David Zimmerman
DeFi Analyst

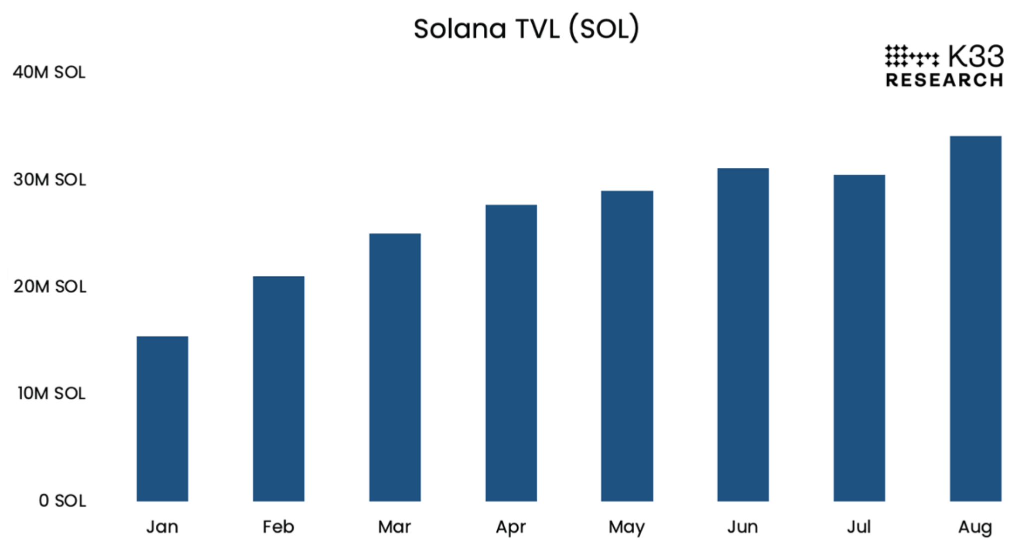
Pump.fun - Memecoin Madness

TLDR

- Solana has been dubbed the "memecoin chain" due to the rise of Pump.fun (Pump).
- Pump enables any DeFi user to launch their own memecoin at zero cost. Newly launched coins trade on a bonding curve until a market cap of 69k is reached, after which the memecoin is deployed on a DEX (Raydium) with 12k initial liquidity.
- Pump's success as a platform is proven by its incredible stats, with cumulative revenue nearing $100m since its launch in January.
- Since the beginning of the year, Pump users have launched 1,829,747 memecoins, a figure many believe demonstrates the unserious nature of Solana DeFi.
- The issues presented by Pump's statistical success do not present any new issue for crypto – altcoin proliferation has long been overwhelming relatively modest capital inflow.
- Ethereum and its L2s launched 403,833 new tokens in July alone. We believe this is as unsustainable and value extractive as Pump, while highlighting failures by crypto tech.
- This does not mark the end for crypto trading, as we have discussed before. It does, however, emphasise the importance of profit-taking as well as mobility in rotating capital.

Solana Soaring

Few L1s beyond Ethereum have stood the test of time, but Solana is one of them. Recently overtaking BNB Smart Chain to become the third largest L1 in terms of TVL, Solana has carved out a spot for itself in the market. Solana's TVL growth in 2024 is impressive, even when viewed in the stricter form of its native currency SOL (as opposed to USD-denominated TVL).



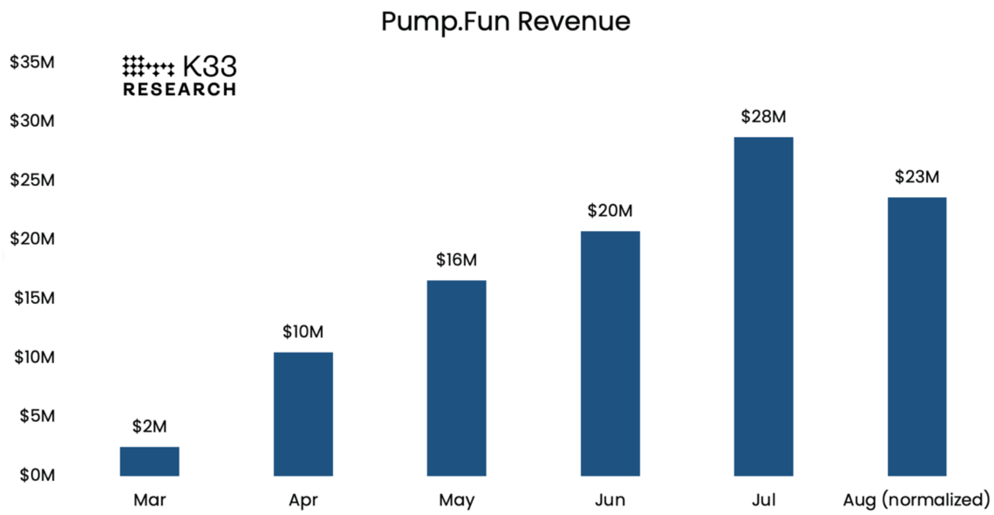
Much of Solana's success in securing its spot has been driven by technological advancement of the chain, with no signs of that slowing down as the ecosystem looks forward to upgrades such as Firedancer and Jito's new restaking initiative. However, the tech is not what is occupying the minds of most market participants. Huge sums of Solana's TVL are flowing into the booming memecoin sector, as the chain has developed a reputation for being the "memecoin chain".

This reputation has largely been earned due to the overwhelming activity seen in one dApp – Pump.fun. Allowing any DeFi user to launch their own memecoin at zero cost, Pump.fun (Pump) is dominating the mindshare of on-chain traders. However, success and growth in crypto are not so easily defined. While activity on Pump soars, many market participants lament the wave of on-chain activity concentrated in memecoins. Some say Pump is in fact detrimental to Solana and crypto as a whole. Are these concerns justified? We have a closer look this week.

Pump.Fun – Are You Not Entertained?

Memecoins continue to see high volatility and high trading volume. While most crypto natives have been digging for gold in the memecoin sector, Pump decided to sell the shovels instead. Pump is a Solana-based dApp that enables anyone to launch a memecoin in a matter of minutes at little to no cost. This has not just lowered the cost of creating a memecoin, but also removed the technical barriers to entry.

The best ideas are simple, and the popularity of Pump proves this. Pump's simple idea has seen a massive inflow of users and the dApp has seen a meteoric rise, hitting revenue numbers that DeFi teams only dream about as it nears $100m in cumulative revenue since launch. At the time of writing, Pump has seen $520k in 24h revenue, which is followed by Solana at 356k, Ethereum at 336k, and Aave at 297k. The platform was set up in January, but only gained traction in March. Since then, revenue (in both absolute numbers and trajectory) has been one of the most impressive in DeFi history.

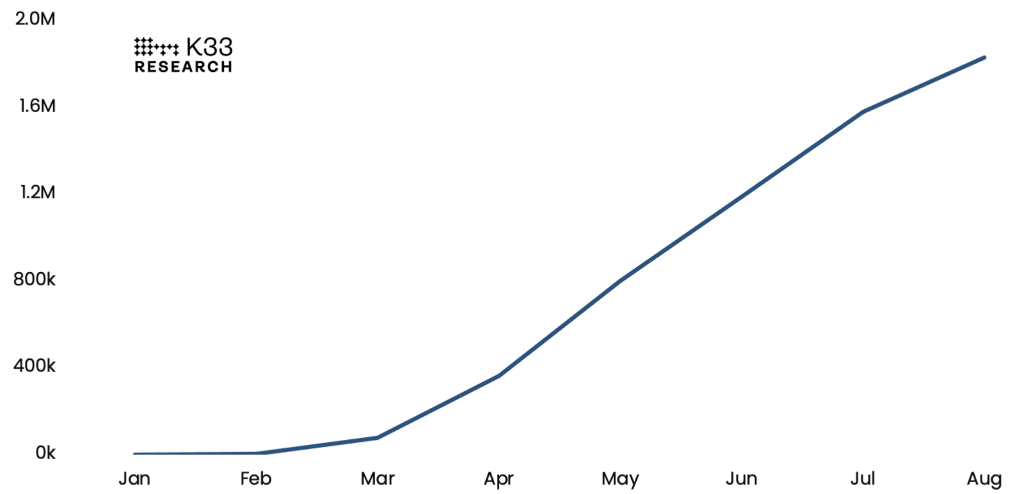


Pump utilizes a bonding curve mechanism for the initial phase of price discovery. This curve allows users to buy or sell tokens on Pump at prices determined by the curve as opposed to supply and demand dynamics on a DEX liquidity pool. This removes the necessity for any initial seed liquidity. However, once a token hits 69k market cap, a pool is automatically created on Raydium with $12k in liquidity added to the pool (while the LP token is burned), allowing the price to be traded "as normal" in a typical DEX environment.

Initially, it cost a user $2 to launch a token, and a charge of 2 SOL was incurred if a coin hit the 69k market cap ceiling before being deployed on Raydium. However, a recent update now sees the $2 cost absorbed by the first buyer of the token, while the migration charge was reduced to 1.5 SOL with a .5 SOL rebate to the token creator if the token graduates to be deployed on Raydium.

Pump.Fundamentally Unsustainable

Pump's revenue is undoubtedly impressive. However, this surge has led to major criticism of the platform itself. Since the beginning of the year, Pump users have launched 1,829,747 memecoins. It is no surprise that Pump has resulted in more memecoins being launched, but the scale and trajectory of token launches has surprised most. In the last 24h period alone (at the time of writing), there have been 10,740 token launches.



Initially, Pump users enjoyed the rising tide that lifted all boats as they traded micro-cap memecoins on their bonding curve. However, the rate of launches has made this landscape incredibly competitive and arguably entirely unprofitable for traders. As mentioned, 10,740 tokens were launched in the last 24h period which begain trading based on the bonding curve. In that same period, only 136 tokens managed to break the 69k market cap mark and graduate to trading on a DEX with 12k initial liquidity. Consider the profitability of top trading wallets on the platform:

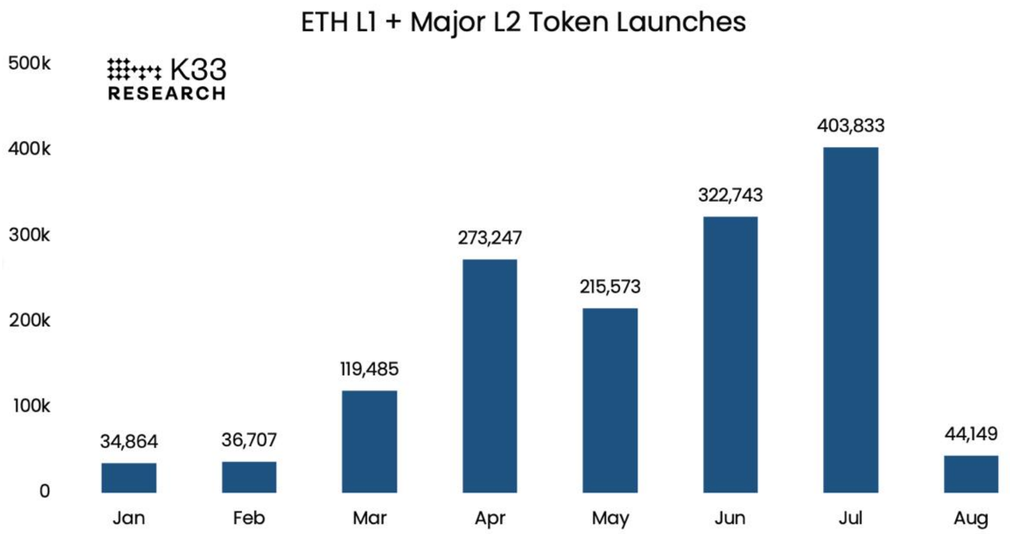
Pump.fun Profitable Wallet Tiers	
Wallet PnL	**Tier**
>$1,000,000	In the top 0.0030% of wallets
>$100,000	In the top 0.0445% of wallets
>$10,000	In the top 0.5089% of wallets
>$1,000	In the top 3.0855% of wallets

The table above is considerably worse when we consider that this is not an even playing field of on-chain traders. Many of the top wallets are users deploying tokens themselves, securing a sizeable amount of token supply, and orchestrating pump-and-dump schemes to secure profit on those holdings. This is not an issue unique to Pump, but it is important to consider when analyzing these numbers. For traders who wish to profitably trade newly launched memecoins, Pump initially offered a great venue. Due to the sheer volume of coins being produced, it is arguably impossible for users to do so now unless they are engaging in nefarious and manipulative on-chain activities.

Ethereum Elitists Celebrate, But Is Ethereum Much Better?

Pump is coming up on 2 million token launches since it launched at the start of the year. As we have demonstrated, this proliferation of tokens has made the landscape almost impossibly competitive at the micro-cap end, not to mention the value being extracted from the ecosystem by more nefarious players.

Ethereum maximalists, who never miss an opportunity to point out Solana's faults or misfortunes, have pointed to this as evidence of Solana being a non-serious crypto project that has no real place in web3's future. However, if we observe Ethereum token launches with the same lens we are observing Pump launches, the outlook is not much better. There were 403,833 new token launches on Ethereum and its major L2s in July alone, outstripping Pump launches for the month at 393,629. While this compares a single dApp to several chains, the core of the issue remains the same – 403,833 new launches in a single month is, in practical terms, as unsustainable and value extractive. YTD, Ethereum ecosystem launches total 1.45m in comparison to Pump's 1.83m.



Many have dubbed Solana as the "memecoin chain", citing Pump's statistics as proof. It is true that the proportion of new launches on Solana is heavily skewed towards memes, with Pump launches accounting for around 48% of new Solana tokens over the last week. However, let us consider the 403,833 new launches on Ethereum in July. We could make the assumption that every single launch was "tech-based" and the absurdity of this number would still be apparent. In our view, there is nowhere near enough innovation happening in DeFi to justify 403,833 new launches. Additionally, tech-based projects can sometimes be just as value extractive as the nefarious actors on Pump, as evidenced by VC and airdrop-related scandals over recent months.

Pump.fun Has Changed Nothing, This Is The New Regime

The issues highlighted by Pump's rapid rise are clearly not isolated to Solana. If anything, this shows the failure of 99.99% of tech-based crypto projects to deliver on their mission statements, if they ever had any intention of doing so in the first place.

Trading newly launched memecoins in the bonding curve stage on Pump is now an extremely cutthroat environment, with only 0.01% of coins graduating from the bonding curve to DEX trading. While users can simply choose to opt out of participating in a seemingly unprofitable market, there is an argument that platforms such as Pump are simply extracting value from the entire crypto ecosystem as a majority of users are taken advantage of by bigger players not necessarily playing "fair".

However, the issues concerning Pump reflect the problems with crypto as a whole – a saturation of altcoins delivering little to no innovation with relatively little inflowing capital. With respect to trading, there is simply not enough new capital coming in to create that rising tide that lifts all boats, given the proliferation of altcoins. Many crypto users point the finger at memecoins, claiming memes are siphoning off liquidity from legitimate tech projects. However, in our view, the proliferation of tech-based altcoins is just as unsustainable, and in many cases just as predatory and value-extractive.

However, this does not simply spell doom and gloom for traders, it only means that we must adopt a new approach to crypto in comparison to previous cycles, as we have stressed previously. This increasingly competitive landscape forces us to be more aggressive in our profit-taking and more agile in our rotations. The micro-cap memecoin market may be near impossible to manouver profitably, but the markets for low-mid-high cap memecoins and tech-based tokens will continue to offer opportunities.

Disclaimer

- Navigating Narratives (the "Report") by K33 Research is a report focusing on cryptocurrencies, open blockchains and fintech. Information published in the Report aims to spread knowledge and summarise developments in the cryptocurrency market.

- The information contained in this Report, and any information linked through the items contained herein, is for informational purposes only and is not intended to provide sufficient information to form the basis for an investment decision nor the formation of an investment strategy.

- This Report shall not constitute and should not be construed as financial advice, a recommendation for entering into financial transactions/investments, or investment advice, or as a recommendation to engage in investment transactions. You should seek additional information regarding the merits and risks of investing in any cryptocurrency or digital asset before deciding to purchase or sell any such instruments.

- Cryptocurrencies and digital assets are speculative and highly volatile, can become illiquid at any time, and are for investors with a high risk tolerance. Investors in digital assets could lose the entire value of their investment.

- Information contained within the Report is based on sources considered to be reliable, but is not guaranteed to be accurate or complete. Any opinions or estimates expressed herein reflect a judgment made as of the date of publication and are subject to change without notice.

- The information contained in this Report may include or incorporate by reference forward-looking statements, which would include any statements that are not statements of historical fact. No representations or warranties are made as to the accuracy of these forward-looking statements. Any data, charts or analysis herein should not be taken as an indication or guarantee of any future performance.

- Neither Research nor K33 Operations AS provides tax, legal, investment, or accounting advice and this report should not be considered as such. This Report is not intended to provide, and should not be relied on for, tax, legal, investment or accounting advice. Tax laws and regulations are complex and subject to change. To understand the risks you are exposed to, we recommend that you perform your own analysis and seek advice from an independent and approved financial advisor, accountant and lawyer before deciding to take action.

- Neither K33 Research nor K33 Operations AS will have any liability whatsoever for any expenses, losses (both direct and indirect) or damages arising from, or in connection with, the use of information in this Report.

- The contents of this Report unless otherwise stated are the property of (and all copyright shall belong to) K33 Research and K33 Operations AS. You are prohibited from duplicating, abbreviating, distributing, replicating or circulating this Report or any part of it (including the text, any graphs, data or pictures contained within it) in any form without the prior written consent of K33 Research or K33.

- By accessing this Report you confirm you understand and are bound by the terms above.

- K33 Research is a department within K33 Operations AS, org. 994 608 673, and can be contacted at research@k33com or bendik@k33.com