

# Risk assessment of investing in cryptocurrency markets.

## The second part

The first part: [https://github.com/alcib/cryptocurrency/blob/master/articles/article\\_01\\_1.pdf](https://github.com/alcib/cryptocurrency/blob/master/articles/article_01_1.pdf)  
The price and quantity indexes from the site Coinmarketcap.com were used to this article by Dec 2017 12:00 PM UTC.

### PoS (Proof-of-Stake), Pol (Proof-of-importance) etc

The second scheme of coin's creation is PoS (Proof-of-Stake), Pol (Proof-of-importance) etc. Newly created coins are distributed among the members of the cryptocurrency network in proportion to the share owned by member, in using such schemes. But investors need to freeze their coins to receive the reward (newly created cryptocurrencies). Of course, more and more investors will freeze their coins. And as a result, less and less coins will remain for financial transactions. It makes lack of the cryptocurrency in circulation. And value of the cryptocurrency will grow rapidly.

Then this financial pyramid will reach its top, and value of the cryptocurrency will fall down. The investors will begin unfreeze their coins to get rid of depreciated funds. It makes oversupply of the cryptocurrency in circulation. In this case value of the cryptocurrency will fall dramatically. So I don't recommend use such cryptocurrency (with PoS, Pol etc methods of coins creation) for long time investment.

Now we will analyse the cryptocurrencies with capitalization above \$0.5 billion, in which PoS, Pol etc coins creation schemes are used:

#### 1) DASH (Dash)

<https://bitcointalk.org/index.php?topic=421615.0>

<https://github.com/dashpay/dash>

Capitalization: \$8.444 billion

#### 2) BitConnect (BCC)

<https://bitcointalk.org/index.php?topic=1681719.0>

<https://github.com/bitconnectcoin/bitconnectcoin>

Capitalization: \$2.184 billion

#### 3) Decred (DCR)

<https://bitcointalk.org/index.php?topic=1290358.0>

<https://github.com/decred/dcrd>

Capitalization: \$0.564 billion

#### 4) Siacoin (SC)

<https://bitcointalk.org/index.php?topic=1060294.0>

<https://github.com/NebulousLabs/Sia>

Capitalization: \$0.522 billion

## ICO (Initial coin offering)

The third scheme of coin's creation is ICO. It is a sale of a number of newly created coins to investors. There are three important points dealing with ICO:

1) An initial coin offering is a crowdfunding. It is a funding of startup companies. Investors buy some quantity of tokens. These tokens become real cryptocurrencies when the project launches.

2) But token buyers haven't the same rights as shareholders (the stock owners).

3) As all cryptocurrencies are anonymous open-source software projects, so the copyrights for software can not be protected. So if the ICO's funding goal is met (your startup is successful), the software will be copied by another founders for other projects soon. And you can lose your profit.

In my opinion, investments in tokens during the ICO's funding are:

- voluntary donations for scientific research in the field of cryptocurrencies' technologies;
- or short time speculation in the cryptocurrencies markets. In this case we count on rapid increase of the cryptocurrency value.

In the future legislation on cryptocurrencies' technologies would be drafted. And we will have:

- cryptocurrencies creation by State. In this case the State will guarantee the pegging a cryptocurrency to one currency like the dollar.
- crypto securities of the companies and funds. They will be directly distributed among investors (without any financial institutions).

Cryptocurrency Tether (USDT) can be the basis for a cryptocurrency with State guarantees. Its current capitalization is \$1.127 billion. The value of one USDT cryptocurrency is \$1. But without legal framework investments in the Tether have not been successful:

<https://bitcointalk.org/index.php?topic=1881199.0>

Now I would like to bring to your attention cryptocurrency **Ethereum (ETH)**.

<https://bitcointalk.org/index.php?topic=428589.0>

<https://github.com/ethereum/cpp-ethereum>

Capitalization: \$ 69.548 billion

To this day, 96.4 million Ethereum tokens were created. So the value of one ETH cryptocurrency is \$690. In 2014 year 60,102,216 ETH were sold during the ICO's funding at a price \$0.31. The founders' reward amounted to ETH 12 million.

Therefore, 62.3% of current quantity of the Ethereum coins were sold during the ICO's funding. 12.4% of the current quantity of the Ethereum coins is founders' reward.

In 2016 year Ethereum was hardforked into two separate blockchains: the new hardforked version became Ethereum (ETH), and the original continued as Ethereum Classic (ETC). Current capitalization of Ethereum Classic is \$3.449 billion. The coins that are in wallets at the time of the hardfork, end up in the wallets of both cryptocurrencies (are doubled).

So money (\$18,439,086), which were invested in Ethereum tokens during the ICO's funding in 2014 year, have increased **2581 times**:

$$(\$ 69.548 \text{ billion} + \$3,449 \text{ billion}) / 92\,360\,000 \text{ ETH} * 60\,102\,216 \text{ ETH} / \$0.0184 \text{ billion} = 2581 \text{ times.}$$

How could this happen?

### **Ethereum Virtual Machine (EVM)**

Ethereum is not just a cryptocurrency. It is a platform for making ICO of new crypto tokens. This platform is known as the Ethereum Virtual Machine (EVM).

There is no need to create new cryptocurrency for making new ICO. There's only enough to carry out an extensive advertising campaign and to involve solid developers.

The Ethereum tokens capitalization is \$25.377 billion according to Coinmarketcap.com. Buying and selling of such tokens are made for ETH coins. So the more tokens on a platform Ethereum are created, the quicker the Ethereum coins value will increase. Ethereum isn't the only platform for making ICO of new crypto tokens. But the Ethereum's founders were the first who figured out how to make their financial pyramid of the scores of smaller financial pyramids.

The Ethereum tokens with capitalization above \$0.5 billion are shown in table 1.

*Table 1 (Billion Dollars)*

| <b>Cryptocurrency</b>   | <b>Market Capitalizations</b> |
|---|-------------------------------|
| EOS (EOS)   | 4.619                         |
| TRON (TRX)  | 2.433                         |
| Populous (PPT)  | 1.992                         |
| OmiseGO (OMG)   | 1.465                         |
| Binance Coin (BNB)  | 0.642                         |
| Status (SNT)  | 0.594                         |
| Veritaseum (VERI)   | 0.579                         |
| SALT (SALT)   | 0.525                         |
| other 339 Ethereum tokens, with Market Capitalization less than \$0.5 billion | 12.529                        |

So the Ethereum, Ethereum Classic and Ethereum Tokens total capitalization is \$98.375 billion. I hope Ethereum stays not only just a financial pyramid, but its software will form the basis for the first Stock exchange based on Blockchain technology.

Other cryptocurrencies, where coins creation is ICO, with capitalization above \$0.5 billion are shown in table 2.

*Table 2 (Billion Dollars)*

| <b>Cryptocurrency</b> | <b>Market Capitalizations</b> |
|-----------------------|-------------------------------|
| Ripple (XRP)          | 28.691                        |
| Cardano (ADA)         | 13.199                        |
| IOTA (IOTA)           | 9.903                         |
| NEM (XEM)             | 6.190                         |
| Stellar (XLM)         | 4.697                         |
| NEO (NEO)             | 3.709                         |
| Qtum (QTUM)           | 2.172                         |
| Lisk (LSK)            | 1.391                         |
| Waves (WAVES)         | 1.341                         |
| Tether (USDT)         | 1.127                         |

| Cryptocurrency  | Market Capitalizations |
|---|------------------------|
| Stratis (STRAT)   | 1.081                  |
| BitShares (BTS)   | 1.060                  |
| Ardor (ARDR)  | 0.958                  |
| Nxt (NXT)   | 0.809                  |
| Ark (ARK)   | 0.580                  |
| Steem (STEEM)   | 0.559                  |
| Other 90 ICO tokens, with Market Capitalization less than \$0.5 billion | 1.717                  |

Earlier we reviewed four scam schemes in the cryptocurrencies market. Total capitalization of all above-named cryptocurrencies (with 339 Ethereum tokens and 90 others tokens with market capitalization less than \$0.5 billion) is about \$191.2 billion according to Coinmarketcap.com. It's a third of the current cryptocurrency market capitalization.

Now I will describe the last scam scheme. There is no these **\$191.2 billion**. As all cryptocurrencies are anonymous, so founders can sell their tokens to themselves. They can put only a small part of their tokens on the market to increase demand and tokens value.

So we see: all scam schemes in the cryptocurrencies market are in using the unfair methods of coin's creation. The only fair method of coins creation is **PoW (Proof-of-work)**.

The fair schemes of the cryptocurrencies market will be analysed in the third part of the article. I'll try make it as soon as possible. :)

If this article was useful for you, or you are interested in a continuation of my research in that field, please, just do donations:

BTC: 14SZxryp7FVevqVRwHfNFdt8CbyUwKFAw

XMR:

46v4d1QvQhE9zEt2dMDV5qFqdrZgX5YjqGrPAAdta59Z86WnNwKyb4GgL1UfGRuvdTKSy  
qgJUMdP4mBzggLjvHjnNScMmT2Q

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