PrimeRating

Fundamental Report

Prime Rating Report V2.1

Protocol: Hex
Version:
Date: 22/02/2022
Previous Report:
https://gateway.pinata.cloud/ipfs/QmZpK4TmyF2GZTe
GcSM7VagtsX3MRiLWdD5vhncrbGqtgM

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Season/competition: Season 2

Scorecard

1. Value Proposition	Points
a) Novelty of the solution	1 / 15
b) Market fit/demand	3 / 15
c) Target Market Size	2 / 10
d) Competitiveness within market sector(s)	5 / 10
e) Integrations & Partnerships	0 / 15
Total Points - Value Proposition	**11 / 65**

2. Tokeneconomics	Points
a) Is the token sufficiently distributed?	3 / 15
b) What is the extent of the token's capabilities?	0 / 10
c) Is the issuance model able to improve the coordination of the protocol?	0 / 10
d) Is the value capture model able to accrue and distribute value?	0 / 10
e) Is the token sufficiently liquid to enable active use and trade?	0 / 5
f) Are there any extrinsic productivity use cases?	0 / 10
Total Points - Tokenomics	**3 / 60**

3. Team	Points
a) Is the team credible and public? (No, Partly, Yes & Anon , Yes & Public)	0 / 15
b) Does the team have relevant experience?	5 / 10
c) Does the team participate and help shape the public debate?	2 / 5
d) Is the team able to effectively attract and coordinate resources?	5 / 10
Total Points - Team	**12 / 40**

4. Governance	Points
a) Admin Keys	0 / 20
b) Extent of Governance capabilities	0 / 15
c) Active Governance contributors	0 / 5
d) Governance infrastructure	0 /10
e) Robustness of Governance process	0 / 10
Total Points - Governance	**0 / 20**
5. Regulatory	**Points**
a) Does the protocol have any legal accountability?	0 / 15
b) What is the quality of the legal jurisdiction?	0 / 10
Total Points - Regulatory	**0 / N/A**
Total	**26 / 185**

1. Value Proposition

The Value Proposition section describes the value a protocol delivers to its users. Based on the proportion of the problem the protocol aims to solve and the potential of the protocol to effectively solve the problem - better than other industry solutions - a Value Proposition rating is created.

a) Novelty of the solution (15 points)

This score evaluates the novelty (uniqueness) of the protocol. Has the protocol introduced any new innovations that help solve user's problems more efficiently? Is the project a fork? To what extent did they copy/fork the original?

Answer:

Hex promotes itself as "the first blockchain certificate of deposit" (CD). However, the founder, Richard Heart, has said that there is very little similar between Hex and a CD. The reason he gives for this is the high volatility of Hex, but the underlying mechanics of Hex are also different to a bank CD, as I will discuss later. The comparison to CDs seems to be a marketing gimmick to draw in people who understand a CD as a common and safe banking product, then sell them HEX as a cryptocurrency version with higher returns.

The way HEX works is this:

1. Users buy HEX tokens with Ethereum or USDC from UniSwap or EthHex.com.

2. Users then stake HEX choosing their stake amount and their stake length (1-5555 days). The returns vary depending on the stake length. According to the website the average APY is 38 %, but this increases if the stake is longer.

3. When a user stakes, this HEX is exchanged for T-Shares.

4. Users must stake for the full term else they will be penalised. Richard refers to this as the "truth engine", since it penalises those who "lie" about how long they stake for. These penalties are shared 50:50 between the "truthful" stakers and the origin address.

5. At the end of the stake these T-Shares can be redeemed for the initial amount of HEX + Interest paid in HEX.

6. If a user does not end their stake after 2 weeks past the end date their stake is penalised by 1 % per week.

Since there is an unlimited supply of HEX, the HEX that a user receives after ending a stake is not earned per se, it is simply minted, and makes up the annual HEX inflation of 3.69 %; the interest earned and the token inflation are exactly the same thing.

In traditional banking CDs, money is deposited for a fixed rate of interest paid by the bank at a fixed time in the future. The bank then takes those deposits and lends them out to other customers who pay interest on their loans. That interest is then used to pay the bank and the depositors.

In HEX there is no lending arm, it is simply a circular economy: HEX goes in, more HEX comes out. That's it. There is no more to the system. No value is created, just more HEX. The CD description of HEX is simply a facade to explain away the inflationary mechanism of the scheme.

The HEX token has increased in price by 10,000 % since it was released. If HEX provides no value, how has this happened? The answer is reduced supply and increased demand.

By design, users are incentivised to lock their tokens for very long periods (in the community they call this "longer pays better"), and are penalised heavily for early withdrawals. This reduces the supply.

HEX has been running an extremely impressive aggressive marketing campaign. This, coupled with a passionate army of Hexicans, has driven up demand. These effects combined have rocketed up the HEX price to the moon.

Users only see real value when they sell their HEX. But buyers are only buying to stake and get more HEX. These new users will need to sell to even more new users, so it is essential to have a constant stream of new buyers.

The protocol itself has not introduced any innovations. Despite the marketing material, it is a very straight forward ERC-20 ponzi token that incentivises users to hold for very long terms. However, the marketing of HEX and the passionate community is very impressive and for that I will award 1 point.

Score: 1

b) Market fit/demand (15 points)

This score evaluates the degree to which the protocol satisfies a strong market demand. The market fit evaluates if the protocol is able to satisfy the needs of a specific market (can also be measured by user adoption/ #of users). To what extent has the protocol proven to meet the demand of a specific market? Is the timing of the product right for the market? Is the protocol targeting the right market?

Answer:
It is difficult to determine what market HEX is aiming for. If we look at their marketing material HEX is a CD that is not a real CD, it is Bitcoin without the payment network or distributed ledger, it is a store of value that is highly volatile, it is an investment that has increased 10,000 % but investors should not have an expectation of profit, and they very clearly state "HEX is not a scam".

The only conclusion is that HEX is being sold to people who do not fully understand what HEX is, but do believe it can make them rich. In fairness, the marketing is so well written that it took me a very careful and critical reading before I could fully understand what HEX is, and even more critical thought and research to come to the conclusion it probably will not make me rich.

HEX shows that this naive and greedy market it is targeting is large, but it is finite, will dwindle, and the scheme will unravel. HEX has a very clear strategy: on board more users. But inside the crypto market there is no need for HEX at all.

Score: 3

c) Target market size? (10 points)

The target market size evaluates the current and future size of the problem the protocol is aiming to solve. The category of the Open Finance solution can be used as a reference to the target market (for example: Lending). Because Open Finance is by definition global, the global market for a specific problem equals the target market size.

Answer:
As explained above, the only target market that I can see for HEX is people who do not fully understand what it is and what purpose it serves. This is intentionally obfuscated making it very difficult to understand, meaning that the target market is quite large.
I believe it still has room to grow and it's incredible marketing and design will enable HEX to grow for some time. But there is a hard limit on growth of a Ponzi, and when the larger accounts mature and cash out, it will collapse.

Score: 2

d) Competitiveness within market sector(s) (10 points)

This score evaluates the competitiveness of the protocol within the market sector(s) it operates in. This score offers a relative comparison of the protocol and other protocols operating in the same market sector(s). To evaluate this, metrics to directly compare with the competition can be used (e.g. TVL, trading volume, number of users).

Answer:
As explained above, HEX is not a legitimate CD, or savings account and therefore fails to compete in that sector.

In the world of fixed return Ponzi coins there is no shortage of competition. Current popular examples are DRIP and TITANO. HEX is the largest and most popular of these, even with the lower estimate of its market cap. Unfortunately, due to the great success of HEX, it should be considered the benchmark of the Ponzi coin segment.

Score: 5

e) Integrations & Partnerships (15 points)

Due to crypto's open-source nature, the code of most protocols can easily be forked. This score represents a piece of "unforkable value". Some indicators to look at are the number of applications built on top of the protocol (vertical integration), other entities integrating the protocol's services (horizontal integration) or the number of relevant partnerships (be careful of logo collections/ partnerships without much purpose).

Answer:
HEX has no integrations or partnerships. In fact, Richard Heart is openly hostile to other crypto projects.

Score: 0

2. Tokeneconomics

The Tokeneonomics section assesses the function of a protocol's token. This includes the token distribution,

functionalities of the token, the ability of the token to incentivize positive behavior in the protocol, and the ability of the token to capture a portion of the value created.

a) Is the token sufficiently distributed? (15 points)

The token distribution can be an indicator of a healthy protocol. When the protocol tokens are widely distributed among different stakeholder groups and contributors, this genuinely improves the coordinating capability of the token and strengthens the resiliency of the protocol. Was the initial distribution balanced between relevant stakeholders? Are the tokens distributed over sufficient participants (10, 25, 100 largest addresses)?

Answer:

The HEX token has been distributed in several ways:

- Users can mint HEX directly from the contract. As stated in the [disclaimer](#) "When you send ETH to the contract, you don't get the ETH back". The ETH used for minting goes directly to the origin address.
- In December 2019 [HEX tokens were airdropped](#) to BTC holders that held BTC in their private wallets at a rate of 10,000 HEX per BTC, which users could [claim](#) during a limited window.
- In 2020 HEX had a "[AdoptionAmplifier program](#)" which gave the referee 10 % extra HEX and the referrer 20 % extra HEX. The origin address also minted itself an equal amount of all referred HEX, this can be seen at line [2533 of the contract code](#)
- HEX is also created when a stake is ended and T-Shares are redeemed for the original HEX + interest paid in HEX.

Etherscan shows that there are [282,904 HEX holders](#). However, [one address sent HEX to 170 k addresses](#), and these addresses have never [bought, sold, or staked HEX](#). Therefore this holder number cannot be trusted.

[88 % of all HEX tokens are held by the origin address (OA)](#). The OA is a major part of the controversy around HEX. The owner of the OA is a [closely guarded secret](#), but it is most likely to be the founder Richard Heart. Richard refuses to admit this because it would land him in legal hot water; it would make HEX a security and open him up to a lawsuit from the SEC. However, smart contracts and wallets do not make themselves from nothing, someone owns this address, and it's [early coin movements](#) indicate a human controls it rather than a bot. By Occam's razor, Richard Heart owns the OA and therefore a single individual controls 88 % of the supply of HEX.

The OA problem also makes it difficult to determine a market cap for HEX. HEX.com claims a [$ 86 billion](#) market cap which would make it the 3rd largest crypto currency by market cap. Coingecko simply [displays a question mark](#), and coin market cap shows a market cap of [$ 25 billion](#) but has locked its ranking at 201 ($ 25 billion would rank [8 th between Cardano and Solana](#)) and has locked Hex at rank 201 by market cap. Nomics gives HEX a market cap of [$ 20 billion](#). This Nomics ranking was [explained in great detail](#) (with extremely apologetic language directed towards the HEX community) by the CEO of Nomics.

Due to the unknown number of holders and the opaque nature of the OA, it is not possible to determine the true distribution of HEX tokens. Since 10 % of the token supply is staked, presumably by real holders, there is a broad distribution of small holders.

Score: 3

b) What is the extent of the token's capabilities? (10 points)

Is the token useful within the protocol? Does the token allow the holders to participate in governance or influence the protocol in any way? Does it serve any other purposes?

Answer:

The HEX token has the ability to create more HEX tokens, via the staking and T-Share contract mechanism. It can also

be traded on a DEX for ETH or USDC. That is the entire extent of the token's capabilities.
Score: 0

c) Is the issuance/distribution model able to improve the coordination of the protocol? (10 points)

To what extent does the issuance of the token support the advancement and function of the protocol? Are the tokens justifiably being issued? Does the issuance model incentivize the right behavior? Are all relevant stakeholders benefiting from the issuance model?

Answer:

HEX does not affect the function of the protocol. Currently, tokens are distributed through an inflationary mechanism.

To realise any gains, HEX holders who have ended their stake must sell their newly minted tokens, increasing supply and decreasing the price. Since the only value comes from the HEX token price relative to an external currency (e.g. ETH or USDC), issuance of the tokens incentivises users to actively damage the protocol.

Score: 0

d) Is the value capture model able to accrue and distribute value? (10 points)

A value accrual and distribution mechanism can help improve the utility of a token and its ability to be used as an effective coordination mechanism. Does the protocol have mechanisms to distribute some of the value created to the token holders?

Answer:

HEX does not distribute value. In fact, the mechanics of HEX are parasitic. It is designed to remove and lock up value from new users and syphon it to older users and the origin address.

Score: 0

e) Is the token sufficiently liquid to enable active use and trade? (5 points)

Is the token widely available and is there sufficient liquidity available to facilitate all protocol functionalities?

Answer:

The HEX token is not available on any centralised exchanges and is available on a handful of decentralised exchanges, paired with ETH and USDC. This is a huge red flag. When HEX relies on onboarding new users it would be beneficial to have it on CEXs, and yet in 2 years, none have listed it. Also HEX is the only token in the top 20 by market cap to not have CEX support. The founder explains this away with a [theory that the centralised exchanges are bad actually](#). A HEX enthusiast even went as far as to try to [sue Binance](#) for not listing HEX and locking it at rank [201 on coinmarketcap](#).

It is also notable that HEX's trading volume is just $ 18 million per day. This would rank it around 80 th in trading volume alongside coins such as CONVEX and FRAX which have around $ 1 billion market caps, 1/20th of HEX's.

The lack of volume and exchange support means HEX is largely illiquid.

Score: 0

f) Are there any extrinsic productivity use cases for the token? (10 points)

Besides the protocol's value distribution model as described in 2. d), can the token be used productively on other protocols (e.g. as collateral, for lending, LPing, yield farming, etc.)?

Answer:
As explained above, HEX has no extrinsic use cases.

Score: 0

3. Team

The Team section describes the quality of the team behind the protocol. The current version of Prime Rating favors teams that are publicly identifiable. In the case of an anon team, the track record of the specific anons involved can be taken into account

a) Is the team credible and public? (15 points)

Are the identities of the core contributors and team publicly identified? In the case of anon team members, is there any way to track their background/record?

Answer:
HEX is founded and controlled by [Richard J. Scheuler](#) a.k.a. [Richard Heart](#). Richard is a controversial and outspoken character. He styles himself as a straight talking crypto thought leader. Richard is an [exceptionally good speaker](#) and salesman. He effortlessly inspires confidence in his audience, and could sell anyone snake oil at a high premium. He frequently [flexes his wealth](#) with expensive watches and luxury clothing.

Richard has decades of experience in internet marketing. He called himself the "Spam King" [sending spam emails and running spam call centres](#) in the early 2000s. In 2002, he [was successfully sued in Seattle court](#) for sending unsolicited emails. He even promoted a how to [spam course in 2003](#).

Despite a [relatively long career in crypto](#), Richard has very questionable credibility.

The rest of the HEX team is not publicly known.
Score: 0

b) Does the team have relevant experience? (10 points)

Are there any documents or trails available to showcase the track record of the team? Do the team members have relevant backgrounds and skill sets?

Answer:

As explained above Richard Heart has decades of experience in internet marketing, and has had a relatively long career as a crypto commentator. Marketing is massively important for any crypto project and Richard's background in internet marketing has been extremely effective in getting HEX to where it is today.

Score: 5

c) Does the team participate and help shape the public debate? (5 points)

To what extent do the protocol contributors participate in the public debate around open finance? Are the team members giving presentations, sharing their thoughts and opinions, and do they help raise the collective intelligence of the industry?

Answer:

Richard is very vocal, and a look at his [twitter](#) and [YouTube channels](#) shows that he has actively contributed to the public debate. He is usually the [antagonist](#) and is there to [put down](#) other projects and, most importantly, promote his own.

Score: 2

d) Is the team able to effectively attract and coordinate resources? (10 points)

How effective is the team at attracting and coordinating resources for the benefit of the protocol? Has the team raised sufficient funding or are there mechanisms in place to attract resources when needed?

Answer:

Richard is very good at marketing HEX and, if he is to be believed, has [attracted interest from wealthy individuals](#). Richard's new project [PulseChain](#) has already garnered a lot of interest with [70k twitter followers](#) and a [15 k strong subreddit](#) even before it has launched. This demonstrates the marketing power that he has.

Score: 5

4. Governance

The Governance section evaluates how the protocol is governed and who the governors are. The different governance functionalities and processes are evaluated to determine to what extent the Protocol will be able to self-govern in a way that ensures the development of the protocols while respecting the needs of all current and future stakeholders.

a) Admin Keys (20 points)

Admin Keys allow some critical functionalities of a protocol to be controlled by an admin. This allows the developers to react to potential bugs, but also creates a risk as the developers could potentially misuse the admin keys to exploit the protocol. Does the protocol have admin keys and how are they managed?

Answer:
The owner of the origin address is a big controversy in HEX. As explained above in section 2a, the owner of the OA is a closely guarded secret, but it is most likely to be the founder Richard Heart.
Score: 0

b) Extent of Governance capabilities (15 points)

Distributed governance allows the token holders to participate in the governance of open finance protocols. How much influence does the governance mechanism have? Are the votes affecting on-chain changes or do they function solely as signals to the team?

Answer:

HEX has no governance capabilities.

Score: 0

c) Active Governance contributors (5 points)

Governance is a process that can be rather resource-intensive if executed well. To ensure good governance is practiced by the protocol, it's important to have a sufficient number of governors allocate resources to the governance process of the protocol. How many individuals participate in the debate around the protocol? How active are voters?

Answer:

HEX has no governance contributors.

Score: 0

d) Governance technology/infrastructure (10 points)

The Governance infrastructure relates to the technology, software, and models used by the protocol's governance. Does the protocol have a reliable and usable voting mechanism? Are there channels for governance debate? Is there sufficient documentation available?

Answer:
HEX has no governance infrastructure.
Score: 0

e) Robustness of Governance process (10 points)

This score requires documentation specifically on the governance process that sets the basic framework in terms of agreements, norms, and language for governing the protocol and to create social consensus. Does the protocol have a formal governance process? How robust is the governance process and does it promote good governance?

Answer:
HEX has no governance process.
Score: 0

5. Regulatory

The Regulatory section describes the extent and quality of the regulatory environment that affects the Protocol. To be able to guarantee functionality, security, and legality the protocol should comply with regulatory requirements, or limit itself to facilitating services to users who are willing to operate outside of the traditional regulatory environment.

a) Does the protocol have any legal accountability? (15 points)

Does the protocol have any form of legal accountability? Can users and partners hold the protocol accountable in case of a breach of the agreement?

Answer:

HEX has no legal accountability. It can be assumed that Richard Heart owns the project, and controls the OA. However he purposefully does not admit to this to avoid any legal accountability.

Score: 0

b) What is the quality of the legal jurisdiction? (10 points)

If the protocol has a legal entity, what is the quality of the jurisdiction the entity is established in? Will the jurisdiction be able to facilitate the legal framework for the protocol to expand while remaining accountable.

Answer:
Since no person or organisation can be held accountable for HEX, HEX has no legal jurisdiction.
Score: 0

About the Author: @SlamBadley Crypto detective with a dark academic past