

What is an **ICO**?

explained by investor **Thomas Brand**



10 steps
to become an expert in
Initial Coin Offering

ALL YOU SHOULD KNOW ABOUT ICO

10 STEP BY STEP GUIDE

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INTRODUCTION

ABOUT CRYPTO CURRENCIES AND ICO

Crypto currency, also spelt ‘cryptocurrency’, is a digital asset made to work as an exchange channel. This channel uses cryptography to control the number of extra units made, safeguard transactions and confirm the movement of these assets. Cryptocurrency is a part of alternative currencies, digital currencies and virtual currencies.

The very first kind of decentralized cryptocurrency was the Bitcoin which emerged around 2009. Different kinds of cryptocurrencies have emerged since then and the market just keeps getting bigger. A lot of people have stood strongly against the idea of cryptocurrencies, claiming that Bitcoin and all the others are a fraud that will crumble soon. It’s been some years of watching and more than \$96 billion of Bitcoins (alone) in circulation, so it’s obvious that cryptocurrency isn’t going anywhere.

We are observing a fast evolution of new world financial system where people can control their finances and businesses without any intrusion from increasingly duplicitous banks and governments. People really need to know about cryptocurrency. It has come, it is staying and it’s about time the public had the information they need about it.

Initial Coin Offering (ICO) is a chief attribute of the world of cryptocurrencies. From the beginning of 2016 until present, well more than 250 teams of Blockchain organizations have started and finished ICOs that raised a combination of more than \$1.5 billion. This procedure is quickly growing as a favored crowd funding avenue.

WHAT EXACTLY IS AN ICO?

Like we mentioned earlier, ICO stands for Initial Coin Offering. This new concept is used by Blockchain and cryptocurrency companies to or crowdfunding projects. ICO is actually a kind of ‘crowd sale’ or an event where an organization makes its cryptocurrency available with the motive of funding. Every company only makes a certain amount of cryptocurrency available during their ICO and trades this to a target audience in exchange for another decentralized currency like fiat money or Bitcoins. This event leaves two winners, the company and the audience. The latter gets tokens of cryptocurrency shares while the former gets the money they need to kick off their project. People in the audience that now own these shares have total and unabridged proprietorship of the shares they own.

There have been a lot of successful ICOs like Mastercoin. Mastercoin was the very first ICO ever launched, and they had a \$5 million success rate from trading their cryptocurrency for Bitcoins in 2013. Ethereum followed in their footsteps in 2014 and raised an impressive \$18 million after which Waves followed suit raising \$16 million in 2016. We can say that any crypto project started with an ICO, will work as an efficient means on the condition that the commodity is demand for and there is a strong team in place working on the project.

THE HYPE OF CURRENCIES TODAY

Now what is all the cryptocurrency hype about? Is it a new means of payment away from corrupt, rigid governments or is it a theoretical Ponzi scheme? The simple truth remains that cryptocurrencies can be one and then the other simultaneously. You really have to know what currency is to understand and appreciate the angle of cryptocurrencies.

Since starting more than 2,500 years ago, currency has enabled both social mobility and democracy alike. Currency has done a lot to change the world over time. Initial modern cooperation's were built more than 400 years ago because of currency. Currency gave birth to the market of debt which provided credit that took of people out of poverty by giving them a chance to invest for the future. These are the most powerful cases for why cryptocurrencies are good:

- It permitted a decentralized internet where value is brought by protocols, applications and infrastructure that serve the needs of the market.
- It permitted electronic trade to ensue between parties who would otherwise have no trust for each other but removing the need for middlemen, taxes and heavy tolls on those transactions.
- It permitted an extra stable currency, more stable than the government of persons living under reckless and autocratic rule.

There is a case for cryptocurrency and there is also a case against it. The against argument are related components:

- Strong governments will not agree to bear the loss of control over money and the cultivation of unlawful activities.
- As more fraud is uncovered and more people are deceived through cryptocurrency, the public will call for control. Participants are already

being very manipulative with the market causing more hacks and dupes.

- When first time cryptocurrency users are duped and defrauded, their trust will dwindle. They make up a big part of the public which means the trust of the public will dwindle as people lose money and become skeptical about the whole idea.

There are many arguments about what cryptocurrency brings and the possible fears for the future. The hype is real and some are already saying it is a bubble. Looking on the brighter side, decentralized currencies like Ethereum and Bitcoin have made great progress and are still making great leaps. Their innovations will birth new eras for the world so there will always be a good example of success for people to observe.

EXAMPLES OF SUCCESSFUL AND RICH PEOPLE

If you have heard any cryptocurrency news or success stories at all, you will know that people are actually getting rich off this thing. I mean, millions and billions of dollars off trading in Bitcoins and successful ICOs for companies. Apart from the regular people who got in early and are swimming in a ton of money now, the lucky ones take a step forward in cryptocurrency and earn plenty of money back in minutes or days.

Celebrities are not being left out of the cryptocurrency hype either. There is real money to be made when you see the rich throwing their weight at something to get richer. Business woman, media personality and hotel heiress, Paris Hilton is one of such celebrities. She has stood solidly behind LydianCoin, which is a platform for a company that want to target AI operated advertising and digital marketing services.

Floyd Mayweather is another celebrity strongly in the limelight of the cryptocurrency world. Mayweather has backed ICO as a means to quick wealth more than once. He did so with the Stox ICO and again with Hubbi.Network.

WHAT IS THIS BOOK ABOUT?

What is this whole gibberish I have been hearing about cryptocurrency and ICO? How does it work? What does it have to do with me? I bet you have had similar questions and probably more whenever you came across this new hype that's going around.

This book will explain what Initial Coin Offerings stand for, detailing a ten-step guide that will teach you how to deal in cryptocurrency. Cryptocurrencies have been around long enough for the world to see they are successful and are here to stay. It is time for regular people like you and I to get equipped with the knowledge of ICO, the key to cryptocurrency, and see how that could work for us. In this book we will:

- Understand ICOs
- Learn where to find them
- Understand the technology related to it
- Understand the risks related to ICO investments
- Decide what kind of investor you will be
- Determine if you can afford an ICO investment
- Learn about additional information sources
- Study financials
- Learn when to sell an ICO, and,
- Decipher if there is a market for the product

This book is a carefully researched and unbiased guide you can depend on to learn all things ICO.

STEP1: UNDERSTANDING ICO

WHAT IS AN ICO?

Initial Coin Offering (ICO) is similar to Initial Public Offering (IPO). They are both procedures for organizations to raise capital. The difference is that ICO gives cryptocurrency, called tokens or coins, to the investor while IPO issues securities. To properly understand ICO, you should have a knowledge of the following terms:

- Tokens: these are the coins a company offers the audience during an ICO event. It is the equal of shares bought in an IPO. Another name for tokens is cryptocurrencies.
- Blockchain: is a digital ledger that cannot be corrupted and has an economic bargain that could be scheduled to record other values added to financial transactions. Information is updated to a digital spreadsheet on a regular basis but none of it is stored in the same location. It is though about as revolutionary, truly public and one that can be simply reconciled.
- Cryptocurrency: this is virtual or digital currency that utilizes cryptography as a safeguard. Transactions are nameless and no central government authority like a central bank uses it. This means that the government cannot interfere with or manipulate it.

Here are some similarities and dissimilarities between ICO and IPO when the key features of both are compared:

- An ICO may give you rights over a particular project but not the company while IPO gives proprietorship in the company depending on how many shares you own
- Decentralized decision-making is utilized in IC while centralized is used for IPO. Investors may have a say in the latter while certain

decision makers call the big shots in the former.

- Details of finances are released over Blockchain or prior agreement with investors on ICO while in IPO, they are released according to exchange regulations.
- ICO can have more than one sale with little or no intermediaries while IPO has many intermediaries to confirm and the sale is once.
- The investor in ICO pays tax on capital gain alone but in IPO, the company has to pay taxes.
- ICO exchanges are not regulated while the exact opposite is the case for IPO and stock exchanges.

Here are some chief attributes of an ICO:

- ICO brings involvement to an economy or a Decentralized Autonomous Organization (DAO)
- Token ICOs will sell royalties or right of ownership to a DAO while a coin ICO will sell involvement into an economy
- Ownership of a token does not mean the investor gets to pitch in or dictate the path of the DOA or project. Overall, an investor can input in the lifespan of the project.
- Before sale, many ICOs determine just how many coins or tokens to create and trade out.
- The creators of the DAO, economy or project usually decide how much the ICO should cost
- There can be more than one fundraising round of ICO offering tokens and coins that increase with value. Earlier investors usually have more advantages submerged in their tokens or coins
- When the tokens and coins can be traded on the open market, the ICO comes to a close.

There are certain advantages when a company raises capital through ICO. These are:

- No taxes! Any DAO or projects is not required to pay any direct taxes unlike IPO companies.
- Only a few intermediaries are used if at all and all token and coin sales are direct even when multiple sales occur. Investors take action according to the company's rules as stated in the white paper.

HOW IS IT FORMED?

The entire procedure for an ICO starts from setting up protocols and a Blockchain after which the announcement of the ICO data is made. The creator has to begin searching for coins to be used during the ICO. Reddit, social media sites and other cryptocurrency websites are searched for these coins. Through these channels, the creator will not only mine for coins, they will create awareness and interest in their product so that demand and prices for the ICO go up. All checks and balances are ticked off the list as the creator smoothens things out for the big ICO.

Just like the stock exchange for an IPO, ICO creators must be part of an exchange. Other cryptocurrencies like Bitcoin and fiat money can only be purchased with new cryptocurrencies. Different websites will have avenues to buy cryptocurrencies through designated exchange channels and this will also be available on the creators' website. There are many exchanges, but Poloniex, Bittrex, Livecoin, Bitlish, Kracken and SpaceBTC often stand out. The location of the investor and details of the project determine the required amount of paperwork.

Generally, there are two chief ways in which ICO organizations make tokens available on Blockchain:

- Cryptocurrency exchanges sell tokens which means they must be available to exchanges in advance, so they can be sold.
- The exact capital stated in the offer is collected and investors receive a part of the tokens according to any made investments.

The company will move forward with its commitment after the sales are finalized. Investors can explore websites and social media pages that promote forthcoming ICOs, open accounts to get tokens after all processes required by the company are completed.

In a nutshell, the ICO processes can be summarized like this:

- Pre-announcement: this is marketing targeted towards cryptocurrency investors. In the early stages of an ICO prospect, the creator targets websites where cryptocurrency investors visit a lot while also preparing whitepaper and showing main details to prospects. After circulation of the whitepaper, the creator knows if the idea will be backed by investors and what to adjust if necessary. An amended and completed version of the whitepaper is created with a business model.
- Offering: this last draft of the white paper is created for the ICO company and details the terms of the project and all investor benefits. The full capital needed, details of the project and timelines will be profiled in this offer. Announcement of the start of the ICO is made after this offer is signed then the creator moves on the last phase before sale.
- Promotion: this is the point that makes or breaks an ICO. Success of the promotional campaign determines if enough money can be raised or not. Professional marketing agencies are utilized since the companies themselves are completely new and unknown. Institutions and smaller individuals are targeted for this promotion for a duration of up to one month. When big investors back projects, smaller investors will most likely follow suit. Trade of tokens commences after the promotion is completed.

STEP 2: WHERE TO LOOK FOR NEW ICO'S

How can you find the necessary information to keep abreast with new ICO and all other information in the ICO world? Since the start, the number of startups that raise capital through ICO is only on the increase. Even more ICOs are expected to raise millions of dollars more as time goes by.

Conventional regulatory bodies are reacting very slowly to this quick change so the task of tracking, examining projects and building resources is left to the Blockchain community. Alerts, trackers and reports are coming together to track and examine emerging ICOs.

RELEVANT AND CREDIBLE RESOURCES

These websites list tokens and coins. They are the top reliable resources or ICO data. They take any ICO project and analyze its team, goals of the project, target audience, security framework and the credibility of the project. The mention of any ICO on any of these websites puts credibility on the ICO in the Blockchain community.

- Smith + Crown: they maintain an organized list of current and forthcoming crowd sales, token sales and ICOs. Some particular ICOs have commentary which the website will summarize for you to see easily.
- CryptoCompare: with CryptoCompare, every market can be simultaneously monitored for crypto trends and discussions. The interactive platform will give you the necessary information you need.
- ICOreport: has to be one of the most visually appealing of all the ICO websites. Listing on ICOreport is free of charge. They list tokens, coins and different ICOs in their database.
- ICO Rating: every company that plans on going into ICO is fully evaluated by this website. The analysis completed by this website looks to be unbiased and rigorous. Every company is viewed as a potential object for investment.
- ICO Countdown: every new crypto project that has its focus on methods of crowdfunding is given a chance to air on this platform. They take the necessary measures to find out the viability of each ICO project.
- Token Market: just like the name implies. This is a market for tokens. Digital assets as well as investments based on Blockchain are all dealt with on this website. Assets that have been tokenized are available for investors to decide on.

- Bitcoin Talk Forum: the forum discusses altcoins and alternate cryptocurrencies are discussed on this platform.
- Reddit's ICO Crypto Forum: this blog is building a due diligence community by default. You will find discussions about coins, tokens and ICOs here.
- CoinFund Slack Channel: various discussions ensue on this platform in relation to coins, tokens, crowd sales and ICO.

STEP 3: UNDERSTANDING THE TECHNOLOGY BEHIND THE TOKEN

The whole landscape of funding organizations from government agencies to venture capital businesses has changed because of ICO. The huge sums of money raised for projects and the unbelievably short amount of time that money was raised is alarming. A lot of people are undoubtedly trying to grasp the ICO concept and figure out how to utilize it to their benefit.

BACKGROUND KNOWLEDGE OF TOKENS

Now you cannot fully understand ICO without comprehending the basics of the digital asset that is sold in an ICO. For those that are not familiar with the basics of cryptocurrency, here is the breakdown:

- Bitcoin: decentralized digital currency which utilizes peer-to-peer technology, meaning no centralized body is tracking transactions or giving out new money. All transactions ensue directly between users and information is accounted for on Blockchain.
- Protocol layer: generally, this is a unique set of rules used by network nodes when transmitting information. Interaction between communicating bodies are specified by these rules.
- Blockchain: is a digital database distributed to the public that stores perpetual accounts of digital transactions. This is a network of multiple databases and also not centralized. Every part of the Blockchain has a record of new transactions, a mention of the previous block, a hard-mathematical quiz and other things.

Essentially, every token is built on top of an already existing Blockchain like Ethereum, Bitcoin or other new Blockchains. The Blockchain stands as a backbone for unchangeable manipulation of assets which are also decentralized and not possible to fake. So, the underlying Blockchain enables the bitcoin, the protocol controls the regulations of the Blockchain and that is how a token is built.

WHAT IS TOKENIZATION?

The concept of tokens is not a recent one. Whether you have exchanged cash for trademarked tokens to pay for items at a particular event or gotten casino chips before, the concept is the same. These tokens reduce the risk of handling cash by replacing physical money. Theft and fraud is reduced through the use of tokens.

Tokenization is a term that stands for replacing a sensitive element like cash with an equivalent that's not sensitive, the token. A token has no value or meaning outside just like you can't use a subway token except you are in a casino.

Tokenization is appealing because it lessens the cost and friction of undergoing some transactions. When operating with conventional transaction methods like credit cards, the speed can be slow, trust is required between the link of intermediaries, interoperability is limited and it all depends on one party. All these frictions are reduced by tokenization. Blockchain tokenization is the best so far. The Blockchain allow tokens to be generated and transferred over the internet between multiple parties without the need of an agreement between parties. Everything is accounted for in a public digital ledger. Every token keeps the records of their transaction on their respective Blockchains because the codebase of a token is different from the database of its Blockchain.

WHERE DO TOKENS COME FROM?

How are tokens generated? Where exactly do they come from?

- New and forked bitcoin code: experiments on the bitcoin code have given birth to varied currencies that claim faster alternatives with different mining algorithms and more privacy than bitcoin. They begin their own Blockchain through incentives from the bitcoin Blockchain. Examples are ZCash and Litecoin.
- New chains and code: an entirely new set of tokens founded on brand new codebases. An example is Ethereum with a codebase built from the ground up, launched with advanced programming and featuring new abilities.
- Forked chains and code: security problems at Ethereum caused a split with some of the prime adopters introducing their own policies. The split gave birth to Ethereum Classic. For value to return to the new token, a great majority have to adopt it through one of the following plans.
 - Pre-mined: part of the tokens is shared out for creators and some connected participants.
 - Crowd sale: every interested party is invited to buy tokens over the web
- Tokens use in an ICO: an organization launches a brand new digital currency by pre-mined tokens or crowd sale and trades these tokens to an audience of investors. Every party involved gets dividends or equity shares like a conventional company, but they have proprietorship over tokens with the expectation the value of the tokens will rise eventually.

UNDERSTANDING THE DIFFERENCE

After a deep dive into ICOs, we have concluded that there are three major types of tokens. The technical differences between them are unclear, so we can't say for sure if they are securities.

- Coins: are digital currencies that use encryption methods to control the generation of currency units and confirm funds transfer. An example is the bitcoin. Coins or cryptocurrencies operate independent of any central authority like the central bank. Fiat currency might become cryptocurrency in the future which means central banks might be involved.
- Utility tokens: these are units of services or services that can be bought. This type of token can be utilized to enter services and can be contrasted to API keys. This is how shared infrastructure projects that couldn't be previously funded receive their funds. Some of these tokens are sold as crowd sales or pre-mined so that such ecosystems can be built in the course of token launch.
- Tokenized securities: business shares are represented by tokens. The SEC announcement says all tokens that don't pass the Howey test will be appraised as a security and be under jurisdiction of the 1934 Security Exchange Act. This is the Howey test:
 - Is it an asset or money investment?
 - Is the asset or money investment in an enterprise?
 - Are profits expected from the investment?
 - Do the efforts of promoters and third parties bring in profits?

THE AIMS WE FOCUS ON WHEN PURCHASING TOKENS

How can you always purchase tokens at an advantage? These are the goals you should focus on when purchasing tokens:

- Value for buyers and market: you should not have any other future agendas for a token when you buy it except that you are supporting a promising project you believe in. you must really understand everything the token offers and not just believe in it because the team said so. You will not be happy if the value of the token you purchased dropped.
- Use for purpose: the skills you need to evaluate a project from this view is similar to that you do when you are about to purchase a new gadget. If you will be buying tokens to use them as a discount, service or for other purposes, you have to make decisions founded on your evaluation of how the potential growth of the tokens will be impacted by the situation of the market.

STEP 4: UNDERSTANDING THE RISKS RELATED TO INVESTING IN ICO

There is big money involved in ICO and investors all around the world want a bite of the delicious cake. Everyday people are also jumping into the ICO market and for good reason. Imagine being a shareholder in a new company that will turn into the next Facebook or Google in a few years. Right now, critics are still saying the ICO idea has potential but it is a bubble. The real questions you should be asking are is ICO a good way to get rich? Should I be investing in this? The answer is yes on occasion but no other times. Buying cryptocurrency in itself is a risk and investing in ICO is also a risk. If you are bold enough to move forward, the wise step to take is to not invest more money than you can bear to lose. You can commit to an ICO if:

- The project is sensible as a business
- Demand for such a project is established
- The business requires the cryptocurrency system to succeed
- You can get out in the money without experiencing privation

Even though it is very unlikely for ICO, if you are a good speculator no matter the underlying value of the assets, you can go ahead and invest.

RISKS INVOLVED

Authorities have commented that ICO is a speculative investment with very high risks. People who are ready to invest in an ICO should, therefore, be ready to lose their complete stake. Here are some of the important risks for an investor when backing an ICO.

- Market manipulation and excessive volatility of prices makes the value of tokens vulnerable because the market is mostly run by speculation on secondary markets. Investors also have very little resources to correctly estimate the value of their tokens.
- ICO's are totally unregulated unlike conventional securities that have requirements for regulation and financial disclosure. The white paper containing the business plan for an ICO are not as detailed like a lot of expert investors are used to. There are warnings that white paper might be misleading, unbalance or even incomplete.
- There are many assurances of strict security but ICOs are still open to a cyber-attack. Earlier in 2017, a cyber-attack on Decentralized Autonomous Organization had investors losing a total of about \$150 million, stolen by a cyber attacker.
- Investors do not actually have voting rights or stakes in the company with tokens. Investors are vulnerable to a fraud attack because they are only there to speculate that the value of the tokens will increase in the future. Fraudsters might set up an ICO and not utilize the funds in the way they said they would in the white paper.
- Address of parties is hidden by the cryptographic technology used to transfer tokens. KYC checks for terrorist funding and anti-laundering are hard to implement because of this. This means that investors could receive a negative blow of the have invested in an ICO that is scrutinized for supposed illegal activities.

- ICO projects are riskier investments because the idea of the project is still in the beginning stages. Generally, the companies who raise funds through ICOs are startup companies without sturdy governance. The risk of mismanagement after funds are received is very high.

POINTS TO CONSIDER

Every investor should ponder on the following points before committing resources into an ICO:

- Is it a securities offering?

If the ICO is a securities offering, the offer along with the tokens or coins should meet grounds for exemption or be registered with the SEC. If investors confirm that the ICO is not registered, it probably doesn't meet the level of retail investors and is only for accredited investors.

- Are the people promoting the investment certified financial experts?

Every individual involved in the offering should be examined for their professional background. If the tokens to be sold in an ICO are securities, the individual offering them must be registered and licensed under the law.

- What are the benefits and rights attached to the ICO purchase?

Every offering will have varied rights and benefits. The terms and conditions of every ICO should be available and investors should faithfully read and understand it. The white paper of the company and its business plans have to be properly understood.

- Can you get your money back and how?

All the information creators give investors about the ICO should plainly show the possibilities and conditions of getting money back. You can ask the company if you will be permitted to resell your tokens from the ICO to another secondary market, if you will be able to send back your token for the cash value and if there are any limitations to resale of tokens.

- What is the business of the company and what is the offering?

A lot of the companies organizing ICOs have not created a platform or a final product because they are startup companies in the early stages. This goes to say that every piece of information provided at the time of the ICO might be unfinished, subject to change and hard to substantiate.

- Are security measures in place to protect against cybersecurity threats and other hacks?

Investors should make sure they ask about the companies' efforts and plans to guard their products and platforms from hacking, the possibility of protocol breakdowns, fraud and malware.

Buying an ICO is not the same as buying stock from a company. Stocks have their regulations and limitations but when you buy them, you literally buy a piece of that organization. We haven't come to the place where cryptocurrency has a legal structure, but we might get there in the future.

A lot of profit can be made from an ICO but because of the present lack of regulation, it is very important for investors to properly understand the volatility and risks involved with backing an ICO. Due diligence should be conducted the same way a conventional investor would and cash should only be committed if the investor is ready to lose it. If investors suspect or have proof of fraudulent ICO, they can file complaints to appropriate government bodies for further investigation. For now, it seems like the risks involved will draw a watchful eye from regulators worldwide. It will be fascinating to see how regulatory bodies struggle for ring-fencing and sensible regulating for this new kind of fundraising.

STEP 5: DECIDE TO BE A SHORT TERM OR LONG-TERM INVESTOR

Out of every 10 people you ask about long term vs short term investment, you will get 10 different replies. Everybody has a different perspective on what long term investment should be and this, in turn, affects the position of short term investment. Some people consider 5 years to be long term while others think it should be a period between 10 to 20 years. Because of how these interpretations vary, we see an emergence of varied investment styles in the ICO world and pretty much the entire investment world.

As a rule of thumb in stock exchange, long term assets are not required for at least 3 to 5 years. This time gives room for the normal cycle to take place without interruption. In a nutshell, if you decide to go for long term investment, you are not a short-term investor, and the same applies the other way around. What defines a long-term investor is the technique utilized in making long term investments. This is the crossroad where you have to decide on passive management or active management. Let's look at the two edges of the spectrum.

PASSIVE MANAGEMENT – LONG TERM STRATEGY

In passive management, the investor will execute a buy and hold strategy. What does this mean? The investor might incorporate a little of the active strategy when it comes to selecting the tokens to buy. When these tokens are in hand, they are locked down for the long run. Although we see a little of active management in acquiring, this strategy is passive in nature. Holding the same position over an extended time has its benefits, and they are very inviting.

In 2012, a company conducted a research into how profitable different lengths of holding period perform. Five different holding periods were researched; 1 year, 3 years, 5 years, 10 years and 20 years. The results showed that the more the holding period was extended the lesser the negative results. A holding period spanning over 20 years never had bad results. Now this is encouraging news and you should be thinking about it already. But can you really wait that long for your investment in an ICO to materialize?

ACTIVE MANAGEMENT – SHORT TERM STRATEGY

There are many active management techniques that short term investors utilize. On this side of the spectrum, investors shuffle tokens around trying to increase their overall returns. It is hard to say if this works or not in the ICO world. It is almost impossible to predict timing, ICO is based almost entirely on speculation, so an investor will have to be a fairy to successfully use this strategy continuously and profit from it. If everybody had a method of figuring out the right time to shuffle which tokens around for massive profit, they will definitely be doing so.

Active management can be combined with some passive management. The active strategies can be time-consuming and definitely very risky, but when you combine this with a bit of passive management, you have a better chance. This, of course, requires you to have many rods in the fire and cultivate them for their different needs. Some of your investments will be long term while others are short term and you will manage them all according to the goals you have for each.

TIMING

A lot of people are against market timing while many are for it. Those that seem to get lucky a lot with market timing are usually the ones advocating for it. This is a very dangerous move to play with an ICO because it is almost unpredictable. Even those investors that claim they have made profits from timing tend to be in and out of the spotlight whereas long term investors hold their ground are remembered for their investment style. Returns are usually concentrated in a short time frame, so the investors that want to follow market timing will be sure to suffer if they miss the right window. Market timing over a long period ends up as a waste of time and resources because the positive results are intense in particular time frames which are always short. Long term investors will have an advantage over short term in this regard because come rain or sunshine they are holding their ground in the market and not losing value by fluctuating.

If the emotions of investors and volatility of the market could be beat down to a bare minimum, long term investments of up to 20 years will be more favorable. Investments without an attempt to time the market will be the higher standard to follow. However, the market has its ups and downs. If you are going to invest in an ICO, you have to be ready to lose everything. That is one sure thing that we know. The path to take to higher probability of success is left to the investor. Being a long-term investor is more applauded than being a short-term investor but the same ideas and concepts don't work for everybody. In the end, you have to follow your gut and decide. You also have to invest according to the aims and objectives you have for the ICO you are buying into.

STEP 6: CAN YOU AFFORD TO INVEST IN AN ICO?

ICOs and IPOs might be similar but the gains people are seeing from ICOs in just a short amount of time, surpass that on the IPO field. This is largely because of the unregulated markets and the huge hype about the technology of cryptocurrencies and ICOs right now. ICOs have much fewer barriers to enter the scene and set up that IPOs do but this doesn't automatically mean they are worth investing in. Some offerings are flat out scams, so you have to be careful about where you make an investment and just how much of an investment you should make. You have to look out for the potential an ICO has before sinking your money into it. These key factors will help you determine how legitimate an ICO is and the potential it has for success.

RULE OF THUMB: Do not, absolutely do not ever invest more than you are prepared to lose.

Partners, founders and developers with pertinent experience in Blockchain/cryptocurrency technology and other markets

Having a good team in place to handle an ICO is the very cornerstone of its success. This is extremely important and should be your starting point. Look into their website to see the company's information and what they actually do. Their website should have a wealth of information from details of the token to be sold at ICO to the start and finish dates for selling and more about the contract. You should also find information about the entire team there. You can go further to check their social media pages and Google search results. All their relevant connections should come up to help your investigation. You need to know how widely connected they are and how relevant their connections are to what they are doing. If you find it hard to get useful, detailed information about a team, it is a sure sign they are not worth doing business with and your investment will be lost in their hands.

KNOWN SUCCESS IN OTHER PROJECTS

If an ICO is going to have a successful future, it is most likely they have had a successful past too. The ICO is probably going to be for a startup so there is no way of actually knowing the past since there is none. What you should be looking out for in this situation is success stories from other fields that aren't necessarily cryptocurrency. The core creators and members of an ICO come from different fields and backgrounds like programming, engineering and marketing. Just like before, their social media pages and Google search results will tell you more about their past, where they are coming from, the achievements they have made and so on. Every professional is going to publish their wins or at least have it published for them by others. If they have been doing well in their respective fields, you are going to see it. This goes to say they will put in the same kind of hard work and experience where the ICO is concerned and it has a good chance of being successful.

SECS HOWEY TEST AND HOW IT RELATES TO AN ICO

Another area of confusion is whether the tokens you are purchasing are securities or not. The SEC ordered that tokens offered by the company DAO were securities and as such, subject to the regulations and limitations of securities. However, this ruling does not apply to every single cryptocurrency. The SEC used the old Howey test to reach this ruling and it was welcomed by one side while the other did not like it. Those against the ruling argue the Howey test should not be used to decide on present day asset classes because it is more than 70 years while, on the other hand, those for it argued the ruling will weed out fraudsters and provide more safety to unknowledgeable customers. This ruling generally implies that any token that gives profit shares or equities is a security while utility tokens are not. The decision is now up to you, if the ICO you want to invest in has higher profits, it is most likely to be regulated by the SEC but if it's not, you are on your own because it might or might not be a legitimate offering.

PROPERLY DOCUMENTED OFFERING THAT CLEARLY MEETS A MARKET
NEED FOR A VALUABLE, UNIQUE NICHE

The product being offered should be needed and wanted by the market. You are going to make sure this is available when making any other investment and it is exactly the same for ICOs. It is not possible for every single ICO to be unique and different. They are going to have similarities with other offerings but it's normal to have competition. What should attract your interest is how well they stand against the competition in terms of possible release dates and features. Solid growth is hard to see without a market for the product. If an ICO's offering is not clear, turn and run the other way. If the descriptions are excessively vague, it means the creators are also not sure of what they are doing. Don't invest with them if it is hard to follow and understand their point.

WHITEPAPER

The ICO whitepaper should give you all the information you need from details of the team and their backgrounds to Howey test results and potential securities status up to an explanation of the markets demands and needs. The whitepaper should be downloadable, you should find it easily on their website. If you can find the whitepaper, if it is unclear, incomplete or badly written, you should consider taking your investment elsewhere because there is already a high chance of failure. There is no benchmark, but generally, a good whitepaper will have most or all of the following depending on their focus:

- Clear table of contents that is easy to navigate
- A good introduction with an explanation for value proposition
- Clear diagrams for easy information assimilation
- Statistics showing current and potential revenue as well as position of competitor(s)
- Clear explanation of the platform and how tokens will work
- A clear roadmap of long-term plans and release schedule
- Token distribution or explanation for use of funds
- Team pages with qualifications of core team members
- Other team members and their experience
- Every part of the whitepaper should be easy to reach, visible and clear.

CONCLUSION: THE RISKS ARE REAL

No matter how well you follow all the important factors, how good the team is and how great the whitepaper looks, keep in mind you are about to get in business with a new and largely unproven business. There are noteworthy risks involved. The possibility of encountering rip-offs and frauds is very real. Many new investors fall for cool looking graphs without actually investigating properly and could fall victim of a pump and dump scheme. Only trading experience and research will make you better at spotting the fakes.

The possibility of complete loss is very real when you are dealing with an ICO. On the other hand, there is a great potential for reward. To repeat the important rule of thumb: do not ever invest more than you are prepared to lose.

STEP 7: WHERE TO RESEARCH EXTRA INFORMATION

After you decide you are going to invest in an ICO, you can't just go out and sink your money in the first one you see. You have to go through the necessary research to lessen your chances of losing. The ICO world is growing quite fast, and with no regulatory bodies in place, it's hard to know what is what, who's who and where to find what you want to know. Where are you going to get the information necessary to research an ICO? There are many credible sources available to you.

ICO RESOURCES

There are so many websites and companies claiming they have current ICO knowledge. We have divided the best of the best into different categories, and we will explain a little later how you can use these resources for your research.

SCIENTIFIC PAPERS

- Google and Google scholar: if you want to read scientific research that has been conducted on cryptocurrencies and different related topics, all you have to really do is Google it. Google scholar is the resource hub for articles and scientific papers. You will find many research papers since a lot has been written about cryptocurrency and how it is taking over the market. You want to look at scientific papers because it is real research while any other information might be the opinion of one person.

RESEARCH

- ICO rating: on this website, you will find in-depth analysis of different organizations planning for an ICO. They carry out objective and very thorough research and analysis that will point you in the right direction of who is doing what in the ICO world.
- Smith + Crown: you can also search this website well researched information on upcoming ICO companies. They list unique ICOs and evaluate them according to different criteria. Every evaluated ICO has commentary and a summary that can help you. They do not endorse ICOs, they merely research and provide a very educated opinion based on facts.
- Coin Market Cap: you can view different market caps of different ICOs and compare them.

CALENDARS

- Crypro Compare: updated discussions on crypt trends and real-time market monitoring is the business of this website. You will find relevant, updated information about different ICOs, especially those that are most talked about and doing well.
- Token Market: as the name implies it is a market. This market deals in digital assets, tokens and Blockchain investments. The information is updated so that users can see what is happening, launch crowd sales or invest in tokenized assets.
- Ultimate ICO Calendar by GitHub: they have a list of ICO including their schedules and timelines. They review code, build software and manage projects.
- Coin Schedule: has a list of ICO projects that, according to them, are worth reporting on. His partial list is quite good for following and getting updated information for potential investment.

COMMUNITIES

- Reddit: the cryptocurrency community on Reddit is structuring a community for due diligence. You can find discussions about upcoming crowd sales and ICOs.
- CoinFund Slack Channel: you will find different discussion of the topic of token sales here.
- Bitcoin Talk Forum: his is a forum that discusses varied altcoins and cryptocurrencies.

HOW TO RESEARCH AN ICO

This is how you can successfully research and analyze an ICO using the above-mentioned resources.

- Figure out the market cap: how much will the market cap be if the ICO is successful and all tokens are sold? You can check this on Coin Market Cap. If you are happy with the returns the investment can give you (i.e. 3 to 5 times more), you can go ahead with that ICO.
- Read the whitepaper: read through the whitepaper thoroughly and determine if the company really has a purpose or if they are just going with the ICO hype. Search the company's website for the whitepaper.
- Research the team: check if the ICO team is legitimate and made up of real people with real qualifications and achievements. Search the company's website, Google and social media pages.
- Research the advisers: check to make sure the advisers are not the same on other ICOs. This means lesser value and just another good-looking face to the team.
- Decide the hype level: check search engines like Google and social media pages like Twitter, Facebook and LinkedIn to see just how much hype the ICO has and how much it is mentioned. You should also search communities like Reddit and Bitcoin Talk.
- Check their code and product: you don't have to be a programmer for this step, just check GitHub for the ICOs account and you can see the code for their products. This is regularly updated according to new developments. If they are an already existing business, research their past product codes too.
- Research identical altcoins: you can use CryptoCompare and Coin Market Cap to compare them with other markets and see the potential a

company holds.

When you research ICOs properly, you have a better chance because you can discover the right fit that has a potential return rate of 3x up to 100x. Happy researching!

STEP 8: FINANCIALS – KEY RATIOS

The financials of every ICO will show tactics and strategies the company should employ to bring their product or products to the market. Since ICOs are used by startup companies and companies venturing out to a new product, the key ratios we will be discussing here will be that of the typical startup company. These are the metrics to consider when looking through the business plan of an ICO.

Revenue growth

This is an indication of how fast the company will grow if they follow their way of transacting business. It will show if the market has steady or lumpy revenue growth. It will also show if one or multiple products should be sold. Essentially, this is a show of the business' potential.

Net income

This is the bottom line showing revenue after incurred costs are subtracted. It will show the least amount the ICO needs to start making money. Net income, cash and revenue can be used to calculate the capital needs of the company and any possible finance risks.

Gross margin

Is the calculation of how much it will cost to create the product? The revenue is subtracted from cost of goods sold. For example, an attractive software business will have an 80% and above gross margin while a grocery shop is okay at 30%. Net margin will never surpass gross margin so this is the glass ceiling of profitability.

Contribution margin

Calculates profit per unit without taking fixed costs into consideration. Variable cost for the sale of one unit is subtracted from total revenue from

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selling that unit. The higher the contribution margin, the more successful the company will be on a unit base. This means more marketing dollars can be spent on increasing growth. Contribution margin must be put in context to the product being sold. It can range from 5 to 25%.

Sales efficiency

Is an indicator of how violently a company can market and sell its products? If payback period is lengthy, possibility of the customer churning is higher and investment to get the customer is lost. Same goes the other way around.

Churn

This is the expression of each customer's revenue potential. Revenue growth will become more difficult if churn is considerably high. The company may have to encourage demand by reducing contribution margin, utilizing paid acquisition and contacting profitability.

Salaries

Looking at a general representation of salaries in functional areas will indicate how the ICO will pay their employees in relation to the current rates of the market. Excess salaries will lower runway of the company while lower salaries might indicate questionable future retention.

Sales quotas

Is a sign of how effortlessly the products are sold and how good the running of sales team is? Depending on the product, enterprise sales quotas can run from \$1,000,000 to \$2,000,000 while inside sales quotas can run from \$150,000 to \$600,000 annually. Higher predictability with miniature deal sizes is not bad for an ICO.

Non-personal marketing spends

This is the most important out of all the expenses that can be controlled. Generally, this compromise of event spending and ad spending. Rent and salaries cannot be turned off and on but this can. This shows how well the ICO understands marketing process. The best ratio for this will be according to the payback period.

Revenue per employee

This is an estimate of how productive a business is utilizing technology to convey their products to respective markets. Some products essentially require more people for sales.

STEP 9: WHEN SHOULD YOU SELL AN ICO

By now we know that anyone can invest in an ICO because it is simple and open to all. Regular people who are convinced the company will eventually be profitable can buy tokens during an ICO. The question now is this; when is an investor supposed to sell the tokens he acquired from an ICO? A person will get involved with an ICO either for short term or long-term investments. This is how to sell tokens from an ICO whether you are a short term or long-term investor.

SHORT TERM INVESTORS SELLING TOKENS EARLY

If you bought tokens from an ICO but you believe its value will only reduce and not increase with time, you will sell the tokens early. It is now a common trend for present day ICOs to experience a sudden little increase in value when people go on an exchange to trade it. Short term investors will go short and sell their ICO tokens immediately they are able to trade on an exchange. The price hike from this initial trading is quite small so it will be most profitable if the investor sinks a lot of money into buying more tokens in the first place.

With this strategy, you can make a little profit and also have the peace of mind that your money is secured. Using this strategy requires the investor to closely monitor the market to see when the ICO token will become tradable on the exchange. Once that is possible, immediate sales should be made to receive the little profit. A lot of people use this selling strategy because they believe ICO tokens will not work in the future.

LONG TERM INVESTORS SELLING TOKENS LATER

When investors purchase tokens from an ICO with the intention to sell later on, it is called going long. Such investors hold back their tokens with the theory that its value will increase during the certain period they want to hold back. ICOs that have bright ideas with a great chance of future success will be the target of investors that want to go long. Many tokens end up with zero face value so, much care has to be taken to select the one that will hold long term value. There is much more involvement, reading and research for the investors that are planning to go long.

Investors will have to judiciously read a lot of white papers for different ICOs to decide the one to invest in for the long term selling strategy. Then there is the waiting, the hardest part of the entire process. This waiting makes some people sell at whatever price they see, so they do not make a total loss in the end. Whenever the price for such a token drops, investors are moved to sell immediately at the lower prices to stop the bleeding. If you come across a great ICO with a lot of potential, the value could keep increasing as speculation about the product increases interest over time. With this strategy, it is possible to sell tokens when they have increased value by 10% to 15% and even more.

ICO companies usually make sure they have an exit strategy in place. This is useful in the event the company has to pull out of the contract. If such an event actually happens, the company will use the exit strategy to exit the ICO or the entire contract without getting the investors or the company burned. This is why there is an ICO contract over the general business plan which is supposed to swing into action after the ICO.

EXIT STRATEGY

ICOs have had to pull out of the contract before for different reasons. It is naïve to expect that things will always go as planned because they usually don't. One company received an SEC call and had to pull out from their ICO. They were able to return their investors currencies and this went well because they had an exit strategy. The cryptocurrency is ever-changing. That is enough reason to an exit strategy. If you need to change location, face the SEC or any other such scenarios, assigning, transferring or exiting the contract or ICO will be possible.

For reputation and marketing purposes, a company should not make their exit strategy one sided where they are allowed to leave without returning investments to the rightful owners. For safety purposes, make sure the ICO you want to invest in covers this before you move forward with them.

STEP 10: IS THERE A MARKET FOR THE PRODUCT

With so many ICOs coming up and the different problems associated with them, how can you know the one with the highest potential? After the ICO, value of the tokens will depend on the size of the market for the company's product and how much demand there will be on it. This is a guide to identifying the companies with high potential to do well in the future.

Usefulness of the company

This is the step where you verify the intentions and directive of the company and why they are having an ICO. A money grab or scam plot will be easy to spot from miles away when you ask a few questions about them from the beginning. Such questions include but are not limited to are they trying to solve a real problem, must they raise money through Blockchain or can they do it through other investor methods, is the team a company yet, are they prepared to operate as a company and how is the ICO money being spent?

Business model and revenue

You should verify how the company plans to generate revenue. Also, check if you can easily understand parts of the business model like revenue sharing, marketplace and advertising

The team

A lot of start-ups and ICOs fail so it is important to look at the team and see just how qualified they are, how their experience can help with success and what their past success stories are.

Development progress of the company's product

In this step, you will check how far along the product they plan to sell has come. Has the building process begun, hat is the most recent update, is there a demo or a prototype, does it require partnerships with bigger companies,

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What is the future path looking like and what milestones have they passed. The product has to be successful and not behind on the release schedule.

Generation process of the tokens

How is the company going to handle the main ICO event? There have been a lot of stories of ICOs getting hacked. Executors and creators might not have enough experience in the field, so auditing and security is required to cover the interests of the thousands of investors expected to come in for the ICO.

How the tokens will be used

It is important to know when the token will be in demand and what it would be used for. Can tokens be traded for real currency in the world? Can they be used for other online transactions? Just how flexible will they be? The token has to have a meaning for existing and the different methods of application it has could increase its value subsequently. If the token is pointless, then no one will want it later.

Community

The crowd behind the cryptocurrency is also very important. Are there a lot of people interested in it or is that just you, the company and a handful of other people? There are different cryptocurrency platforms you can check or chatter. Bitcoin Talk, Reddit and Slack are good places to search. With a large community on it, any tokens might be out there which means good trade value for when you want to sell in the future.

When you know all the above about the company and are comfortable with it, you can feel more confident buying tokens in their ICO because there is higher value for the product and a good chance of success.

CONCLUSION

A lot of startups are utilizing ICOs as a crowdfunding and it has shown a lot of promise and successes so far. ICOs have come and it doesn't look like they are going away anytime soon. Innovative start-ups have not had this kind of opportunity before now. It is actually quite easy to invest in an ICO. There is no extensive experience required so anyone can get on board. Beware of all the risks and insecurities that come with ICOs before you go in. this will also help you to make the best choices to invest in. ICOS might very well be the future of cryptocurrency and business in general but make sure you only invest what you are ready to lose.

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