



The Investor's Guide to Cryptocurrencies

A PUBLICATION BY CROWD FOR ANGELS

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One of the buzzwords of the moment amongst investors and fintech specialists is “cryptocurrency”, a new form of money which has seen recently soaring demand, rising prices and new types created on a weekly basis. But what exactly is a cryptocurrency and how do they work?





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What is cryptocurrency?

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Cryptocurrency is a form of money. Just like any other currency, such as the pound or US dollar, it can be used by holders as a medium of exchange and a store of value. But unlike the coins and notes we have in our pockets it is dealt with on a digital basis. Unlike other currencies, the security of cryptocurrencies is underpinned by mathematical proofs and regulated by complicated and technologically advanced encryption techniques.

The first cryptocurrency ever made was the market leading **Bitcoin**, created by a group of unknown individuals in 2009 under the mysterious name of Satoshi Nakamoto. But since then the market has exploded. As we write, there are 1,278 different cryptocurrencies listed on industry data website [Coinmarketcap.com](https://www.coinmarketcap.com). Other popular forms include **Ethereum (or Ether)**, **Litecoin** and **Dash**. As at 15th November 2017 Coinmarketcap estimates that all cryptocurrencies combined have a total value of \$207.94 billion, with Bitcoin continuing to dominate the market, making up 52.5% of the total.





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How cryptocurrencies
work?

How cryptocurrencies work?

One of the key aspects to the functioning of cryptocurrencies is that transactions undertaken with them work without the need for a central or single administrator. Instead, cryptocurrencies use a decentralised or peer-to-peer system for their settlement, with transactions taking place directly between users, without an intermediary such as a bank. These transactions are verified by network “nodes” and recorded in a public distributed ledger known as a blockchain – a record of all transactions which is updated and readable by anyone. As a result they have much faster settlement times compared to centralised systems.

Most cryptocurrencies are created through a process known as “mining”. This sees “miners” use computers to solve complicated maths problems that once solved will generate new digital “coins”. The coins can be bought and sold on a number of specialist exchanges and then stored in “e-wallets”.

As you would expect of any currency, cryptocurrencies can also be used to buy goods and services, although they are not yet widely accepted amongst merchants. Despite the first real estate transaction to be completed solely using Bitcoin being done in September this year, a recent report by JP Morgan found that just three of the leading 500 internet sellers accept the cryptocurrency as a payment method.





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Why are they useful?



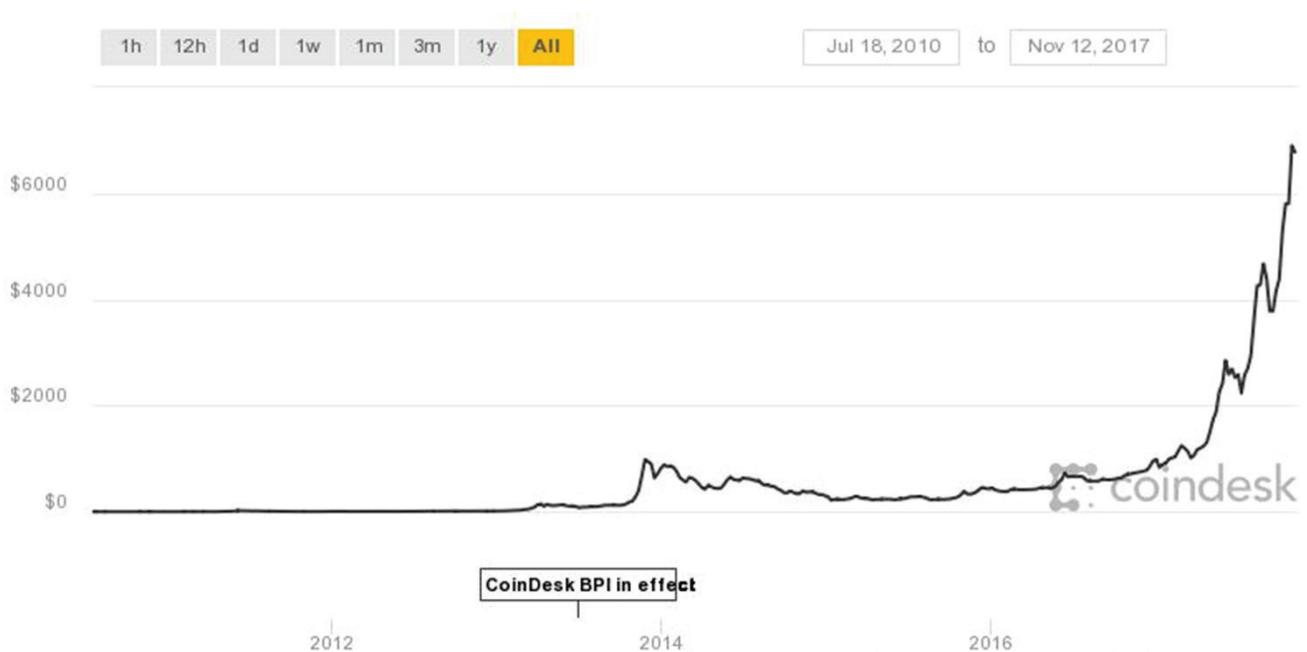
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Investing in cryptocurrencies

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Investors have become increasingly interested in investing in cryptocurrencies over the past few years, attracted by some huge gains in value being delivered. Bitcoin for example could be purchased for as little as 5 cents back in July 2010 but currently trades at around \$6,560. That's a gain in just over seven years of 13,119,800%!

Bitcoin price chart



Source: <https://www.coindesk.com/price>

Ethereum has gone from a low of 44 cents in October 2015 to a current price of \$332.57 for a gain of 75,384%.

Ethereum price chart



Source: <https://www.coindesk.com/ethereum-price/>

Along with the potential for capital gains, some investors are putting their money into cryptocurrencies as they are attracted to their inflation resistant characteristics. This is created by many of them having a controlled and limited supply. Bitcoin for example has a supply limited to 21 million coins. This means that, when all have been issued, the price will only be driven by demand for the asset as no further coins can be created. In contrast, fiat currencies can have their supply increased on a whim by governments and thus their value can be decreased over time.



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Initial Coin Offerings

Initial Coin Offerings

Investment website Investopedia defines an Initial Coin Offering (also known as an ICO) as, “an unregulated means by which funds are raised for a new cryptocurrency venture”. Since the first one was completed in early 2013 by asset platform Mastercoin (now known as Omni) they have become an increasingly popular and alternative way for companies operating in the blockchain and related industries to raise funds for expansion from investors. ICOs typically start off by a company issuing a “whitepaper”, a kind of investment prospectus, to investors in the hope that they will provide funds to back a new venture. In a traditional fundraising a company might issue shares or bonds in return for cash. But, in contrast, an Initial Coin offering (ICO) sees a new cryptocurrency (or tokens) sold to investors in exchange for either cash or other cryptocurrencies.

The underlying investment case of ICOs is that investors are hoping the business plan of the issuing company will be successful and in reaction the value of the associated coins or tokens will rise in value on secondary markets and be able to be sold at a higher price. Usually, anyone can invest in an ICO but backers tend to be investment firms looking for large gains.

Because this form of fundraising is (at the moment) unregulated it has a number of advantages for issuing companies, especially in terms of reduced time and costs. The money/cryptocurrency raised from an ICO doesn't have to be paid back (like with debt) and unlike with an equity raise, owners don't have to dilute their stake in the business. Also, with issuing companies usually being start-ups or at an early stage of their operations the coin issue can help them to build up a database of potential customers.



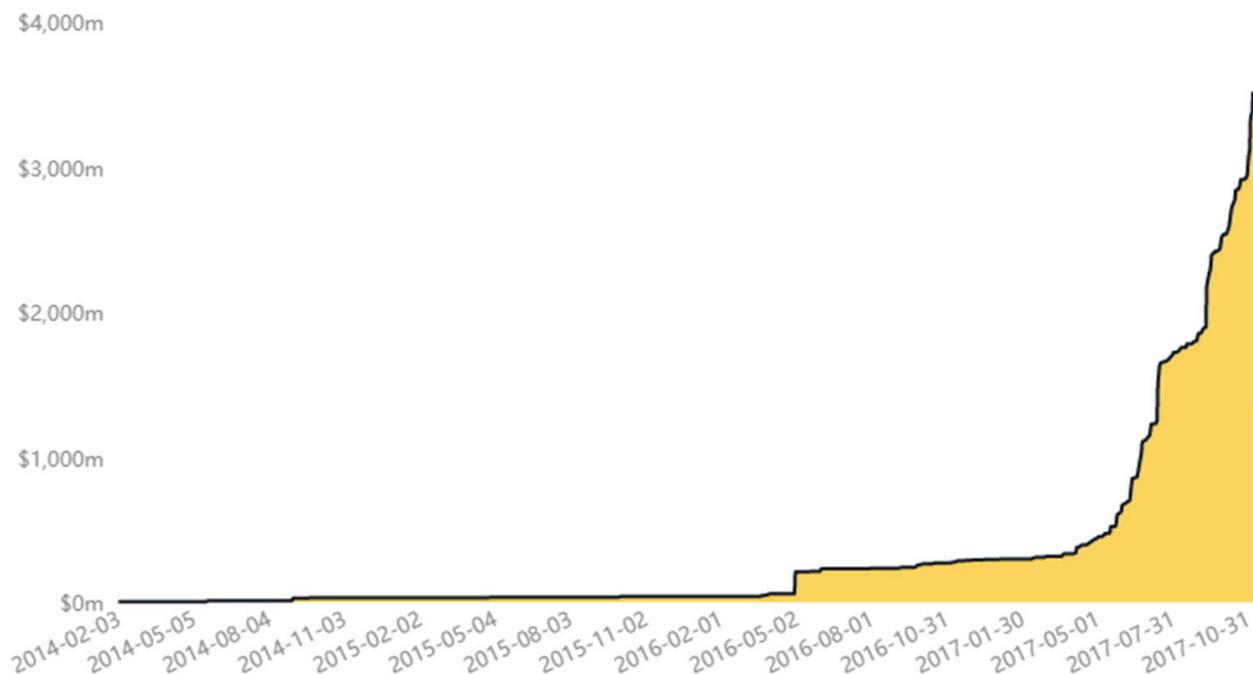
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ICO growth

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Research from digital currency website Coindesk shows that a combined \$3.52 billion has been raised via ICOs since the start of 2014 (as at 11th November 2017). Amounts raised have accelerated significantly in the current year, with c.\$3.22 billion of those funds, or 92%, having been raised in 2017 alone. One of the most successful ICOs to date was undertaken by blockchain platform Ethereum in summer 2014 which raised \$18 million in Bitcoin at the time.

All-Time Cumulative ICO Funding



Source: <https://www.coindesk.com/ico-tracker/>

According to data from Coindesk, ICOs are growing so quickly that the cumulative total raised recently overtook the c.\$1.8 billion raised by blockchain start-ups through traditional venture capital firms. In September the ICO from blockchain data storage network Filecoin raised an estimated \$200 million in just one hour and \$257 million in total. This made it the largest ICO to date, overtaking the \$232 million raised by blockchain business Tezos in mid-July and the \$150 million raised by Bancor, a platform for launching new blockchain tokens, in mid-June.



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What are the investment risks?

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While Bitcoin and many other cryptocurrencies have soared in value over the past few years, those considering making an investment in them should be aware that there are a number of associated risks

Highly volatile

Cryptocurrencies are prone to large swings in value, sometimes in very short periods of time. For example, after China's biggest Bitcoin exchange, BTCChina, stopped accepting deposits in Chinese yuan in December 2013, the currency fell by around 50% in a matter of hours. In contrast, daily raises of over 50% have also been seen.

Loss of capital

Like with other investments such as shares, there is the possibility that investors in cryptocurrencies could lose all their capital should the currency not become successfully established and its value fall to zero.

Unregulated industry

ICOs have recently caught the attention of various regulators around the world including the Financial Conduct Authority in the UK. It highlighted that ICOs can be very high-risk, speculative investments, with most not coming under the regulatory framework. As a result, investors are extremely unlikely to have access to UK regulatory protections like the Financial Services Compensation Scheme or the Financial Ombudsman Service.

Potential for fraud

Some cryptocurrency issuers might not intend to use the funds raised in the way they say they will in their whitepaper. The issue was highlighted at the end of September this year when the US Securities and Exchange Commission (SEC) made its first charge for ICO related fraud. This was against businessman Maksim Zaslavskiy and two companies he owns and manages, REcoin Group Foundation and DRC World, which were accused of defrauding investors via a pair of purported ICOs.



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Cryptocurrency glossary

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Bitcoin- created in 2009, widely considered to be the first cryptocurrency, in which encryption techniques are used to regulate the generation of units of currency and verify the transfer of funds, operating independently of a central bank.

Blockchain- a digital ledger in which transactions made in Bitcoin or another cryptocurrency are recorded chronologically and publicly.

E-wallet- computer software in which digital cash may be stored for use in paying for transactions.

Ethereum- an open software platform based on blockchain technology that enables developers to build and deploy decentralized applications. The value token of the Ethereum blockchain is called Ether.

Mining - the means through which new cryptocurrency units are released.

Token - a type of digital asset issued by companies during an ICO.

Whitepaper - a document issued by a company undertaking an ICO which outlines its business plan.



Crowd for Angels will be launching the first ICO by an FCA authorised company. You can find out more information and register for updates by visiting the link below:

[Crowdforangels.com/ICO](https://crowdforangels.com/ICO)

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Crowd for Angels, a regulated crowdfunding platform that raises funds for companies through the issue of Shares and Bonds

