered by Luna.

Furthermore, to encourage long-term staking, Terra ecosystem 1) penalizes those who do not participate in staking, and 2) proposes high converting cost(time) to lock-in the staking. When investors stake the asset, it signifies that they have no intention to sell the assets and the demand to safely store the asset until a certain point of time when the market is again in favorable condition. No rewards are given to those who do not stake, so those who did not participate in staking ultimately results in a relative loss of assets. Twenty-one days of suspension period for staking termination also come as an entry barrier for investors.

Reason behind Stagnant Staking Growth

As mentioned above in the valuation section, the value of Luna changes with the staking rewards rate. Therefore, the attractiveness of Luna as an investment can be proven with staking volume MoM. The stagnant staking MoM at the moment also portrays the low attractiveness of the Luna

The fundamental reason behind this is the **high opportunity costs**. There are three factors of opportunity costs that investors give up to inject investment in Luna.

1) Usability

Luna investors are guaranteed a daily interest rate of over 0.03%. It is a significantly higher figure compared to the legacy financial products with a yearly interest rate of 3%. Still, in order to receive this unusually high annualized interest rate, there must be a daily process of exchanging and delegating KRT into other currencies. For Luna, there is no automated staking function implemented in the system, so the tedious daily process compensates for the high interest rate. Meanwhile, the commission fee is charged on every process such as delegation, withdrawal, and exchange. In present, the near-free commission fee may be subject to change in the future.

2) Liquidity

It takes 21 days (same with Cosmos) to fully terminate the Luna staking service. During the suspension period, no rewards are given and the assets are frozen in the network. This is to protect the circulation of Luna in the ecosystem; thus, investors must participate in staking with discretion.

3) Margin of Safety

As an investment product, one big hurdle for investors is the difficulty in ensuring the margin of safety. When the market price of a security is significantly below the estimation of its intrinsic value, the difference is the margin of safety. Generally speaking, the margin of safety occurs due to the disjunction caused by the bubble in ICO, rather than the investor's misjudgment in the valuation process of cryptocurrency.

In the case of cryptocurrency, 200% to even 1000% bubbles are not hard to see in ICOs. However, the majority of cryptocurrency has a downward trend in price, forcing investors to set up take-profit order to make quick bucks. ICO announcements are usually made on exchanges 1 or 2 days before the event; thus, staking holders cannot participate in ICOs.

Conclusion

Not all stocks possess appropriate stock price according to the intrinsic value. The same rule applies to the cryptocurrency: there are cryptocurrencies suitable for long-term possession and the ones that are exposed to pricing games. Investment made based solely on rumors and expectations while disregarding its intrinsic value only inflames the doubts and disbelief in the cryptocurrency. Furthermore, it can affect the overall token economy.

According to the original design of Terra, Luna was installed as a mechanism to stabilize the price of Terra. In other words, Luna exists to function as collateral that can give trust on Terra ecosystem as the economic scale of Terra expands. Therefore, Luna captures its value from the Terra transaction fee. Before investing in Luna and other cryptocurrencies, it is necessary to understand the its function in the token economy and the sources of its value.

In the future, we hope that many projects with real value would be released, and reports would be published both internally and externally to welcome the cryptocurrency as a new form of financial product and investment, and to develop the crypto-based blockchain industry.