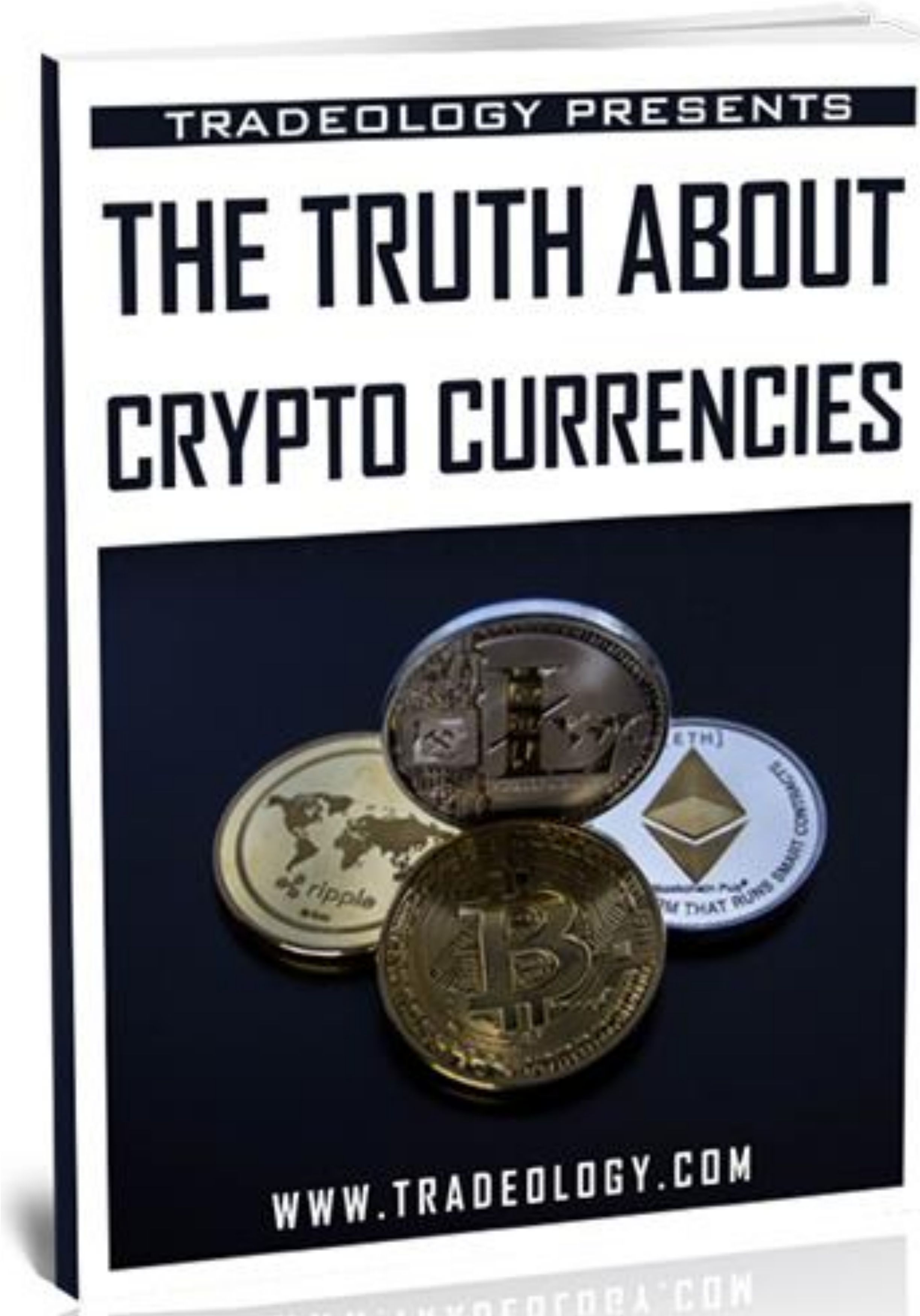
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How to Invest in Cryptocurrencies 101

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Just the mention of Cryptocurrencies or even Bitcoin peaks people's interest, but what exactly is it about Bitcoin and the crypto economy that makes it so alluring and how can we take advantage of this new economy?

In this report I'll set out some fundament concepts and then dive deeper into what affects the value of cryptoassets and how to purchase, invest or trade in Crypto.

So, let's begin with some background that you need to know.

We know that third parties, such as banks, regulate how we use our money. Now though, a new paradigm has opened up the world to alternatives without interference and where "money" can be transferred between people, or between people and businesses without any issues.

This is itself a huge leap forward in the way we conduct transactions and slowly, but surely, more and more people are adopting this new approach with others taking a more cautious stance in this fledgling sphere of commerce.

No matter what one's thoughts on it are, one thing is for sure and that is that cryptocurrencies are not going anywhere. They present a new frontier that not everyone understands, but everyone is curious and excited about and we can see that the future of Bitcoin and the crypto economy are bright and that the changes it can make to our society will be extraordinary.

So, when looking into our "crystal ball" what key features of this new economy should we be aware of?

Let's explore these…

To start with we need to understand that this market is highly volatile and highly dependent on Bitcoin trends. It is also still very small compared to traditional assets, and its internal structure is constantly in transformation.

In addition, Cryptocurrencies, in the view of many economists, do not satisfy all the criteria of a traditional currency and fulfil the conditions only partially. This means that we should not view it as a regular or "fiat currency" as it will not necessarily behave as such. (We'll get into that in a short while).

What are Cryptoassets exactly?

Over the past few years thousands of different types of Cryptoassets (or as you might know them: cryptocurrencies) have come into existence.

You probably have already heard of some of these– Bitcoin, Ripple, Litecoin and Ethereum are regularly mentioned in the news.

But what exactly are they?

A cryptocurrency can be broadly defined as **virtual or digital money which takes the form of tokens or "coins" which exists on a distributed and decentralized ledger.**

Let's first attempt to **define the word 'cryptocurrency'.**

The word, **‘crypto’**, actually means **‘hidden’** or **‘secret’** and this pretty much reflects the secure technology used to record who owns any cryptoassets and sets out how to make payments between users.

The word, ‘**currency**,’ gives us insight into the reason cryptocurrencies were designed in the first place: to be a type of electronic or digital cash.

But here’s where some confusion often sets in.

Cryptocurrencies are not like the cash we would normally carry around.

They exist purely in electronic form and use what’s call a **peer-to-peer system**.

With Crypto assets **there is no central bank or government that manages the system** or that can step in should something go wrong.

This in fact is where for many, the appeal of cryptoassets lies.

The perception is that one would have more control over your funds, which to a certain extent is true however, in reality, there are significant risks.

So, the question then comes in as to what you could purchase with cryptocurrency?

While regulations and participation in the market is constantly shifting more and more retailers are using Cryptocurrencies as alternative methods of payment for good and services though the mainstream retailers have generally not yet accepted them. This is forecast to change as the adoption of Cryptocurrencies becomes more mainstream.

Development is constantly underway to make cryptocurrency easier to use, on the level of “fiat” or standard currencies like the US Dollar and so on, and this is a constant “work in progress.”

In fact, most central banks still refer to this class as “cryptoassets” instead of ”cryptocurrencies” as they don’t regard them on the level as fiat currencies.

Fiat or traditional currency, as defined by Central Banks, should technically fulfil three functions to be considered a currency, to be a:

i. unit of account,

ii. a store of value and

iii. a medium of exchange.

Let’s say here that not all these conditions have been met as yet to qualify them as such.

They are also not issued by any public institution, for example a government or a bank. **This means that they are decentralized and “virtual” in nature.**

The Bank of England for example, refuses to consider cryptographic coins as money. Similarly, the European Central Bank has concluded that digital currencies could not be treated as money, but the nature and technology behind them may soon have a great impact on the economy, and from that perspective to agree that virtual “currencies” should be actively monitored.

Mostly, cryptocurrencies are generally held as investments by investors who expect their value to rise.

Cryptocurrencies can and have risen in value and by the same measure many have also dropped considerably. They are volatile and much more so than standard asst classes like Stocks, Commodities and Forex.

If you’re thinking of investing in one you need to be prepared for your investment to go up or down. (I’ll explain a bit further down in this report the various ways you could buy or invest or trade with Crypto).

The only drivers of their prices are supply and demand and they can resemble speculative financial instruments.

The result is that cryptocurrencies show higher volatility compared to so-called hard or "fiat" currencies. Although they are becoming more regulated, the general lack of any regulation makes them sensitive to speculation and financial bubble formation.

It's important to understand also that the cryptocurrency index (CRIX), **is uncorrelated with other asset classes** (traditionally there are 5 key asset classes: stocks, fixed income, commodities, foreign exchange and real estate), i.e., externally heterogeneous. CRIX has no common trends with traditional assets and is not seen as influenced by global economic events.

Nevertheless, most modern studies tend to maintain the idea that **they are gradually evolving into a new distinct asset class.**

There is though still a lot of controversy as to whether cryptocurrencies can be treated as an asset class or just a developing financial bubble. What is clear though is that the **underlying blockchain technology is unique to crypto assets** (which are composed of two kinds of assets: coins and tokens).

The crypto market is in some way isolated from market-driven factors and external shocks. For some this implies that cryptocurrencies may be an effective diversification tool, offering a so-called "safe haven" for investors as a hedging tool.

There is a high dependence of the crypto market on speculations, hacker attacks and regulation changes; so, such events are also expected to define the future of crypto assets.

Cryptoassets vary in their form. Cryptocurrencies, security tokens, and utility coins are different types of cryptoassets. Some of these terms may be used interchangeably, particularly where concepts are applicable broadly to all types of assets, tokens, and coins.

Cryptocurrencies modeled after Bitcoin are collectively referred to as "**altcoins**" and often try to present themselves as modified or improved versions of Bitcoin.

While it may be true that some of these altcoins have some impressive features that Bitcoin does not, the level of security that Bitcoin’s networks achieve has largely yet to be matched by an altcoin.

As at the start of 2021 **there are more than 4,000 cryptocurrencies** in existence and constantly growing in size. While it's true that many of these cryptos have little to no following or trading volume, there are some that enjoy immense popularity among some dedicated communities of backers and investors.

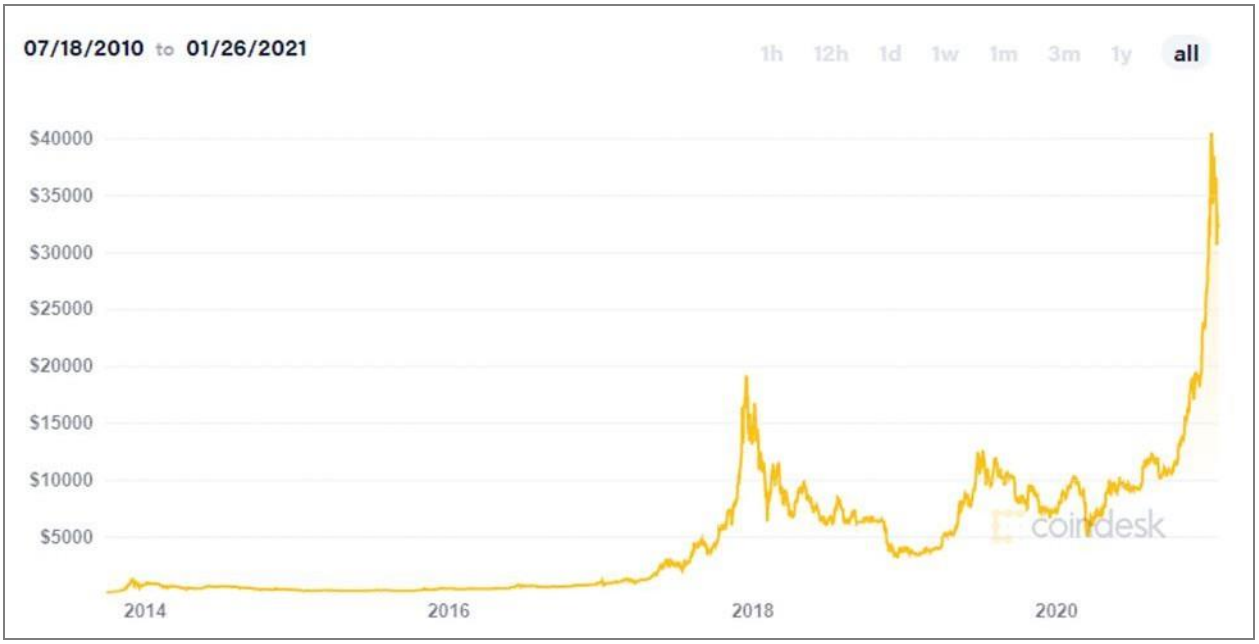
Bitcoin (BTC) is widely seen as being the pioneer in the world of cryptocurrencies. Analysts though do adopt many approaches for evaluating tokens other than BTC.

For example. It’s common for analysts to attribute a great deal of importance to the ranking of coins relative to one another in terms of market cap.

The top ten popular altcoins as in January 2021 for example are:

1. Ethereum (ETH)
2. Litecoin (LTC)
3. Cardano (ADA)
4. Polkadot (DOT)
5. Bitcoin Cash (BCH)
6. Stellar (XLM)
7. Chainlink
8. Binance Coin (BNB)
9. Tether (USDT)
10. Monero (XMR)

Bitcoin though, continues to lead the pack of cryptocurrencies in terms of market capitalization, user base, and popularity.



In the chart above you can see how the value of Bitcoin has increased substantially over the last decade well outperforming many major asset classes.

Since it was first presented to the world in August 2008, when two programmers using the names Satoshi Nakamoto and Martti Malmi registered a new domain, Bitcoin.org Bitcoin has become the largest cryptocurrency measured by market capitalization and amount of data stored on its blockchain.

Only approximately **21 million Bitcoins** will ever be created.

New coins are being minted every 10 minutes by Bitcoin miners who help to maintain the network by adding new transaction data to the blockchain.

By now you might be aware that Bitcoins aren't printed, like Dollars or Euros. **Instead, they're produced by computers from all around the world that use free software and are held electronically in programs called wallets.**

The smallest unit of a Bitcoin is called a "**satoshi**". This unit is one hundred millionth of a Bitcoin (0.00000001). What this does is enable microtransactions that otherwise traditional electronic money cannot perform.

Then there's what's referred to as Bitcoin the protocol. This is a distributed ledger that maintains the balances of all token trading.

These ledgers consist of massive files stored on thousands of computers around the world.

The network will record each transaction onto these ledgers and then propagate them to all of the other ledgers on the network. Then, once all of the networks agree that they have recorded all of the correct information, the network permanently confirms the transaction.

With Bitcoin, a small number of new coins continue to trickle out every hour, and, for the near future, will continue to do so at a diminishing rate until a maximum of **21 million** has been reached.

This is what makes Bitcoin more attractive to many as an "asset".

The idea is that if demand grows and the supply remains the same, then the value will increase.

While the price of Bitcoin varies day to day minute to minute, the actual price of a decentralized asset like Bitcoin is if fact not strictly defined.

You will find that different services and exchanges may quote different prices for Bitcoin at any given time. This is because they accounted for discrepancies in asset liquidity, slippage and other factors.

Roughly every four years or so, the amount of Bitcoin that miners can earn in the network will be halved, potentially driving up the asset's price. Such an event is called Bitcoin halving (the most recent one happened in May 2020).

You can buy cryptocurrencies like Bitcoin by setting up a wallet to store your Bitcoin.

You will need a wallet whether you're buying Bitcoin online or with cash.

The most important consideration of any wallet is keeping your keys and/or passwords safe because, if you lose them, you lose access to the Bitcoin or altcoin stored there.

If you want to buy Bitcoin online, you can open an account at a **cryptocurrency exchange** that will buy and sell Bitcoin on your behalf. There are hundreds currently operating, with varying degrees of liquidity and security, and new ones continue to emerge while others end up closing down due to hacking.

As with wallets, it is advisable to do some research before choosing – you may be lucky enough to have several reputable exchanges to choose from, or there might just be one or two based on your geographical area.

We'll get to how you can do this in just short while.

Should I invest in cryptocurrencies and Initial Coin Offerings (ICO's), and how do I determine which to invest in?

Firstly, I have to say that I am a trader, interested in trading the Cyptos on platforms and not necessarily as a long term investment in any ICOs.

I'll set out some of the key points to determine the value of these assets. However, please **remember that when trading or investing in cryptocurrencies you are exposed to more risk.**

I would caution against any new trader just starting out trading on the exchanges or investing in any cryptocurrency without a clear understanding and study of each, and to also limit your risk.

Related to the above, as a technical trader **I also get asked how important fundamentals are to investing in Cryptos?**

To an extent I've already answered this however let's take a look into this more. When investing in publicly traded stocks for instance, we might have access to a broad array of company data including price to earnings ratios, revenue growth, etc.

The criticism many have of Bitcoin for instance, is that it is a volatile asset that lacks fundamentals and that it is a bubble.

As I mentioned before, from the trading perspective, I find that while fundamentals can be useful, they usually aren't enough to decide which assets to trade, because they often require years of data to truly evaluate them. This is hard to do with relatively new cryptocurrencies.

Many professional traders look beyond fundamentals to make trading decisions and so the absence of traditional fundamentals from crypto shouldn't by itself be a "deal-breaker."

Price Data

One way of assessing an asset's risk and potential reward is to look at historical price data. As with stocks and Forex, we can do so also with cryptocurrencies such as Bitcoin and Ethereum..

A drawback is that most cryptocurrencies don't have a very long history, meaning that the data is likely to be inconsistent.

#	Name	Symbol	Price	Volume (24h)	% 1h	% 24h	% 7d
1	Bitcoin	BTC	$8,165.66	$6,975,910,773	-0.50%	[illegible].20%	-10.15%
2	Ethereum	ETH	$815.83	$2,692,090,514	-0.46%	-8.75%	-13.65%
3	Ripple	XRP	0.974563	$3,664,876,745	-0.79%	-10.45%	5.98%
4	Bitcoin Cash	BCH	$1,225.86	$691,870,416	-0.14%	-7.52%	-2.38%
5	Cardano	ADA	0.374344	$621,100,811	-0.78%	-13.35%	-16.47%
6	Litecoin	LTC	$147.40	$528,339,900	-0.52%	-10.71%	-9.78%
7	Stellar	XLM	0.370925	$148,984,399	-0.89%	-13.46%	-15.50%
8	NEO	NEO	$101.96	$287,800,774	-0.68%	-13.55%	-15.00%
9	EOS	EOS	$8.45	$503,519,534	-0.62%	-13.81%	-13.84%
10	NEM	XEM	0.537821	$50,840,727	-0.89%	-11.44%	-14.26%

One thing that has become apparent over the past couple years, though, is that all crypto assets are highly correlated with one another.

In the section highlighted in yellow on the image above, we one can compare on the day how closely correlated the top 10 cryptos were at the time. Generally all showed a similar loss on the same day and over a 7-day period.

The high correlation makes it especially difficult for anyone to suggest any particular allocation of assets.

What Are Alternative Ways To Value Crypto?

Many of the leaders in the Crypto space are actively seeking other means of assessing a Cryptocurrency's fundamental value.

When trading any fundamental theory of how to value a Crypto, one has to, once established, take a rigorous look at how best to trade it.

Performing a fundamental analysis for Cryptocurrencies is radically different from traditional investments such as stocks, since there are no financial statements.

With stocks, if the numbers look good, we can then be confident that the company has good fundamentals, and we can therefore make a prudent decision to invest in it.

Why the difference? There are few reasons:

1. **Cryptocurrencies should not be regarded as corporations.** Instead they should be considered representations of value or assets within a network. Their viability is directly dependant on the participation of the community (miners, users, and developers) rather than on generating a revenue. Each Cryptocurrency is usually decentralized and can be viewed as a manifestation of the different applications of Blockchain technology.

2. **Lack of track record of performance.** Cryptos are almost all in their development stages, they are in their infancy, so to speak. This of course means that there are limited use cases in the real world currently.

It stands to reason then that any fundamental analysis on Cryptos must be performed with a different methodology.

Since Cryptos and their underlying technology are complex by nature, it is important that you do some research to assess the viability and potential of the coins.

This will allow you to make better investment decisions and to keep yourself updated with developments in the field. A good understanding of a coin's fundamentals allows you to form your own opinions.

Professional traders use various methods for valuing Crypto assets including:

- Supply-demand economics applied to Crypto assets with monetary theory
- NVT, or network value-to-transaction, ratio that seeks to determine how actively used a currency is by measuring the amount of traded volume
- DAA or daily active users, which seeks to determine how many users use the Crypto asset in transactions on a monthly basis.

Each of these is a complex field on its own and I won't go into detail here except to make you aware of them.

Qualitative Analysis

As regards initial coin offerings (ICOs) with new coins and altcoins, we tend to compare these to more established Cryptocurrencies like Bitcoin.

We try establish a qualitative assessment. This, however, can mean different things for different people.

There are some key points or traits that we can look at when assessing these and can include:

- Taking an in-depth look at the core team behind the project and then assessing for yourself their suitability to solving the particular problem they claim to be offering a solution to. Are they experienced, do they have a social media presence, is there anything to suggest that they are not who they claim or that its obvious in any way that the team is not strong or competent?

- Analyze their white paper behind the token or Crypto asset and then assess for yourself whether the proposed problem they put forward and the solution make sense
- Do some research on the web into what other Blockchain enthusiasts are saying about the project, including Crypto experts

Nevertheless, such attempts at analyzing each type of Crypto are not foolproof, and it really is a bit of a wild west situation out there with nothing guaranteed.

Caveat emptor.

So how can you go about this step-by-step, then?

1. Determine and analyze sources of information

Review the Coin's White Paper

Check the website or the blog and any detailed proposal by the development team which outlines the purpose and mechanics of the coin.

The drawback is that it can get very technical because of the usage of technical jargon and concepts that are hard for an average person to comprehend.

Join their discussion channels, which they should have, such as forum or blog comments, and review the interaction of the development team with the community. You can then ask questions to get more information on the coin.

You could also follow the updates given by the developers in their official blog.

Investigate Forums such as:

Reddit, Steemit, and Bitcointalk Forums, which are a great way to understand the coins better, as well as the sentiments surrounding the coin.

You'll almost certainly find simple definitions of certain concepts and easy-to-understand analysis of any coins from the forums. Their communities are generally well-informed.

2. Set up an analysis checklist for yourself.

Systematically ask questions on the Coin to assess whether it is a good investment.

It could look something like this:

- **Market analysis:**

Is the Coin the First of Its Kind in Solving A Particular Problem?

Generally a coin that is the first application of its kind will have a strong "First-mover" advantage.

How Different is the Coin from Its Nearest Competitor?

A Coin could have greater traction and adoption if it offers new technologies or solutions that are different from its competitors.

How Lucrative is the Target Market?

A well-defined target audience and large application could support substantial growth.

Are There Significant Legal Barriers?

Any suggestion of such barriers could compromise the resources and timeline of the project.

What is the Purpose of the Coin?

Coins with clear objectives would generally get off to a good start, especially if it's revolutionary or the first of its kind

Does it Solve a Real Problem?

The scale of the problem the coin aims to solve will affect the viability of the solution it offers.

Does the Coin Possess Any Utility?

A strong utility can incentivize people to hold the coins as an investment; The utility is strongly correlated with its value.

Is the White Paper very geared to Marketing?

If you find that it lacks substance and is filled with marketing terms that hype the project, then it's probably best to avoid it.

Is the Project Funded/Backed by Prominent Investors?

Prominent investors can add a sense of credibility to the project.

- **Operational assessment**

What is the Consensus Mechanism of the Coin?

In other words, investigate any Proof-of-Work, Proof-of-Stake, or similar mechanisms.

Does the Coin have a Centralized or Decentralised Governance Structure?

Cryptocurrencies are meant to be decentralized in nature in order to empower the masses to participate in securing the system and so create a dynamic ecosystem. However, there are certain coins that have a centralized structure and they can have their own advantages. Usually one can determine a Coin’s governance structure as it would be implied from their consensus mechanism.

What is the Development Roadmap?

There should be a clear timeline for the development of the coin as it is a good indicator of the development team's commitment.

Other things to look out for can be: How much money have they raised? How have they, or do they, intend to use their money? Is there a running “proof of the coin?”

- **Assess the development team**

Who are the Founding Team Members And What Are Their Experiences?

Who are the founding team? The success of the project will depends on the substance of the team.

Who Are the Advisors?

Credible advisors who are backing the project help with the credibility of the project as a whole.

Are They Active in Conveying their Progress Development And Do They Adhere to their Timeline?

They should be active in responding through their official channels and forums. The more active the better!

- **Assess the supply structure**

What is the Supply Structure of the Coin? How Many Coins Will Ever Be Created?

A finite coin supply could make the coin a stronger store of value.

What is the Market Capitalization of the Coin?

This is a measure of the Coin's valuation. The higher the Cap the stronger the valuation.

Is There a Hard Cap on the Coin?

A hard cap will determine the total initial issuance of a Token/Coin that will be created, and this is fixed. ICOs with a hard cap are considered to bring more value to investors as compared to no-cap token/Coins (as supply is not fixed). The scarcity of Coins from a fixed supply could increase the value of the Coins in the future.

What will be the Allocation of Coins to the Founders?

A high percentage of coins allocated to the founding team is not a good sign.

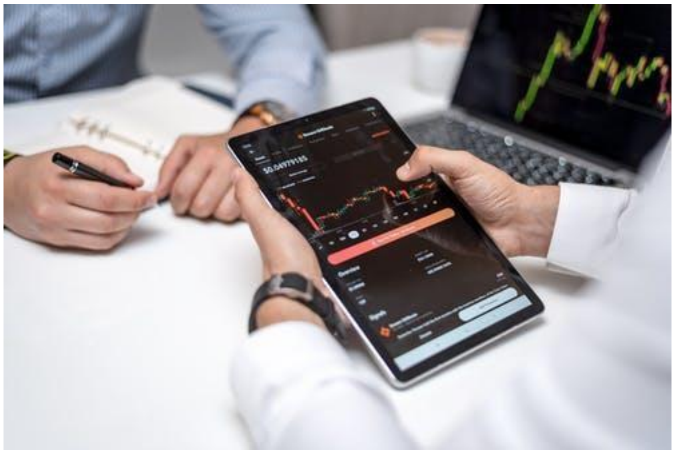
Is the Distribution of Coins Even?

A Coin could be mostly owned by a few individuals or "Whales" and this might result in price manipulation.

- **Look for any red flags**

Determine whether you, or others, think that the Coin is based on an MLM structure or a Ponzi Scheme. Avoid MLM-based Coins. Cryptocurrencies are meant to be backed by Blockchain technology, not an MLM structure. Are there also any scam warnings related to the Coin that you might even pick up with a simple Google search? If there are, or when in doubt, it might be better to avoid investing.

3. Start Investing.



Once you have engaged in your due diligence, it's now time for you to finally decide to purchase the Coins that you're confident have the right fundamentals.

To buy Coins you have to open exchange accounts. It can be a tricky thing to find the right exchange since there are many things to look out for.

You could proceed as follows:

Your first step would be to find an exchange that allows you to deposit money.

Regulations require all exchanges to require you to verify your account before depositing your funds (by submitting your identity proof and any other personal information).

You should therefore try find an exchange in your domestic country first, so that you can convert money from your bank account into Bitcoin.

NOTE: Not all Crypto exchanges accept fiat money as some exchanges only allow you to deposit Coins (for instance Bitcoin) to purchase other alternative Coins.

Almost all Crypto exchanges offer Bitcoin and this mostly represents the gateway to purchasing other Coins.

So then, in other words, if you want buy any other Coins you must do the following:

Step 1: Open a domestic Cryptocurrency exchange in your country and verify your account (submit identity proof).

Step 2: Deposit funds from your bank account to your Crypto exchange account and start buying Bitcoin.

Step 3: Open a Crypto exchange account that offers a variety of other Coins as usually these exchanges do not accept fiat deposits and only allows Coin deposits.

Step 4: After verifying your account, transfer the Bitcoin that you've bought from your local exchange to your new Crypto exchange and you can start buying other Coins with your Bitcoin.

Of course, I've just set out some guidelines here for those that are interested in such Coin offerings.

However, you may just be interested in trading the bigger Coins on the trading platforms, and for that for many it is a very a very profitable way to earn an income!

Be sure to look out for more information on how to do this that we'll be sending to you soon.

All the very best!

The Tradeology team