How to Kill a Cryptocurrency

Or: How price manipulation kills liquidity. A market manipulation case study

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But first: What to do when a prospect requests a strategy you are not willing to get behind?

Sometimes you'll have to go your separate ways, but first point them to this article.

At **Efficient Frontier** we're strict AND serious about self regulation and playing fair and believe avoiding market manipulation is a sign of professionalism. We wrote much more about this in August 2019.

A few months ago we came across a project that will remain unnamed and unidentified. Members of the project were seeking a strategy we could not adhere to. In the following months we followed the token's progress: its prices, volume and volatility and below we can offer the information as a clear cautionary tale.

A token goes to market

A company raised millions of dollars of funding via an ICO. A few months later, after the token was available on exchanges, they decided to obtain a price run-up.

At first the token's price slipped lower and reach a new All-Time Low against BTC and USD (though mostly traded in BTC), then suddenly, in two days the price spiked up 100% and a sharp crash followed it. This cycle of runs-ups and crashes repeated itself several times. Each cycle lasted a bit longer, until the price reached a level of 4 to 5 times higher than its previous All-Time Low.

As this progressed, the token's **volume** kept rising on one specific exchange. On this platform, though the numbers themselves seemed fake, the reported trading volume peaked at **6 times** higher than the last volume low. The trading volume was very unstable around the price peak, one day falling sharply to one third and then a few days later rising again to a higher than ever volume level. The day the price was at its peak the project's **social media** feed was extra active and decorated with juicy posts including 🚀emojis and breaking news of future growth potential information and new markets opening up.

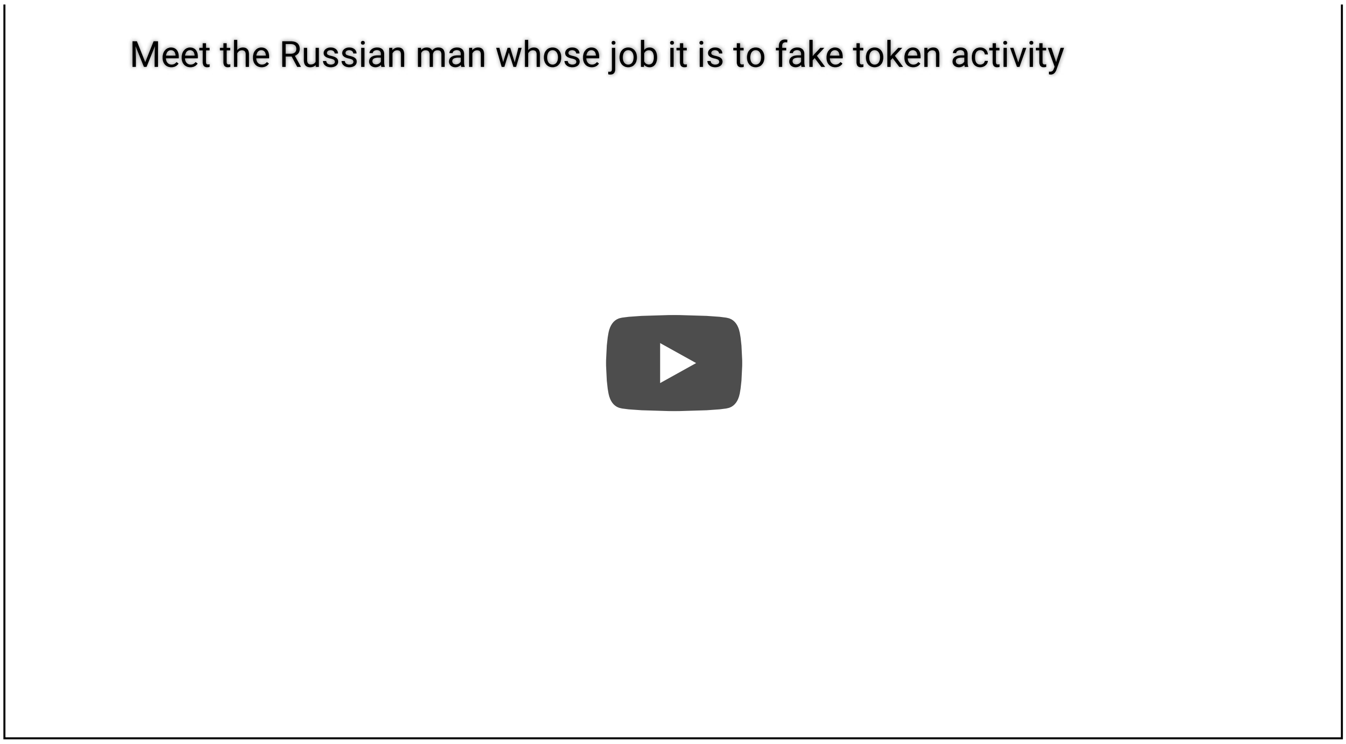
Aftermath

This moment was the young token's All-Time High price, and also its highest volume since it started trading. But for the next few months the token showed high price instability, mostly downwards. The worst day of volatility included a 50% price decline over 24 hours, and then an aggressive 25% recovery. The market kept following cycles of price rise and sharper declined until the price momentary broke the original **All-Time Low** in BTC.

The liquidity dried up — the **volume** was now distinctly lower than ever.

We followed to see if this historical low would hold or not. Was there organic support for this price level? Should speculators have been buying there? Or bracing for a nasty decline? The answer was the latter: After two months of bouncing around the All-Time Low against BTC, the price broke downwards and didn't look back. For the latest couple of months, every week the price declines, and the volumes are almost nothing.

Heavy price manipulation is addictive, leaving your asset less liquid than before.



Beyond The Looking Glass

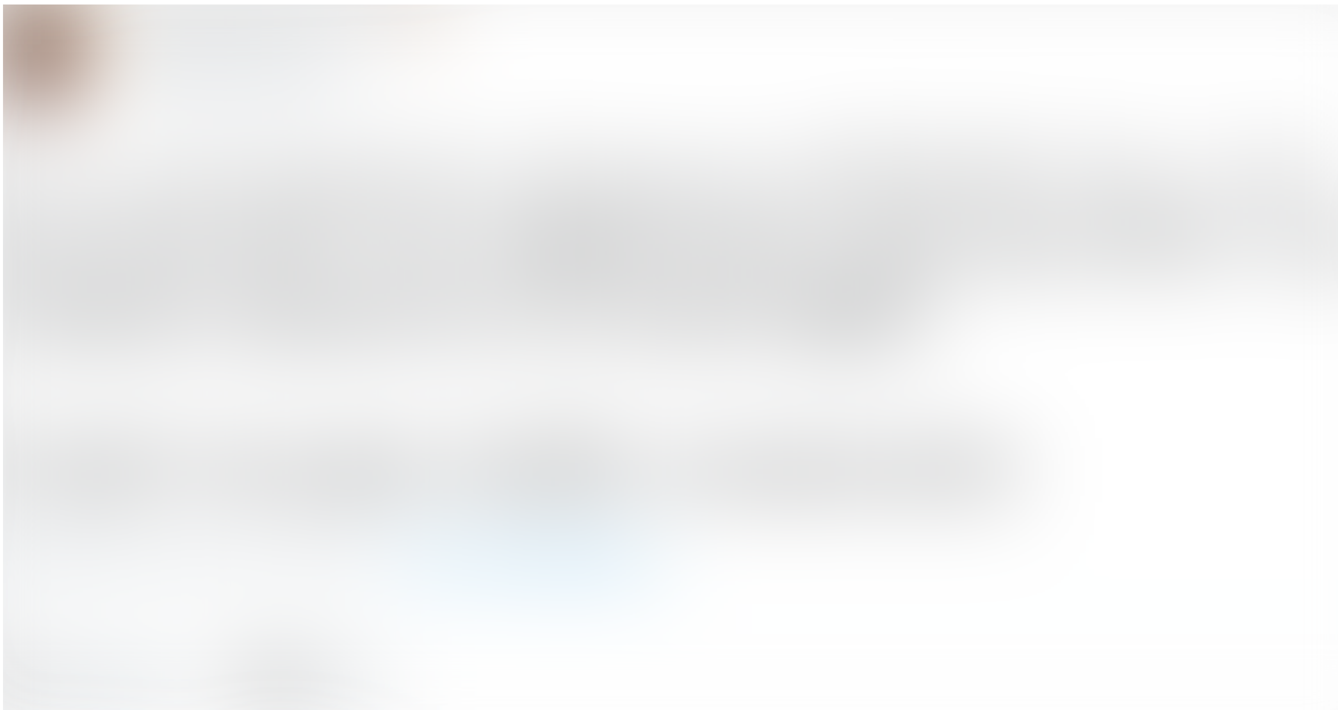
More thoughts

Many financial instruments get manipulated, but it is very hard to prove if effort goes into hiding it. In cryptocurrency due to the limited (but growing) regulation, manipulation is just easier to detect and 2017 was a huge run-up for someone as well. That said, if you found out that a stock is being manipulated by its own CEO, wouldn't you be right to worry?

We all need to answer to a higher power or a higher law than just state laws. In this case, manipulating financial instruments is also illegal. At the end of the day, you need to make up your own mind and make decisions based on your own mission and depending on your time preference.

Dovey Wan is right

Price manipulation can have a bad effect on the survival of a new market during a difficult stretch. Fast manipulation cycles make it harder for an asset to **find its value** and to rise sustainably later. The higher the price is pushed, the lower it has to fall and the more long-lasting damage it does. Heavy price manipulation is **addictive**, leaving your asset less liquid than it was to begin with — it squeezes the life out of it. Manipulation creates large losses for retail investors, scaring away individual traders and serving as a warning sign for many professional investors.



As Dovey Wan explained— low liquidity can be a detrimental issue. Running-up prices hurts the development of a market by damaging organic liquidity, creating the opposite effect than what's needed. If you're still interested in that type of strategy you can seek it in elsewhere. If you want to build a real market you're welcome to talk to us.

This information was published through the courtesy of ***Efficient Frontier***

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