

FINANCIAL MARKETS

# WHAT ARE INITIAL COIN OFFERINGS?



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Founded in 2010, we now have global presence in over 90 countries, with main offices in the separately regulated markets of Australia, Cyprus, New Zealand and the United Kingdom.

We believe that sound investment and trading decisions begin with a strong grounding in financial education. Our goal is to make this available to everyone - and this free eBook is part of that commitment.

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# INITIAL COIN OFFERINGS

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## FOREWORD

Since the cryptocurrency explosion of 2017, we've seen many traders and investors pay attention to Initial Coin Offerings.

Why? Well, Initial Coin Offerings are synonymous with the launch of new cryptocurrencies or Blockchain technology services.

In this eBook, we will explain what ICOs are, as well as their pros and cons. We will also assess three high profile ICOs.

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# HOW ICOs WORK

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## ICOs EXPLAINED

In short, Initial Coin Offerings (ICO) are a type of crowdfunding.

If a company wants to launch a new cryptocurrency, app or service, they can launch an ICO as a way to attract investors and get startup capital.

Startup capital is usually required for such technology enterprises, as business running costs are cash intensive.

In traditional companies, investors would be offered shares in return for their investment. These are known as Initial Public Offerings (IPOs). However, taking a company public involves complying with complex regulations and capital requirements.

ICOs are a little different. Instead of receiving shares, investors receive the company's own digital coins or tokens in return for capital (the preferred capital tender is typically Bitcoin). From

an investors perspective, they hope their digital coins or tokens appreciate in value as the company's technology becomes successful.

An ICO is a great option for startup companies. They allow companies to sidestep rigorous capital-raising processes that come with a host of regulations. These processes are mandatory when using venture capitalists or banks.

## THE PROCESS

So how do ICOs work? Let's explore the process in further detail.

First of all, a company will create a white paper that outlines the plan for their business and ICO.

This typically includes:

- A comprehensive business plan.
- The company's ICO fundraising goal.
- Currencies the company will accept as investor capital.
- The amount of coins/tokens investors will receive for specific capital investments.
- The length of the initial coin offering and business launch date.

The purpose of a white paper is to attract and excite potential investors about the company's potential. However, if the ICO fundraising goal is not reached, investors usually get their capital investment back.

Keep in mind that specific ICOs have different structures. For

example, some will have a specific goal with a funding limit. This means that each token has a pre-set price and the total supply of tokens stays static.

Others will have a static supply of tokens but there will be a dynamic funding goal. In this instance, the way the tokens are distributed will depend on the funds from the investors. The price will increase as more funds come in.

In other cases, the dynamic token supply can be dependent on the total amount of funds received, but the price of those tokens stays the same. In such a scenario, there is no limit on the number of tokens made available.

# ICOs: PROS & CONS

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## BENEFITS

When investing in an ICO, an investor will receive the crypto equivalent of a share in the company.

If the ICO and business are successful, an investor's tokens will rise above the original price set when the ICO was set up. This generates a return on investment.

ICOs have an impressive record of producing returns. In 2017, there were a total of 435 successful ICOs. These raised \$12.7 million on average, creating a combined total of \$5.6 billion. Overall, 25% of this amount came from the top 10 ICOs alone.

This record means investors made approximately 12.8X their initial investment on average. In just the first quarter of 2018, ICOs made \$6.3 billion. This is already outpacing the trend for 2017.

## RISKS

Investors should be cautious when investing in an ICO. There is a chance that some of the projects are fraudulent.

This is due to the fact that ICOs are decentralised and not regulated by financial authorities, like the SEC.

As they are not regulated, any funds that investors lose through fraud may not be recovered. For the inexperienced and uninformed investor, this option can be risky.

Some people also believe that ICOs are disruptive to economic and financial stability. The People's Bank of China banned ICOs in the country in 2017 for this reason.

## EOS SUCCESS

EOS is an altcoin. Dan Larimer, a programmer, and Brendan Blumer, an online entrepreneur, were the developers.

As well as an altcoin, EOS is also an infrastructure for decentralized applications. This infrastructure allows the applications to be built and tested in a public environment. The project's aim was to give people the opportunity to make numerous transactions per second. By doing so, Blockchain projects become more effective.

After starting its ICO in June 2017, it raised its full \$700 million target just four months later in October. This has made it the most successful ICO and token sale to date.



## FILECOIN

Filecoin is a Blockchain-based digital payment system and cryptocurrency. It is an open-source, public and decentralised data storage network. The project was set up as a way to allow Blockchain participants to share their storage and provide servers.

In total, Filecoin's ICO project raised a total of \$257M. This came from a \$52M presale and an extra \$205.8M that came in the second round. This was raised in just one month between August 10th and September 10th 2017.

Through a mix of Bitcoin, Ethereum, Zcash and Dollars, the ICO managed to raise \$135 million in just its first week.

## TEZOS

Tezos was created to be a platform for decentralized applications and smart contracts. The project operates on a new Blockchain and is aiming to be "the world's first 'self-amending' cryptocurrency".

Tezos is able to update its code automatically. This way, it can adapt to new Blockchain innovations and developments quickly.

In July 2017, Tezos' campaign raised \$232M altogether.

Despite its success, Tezo has encountered difficulty. Legal disputes have resulted in requests for the original ICO funds to be returned.

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Founded in 2010, Blackwell Global was established to offer brokerage solutions for private and institutional clients. Blackwell Global is a Straight Through Processing or STP broker who provide their clients with superior liquidity and price feeds from top international banks. These are offered alongside 24-hour technical support, market research tools, educational materials, professional partnership programmes and fully integrated trading platforms.

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