MAR 12, 2018 @ 12:15 AM 13,691

Explaining Stable Coins, The Holy Grail Of Cryptocurrency

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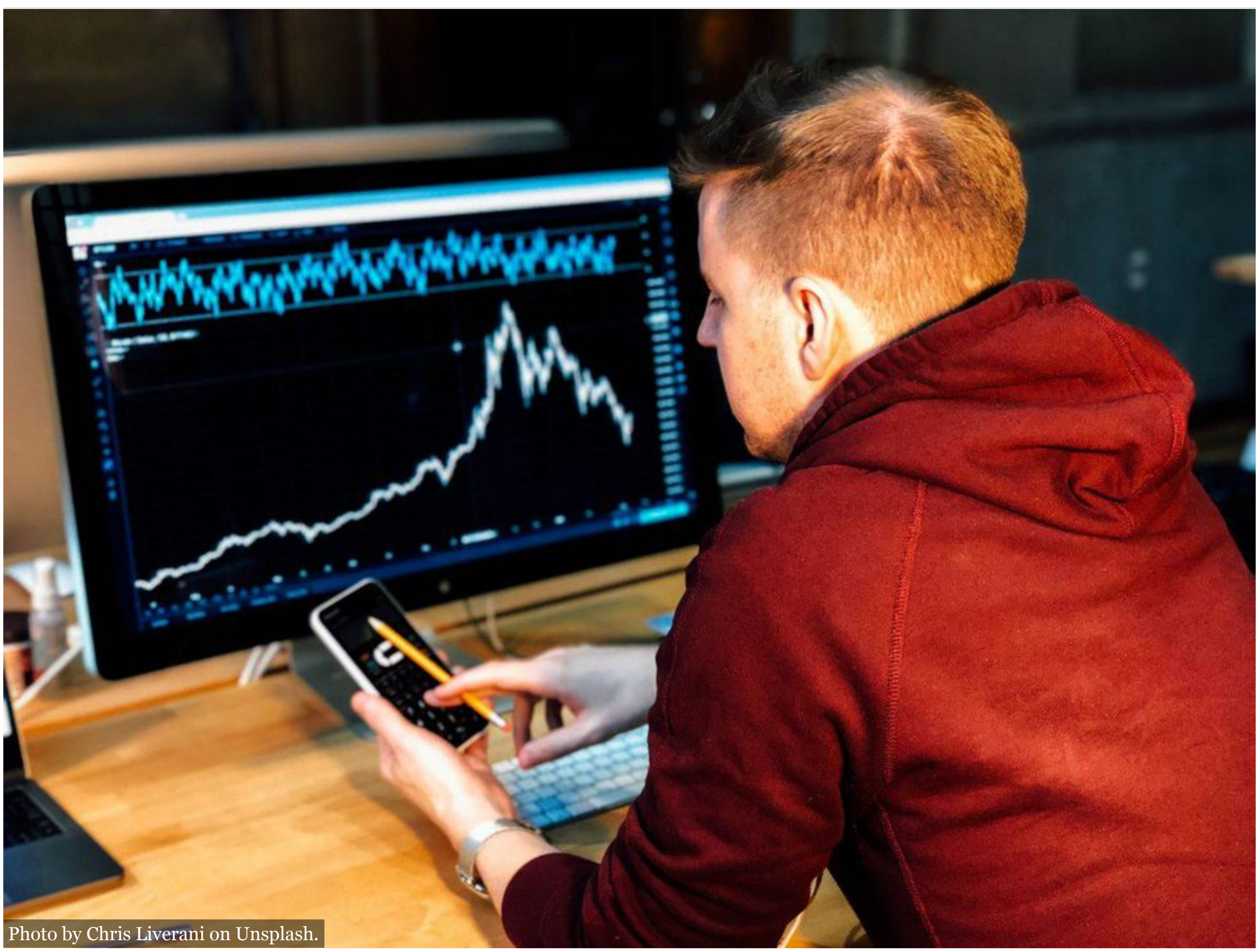
- An optimal cryptocurrency should have the following four traits: price stability, scalability, privacy, and decentralization.
- These ambitious projects working on stable coins will bring us into a world where cryptocurrencies will be used to buy your coffee, lunch or tequila shot.



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Imagine a consumer watching the price of Bitcoin before making a purchase.

A "stable coin" is a cryptocurrency that is pegged to another stable asset, like gold or the U.S. dollar. It's a currency that is global, but is not tied to a central bank and has low volatility. This allows for practical usage of using cryptocurrency like paying for things every single day.

Coins like Bitcoin and Ethereum and highly volatile. On any given day, it is common to see an increase to 10-20% or even a decrease. That makes using most cryptocurrencies for daily transactions inconvenient. Imagine paying $5 for your flat white (my coffee of choice) today and finding out tomorrow that it should have been $4. Price changes like that are shocking for a consumer. The adoption of stable coins will be be a catalyst to the new decentralized internet becoming mainstream.

An optimal cryptocurrency should have the following four traits: price stability, scalability, privacy, and decentralization. Additional traits that will assist the wider adoption of any stable coin are simplicity along with elegance of concept, easy integration points for partners, and ability for an exchange to work with. However, stability is key. Short-term stability is important for transactions and long-term stability is important for holding.

More on Forbes: A State-Issued Coin Could Unleash Untapped Potential For Cryptocurrencies

There are several projects working on this problem and each one has their advantages and their disadvantages. Let's explore how some of the more popular stable coins are working towards building the most optimal cryptocurrency.

Tether

Tether is 100% backed by fiat currency assets in a reserve account. The conversion rate is 1 tether USDT equals $1 USD. The Tether Platform is considered to be fully backed if all tethers in circulation is less than or equal to all fiat that is held in the bank account.

Advantages: Comes close to a like-for-like swap from fiat to crypto, well integrated and established

Disadvantages: Centralized, not trustless, audit refusals

MakerDao

Maker is a decentralized autonomous organization that is pegged against the U.S. dollar, but is completely backed by ETH. Their stable coin is Dai and each one is worth $1 USD. Stability is maintained through an autonomous system of smart contracts. To receive Dai, you send your tokens to the Maker platform to lock those tokens up.

Advantages: One of the first in the space (First Mover Advantage), backed by ETH (which is on the blockchain and therefore transparent, unlike Tether)

Disadvantages: Highly complex, slow-moving

Havven

Havven's structure provides stability by building a system that backs itself with two coins. The first coin is called Nomins which is the stable coin. This what you would use for everyday transactions. The tokens sitting in reserve are called Havvens. A fee for each transaction completed with Nomins will go back to the company. The fees are then distributed back to the Havven token holders who are rewarded for maintaining the system that backs itself.

Advantages: Fully decentralized, fast-moving, business-oriented team

Disadvantages: Very new and therefore unproven, you might want more centralization

Basecoin

Basecoin also pegs their price to $1 USD. However, their approaches uses consensus to contract and expand supply of their coin. When coins are trading for less than $1, coins are contracted by allowing coin holders to buy bonds. Coins used to buy bonds are destroyed. Supply decreases and price increases. They do the opposite to expand supply.

Advantages: Backed by prominent funds, Ivy League developers

Disadvantages: Requires faith in the protocol—base bonds process

For cryptocurrencies to go mainstream, we are going to need price stability. That will give users the confidence in making daily transactions. The full adoption of stable coins will alleviate the worry of having to time your purchase with the volatility of coins like Ethereum and Bitcoin. Leave that to the traders. These ambitious projects working on stable coins will bring us into a world where cryptocurrencies will be used to buy your coffee, lunch or tequila shot.

Sherman Lee is a Partner at Zeroth.AI where he focuses on funding AI and blockchain companies, as well as a founder at Raven Protocol. Previously, he founded Rocco.AI and Good Audience.