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Introduction

2021 has been a strong year for arbitrage, posting double if not triple-digit margins **risk-free**. This trend is not poised to stop in 2022 & beyond as more and more assets are being tokenized. This year alone, the security token market secondary trading market capitalization has grown **2000%+** and does not plan on stopping. With tens of billions of dollars of assets already tokenized, we will only see the secondary market for security tokens grow and thus increase arbitrage opportunities. The future of interoperability between secondary exchanges has arrived and the Arbitrage Team at Security Token Market is going to ensure investors internationally are provided with comprehensible information as to how to capitalize on these opportunities. For the security token industry at large, the STM Arbitrage team has devised a systematic, step-by-step

process so that any individual, institution, or fund can bask in the profits of creating more efficient markets. We were first able to arbitrage the Exodus Movement token. In just three weeks of completing the process described below, the Arbitrage Team was able to successfully buy, transfer, relist, and sell 199 shares¹ of EXOD from tZERO to Securitize Markets and reap a total return of +146%. Arbitrage is typically executed with high volume sales and small margins. With security tokens however, this has been quite the opposite, which still makes for consistent two- or three- digit riskless ROI opportunities. The Arbitrage Team at Security Token Market foresees hundreds, if not thousands, of arbitrage opportunities becoming available globally in the upcoming years. The successful arbitrage of EXOD tokens marks an important milestone in the industry, being one of the first tangible trades showing that token arbitrage is possible. As more and more digital securities become listed on different exchanges globally, these opportunities will only become more abundant. Individuals will come up with innovative solutions that will help create market efficiency never seen before. By laying out this step-by-step guide as to how to arbitrage the EXOD token, our team aims to show how easy it can be to profit off differing illiquidity premiums for the same asset. We hope to show that it is possible not just in the distant future, but also today. These steps will become more replicable as more assets continue to list on both tZERO and Securitize Markets. In order to complete this process, an individual must have the following:

- A tZERO account with completed KYC
- A Securitize Markets account with completed KYC
- Any Algorand Wallet, or alternatively an Exodus Algorand Wallet due to the incredible user experience

¹ The last sell order has only partially filled.

- A bank account which connects to both tZERO and Securitize Market to transfer funds to and from
- Funds to buy EXOD tokens with – whether that be in USD, USDC, BTC, or ETH.

The STM Arbitrage team has devised a straightforward, six-step plan to deliver the EXOD token arbitrage opportunity to any investor with access to both tZERO and Securitize Markets.

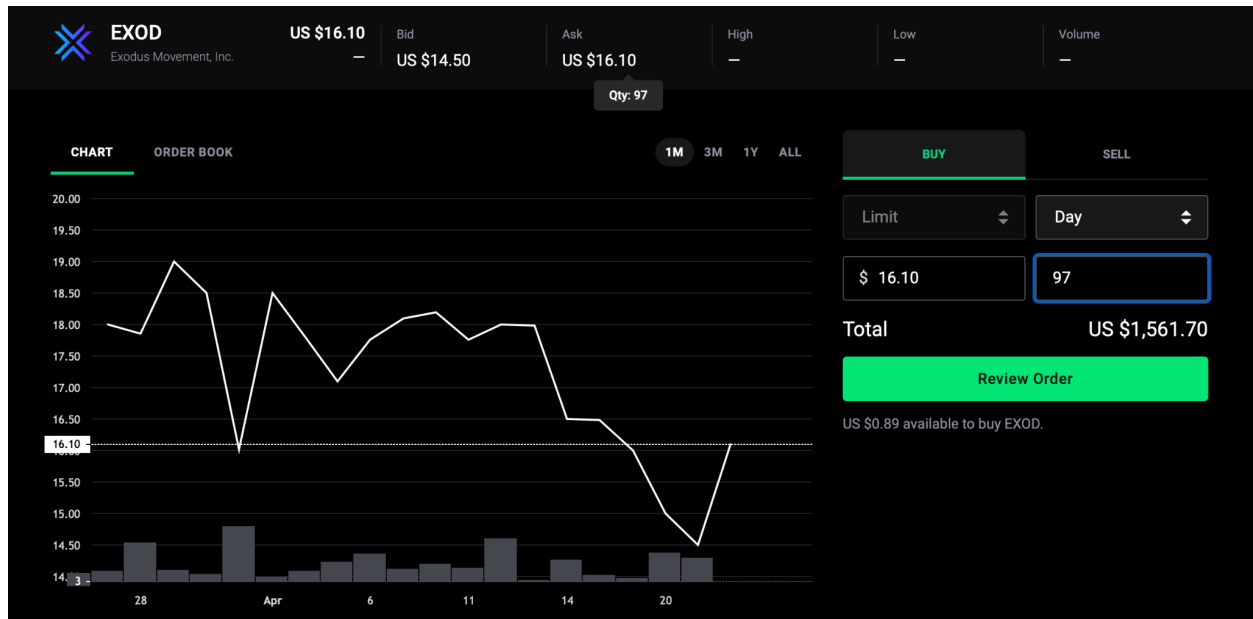
Furthermore, these six steps can be mirrored for more arbitrage opportunities as both tZERO and Securitize Markets compete for market share and list more assets on their ATs. The process which will be covered in more detail consists of:

1. Buy EXOD on tZERO
2. Connect Algorand Wallet To Securitize Markets
3. Authorize Algorand Wallet To Receive EXOD
4. Initiate The Transfer With tZERO
5. Sell Your Shares On Securitize Markets
6. Repeat

Step One: Buy EXOD on tZERO

After setting up accounts, completing KYC, and linking a bank account, an individual is prepared to buy EXOD tokens. Users must fund their tZERO accounts via the linked bank account or by sending USDC, BTC, or ETH. Funding your account can take between 2-3 business days. Once the funds are received and available in your tZERO account, navigate the tZERO interface and select “Market”. From here all the assets currently available on their secondary exchange will be visible. Navigate to the Exodus Movement (EXOD) token. We will be brought to an EXOD token specific alternative trading system (ATS) where buyers and sellers are matched. To complete a “market buy” on an ATS, an individual can place a limit buy order

matching the price of the lowest ask. Be wary of liquidity constraints when buying. When hovering the mouse over the bid and ask sections on the tZERO page, the viewer will be able to see the quantity of EXOD listed in the bid and ask being shown. As seen below, on tZERO at the time of writing an individual could place a limit buy order at \$16.10 (the lowest ask) of up to 97 shares of EXOD which would be executed immediately.

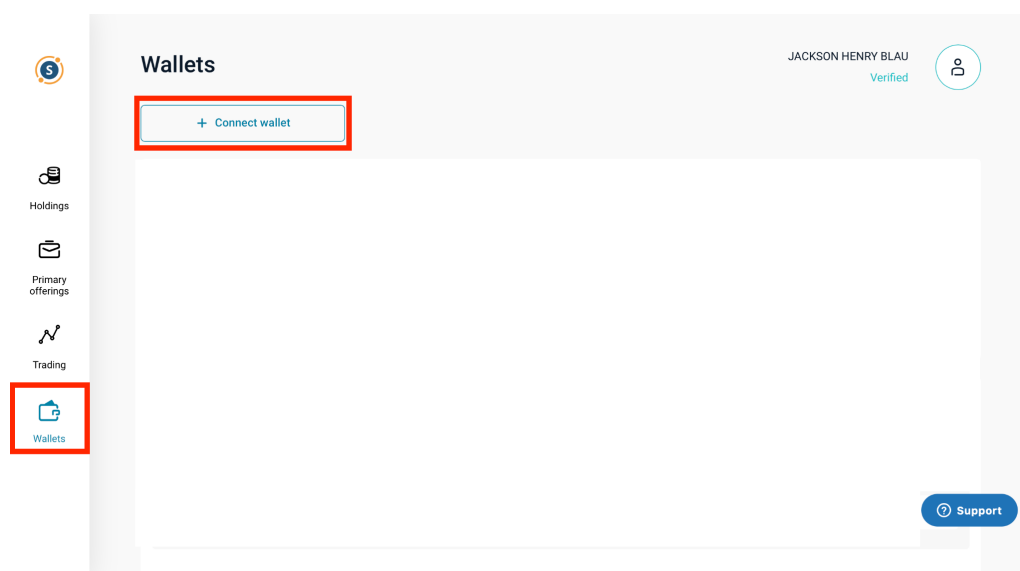


However, the Arbitrage Team suggests taking time to find a good entry point on tZERO. There is no need to rush into this when buying in quantity, because that is a potential 11% gain that you will be forfeiting. In our experience, it is best to place a bid slightly below the lowest asking price at a price the individual is comfortable with as their entry point. A bid can be placed at whatever price an individual feels is fair for the asset. The less willing individuals are to pay the asking price, the less likely the order will be filled and the longer it will take to complete this process. With that being said, we are going to pretend we want to execute a market buy of 50 EXOD tokens. tZERO charges a 1% transaction fee on completed transactions, so this would come out to a \$813.05 investment. To do this, we would enter a price of \$16.10 followed by the

quantity of 50 tokens. Once submitted, the order would immediately execute as we were willing to pay the price that the seller had it listed at. We are now ready to move the tokens to Securitize Markets.

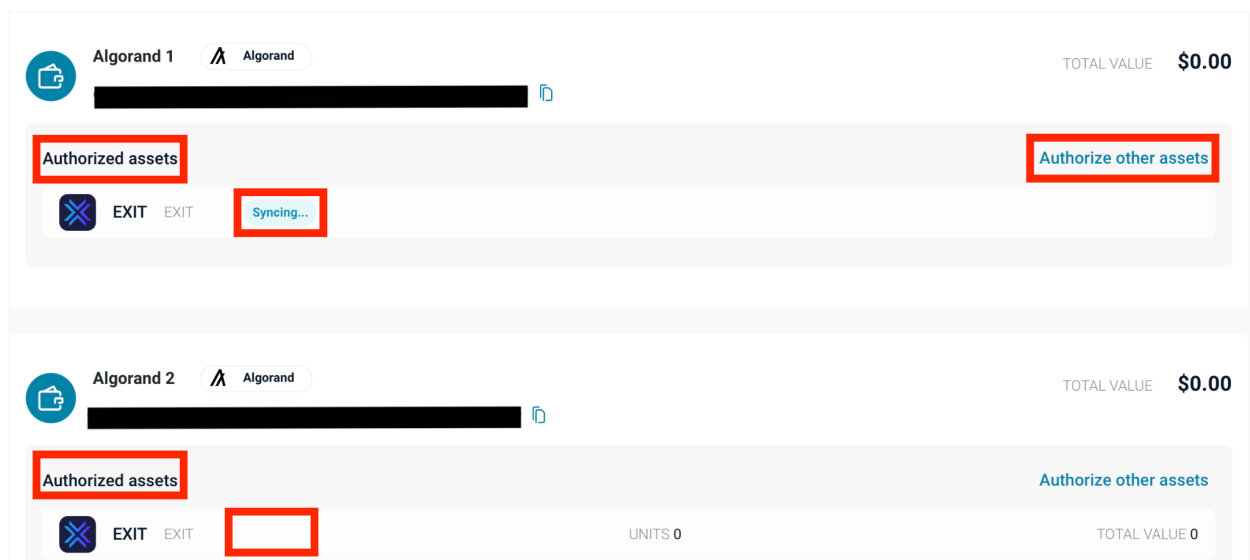
Step Two: Connect Algorand Wallet To Securitize Markets

As we are arbitraging the Exodus Movement (EXOD) security token, we personally felt it was only right to use their non-custodial hot wallet interface. However for this step you can use any Algorand wallet that is compatible with Securitize Markets. Initially, we tried to utilize another Algorand wallet, but found the process to be much smoother when utilizing the Exodus Wallet application itself. To connect a wallet to your Securitize Markets account, the user will want to navigate to the “Wallets” section located on the sidebar. From there, select “Connect Wallet” where individuals will be presented different blockchain options. Here individuals should select Algorand, provide a wallet address, and finally sign with the application of the wallet address provided. Once completing these easy steps, that wallet will be connected to Securitize Markets.



Step Three: Authorize Algorand Wallet To Receive EXOD

This step is simple, very intuitive and highly important. In the same “Wallets” section, the connected Algorand wallet should now appear. Under the wallet on the right hand side of the screen, there will be an option to “Authorize other assets”. Upon clicking this, options will be presented. Here, select and authorize the wallet to hold the EXIT token (another commonly-used ticker symbol for the EXOD token). This step is called “whitelisting” the wallet, and will be required for the transfer of tokens from tZERO to Securitize Markets. If not completed initially, tZERO will need to verify this has been done before moving forward with the asset transfer. This will take between a couple minutes to a couple hours depending on network conditions. The asset should now appear below the wallet as shown below. It will show the “Syncing...” label highlighted in red on the top wallet until the wallet has officially been whitelisted to hold the EXOD token. The top wallet shows what it will look like while pending and the bottom shows a properly whitelisted wallet.



Step Four: Initiate The Transfer With tZERO

Currently tZERO does all the custody of the wallets being used on their platform themselves. This means that users do not have access to their private keys and cannot directly access their wallet address to send or receive security tokens and we must work directly with the tZERO Support team to transfer our EXOD tokens. Below is a template of an email that can be used to speed up the process and provide the tZERO team the necessary information needed to complete your transfer:

To whom this may concern,

I would love assistance in transferring my _____ (ex. 50) shares of EXOD to my Securitize Markets wallet. My tZERO account and Securitize Markets account are tied to the following email address(es) _____ and the Algorand Wallet address can be found below. I have already whitelisted the wallet and it is ready to receive the EXOD tokens whenever you can approve the send. Thank you very much in advance and I look forward to hearing from you soon!

Best regards,

_____ (your name)

Algorand Wallet Address: _____

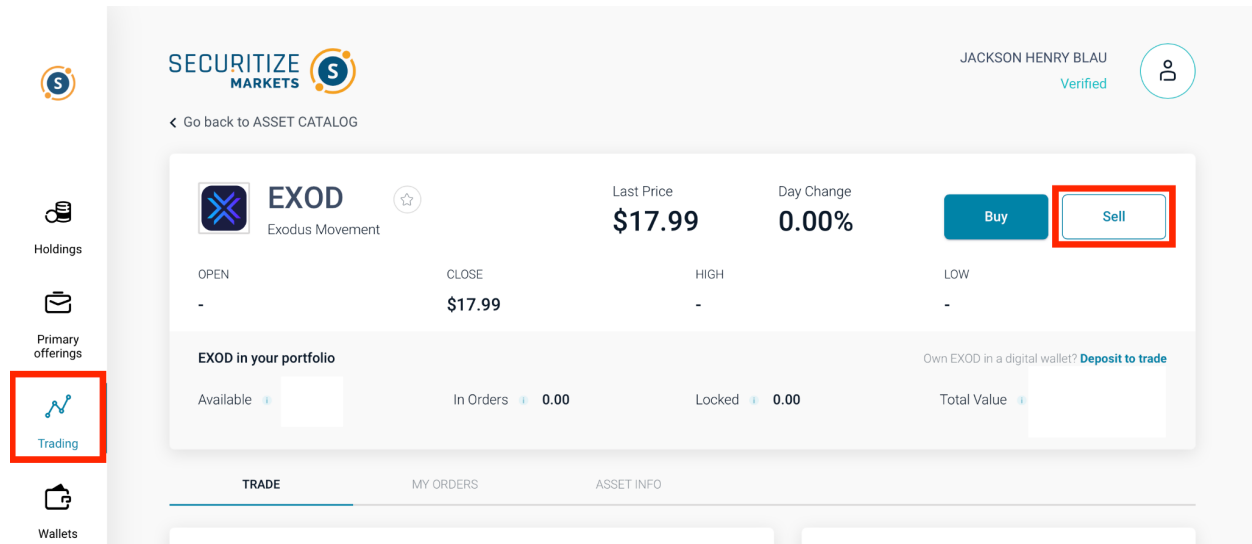
We have been pleasantly surprised as to how actively tZERO has been replying to our requests to transfer shares throughout our experience of doing this multiple times. After sending our first initial email to tZERO on March 26th at 3PM CET, we received our EXOD tokens in our Algorand wallet on March 29th at 11PM. This may not seem fast but given the level of

attention and back and forth required to figure out this process, we were very happy with this as we initially had troubles whitelisting our Algorand wallet that they helped us solve. The second time we completed this process, it took 24 hours from the time we initially sent the email to tZERO support till we received the tokens in our Securitize Markets account. The third and final time, they were able to facilitate the transfer in just 3 hours. We were very impressed by the decreasing amount of time it was taking to transfer shares from tZERO. However, it seems too many people got the same idea as the day after this third transfer, we received an email from tZERO Support explaining they no longer will be able to complete same day asset transfer. In our opinion, secondary exchanges looking for the most interoperable blockchain solutions, allow users to act as their own wallet custodian. We will analyze more of this later.

Step Five: Sell Your Shares On Securitize Markets

Once the shares hit the Securitize account the user can list them for sale on Securitize Markets where they have been trading at a higher price due to the illiquidity currently present within their market. Now the tokens can be listed for sale at any price an individual is happy with receiving for their tokens above what they are trading for on tZERO and thus realizing gains. With sales as high as \$34.74, it was clear that there was a discrepancy between the liquidity available on tZERO and Securitize Markets. Users on tZERO could buy or sell at ~\$18 seemingly at will everyday at the same time there were small if not no sales on Securitize at

~\$32.50. It is now time to list these tokens for sale, just remember it's not profit till they're sold!



Step Six: Repeat

Congratulations! Once sold, you've officially completed an arbitrage cycle with EXOD. With our 50 shares purchased on tZERO at \$16.10, if we sold at the price of the last sale on Securitize Markets we would earn 16.6% and make the market more efficient while doing it. If you want you can now deposit the funds back to your bank account, where they can then be deposited back into your tZERO. Now are you thinking what I'm thinking? Rebuy! By doing this over and over until there is an equilibrium price you will be able to reap the rewards of this price discrepancy dissipating and accumulate capital or shares of EXOD, whichever you prefer.

Real Profits And How To Realize Them

Throughout the three weeks we have been arbitraging the Exodus token, there has been a potential for more than +340% profit to capitalize on despite the token price falling 15% on tZERO and 41% on Securitize Markets. We were able to earn +146% on selling 124 EXOD tokens throughout this time through active management and attentive buying and selling of the

EXOD token. The arbitrage opportunity presented has been shrinking as more and more liquidity has become available on the Securitize Markets platform and markets become more efficient. This makes sense on a nanoeconomics level as the first time I arbitrated the EXOD token I was only competing to sell with a couple other sellers and so the profits were much larger. Now that more and more people have done this, in order to realize profits quickly you may have to be willing to accept less profits. Remember we bought our tokens on tZERO at market value at \$16.10, if we wanted to immediately sell these on Securitize Markets we would place a limit sell at the price of the highest bid. This is where our biggest issue arises. There is currently a lack of buyers so we couldn't sell these tokens at the time of writing immediately. What we suggest doing is listing your tokens for sale around the price of the last sale of the token on Securitize Markets (\$.01-.1+/- of the last sale). Token sales are not hard to come by, but more often than not buyers on Securitize have just been paying the lowest asking price as opposed to negotiating. Previously on Securitize, they lacked the liquidity investors demanded and thus the tokens traded with a illiquidity premium higher than is on tZERO. This is what accounts for the price difference we see on the two sites. As sellers provide more liquidity to Securitize this in turn drains liquidity from tZERO (the tokens have to come from somewhere). We have theorized that the inverse relationship of Securitize's and tZERO's EXOD liquidity will cause an inverse relationship between the price action on the two sites. The two tokens illiquidity premiums will inversely converge and thus ultimately causing it's price to reach an equilibrium price. Our hypothesis has proved to be plausible but with the price drop on both sites that happened in coordination, we have not seen the price rise on tZERO as liquidity is removed from their site. We are unsure just how disproportionate the liquidity is. This coupled with the falling price make us unsure as to exactly where the price will settle. We expect for the near future for tZERO's

price of EXOD to more accurately reflect the price of the asset until Securitize Market's price is extremely similar which it is getting closer to.

More Opportunities:

The EXOD token represents just the beginning of a plethora of opportunities within the security token space to arbitrage tokens on different secondary exchanges. tZERO and Securitize Markets only have one overlapping token, the EXOD token despite being seen as two of the most prominent secondary exchanges in the space. However, we currently have more arbitrage opportunities than just this.

As previously mentioned, secondary exchanges that allow users to handle their own wallet custody appear to be much better for interoperability purposes. For example, tZERO handles their users wallet custody and therefore to transfer shares I must reach out to the tZERO support team. However, on secondary exchanges that do not provide custody, the user can handle the process of transferring their tokens themselves. On these exchanges, users must connect a third-party wallet to the secondary exchange. Once the wallet is integrated on the secondary exchange, buying, selling, depositing, and withdrawing tokens is very intuitive and can be completed by the user themselves without assistance from the exchange. This is only possible when users handle their own wallet custody. For example, arbitraging between INX Limited and Securitize Markets secondary exchanges is not only easier but also potentially more lucrative than arbitraging between tZERO and Securitize. INX and Securitize have both listed the SPiCE VC (\$SPiCE) and Blockchain Capital (\$BCAP) tokens on their respective exchanges. Both tokens provide investors with access into venture capital funds with blockchain focuses and thus trade at different valuations based on their net asset value (NAV). There is discrepancy in the pricing of these tokens as the NAV is a good figure to base price off but doesn't show the potential future profits that assets can generate. This can lead to people

valuing the same tokens at different prices and with the market being in its infancy, these price differentials are often dramatic. This different way of valuing an asset coupled with liquidity constraints make for great arbitrage opportunities. For example, the last sale of SPiCE on INX was for \$3.30 whereas on Securitize Markets it was for \$2.50. This represents a potential +32% arbitrage opportunity. Also at the time of writing, the higher prices seen on INX security tokens as opposed to Securitize Markets is stemming from their obscene lack of liquidity. On INX, the order book for SPiCE VC is nonexistent with not a single bid or ask. In regards to the BCAP token, one holder is currently providing all the liquidity on the site with 14,000 shares of BCAP. The holder currently has them listed for \$14.98, lowering his asking price from \$14.99 after another seller has tried to compete at that price. It is clear INX currently lacks buyers and therefore there has been very little to no volume on their secondary exchange. However, theoretically, as more users utilize the INX platform and face this liquidity constraint on the BCAP token, more sellers will move their tokens to INX to capitalize on this illiquidity premium. We believe we will see a similar phenomenon to what we saw happen with the EXOD token. As the price drops as more sellers provide liquidity on INX, the price will fall to the level that it has been trading for on Securitize Markets. This still leaves at **+37.9%** arbitrage opportunity from the price the seller has listed at on INX to the price of the lowest ask on Securitize Markets. This profit is not guaranteed and more risky than arbitraging the EXOD token due to the extreme lack of buyers. There are little to no sales of BCAP currently on INX which runs a large risk of an investor not being able to liquidate their investment. In the last six weeks, only a total of 283 shares have been exchanged on INX with 281 of these being exchanged in a single day (3/17). Despite the lack of liquidity currently seen on INX, as the industry continues to mature more buyers will enter the space along with other liquidity solutions such as automated market makers and liquidity pools that will ease the selling process and make arbitraging these tokens less risky.

The Arbitrage Team was not able to complete an arbitrage cycle of either of these tokens due to restrictions on US investors. We were, however, able to show the interoperability between Securitize Markets and INX Limited. Due to the regulatory landscape in the United States currently, the Arbitrage Team was unable to complete an arbitrage cycle for either of these tokens. Still we were able to showcase the interoperability of INX and Securitize Markets when utilizing a Metamask wallet. We were able to transfer shares of SPiCE VC from our account on Securitize Markets to our Metamask, which we then connected to INX. If we were not based in the US, we would have been able to complete this cycle and sell the SPiCE VC tokens for a risk-free profit on INX.

Conclusion

By arbitraging tokens in the security token space, investors are not only able to reap a risk-free profit, but also provide assistance in creating efficient markets. By providing liquidity to exchanges that lack it, investors are inviting a more keen price discovery process. We have seen arbitrage opportunities that could reap as much as almost a +100% return in a single cycle. These returns shrink as liquidity is shared between exchanges and eventually an equilibrium price is reached. We have seen how this cycle plays out and are confident that the opportunities presented currently and in the near future will only become easier to execute with time. The interoperability between secondary exchanges has been a huge selling point of security tokens for years and it is exciting to see these processes in action. tZERO, Securitize Markets, and INX Limited are three of the most prominent secondary exchanges right now in the security token industry. These companies working alongside each other to create a coherent market is going to provide price clarity and market efficiency never before seen. We still have a long way to go, the lack of buyers that currently exist in the space is concerning. As more people learn about

blockchain technology and the power it possesses, we expect to see a steady influx of investors into the security token space in the coming years. However right now one must be wary when investing in security tokens due to liquidity constraints. The risk of liquidity constraints is real but can be avoided by carefully investing and ensuring there are buyers before executing trades. However even if a token has buyers, the process is still not as immediate as it can be. In order to arbitrage the EXOD token we have to communicate with the tZERO team which takes time. We also needed to wait an abnormally long time for our SPiCE VC shares to be approved for transfer on Securitize Markets despite being able to do it ourselves. The liquidity constraints coupled with delays make these “risk free” arbitrage opportunities a little risky if one is not calculated and careful with their investments. If an investor is mindful of market conditions before investing, these opportunities present the closest thing to a guaranteed return. Again, in just three weeks we were able to gain **+146%**. If the proof isn't in the pudding with this I don't know where it is. The STM Arbitrage team hopes that this breakdown has helped investors not just see the opportunities for arbitrage in the security token industry but will help investors take their first steps towards realizing these risk free profits.