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WAZIR-X & WATCHES

FINSHOTS COLLEGE WEEKLY

Finshots College Weekly - Wazir-X & Watches

In this week's newsletter, we talk about ways to avoid any Wazir-X style hacks, the booming luxury watch market in India, and more.

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Quote of the day 📜

"The biggest risk of all is not taking one." - Mellody Hobson

Can we avoid another WazirX-style hack?

Understanding cryptocurrencies can feel like trying to juggle maths, science, tech and investing all at once. Confusing, right? So, let's simplify things and break it down like we're five. Sounds good?

Alright, so you know how we use money — like the cash in your wallet or the funds in your bank account? Well, cryptocurrencies (cryptos) are like money too, but they only exist online. You can't hold them like a coin or note.

2The cool thing about cryptos, like Bitcoin, is that they work 24/7, without any bank, government or individual controlling them. They're powered by something called Blockchain.

Think of blockchain as a giant notebook that everyone can see and write in. But no one can erase or edit what's written. This notebook is shared across millions of computers (called nodes). So every time you buy or sell crypto, it gets recorded in this notebook. And if anyone tries to mess with it, the other computers (nodes) immediately reject those changes, making it incredibly difficult to alter past transactions.

That's exactly why blockchain is seen as super secure, and why people place so much value on crypto. Amazing, right?

But here's the kicker. While the blockchain itself is tough to crack, the wallets and platforms where you store or trade your crypto aren't always as foolproof.

Just look at what happened at WazirX. It's one of India's largest crypto exchanges, an online platform or market where you can buy, sell or trade cryptocurrencies. And it recently made headlines when hackers managed to swipe around $230 million worth of cryptocurrency from one of its wallets, where investors' crypto were stored.

To put this in perspective, imagine that you bought Bitcoin (BTC) on WazirX, and your investment was doing great. But then, on July

18, 2024, hackers hit WazirX, and overnight, you could have lost up to ₹50 for every ₹100 you invested.

Now, imagine that it wasn't just you. Millions of Indians felt the sting too. Ouch!

That's what happened at WazirX. At the time of the hack, WazirX had over 16 million users and held $570 million in customer balances. About 4.2 million users, or 25% of the total, were affected and saw their crypto balances drop by nearly half. WazirX had to freeze all trades and halt withdrawals temporarily. When withdrawals did start again, you could only take out two-thirds of your balance, but in phases. Things took a turn when WazirX struggled to sort out the mess. And now, it's all tangled up in the High Court of Singapore, where its parent company, Zettai Pte, is based.

And this begs the question — If hackers can steal crypto, how is it even safe??

Well, remember what we told you earlier? Blockchain itself may be rock-solid secure, but crypto wallets and platforms? Not so much.
The WazirX hack didn't occur on the blockchain. What got compromised was the exchange's wallet, not the cryptocurrency or the underlying tech. It's a bit like banks getting hacked and leaving your money in limbo. The only difference is that banks in

India are protected by the government, but crypto isn't officially recognised by any authority here. So, when something goes wrong, investors find themselves without any legal protection.

So what's the way out, you ask?

Well, cold wallets!

See, cryptocurrencies were created to be decentralised, meaning no single entity controls them. But when you use exchanges, you're basically trusting them to keep your crypto safe. And that kind of goes against the whole idea of decentralisation.

So, when it comes to securing your crypto, it really boils down to two key things:

1. Who controls the private keys (the secret passcode that gives access to your crypto)?, and
2. Whether your wallet is connected to the internet.

Most exchanges actually hold the private keys to your crypto, meaning you only get a login password. This is known as a custodial wallet, and it means that the exchange has control over your crypto. So, if something happens to the exchange — like a hack — you could be at risk of losing your assets. That's a big fail on the security front.

Enter the cold wallet — a physical device, kind of like a super-secure USB drive, where you can store your private key offline.

These wallets aren't connected to the internet (hence the term "cold"), making them much safer from hackers. You set it up with your private key, and when you need to make a transaction, you connect it to your computer or phone. And this setup passes the security test with flying colours.

With a cold wallet, you hold the private keys, and since it's offline, your crypto is truly in your hands — no middleman, no exchange, no third party. It's the closest you can get to real crypto independence.

But here's the thing. Cold wallets are perfect for long-term investors who don't need to trade often. If you're someone who buys and sells crypto frequently, you might need the quick access that exchanges offer. Plus, not everyone knows about cold wallets or feels comfortable using them. They can be a bit pricey and technical to set up, which makes exchanges the easier option for a lot of people.

That said, more and more investors globally are opting to move their crypto, especially Bitcoin, off exchanges and into cold wallets.

And the proof is in the pudding. In January 2024, the total Bitcoin balance on exchanges was about 2.7 million BTC. Today, it's down to 2.4 million BTC. That's 300,000 Bitcoins pulled from exchanges and moved into cold wallets in less than a year.

But in India, the story is different. Indian crypto exchanges have seen a surge in user registrations and deposits. Thanks to the Finance Ministry which blocked access to foreign crypto exchanges in December last year. This pushed Indian platforms to swoop in with massive discounts and cashback offers, sparking a boom in user growth. Deposits increased anywhere between 100% to 2,000%. Plus, about $4 billion worth of Indian crypto assets were sitting in foreign exchange wallets as well.

If you look at WazirX itself, in 2023, 600,000 new users signed up on the platform, with BTC leading the charge as the most traded crypto. Between October 2023 and March 2024, WazirX saw a 122% spike in sign-ups and a 217% jump in trading volumes.

This just goes to show how much Indians rely on exchanges to manage their crypto, making them outliers in the global crypto space. While investors worldwide are pulling their assets off exchanges, Indians seem to be sticking with them.

Maybe it's because India's crypto market is still developing, or perhaps it's because we have a large number of traders who need fast access for frequent trading.

Could this trend change now that crypto users are losing trust in exchanges and wallets after the WazirX hack? That's anyone's guess.

And if we hear something, we'll let you know. Until then, subscribe to Finshots to not miss out on any important updates!

The secret behind India's luxury watch boom

Something is brewing in the Indian watch industry. Here's a TL;DR (too long; didn't read).

India's growing faster than most other economies, and that growth is driving big changes. Rising incomes are leading to bigger spending, and more people are splurging on high-end luxury items and collectibles. Think stuff like fine art, rare wines, whiskey, sneakers, and yes, luxury watches.

Interestingly, luxury watches are quickly becoming a new obsession for the wealthy, including millennials and Gen Z. For younger buyers, these timepieces represent a blend of fun, status and a touch of exclusivity. While for high-net-worth individuals (HNIs), they are emerging as prized investment assets.

In fact, collectibles are evolving from mere keepsakes to serious investment opportunities. And luxury watches are among the hottest picks in this trend.

And it's not us saying this, but a recent report from Knight Frank that ranked luxury watches as the top investment choice for super-rich Indians in 2023, even surpassing art. And a Deloitte survey shows that the preference of discretionary spending is also driving young consumers to invest in these timepieces. For context, 78% of Indian consumers plan to buy a watch for themselves within the next year. So yeah, the luxury watch market in India has hotted up.

But how did we get here?

To begin with, the Trade and Economic Partnership Agreement (TEPA) between India and Switzerland has a big role to play. This deal is set to shake up India's luxury watch market. Over the next seven years, it will gradually slash customs duties on Swiss watches from 22-23% to zero. And that's a big deal, especially when you consider that Swiss watch exports to India hit over CHF 200 million in 2023 alone. The sector has been growing at a solid 11% annually for the past two decades! It's no wonder that the Indian market looks irresistible to Swiss brands. And it's also why Switzerland and other EFTA (European Free Trade Association) countries are gearing up to invest $100 billion in India over the next 15 years.

Then, there's the fact that about 60% of Indian consumers buy luxury goods every year, whether it's watches, leather goods or jewellery. When it comes to watches though, Indians are especially brand-conscious. In fact, 64% of Indian buyers prioritise brand image over price, compared to global consumers who focus more on price-to-value. That's why prestigious Swiss brands like Rolex, Patek Philippe and Audemars Piguet are finding such a keen audience in India. Even in a cost-conscious country like ours, the luxury market is booming, with watches playing a significant role. The sector's already worth $7 billion and is only growing fast.

And finally, over 50% of Indian consumers are open to buying pre-owned luxury watches in the next year or so, as compared to 40% globally. Thanks to the appeal of cost savings and sustainability. So, the pre-owned market is taking off too, adding even more fuel to the demand for luxury timepieces.

All these signs point to strong growth for India's luxury watch market.

By now, you're probably thinking "Why am I still investing in stocks, mutual funds and SIPs? Maybe I should just snag a luxury watch instead!"

But before you jump to conclusions, hang tight, because here's where things get even more interesting.

Look, investing in luxury watches is quite different from stocks or bonds. Watches are a unique asset class, and their returns can be a bit unpredictable.

If you look at the *WatchCharts Overall Market Index*, which monitors the prices of 60 top luxury watch models from the top 10 luxury watch brands in the secondary market (or a market where second hand watches are traded), you'll see that over the past year, the index has declined by 8% (from 65,000 to 59,700).

And that's not exactly what you'd want from an investment where your hard-earned money is at stake, right?

Logically speaking, collectibles are real property, so you would expect their prices to appreciate at least in line with inflation. And with the growing number of global millionaires, you'd think that the demand would push prices even higher.

That was certainly the case in 2021 and 2022, when the index shot up to over 95,000 in just one year. But of late, that trend hasn't kept up, and top watches haven't appreciated as quickly as they used to.

So, then why bother investing in luxury watches at all, you ask?

See, luxury watch investing can be lucrative but it works differently from other assets like stocks or real estate. The basic economics boils down to a few key factors that make watches a unique investment.

First up is brand and rarity. In the watch world, a brand is more than just a name. It's a mark of craftsmanship and heritage. Iconic names like Rolex, Patek Philippe and Audemars Piguet are renowned for their ability to hold value over time.

Take Rolex, for example. Its stainless-steel models haven't lost their value since the 1970s, thanks in part to Rolex's deliberate pace of production. Some of their watches take up to 500 hours to make, and certain models come with a six-year waiting list. It's this combination of meticulous craftsmanship and scarcity that keeps their value high.

Next, trends play a crucial role. Just like any other investment, the value of luxury watches can fluctuate with trends, celebrity endorsements or pop culture moments. Being aware of which models are currently in demand can be just as important as knowing the watch itself.

Finally, patience is key. Investing in luxury watches is a long game. Some models can take years, even decades, to appreciate significantly. For instance, the 1968 Rolex Daytona now commands over $300,000, while actor Paul Newman's Rolex Daytona fetched an astonishing $17.75 million at an auction in 2017. So, while the returns can be impressive, it's often a matter of waiting for the right moment.

All this shows that while brand and rarity can work their magic, investing in luxury watches is definitely a marathon, not a sprint.

So, let's zoom out and look at how they've performed over a decade. According to the Knight Frank Luxury Investment Index, luxury watches have appreciated by 138% over the past ten years (as of Q4 2023). However, in 2023, the rise was only about 5%.

So, while the long-term trend is solid, short-term returns can be modest. Plus, don’t forget about hidden costs like insurance, storage and maintenance, which can eat into your returns.

Sure, there are some standout performers, like the Rolex Pepsi GMT-Master, which saw a nearly 6% price increase in the pre-owned market last year. But not all watches are so lucky. Many don’t perform as well in the resale market.

At the end of the day, buying a luxury watch might be less about the investment and more about the experience. You get to wear, showcase and enjoy it while waiting for the right moment to sell. And when the demand spikes, you might just make a sweet profit.

And don’t forget that luxury watches also offer a way to diversify your investments. They’re not as affected by wild swings like the stock markets and can provide a stable alternative compared to traditional assets.

So, there you have it — the scoop on the Indian luxury watch market. It’s a thriving space packed with opportunities, whether you’re into style or investing. And it’s definitely a market worth watching.

P.S. Since we wrote about timepieces, here's an interesting nugget we bet you didn't know. 1 million seconds is about 11.5 days. And 1 billion seconds stretches to a whopping 31.7 years! Mind-blowing, right?

Infographic: Brands you thought were Indian but aren't!

Today's Discussion 🤔: From Antarctic Expeditions to Startups

Picture this— You're scrolling through job ads, and you come across one that says something like this:

unless thorough
qualified. M. L. Barker. 1408 Chap-
man Bldg.

MEN WANTED
for hazardous journey, small wages, bitter cold, long months of complete darkness, constant danger, safe return doubtful, honor and recognition in case of success.
Ernest Shackleton 4 Burlington st.

MEN—Neat-appearing young men of pleasing personality, between ages
and 40 to work

Sounds pretty extreme, right? But in 1914, when polar explorer Ernest Shackleton posted this ad looking for people to join his Antarctic expedition, something unexpected happened.

Thousands of men applied.

Why, you ask?

Because it wasn’t your typical job description. It was quite the opposite.

Nothing was sugar coated. Shackleton wasn’t promising wealth, comfort, or even a guarantee of survival. Instead, he was brutally honest about the dangers and hardships ahead. But that genuineness, the thrill of the unknown, and the chance to do something truly extraordinary is what hooked people.

It didn’t just ask, ‘what can you do’, but ‘how far are you willing to go?’.

But Finshots, why are you talking about a job ad from the 1900s?

Because, there’s something you can learn about today’s startup ecosystem.

See, starting your entrepreneurial journey (or joining a young startup) isn’t something that guarantees success.

It requires ‘cold, long months’ (or years) of commitment. Often with small wages. Let’s be real—it's not always glamorous, but it's a part of the deal.

But just like Shackleton's expedition, a start-up offers the chance for honor, recognition, and maybe even financial success. All you have you do is trust the process and be passionate & purpose-driven.

So, the final question is—would you get drawn to this kind of ad because of the promise of reward or the pull of the journey itself or sheer appreciation for honesty?

Write back and let us know!

Answer of the day: *Indian Currency notes are made up of* ***100% cotton****.*

And that's all for today folks!

Have a question/comment/feedback for us at Finshots & Ditto? Drop us an email at colleges@joinditto.in. We'd love to hear from you!

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