Principles for Crypto Investment

An Intelligent Approach

By Pablo A. Lema

For Mom,
Who made it possible for me to make my own way.
Without mom, I would not be where I am today.

I Realize I Have Done You a Disservice:

I realize that I have done you a disservice. In my first book, *Crypto Success*, published in 2016, I went through a lot of the minutia I considered important when gauging the crypto marketplace, including not only cryptocurrency selection, but also exchanges, wallets, etc. I realize however, that in covering the details of separating crypto fact from crypto FUD, I may have dropped the important fundamentals of crypto investment theory by the wayside. It is key to your crypto success, that you be able to understand the logic behind investing processes and not only be able to apply these mechanically.

In this book we will cover more of the theory that underlies our investment model and the reasons why its application is likely to result in long term success, as opposed to some other strategies. Our way of viewing the crypto sphere is rather unique and it is important to understand why.

Our first principles start with some alarming statistics: Over the past year, fully 59% of ICO's conducted in 2017 have failed or gone dark[1]. Prominent entrepreneur Vitalik Buterin made the argument[2] in late 2017 that he expects a full 90% of ICO's tracked to go to zero, somewhat worse than your average venture capital marketplace. I would make the argument that 90% *of all cryptocurrencies* ever deployed on coinmarketcap[3] will go to zero in a long enough time frame, be they ICO's or otherwise.

The reasons for this are legion, first of all, a large number of these deployments (including non-ICO's) are either outright scams or pyramid schemes, some of which have managed to become prominent before imploding, such as the infamous Bitconnect. This[4] study found that fully 80% of ICO's deployed in 2017 were scams. Similar attrition rates for non-ICO cryptocurrencies have been observed.

In this scenario, one is clearly ahead of the curve if one is able to separate these types of projects from those that will have staying power. That is, the ability to separate crypto fraud from crypto fact, will help us sort through fully 90% of coins right off the top. Another important factor, the realization that crypto markets are largely inefficient in price allocation, will also be very helpful to use down the road.

The key to our long term success as crypto investors, will be our ability to spot cryptocurrencies with staying power; the remainder of the work will be occupied by separating cryptocurrencies with strong foundations from cryptocurrencies built on a quicksand foundation, either technically or economically.

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[1] https://news.bitcoin.com/46-last-years-icos-failed-already/
[2] https://coinjournal.net/vitalik-buterin-90-icos-will-fail/
[3] coinmarketcap.com
[4] https://cointelegraph.com/news/new-study-says-80-percent-of-icos-conducted-in-2017-were-scams

We will do our best to stick to theory in this tome and stay away from the processes already outlined in *Crypto Success*. In investing there are no hard and fast rules, but if you understand first principles, you will likely be able to cover new and evolving situations more easily and increase on this knowledge to develop your own strategies and own your own success.

Chapter 1; Outline of an investment philosophy:

We argue that cryptocurrency marketplaces are inefficient[5] at pricing cryptocurrencies in the short term, but highly efficient in separating functional from non-functional projects over the long term, by leading the prices from non-functional projects near zero and escalating the prices of economically sound projects, when viewed over multi-year periods.

Why are crypto markets short term inefficient?:

The main culprit behind crypto pricing inefficiency in the short term, seems to be the low level of liquidity found across most cryptocurrency asset classes. This is particularly true in our area of focus, alternative cryptocurrencies (altcoins). This study[6] found that low liquidity was correlated with high volatility, thus suggesting that low liquidity marketplaces can be moved by factors other than sound fundamentals in the short term.

If you think about it, it makes a lot of sense, if I can move the market of a low liquidity coin by 30% by investing a relatively small sum, that market cannot be said to be efficient. In the same vein, it is near impossible to manipulate the price of a security over extended periods of time without the market moving against you. This can be observed in most attempts to corner[7] the prices of commodities, in real world markets, over the last century, to generally dour outcomes.

Crypto is the wild west of finance, and there exist large information asymmetries between development teams, founders, partners, and the general investing public that can be acted upon in the short term to manipulate market outcomes. Organized FUD[8] campaigns are also capable of swerving asset prices on a whim. Given these characteristics it is possible for a single or even a small group of organized traders or insiders to move cryptocurrency asset prices significantly.

Prominent companies and trading hubs, such as Coinbase[9] have been sued for alleged insider trading, and other sorts of organized malfeasance so this sort of

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[5]http://www.cnbc.com/2017/12/22/bitcoin-mania-stock-volatility-shows-the-fallacy-of-efficient-markets.html
[6] https://www.sciencedirect.com/science/article/pii/S0165176518301320
[7] https://en.wikipedia.org/wiki/Cornering_the_market
[8] Fear, Uncertainty, Doubt
[9] https://www.coindesk.com/coinbase-hit-lawsuit-alleged-insider-trading/

practice, regardless of the outcome of individual accusations, probably exists in some form throughout the marketplace. This may be more common in offshore exchanges in locations with less regulatory oversight.

To be fair, deep liquidity markets are just as liable to have large swings in pricing for no obvious reason; it is just much more common in low liquidity markets. EIther way, one is sometimes left grasping at straws when trying to explain short term market gyrations.

Why are crypto markets more efficient in the long term?:

The multi-year survivability of a cryptocurrency is directly linked to its ability to attract new users: investors, speculators, and others. Thus it follows axiomatically that a coin which has survived for many years has more users than it did when we invested. Thus, these new users will increase liquidity as time goes by, and if the coin continues to exist, it will reach a point where market inefficiency will be diminished.

As the years go by, a surviving asset will likely have also accrued technical improvements and a growing set of use cases, as well as an active community, bringing to bear the factors we identified early on, had set it apart. These characteristics will feed into a growing user base, and help the market price our crypto assets accordingly.

You are likely to find very few 5 year old coins on coinmarketcap which are still *active* but suffer from stagnant pricing as adjusted out over a multi year period. It's possible, but not very common, the more common path for these assets is the slow death of price and user decline. Thus time becomes a sieve for our own investments.

It is important to understand that market efficiency, especially in pricing an asset, is a swinging pendulum, although it is bound to reach a point of equilibrium both on its up and down swings, it is a continuum. We aim to protect ourselves from the downturns by buying early and at rock bottom prices, once we have assured ourselves of a prospective cryptocurrencies merits.

Why hold for five years?:

Current metrics show that attrition usually happens much sooner, within the first 18 months after launch[10], but there is a reason we stretch this out to five years.

I will paraphrase my favorite investor of all time, Benjamin Graham, the father of value investing: "In the short run, the market is like a voting machine--tallying up which coins are popular and unpopular. But in the long run, the market is like a weighing machine--assessing the substance of an asset."

A long time frame is needed so that we may opt out of inefficiencies in our results. We also assure ourselves of a long enough time frame such that our initial

[10] https://u.today/from-scams-to-failed-icos-800-cryptos-perish-in-18-months

investment has enough room to realize its all-round potential. Please remember that we take into account price considerations *only* in multi-year periods, we are largely indifferent to price matters when making our first investment in a recently released cryptocurrency.

It is important not to be swayed by the “popularity” of a crypto project. It doesn't matter who recommends it, how it is trending, or what your psychic says; the “popularity” of a coin today has no bearing whatsoever on its worth five years from now, The five year interval is designed to force us to think in terms of fundamentals.

Fundamentals are the characteristics of a particular cryptocurrency ecosystem which *will* have a bearing on its survivability and market positions five years from today. These are clearly, by and large, considerations of economical and structural soundness.

Concerns on initial pricing:

We are generally (within reason), unconcerned with the initial purchase price per unit of our crypto asset and more focused on its initial market capitalization. Market capitalization will be a key limiting factor in its potential multi-year growth. A coin with a ten trillion dollar market cap at the outset, regardless of the price per token, has nowhere to go but down.

Our main concerns are artificial factors which make the market capitalization of a cryptocurrency artificially high during its early stages, which is where we should be considering making our investment. The most common artificial price appreciation strategy, employed by would-be coin developers, is to create such a large volume of coins that even with micro level pricing, the project may acquire a large market capitalization and thus make the coin more prominent in rankings and reviews.

The negative effect of this strategy is that a high market capitalization at the outset limits the long term potential of a coin. A coin with a very large market cap at release, beginning at a billion dollars and beyond, regardless of its technology or even a low price per token, must be abandoned because in the five year interval we are considering, an appreciation of 1000x (our long term goal) would make this coins ecosystem worth over a *trillion* dollars. That is more than twice what the entire cryptocurrency ecosystems worth as of late 2018. It’s possible but unlikely.

A fair way to model a less egregious abuse of the market capitalization gimmick is to measure the candidate coin against the current market leader, currently Bitcoin Core, and ask ourselves “in five years, what is my best guess as to the price of cryptocurrency X relative to Bitcoin Core today?” The lower the fraction this thought experiment comes to, the more attainable the goal.

ICO incentive pricing is also of concern. The principles outlined in *Crypto Success,* would suggest our general aversion to incentive schemes and other payouts looking to influence our investment process. This remains generally true, but unfortunately pricing tiers have become commonplace in the ICO scene. I generally avoid investing in ICO's for reasons that will be outlined in this book, but there are exceptions to this rule.

If you have done your homework, you should be comfortable investing, even in the earliest stages of an ICO, thus taking advantage of the best reduced pricing incentives. Experience, however, shows that it may be worthwhile to hold out and invest in later rounds, ICO's are plagued by multiple issues, from thetechnical, to the occasional inability to raise funds; the solutions to these issues are generally to the detriment of early investors.

Time is Your Friend::

You should make your first investment as soon as you can be assured of a cryptocurrencies potential; however this usually can only be evidenced at much later stages than most new investors believe. A balance must be reached between the desire to invest in a cryptocurrency at the lowest possible cost (usually attainable close to release), and a clear vision of a cryptocurrencies potential and real growth metrics,

We allude to early stage cryptocurrencies throughout and by this we generally mean cryptocurrencies with a genesis date older than 6 months but no older than 18 months; 8-12 months being the general sweet spot. This is the period where we are likely still early enough to invest at a good price but late enough that we should be able to observe continued development and a growing community around said cryptocurrency.

Cryptocurrencies are much like startups, and investing at the ICO stage is much like buying the shares of a company which has never operated before. Regardless of the team or credentials, you will get the best data by observing how everything fits together after launch.

The only ICO I have invested in so far (Late 2018) is Tezos. All the hallmarks were there, great technology, able management, tier one venture backing, etc. Until a rift over compensation between foundation president Johann Gevers and Tezos founder Arthur Breitman, led to a year long battle where my money was tied up. I am not unhappy with the outcome as I am in positive territory, but this could have turned out much differently. Tezos could have collapsed and I could have lost all of my money.

I am loathe to advise investors to invest in ICO's or other early stage distribution programs, there are just too many uncertainties. However, I know some of you will not heed my advice; the outcome of your particular wager will largely depend on the clarity of the research you have performed. Still, waiting a little longer past the ICO date would likely have given me much better data as to the team, the technology, and the economics of my investment target.

It is important to remember that not all cryptocurrencies experience their lowest historical price soon after launch. ZCash launched in such a way as to immediately create a cost per coin in the hundreds of dollars. In the crypto winter of late 2018 the price of ZCash has crashed about 50% below the low bound of its price during its first six months of trading. It is important to watch out for this sort of loaded launch models when executing our own investments.

Generally, the best thing you can do for your investments is to sit on your hands. For a further discussion of this issue, please see *Crypto Success.*

Types of projects to select:

Note that we use the term “cryptocurrency” as opposed to other more generic terms, such as “crypto asset” because, as we outline further on, what we are looking to invest in are projects that are trying to develop peer to peer cash equivalents. For lack of a better term we are looking for digital “cash” startups, that are meant to be used as daily mediums of exchange, and we generally wish to avoid other sorts of assets that are meant to represent value within a closed ecosystem (Ethereum) or which are not meant to be used person to person in daily transactions (IOTA comes to mind).

That is not to say that these projects do not have enormous potential. In *Crypto Success,* I advised you to avoid “2.0” and “3.0” type blockchain projects and focus on essentials. It is true you would have missed the Ethereum rocket by following my advice, but you would have been well strapped in for the Dash moon landing and would have avoided many other new fangled projects which exploded shortly after take off (by and large most ICO’s).

The reason for this is network effects, the network effects of real, day to day currency, are gargantuan. Imagine the following: you have two salesmen on a street corner, one is giving away free ten dollar coupons for Burger King, the other is giving away free one dollar bills. In spite of the differences in received value, the man giving away the one dollar bills will be able to do so much more quickly. Because not everyone wants a burger, but everyone loves an extra dollar.

This is a fair comparison of closed system tokens such as Ethereum ERC-20 tokens as opposed to digital currencies. I am not asking you to believe one is better than the other, I am asking you to play the odds.

Choose projects with functional development schedules (idle coins die first) and growing communities (coins without community backing tend to die off). There should be an *excitement*, around this coin in Telegram chat and coin specific forums, about the technology being developed and the quality of the people bringing it to bear. Invest in professionals.

There is currently undergoing a professionalization of the cryptocurrency ecosystem. Anonymous (however gifted) developers and opaque sources of funding are giving way to college professors developing white papers and tier one venture capitalists funding them. Do not be nostalgic about the *old days* of crypto, join the party.

With this growing trend toward professionalization, you should prefer (and demand) projects be run in a manner that is both consistent with software development best practices, business best practices, and that makes economic sense. If you ask a technical question, you should get a technical answer. You should observe the Core team like an apiarist watching a new colony erect a symmetrical hive. There should be no cracks in the hive.

FInally, prefer projects that make economic sense. There should be at least one major *economic* reason, to the benefit of your users, provided by the existence of your token. There should be a tangible benefit in the *economic* lives of your users. I don't necessarily mean financial, I mean in the lives of your users as relates to the allocation of scarce resources.

A cheap way to move money is an economic reason, I am more efficiently allocating a scarce resource, my money. A token which promises an incentivized, decentralized cloud is economic, it deals with the allocation of hard drive space on the internet, a scarce resource. Unfortunately a token to feed starving children in africa, while laudable, lacks an economic reason to propel it to success, because the economic relationship is the wrong way around, mine is an exaggeration, but this is more common than you think.

Value Not Price:

We also differentiate value from price. Value (not price) is a defining consideration under our model, but it is very hard to describe when it comes to digital currencies. Value to the traditional investor would mean something along the lines of the net value of tangible assets minus obligations held by a company. In crypto there are no net tangible assets, not even the value of intellectual property as most cryptocurrencies are open source (as they should be).

Rod Beckstrom[11] has a great idea on how we can derive the value of a network, he argues that a network's value is derived from the net value added to each user's transactions with the network, summed for all users. In other words, that value of the network is the value derived by users from the network.

Crypto has a fantastic feature whereby, there is no point at which a new user begins to diminish the value of the network for other users. In fact, each new user will increase the value of the network by increasing demand for the token and hence price in pretty much an unlimited fashion.

[11] https://www.computerweekly.com/news/1280090313/Icann-CEO-reveals-how-to-calculate-the-value-of-a-network

This is not always true for all networks, as Mr. Beckstrom points out, social networks, such as country clubs, have equilibrium points beyond which each additional user begins to detract from the value derived by users prior to that point. Not so for crypto.

Net active users over periods of at least six months are, in parallel, an interesting additional metric. The more active users, one could argue, the more valuable a cryptocurrency is. Again, largely due to the network effects this creates and the correspondent if sometimes delayed impact on price.

Another standin for value as opposed to active user base could be the number of full nodes in a network and whether they are growing in number or diminishing. This is really a more fitting metric for early stage assets as well as a potential exit signal down the road. If a new cryptocurrency is adding full nodes at a high rate consistently over a period of at least 6 months, one could simply argue that that cryptocurrency is in a growth phase.

Mr. Beckstrom's observation is key to our investment philosophy, the long term value of a cryptocurrency is linked to the value derived by the network of users, from each additional new user. A well designed cryptocurrency will build a never ending positive feedback loop of users and increase in value, which will have a positive effect on price in the long term.

Chapter 2; Sorting for review:

This chapter will cover the methodology and application of our mental model into cryptocurrency selection and put it into context with concrete steps that you can follow and adjust to your own needs, with the purpose of simplifying and expediting successful coin selection.

Building a Database:

It is first important to understand that making an actual investment will be the least common of all your daily activities. I myself invest in between one or two (usually one) crypto assets in any 18 month period. This is not out of any artificial limitation that I place on my investment practice, but rather that application of our investment theory necessitates an exclusionary system of coin selection.

In other words, every time I weigh investing in a new cryptocurrency, I look for any and all motives to discard it from my list; if it does not fit my mental model of investment it goes by the wayside. Sometimes I even discard cryptocurrencies for reasons no more particular than that their main feature or pitch doesn't resonate with me. To be able to sort through assets in this way however, you must first be able to find them.

It is important to have an ever evolving source of new crypto assets for you to review. The obvious source is clearly BitcoinTalk's altcoin "Ann" (for announcement) forum. This is where most new projects come to peddle their wares, including ICO's and more traditionally launched assets. This must not be your only source. Many coin creators are starting to move focus away from BitcoinTalk and into coin specific Telegram, Discord, and Slack channels, created for the specific reason of promoting and discussing a new project.

Telegram will likely be your best source. Props if you speak Russian or Chinese, as many such Telegram groups often have access to information regarding specific assets and future releases before it reaches the English language groups. How they get this information is anyone's guess. You will still be in great shape in the English language groups. Remember, we are long term investors, we seek fundamentals and filter gossip. Regardless, these groups are still great for intelligence gathering.

How do you find these groups? There is no one place. Here you can find a Google Sheet[12] with the sources my team commonly uses when scanning for early stage cryptocurrency announcements. Other than this, the best way to find these groups and discover new crypto assets is to participate in the community, join more generic cryptocurrency discussion forums and ask for links. No one is trying to hide groups related to new crypto assets, there is just no Google Search for them. In the same vein, if you are asked to pay for access to a group or detect any untoward activity, just move on to the next group and get your info there.

I encourage you to go to your favorite cloud provider (I prefer Google Drive) and to create a folder titled "Coin Selection". Everytime you come across a new cryptocurrency that peaks your interest, you are to create a subfolder "new crypto's name" and start adding into it all the material you come across. This should literally include most everything from white papers to website screenshots to extracts of online discussions regarding this coin.

As you move forward, you *must* keep a "notes" file (Google Doc) in each new folder to catalog your evolving thoughts. Start with your first impressions on the asset and add notes as you go through new material and your feelings evolve. This will be useful to you in organizing your thoughts and organizing your research. A few years down the road, you will be able to come back and analyze your choices with the details fresh in your notes file.

We will now discuss the theory of sorting though this firehose on incoming prospects and pair them down according to our model.

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[12] http://bit.ly/coin-sources

A Simple Sorting Method:

If you don't like to read, you generally do not have much of a future in investing. There are new cryptocurrencies every day and you have to go through everyone so as not to miss opportunities; our task is sorting a large amount of noise into very rare signals, and this requires the hard work of sorting through cryptocurrency candidates one by one. Given the large pool size of existing and new cryptocurrencies you will have to vett, I have several filters to help you expedite your search. Before creating a new folder in your cloud drive:

1. Discard anything that is not meant to be peer to peer cash, for reasons described previously.
2. Discard any cryptocurrencies with market caps above 0.5% of current total cryptocurrency market cap. (currently $200 billion so our limit would be a max $1 billion market cap). Remember, we are investing in completely new assets.
3. Discard any cryptocurrencies without technical White Papers. By this I mean White Papers exposing a technical innovation as opposed to a tailored pitch.
4. Discard any cryptocurrencies that do not have "eureka!"[13] style innovations. This includes coins which are only *incrementally* better than existing cryptocurrencies. We are looking for *revolutionary*, not incremental, that is a eureka! coin.

Looking for eureka! Style innovations is particularly useful. The previous three filters are largely mechanical and straightforward to implement, they should help you sort through about 90% of assets you will come across. The remaining assets will be a mix of half-baked schemes and rehashes of existing tech repackaged to look good, with an occasional gold nugget hidden in the midst.

When grinding through this list, you will sometimes find an asset that intrigues you. As you read more about this asset, you will likely discard it because of one or more of the criteria described above. Like me, you may even discard it for no better reason than you don't like the pitch. At this stage, we are actively looking for reasons to discard this asset, and they don't have to be good reasons, just valid reasons. Very rarely however, there will be an asset that will make you say to yourself "I need to invest in this". Bonus points if you jump up off the couch, spill your coffee, and actually yell "eureka!"

But wait, this is not where it stops. This filter has taken you 95% of the way there, I assume a new Bitcoin Clone with a modified emission schedule will not peak your interest. Your job now is to double down and consume more information. Become an

[13] To be explained shortly.

expert on this asset and its creators. Learn as much as you can about a promising asset before making an investment.

<u>Putting All Your Eggs in One Basket:</u>

Allow me to paraphrase one of my other favorite investors, Warren Buffett: “You put all your eggs in one basket, and then you watch that basket”. Diversification is often advocated in the mainstream literature, because that is the way to make the market return, and there is nothing wrong with that.

Diversification strategies are an important part of managing your downside risk. Experts will tell you that you can minimize your risk by spreading it out over a large number of investments, but this is poorly applied to the crypto space for starters, there are really not that many coins that will fit our investment criteria.

When you start looking for coins to diversify into, you will make mistakes, because you are sorting for the wrong reasons. There are also too many coins that come and go, the top coins are constantly cycling and startup coins have such low liquidity as to make large scale diversification impossible. Another reason to avoid this strategy, is that this is not where the *returns* are.

I generally advocate taking the safest road in your crypto journey, minimizing losses as opposed to maximizing gains, but in this particular circumstance, you have to avoid diversification like the plague. And putting all your eggs in one basket is not as risky as it sounds.

Mr. Buffett has spent the last fifty years becoming one of the richest men in the world, and he has done it by investing in a limited number of companies, which he thoroughly understands, which produce excess cash, and are run by excellent teams. That is the entire secret to his success.

We will discuss understanding our investments here a bit and the rest of these criteria in the following pages.

Mr. Buffets method, much like our own, requires the ability of an investor to stick to a sorting methodology. Mr. Buffett does not invest in marginal or “okay” businesses, he invests in what he calls “wonderful” businesses. We must be on the constant lookout for “wonderful”, or what I have called “eureka!” entrants into the crypto space, and we will find them by continually sorting through *all* new entrants into the space.

Mr. Buffett limits his investments to companies he *understands*, and this alone will take up most of your bandwidth, he goes through a filtering process just like we do. But he has become an expert in the types of companies he is willing to invest in, as should we. And this is where putting all your eggs in one basket starts to pay off, it allows you to build a concentrated portfolio of companies you thoroughly understand and to *watch* those companies. This is why we focus on crypto*currencies* as opposed to the more generic *crypto assets.*

You can not reasonably become an expert in too many types of crypto startups. By expert I mean that you understand the new project as well as those that are running it. Putting all your eggs in one basket plays off of your earlier hard work in becoming an expert on each of your potential investments, and keeping the group small allows you to keep your hand on the pulse of each cryptocurrency community and development.

At the end of the day your basket is protected by your understanding of each individual project and this will disincentivize you from trading on market up and down cycles. The fewer coins you are invested in the higher the quality of your investments are likely to be, and the more equipped you will be to notice if the train starts going off the rails. And if it does, you will be among the first to know.

Sorting For Great Teams, Rose Blumkin:

From Wikipedia[14]:

"Rose Blumkin was born to a Jewish family as Rose Gorelick in Schidrin near Minsk, Belarus where her father was a rabbi and her mother ran a grocery store. When she was twenty, Rose married Isadore Blumkin. Blumkin immigrated to the United States in 1917 and Omaha, Nebraska in 1919 where she started a used clothing store and then opened the Nebraska Furniture Mart in 1937 originally selling used furniture.

Blumkin grew that business to become the largest indoor furniture store in America and eventually sold 90% of the business to Buffett in 1983 for $60 million. Blumkin later opened another store and started competing with Buffett with "Mrs. B's Clearance and Factory Outlet across the street from the Furniture Mart" until Buffett acquired that company as well with a non-competition clause. Blumkin continued to be involved in day-to-day operations until shortly before her death at the age of 104."

The story of Rose Blumkin is quite remarkable and tells us a lot about the importance of competent management. She emigrated to the United States from present day Belarus at the age of 24, and she was, throughout her life, barely able to read English. It was, however, only through skilled and competent management that she, almost single handedly at the beginning, grew a corner store into a cash printing behemoth.

The team running ops behind your cryptocurrency, the "Core" group, will, more than any other factor we will consider here (including tech), make or break the fortunes of your investment. Sorting for teams is extremely difficult, and as Mrs. Blumkin's story shows, sorting for business experience, education, programming skills, etc. means very little when looking for talented managers.

[14] https://en.wikipedia.org/wiki/Rose_Blumkin

The primary factor you should be sorting for is honesty. In *Crypto Success,* I suggested a few ways that one may test the honesty of Core group members but the truth is that this is very hard to do remotely, so what you do is watch for secondary effects, you have to look for the good things a talented and honest manager would do when starting a cryptocurrency as opposed to looking for the talented manager himself. When you can't test for something directly, you look for its effects.

The core team must be responsive to all stakeholders, including users, developers and investors. Shoot the Core Team lead developer an email and asking for more information on his project. Did he reply personally? Is it a canned reply or did he take the time to answer your questions in detail? Did you feel comfortable and capable of trusting this person's vision?

This is a lot easier to do with startup cryptocurrencies where the core team is fighting to acquire users as opposed to a really established cryptocurrency, such as Bitcoin, where Core team members are often combative on social media for a variety of reasons. This is one of the main reasons I prefer investing in startup cryptocurrencies, you have a lot more access.

Another clue to look for is distribution of success. Are you getting a fair deal? If you invest in this cryptocurrency, either a live launch or an ICO, are you also subsidizing a large amount of "free" coins for the dev team? Giving the dev team and its investors a percentage of all coins to be created after launch has become common practice. I prefer the way Satoshi Nakamoto did it, he did a live release and mined for his stake.

If you are launching a coin and you believe in it, you can mine it in the early days or buy as much of it as you can on the open market, "free" coins really bother me. In the context of today's common practices however, you may not be able to avoid subsidizing free coins, even to excellent teams; 10% share has become standard, filter any coins that take more. A great team expects to be paid, but there is a limit to how much of my money I am willing to give away, ten dollars out of every hundred, at launch, is that limit.

There are other things to look for: good teams communicate with investors often and provide useful information, they develop their features in such a way as to benefit current and future users of the protocol; I would tend to filter coins that do not provide current and future users equal rights in the platform (barring pricing considerations). There should be a level playing field between developers, old timers, and new users in a cryptocurrency ecosystem. A lot of the pyramid schemes you want to avoid place great emphasis on early "investors".

It's part of our theory of investment that if the team is honest, most other things will fall into place. It is possible to grow the team, hire technical talent, and get iterating quickly with a team that will generally act for the good of their community. The converse is also true, if your team is out to make a quick buck, it doesn't matter who their developers are, you will lose your investment.

Mrs. Blumkin was renowned both for running a tight ship (she often clashed with her own children and grandchildren when running the store), but she was also known for giving the customer (in our case “investor”) a fair deal. Your Core team must give you a fair deal, before, during, and even years after launch. Filter any self-serving behaviour from your investment list.

Producing Excess Cash:

Mr. Buffett’s company, Berkshire Hathaway, is one of the largest conglomerates in the world, it owns everything from WD-40 lubricant to Sees Candy, and it is fair to say that Mr. Buffett built it from the ground up. When Mr. Buffett bought Berkshire Hathaway in 1962, it was a failing textile mill, one of Benjamin Graham's famous “Cigar Butts”; a company that could be milked for some excess cash, but not one with long term potential.

The way Mr. Buffett built this failing textile mill into one of the largest financial conglomerates the world has ever seen, is through compounding his excess capital. Each portfolio company in Berkshire Hathaway is by and large a cash machine, these companies generate excess capital and Mr Buffett is in charge of dispensing it. He usually compounds it by investing it in new companies that fit his criteria, this in turn produces more excess cash which is then reinvested, etc. For this reason, Berkshire has never paid a dividend, it's just making too much money on its excess cash.

Mr. Buffett is, as of this writing, sitting on 100 billion dollars in *cash*, he has so much excess capital from Berkshires portfolio companies, that he has plain run out of places to invest it. Don’t feel sorry for Mr. Buffett, good investments appear only once in a blue moon, and I am sure that when one passes by him, he will pounce.

So how does this apply to cryptocurrency? Well its a model to be replicated. I am in favor of the very long term holding of investment assets, so I will not advise you to cannibalize your crypto holdings piecemeal for reinvestment here and there, this is not what we are about. Instead, my advice to you is this: if you find yourself choosing between investable cryptocurrencies, prefer the ones that throw off excess capital naturally.

One example of this would be Dash masternodes, which generate income for their owners, based on services they provide to the network. Tezos also has a Proof of Stake system currently offering about 12% annual returns. I advise you not to interfere with invested assets currently working their way through the market cycle, but if you find a new crypto that fits our model, feel free to use these excess returns to buy yourself as much of it as you can. Otherwise, try to let them compound for you.

Economic Over Technical Improvements:

People are often so consumed by the potential rewards of technical improvements, they have forgotten the far greater importance of economic incentives and what they bring to bear on the long term success of a project. There is a reason good economic solutions are adopted by successful projects,

Peercoin was a Proof of Stake innovator, and people flocked to it because it allowed them to earn rewards for holding cryptocurrency, this evolved and later became other things like Dash Masternodes, among many other forms, but generally under the economic model of a user receiving rewards by holding a stake and helping validate the chain.

Proof of stake is generally accepted as an inferior technical solution to the consensus problem than Bitcoins Proof of Work, but it has been adopted far and wide because users flock to it, and it has helped new cryptos bootstrap full node counts in the hundreds, largely bypassing costly user acquisition at launch. Proof of Stake was not the best technical improvement, but it was a great economic one.

Much has been made of the Bitcoin Cash/Bitcoin Core civil war. I think the strongest incentives are those that relate to user adoption, for example, if you can make a cryptocurrency that lets me send money around the world one thousand times more cheaply than normal, and I am a regular money transmitter, then that improvement is a great economic incentive that will lead to my day to day use of your platform. This is what Bitcoin used to be prior to the scaling debate.

In simple terms, Bitcoin Core wants to take transactions off chain and do them through private channels where a fee will be collected by channel owners, incentivizing them to fund these channels and process transactions. The argument for all this technical busy work is that the Bitcoin blockchain cannot scale over the long term by increasing block size so transactions are being taken off chain.

On the other hand we have an offshoot of Bitcoin Core, Bitcoin Cash, which argues that transactions should be kept on chain, and has effectively raised the block size while maintaining a transfer fee of a few cents. Bitcoin Core’s refusal to institute large blocks has led to transfer fees that are normally *at least* one hundred times larger than for Bitcoin Cash. Often, much, much larger.

Now there is a lot of extra information here. We can discard the technologies: “payment channels” (lightning) and “block size”. All we need to know is this: In Bitcoin Core, we want to incentivize *some* of its users (channel owners) by having users pay *them* high[15] fees to facilitate transactions through private payment channels. In Bitcoin

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[15] *Since lighting has not been deployed it is hard to say exactly what the fees will be, but consensus seems to be that they will be competitive with Bitcoin Core miners fees, making them by default more expensive than Bitcoin Cash. We concede they may be

Cash, we are incentivizing *all* our users by making it *cheap* for *them* to move money by keeping transactions on chain. Regardless of your politics, this explains how Bitcoin Cash has managed to bootstrap itself so quickly, currently ranked 4th on *Coinmarketcap*, a bit over a year after its release.

And here is the crux of the thing, under our model of the system, *both* of these methods of scaling will work out and are investable, but let me tell you this: Incentivizing *all* your day to day users as opposed to only a subset of your users, is the right play. To maximize our chances of profiting long term here, we need a firehose of incoming users to achieve the network effects we discussed earlier. Think of it this way: In Bitcoin Cash, near free transactions are the default incentive, with Bitcoin Core, they are not. It's a simple observation but an important one.

It is interesting to see how the two currencies we have discussed, handle incentives and how each of them has managed to grow into multi-billion dollar market caps by using those incentives. The question we must ask ourselves is, "where will these incentives take them in the next 5 years?"

<u>Do not try to time the market:</u>

Our next consideration is the market cycle. Benjamin Graham (The Father of Value Investing and mentor to Warren Buffett) came up with a wonderful analogy to describe the gyrations of market forces and the impact they should have on the day to day investor.

Mr. Graham argues that the market, is much like a Bipolar (then manic-depressive) individual. This individual is your business partner and some days he will come into the office and try to buy or sell you some of his share in the business (in our case crypto assets), The times Mr. Market is manic he will offer you a stratospheric price for your investment, when he is depressed, he will offer a paltry sum. This goes on every single day you show up at the company, and Mr. Graham suggests that we should take advantage of this.

Before we can take advantage of Mr. Market however, we have to understand what his disease means in the context of this analogy: it means that the prices Mr. Market quotes in the crypto market on a daily basis are based on nothing more than the random moods of his disease, there is no rhyme or reason to them. Consequently, Mr. Graham encourages us to hold fast when Mr. Market offers us a paltry sum for our investments, and to consider his offer seriously only when he offers us a king's ransom.

I have been through at least three 90% corrections in the cryptocurrency ecosystem. When these corrections happen, and my investments go down by 90%, I try

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lower than this, but channel owners are unlikely to set up channels and lock up funds long term for marginal amounts.

to remember that this does not mean the *value* of my investments, the team running the project or the underlying technology has gone down by 90%; but rather that Mr. Market is in one of his moods.

The point of this story is to illustrate that the market is completely irrational, at least in the short term, you can not time the market, or really tell with certainty which of his moods Mr. Market is in. You just know he is in *one* of his moods.

Given that we tend to invest in early stage projects, I think it is safe to say that you can ignore Mr. Market's moods. Yes, you can ring some more returns out of your investment if you can figure out exactly which part of the cycle the market is in, but this is a fool's errand.

An example that fits our model:

As of late 2018 my most likely next investment will be Coda Protocol. If you know anything about Blockchain, the foundational data structure behind most cryptocurrencies, you understand that running a fully validating node, requires keeping an ever growing record of all Bitcoin transactions from today all the way back to genesis; in Bitcoin, this record is currently over 100 Gigabytes in size and growing every ten minutes. This is because the way traditional Blockchain validates transactions is by reference to all previous transaction all the way back to the very first one.

Coda brings an innovation that, when I first read about it, made me stand up and yell eureka! It essentially allows you to run a fully validating node by storing transactions in a way that allows the database to NEVER grow past a few MEGABYTES in size. This allows you to run a fully validating node on your cell phone or a Raspberry Pi. This is truly revolutionary on a scale not seen for many years in the Cryosphere.

Be mindful that your crypto candidate is not only equivalent to your other holdings in quality and adherence to our mental model of crypto investment, but that it is superior to them in at least one meaningful way. Coda accomplishes this.
How it does so (ZK-SNARKS), is at this point irrelevant, all that matters is that now you have the tools to find these sorts of eureka moments on your own.

Chapter 3; Perspective:

In this chapter we will discuss an alternative view of cryptocurrencies in terms of our investment model, not just as currencies, but as businesses, and what this means to us as investors. Investing is a thought experiment where we try to reach an outcome by modifying the way we approach and conduct the experiment, that is our goal in this chapter.

Owner, Not Trader:

A helpful technique in evaluating a new crypto asset is to picture yourself as an owner of the protocol and a beneficiary of the ecosystem it fosters. You are the CEO of "New Crypto".

Cryptocurrencies are run for profit. Generally speaking they are run for the profit of the networks they support. Cryptocurrencies fuel everything from shirt sales to second passports, cleary a lot of value is being created. So as we put on our owner hats, it is clear we are going to prefer cryptocurrencies that create profitable ecosystems around themselves over those that do not, because these ecosystems create value for the network.

Any business that can create an ecosystem of value around itself is a business I want to own. There are several interesting examples, especially the platform businesses such as Uber and AirBnB which have unlocked so much value for their users and investors. You could, fairly, describe Uber and AirBnB as protocols for the exchange of value (car rides, temporary living space) which have developed an ecosystem of value to support them (third party drivers, third party hosts).

When evaluating a new cryptocurrency, it is important that there exist ancillary support for a business ecosystem to flourish, you must take this into account from the outset. It does not matter if that support is not fully developed in a recently launched crypto, but the *potential* for an ecosystem of trade to grow around a cryptocurrency must exist. If it does not, filter the candidate. The more ways there are for your product to be used profitably, the better your odds for long term success.

The "owner' mindset is important. It is key that you do not see your cryptocurrency investments (or any investment) as an ethereal or abstract vehicle for your money. Businesses have plants and brands and money in the bank; crypto has networks and human capital. The latter being of equal value to the former.

It is also important to maintain an owner mindset as you study candidate cryptocurrencies and interact with their ecosystems. I declined to invest in Monero a few years ago because I did not like how some of the community leadership aggressively positioned themselves against other projects; I was convinced I could make at least 100x my money at the time, but I filtered it. It was not a "business" I wanted to own.

The owner mindset is very good at helping you position yourself and your values: "Is this a Core team I would be happy to work with?" "Would I be proud to be a part of this community?' "Is this technology going to create a great ecosystem of value for me?". It is clearly understood that no one will ever really "own" a cryptocurrency, that would defeat the purpose; but its a useful mindset to help you sort out your feelings on things. "Could I stand to interact with with this 'business' for the next 5 years?"

What is a business?:

Let's look at a possible definition of a business:

1. An activity that is engaged in for the pursuit of profit.

2. A business is concerned with the distribution of its services.

3. Finally, a business is concerned with people's wants.

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The Pursuit of Profit:

Business is conducted in the pursuit of profit, crypto is no different. Developers create cryptocurrencies to profit from price appreciation. Business people create exchanges to profit from trade. Business owners accept cryptocurrencies as payment to benefit from an influx of new customers. No matter how you cut it, the incentives in the cryptocurrency ecosystem are all "for profit".

One of the most important steps in our model of investing is figuring out how we want to profit from this cryptocurrency: are we looking for long term price appreciation? Are we more focused on the high monthly returns of staking? Are we perhaps more interested in owning the fuel to a new ecosystem of value?

Our model disregards the investment possibilities outside the main token of our cryptocurrency candidate. This is done to help focus our approach, but if you want to start making Coda pins and selling them at conferences, you will at least know how to select cryptocurrencies with staying power before having your stock custom made.

Before making an investment, you should be able to imagine multiple streams of income to support your new venture. As a new crypto asset is launched into the wild, before you invest, can you see how it will fund its own development into the future? Is it run by a volunteer team? Those are always unpredictable. Is it being developed by an outside university or venture capital fund? That seems slightly more stable. Always prefer tokens that clearly state how they will maintain their development and other activities into the future. If you ran a study, I suspect that *real world* development hours into a cryptocurrency would directly correlate with its price over the long term,

The most common approach today is to reserve a set number of tokens to fund business activities at launch. As I expressed earlier, this is not my favorite model, but it is a common model. I suggest to you that your "eureka!" moment may come when you find a crypto asset with an innovative way to fund its own development.

But crypto assets need more than just software development, they need marketing, planning, and tools for collaboration. Again, I think that currently, the best way to do this is through some sort of staking mechanism that incentivizes the community to allocate funds and ensures there are minimal safeguards on disbursement. An alternative model is community donations, which has worked will in the past, Monero funds itself this way and is quite successful. I however, always prefer things we can do “on chain”.

As you look into a new candidate, analyze it for the financial qualities of a good startup: how is it funded? For how long is this funding assured? What are the safeguards? Can this model be sustained over the long term (5 years)? Prefer innovation and on chain solutions if possible.

Do not go away with the impression that we should filter coins that do not have on chain funding methods immediately, those can still work, but I always prefer to see off chain methods such as venture funding be complementary to on chain funding instead of full replacements. If no on chain funding is found and the token is promising, there should be at least one alternative funding method being planned. I would generally filter protocols with just one source of outside funding and no on chain solution.

The DIstribution of Services:

Cryptocurrencies are infinitely concerned (as any business should be) with the widest possible distribution of their services. In the case of cryptocurrencies this is linked to the widespread distribution of the token, but this is rather a consequence and not a cause of wide distribution of the service offering.

As any crypto creator will tell you, getting your tokens into the hands of users is not the hard part. AirDrops are a plenty, and many people sign up hoping to score some free money. No, the problem with distribution is getting people to *use* your tokens. I made the argument earlier that we should prefer coins that are intended as pure mediums of exchange as opposed to, say, “fuel” in a machine, due to network effects; this is what I am talking about.

The primary application of blockchain tokens should be the trustless exchange of value. I believe that the more layers you add on top of this, the more abstract this value becomes and the less efficient the distribution of our service becomes. It's just so much easier to exchange value “money” (physical or digital), than it is for anything else.

Let's take a step back, how does a cryptocurrency (our business) distribute its services? This is largely done through network effects and word of mouth; at least historically. Bitcoin was, for many years in its early life, largely popularized by a homegrown community of enthusiasts that worked on the code and grew the protocol amongst themselves.

Today, new crypto assets engage PR firms, media consultants, community managers and social media minders to try to influence new and existing crypto enthusiasts to buy their tokens, and (hopefully) use them as intended, the aim being to create an efficient distribution of services. I advise you to be very careful in the media deluge, particularly in social media, and be quick to filter tokens.

There is nothing wrong with attempting the widest possible distribution of your tokens by using social media, but you have to be careful to do it the right way so as to maximize value for your business (the network) as well as create sustainable long term growth. We are learning to look at crypto startups as business and we have to be clear about what choices we prefer to see teams make and which are best avoided to foster the long term health of the network.

It's not all about getting eyeballs on your product al all costs. The team behind your coin should be careful to foster slow and steady network growth through usability, as opposed to pandering to speculators to try to jump start the virtuous cycle of user acquisition and price appreciation. This would put tokens in the hands of users who have no vested interest in the network and will have no qualms (especially with a low market cap coin) in wreaking havoc in your ecosystem in the quest for profit.

I filter teams that are pandering to users for short term results, and what in the midterm will amount to temporary network growth and middling price appreciation. If the crypto candidate we are considering is viewed as a business, the management team should be most concerned with long term, organic growth. The common strategies used by teams to “hack” growth through mass appeal tools are not likely to bring this growth. The long term distribution of a candidate networks’ services will be best assured by avoiding questionable growth techniques and sticking to creating growth by offering value, and usability.

Give the People What they Want:

What do people want? We could really lose ourselves down the rabbit hole of that discussion. For value in the twenty first century however, I suspect a fair answer would be “a seamless exchange”. People want a seamless exchange of value. Have you bought or sold a car recently? Ever bought a house? These are not seamless transactions.

Bitcoin was the first successful means to exchange value over the internet, seamlessly and securely, without a trusted third party. You can argue about the merits of Bitcoin, but its growth since inception clearly suggests it gave people what they wanted. So I advise you to take a step back, is this crypto asset you are looking at, giving the people what they want?

This is a hard question to answer for any business person about any business. I would not have shared the business assessment of the creator of the “Pet Rock” some thirty odd years ago, but I would have been wrong. So how do we get around this issue? Well, cleary, we can't bet on every “Pet Rock” idea we see, so we go ahead and keep it simple.

In a blog post labeled “Toothpaste vs. Quantum Computing,”[16] I made that argument that in investing in general, but especially when applied to crypto investing, you should prefer simple technologies over complicated or overly technical alternatives.

There is great allure in investing in cutting edge technologies as were smart contracts a few years ago, or the Tangle, etc. Yes, it can work out great, it sure did for Ethereum and IOTA investors, but it was an ill considered bet. You were not “playing the odds”.

Simple ideas, much like simple technologies, are able to permeate networks much more quickly than complex ones, at least by an order of magnitude. So giving the people what they want, in crypto, may amount to giving them the most seamless way to transact the value definition of your particular cryptocurrency. Is it money or music, or hard drive space? It doesn’t really matter, if it works seamlessly.

In this way, giving the people what they want amounts to giving them the *means* to do what they want. It doesn’t matter if they knew they wanted it. Before Filecoin[17] I doubt that many people knew they wanted a decentralized hard drive in the cloud. The same could be said for the first IPhone. The need can be latent, but the prerequisite must be that it be simple to understand, and even simpler to use.

I filter most cryptocurrencies where I do not understand the point or “big idea” within the first few paragraphs of a white paper. If done properly, the title should give you this information. Give the people what they want.

Crypto as a Cannabis Startup:

If I could compare cryptocurrency to an existing business it would most likely resemble a penny stock cannabis startup. It has a business leadership and a development plan, but its more than an uphill battle to stay par for the course.

Crypto suffers from some of the other issues that plague cannabis startups, converting cannabis to fiat, and handling that fiat is immensely complex; so is banking for crypto startups and custody for exchange operators. Many times, you can’t be sure which side of the law you are operating on, and much will likely depend on perspective.

As an “owner”, you have to be very careful with the choices you make, starting at launch. A launch in the wrong state or with a poor foundation (code), is not likely to last long in what amounts to a cutthroat business with new competitors flooding the street daily. You could lose your entire investment.

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[16] http://www.pablo-lema.com/crypto-success/2018/2/28/toothpaste-vs-quantum-computing

[17] https://filecoin.io/

Like cannabis, crypto is illegal in certain parts of the world (like Bolivia), and heavily regulated in others (New York); still other places are highly liberal and welcoming of crypto (Switzerland); it seems quite often that the world can't make up its mind.

It is important to make sure that wherever your core team is operating from, and whatever they are doing, they are doing it within the bounds of local and international law. You do not want to be involved in an illegal crypto startup. Illegal ventures can bring in fast cash, but their multi year survivability is suspect. Again, much like the cannabis industry.

The operations of the core team, your “management team”, are a key investment indicator, and they should be as transparent as possible, within reason. A team that keeps a piece of valuable code under wraps until release is acting on behalf of owners (you), a team that lies, misdirect or misrepresents issues is not. Sell that business.

There are many parallels between crypto investing and cannabis investing, both are highly volatile, highly risky ventures. Our investment model works to protect us however, and both cryptocurrencies and cannabis can be profitable if we understand how to apply filtering for the best long term results.

Chapter 4; Where our investment theory does not work:

This chapter addresses areas where our investing philosophy is not applicable, and where applying it, will likely lead to negative results. It is important to understand the limitations of our framework to be able to intelligently integrate it into our personal workflows.

Technical Analysis:

Out investment approach does not work with technical analysis (charting). Technical analysis refers to volume and momentum considerations designed to elicit trading signals based on a determination of a security being oversold or overbought in a market.

Charting is inherently a short term trading strategy as it most heavily weights recent pricing trends. Many charting trends such as *moving averages*, take into account historical pricing trends, but this is also useless to our analysis because the market trend today, or three months ago, is not a criteria for determining market pricing 5 years from now.

Our approach is fundamentally different from that of the technical analysts in that we presuppose that the market is, in the short term “a voting machine,” and that it is impossible to account for what these “voters” will do second to second (or tick to tick). If you think about it this really makes sense, traders in many markets, but particularly in small niche markets such as crypto, where a large trader (a “whale”) can move the market dramatically against the trend and sustain this for medium term if they so desire.

The market is quite fickle and there is really no accounting for its inputs, not only a large whale but perhaps an exchange glitch, a coin listing, a news article, etc. these are all factors that can reverse the current trend.

You don’t have to agree with me here and you are free to refer to your chart for market entry and exit points, let’s just agree that technical analysis does not fit our current investment model as described in this book.

Day Trading:

Our approach does not work with day trading. Day trading refers to buying and holding assets for short periods of time, in the hopes of being able to quickly flip them for a profit. You can add levels of complication to this by using leverage while day trading, betting on the direction of a security as opposed to its price (call and put options), and by using multiple indicators from technical analysis to fundamental elements such as core earnings reports and industry news, etc.

The problem with day trading, is again its short term nature. Unlike technical analysts, day traders are free to use fundamental indicators similar to the ones we might use ourselves, but day traders are heavily limited by the short term nature of their bets. Day traders tend to hold securities for only up to a few weeks at a time.

My advice to you is to avoid the temptation to day trade at all costs. Do not try to wring a few extra dollars out of your investments by using leverage. Leverage is the mother of all bankruptcies, as it provides limited upside paired with an unlimited downside. A strong market movement, which is common in crypto, could easily move your position so far against you as to result in you not only being wiped out, but owing money to your exchange.

A friend of mine recently lost tens of thousands of dollars because he underfunded a margin trade and the market slid by 20% while he slept, he had the funds to cover the call had he been awake, but because he was asleep, his position was liquidated and he missed the price bounce, putting him out of luck.

I think you are seeing a trend here throughout: short term trading is bad. Long term trading is good. The worst of all however, is trading on money you don't own (margin), limit yourself to your own assets. As a famous #rekt trader once said: “it’s better to *lose* a million dollars then it is to *owe* a million dollars”.

Market Timing:

As already explained, our approach does not work with market timing. As you can see, we are following a trend here (pun intended) and all these no-no’s fall into a similar category, but they are worth noting separately. Market timing is a precondition of both day trading and technical analysis, and its really one of the bigger reasons as to why both these investment philosophies do not work with our investment model.

It is *impossible* to consistently time the market for the reasons exposed in the previous section, there are just to many inputs into the pricing machine, and these inputs can come at any moment to move the market against your trade. The market in the short term is essentially a random number machine. It is only over the very long term that we can see the true effects of market fundamentals come to light.

Another reason that market timing has its own subsection here, is that I want to dispel any notions you may have that this is consistently possible. Belief in market timing underlies more investment myths than I care to enumerate, it is key to your success to understand that you can not time randomness. Sometimes you will have a lucky entry or exit point, but having a winning bet, or a series of winning bets, does not make a game of roulette any less random or any more wise.

Still disagree with me? Know some hot-shot traders who made there bones on Wall Street by timing the market? Lets reach a compromise: Let's say that market timing does not work *in crypto* and we can agree to disagree on the rest. Even the most fierce market timers will tell you that these mechanisms falter in low liquidity markets. Crypto exchanges as they stand today (2018) are *very* low liquidity markets.

Our investment approach, on the other hand, works well even in low liquidity markets.

Chapter 5; Conclusion:

In this final chapter, we will provide you with our final thoughts and suggestions as you begin your own investment practice.

Keep Filtering:

My first and foremost piece of advice to you, is to keep filtering. Every day, if possible, try to find new cryptocurrencies and apply our filtering criteria to them. In this book I have provided you with *my* filleting criteria, as well as my reasoning behind each decision; now that you have reached the end, feel free to edit this to suit your needs.

Would you like to invest in ICO’s? I usually only invest in coins that aim to be *digital cash,* because of the large network effects of money and thus a more direct path to mass adoption. I did invest in the Tezos ICO a few years ago, however, It fit my investment philosophy and I thought its additional benefits and its story outweighed my focus on “coins as cash”. Feel free to do the same, now that you know the system, you can edit it.

Be wary of making edits to our investment principles that do not align with reality, mostly, do not speculate, it is a losing game. Try to always invest in things you can understand, if it doesn't make sense to you, it doesn't matter who pitched you the "next Ethereum", don't invest in it. Investing is not easy, yes, you can do it in you PJ's at noon on a Tuesday, but it takes determination, consistency, and lots and lots of reading.

Read:

Invest in yourself. This is a topic I wish I had covered in more depth. The most important investment you can make is in your education as an investor. Take stock of every step you take towards becoming a successful investor and make note of the milestones you reach along the way. I am not talking about financial milestones, though everyone enjoys their first 10x or 100x return, I am talking about taking stock of the results of your evolving theory of investment. An investment you decided to make 6 years ago panned out? Take stock. It didn't pan out? Find out why.

I read about 50 books a year on average. This is not a lot by the standard of some investors and certainly not a lot by the standards of some MBA students, but it is my number, and almost every single book I have read in the past four years has been in one way or another related to cryptocurrencies or investing principles. It is important that you read as much as your schedule will allow. If tired of reading, get Audible audiobooks.

Books are definitely the best investment you can make, they will expose you to lifetimes of condensed knowledge. The ones you do not agree with will be the best experiences.

I do not expect you to *memorize* any of these books, I frankly could not tell you the details of the last 50 books I have read. When you read a lot, books begin to blend into each other a little bit but what you are left with is infinitely valuable. As you read a book you internalize its principles on a subconscious level, and the more you read, the more you will be able to build, and sometimes destroy, your understanding of crypto investing. It doesn't matter if you don't remember what the author said word for word, if you were paying attention, the information will become a part of your minds reasoning mechanism, and it will stay there until better knowledge takes its place.

Keep your eye on the long term:

Some final notes on this issue which I think I have covered to near exhaustion. Find something to distract yourself with and avoid tinkering with existing investments, especially in bear markets. Personally, I watch youtube videos and make myself a Daiquiri; to each his own. What I mean here is, don't fret about the day to day gyrations of the crypto market, don't even fret about the year to year gyrations of the crypto market, just don't fret.

You have put a lot of work in up front. You have researched the crypto, made sure it fits our criteria, screened for fraud and made sure its real tech with a real dev team; barring some idiosyncratic steps, that's the best you can do. Remember, if you can spot fraud or shoddy deployment, you've already discarded 90% of market entrants. Sorting that final ten percent is what you have to get good at.

Only swing to for really big balls. Daily you will be pitched baseball size investments, one after the other, indefinitely. Once in a while, however, the pitcher will pitch you a softball size ball, just to see if you are awake, these are the types of investments that I want you to invest your time and money into, the real obvious ones. If you have *any* doubts, do not invest.

Above all, do not sacrifice your long term chances for short term profits. Even if you can make a quick 20% by trading a long term investment into a short term one for a few days, don't do it. The market has a funny habit of moving against you when you try to take its money, that 20%, in crypto, is not worth the chance that you may lose your entry position pricing and your shot at a 1000x return. It's also, of course, against everything I have tried to teach you about investing, the results of these short term plays are by and large mostly random.

Have Goals:

Have your exits marked from the start. As your coin soars a few years from now, and you are in the 400x train, you will want to wait for the 1000x train, and then the 1500x train. The problem is, one day the trains stop coming. Decide at the outset what return you are looking for in this investment, and exit when that goal is met or there is a change in the fundamentals of your investment.

Remember the most important thing:

The thing most likely to influence the long term success of your investment adventure is your state of mind. The market is an expert manipulator of feeling and a master of illusion, leading the greedy and unwary astray and into the pit of split marriages and bankruptcy.

The market does not care, it is a sorting engine, and we are here to take advantage of it, not fall under its spell. Never invest more than you can afford to lose, especially in crypto, and never gamble with your money; develop an investment philosophy and stick to it, especially when things are going badly. Beware of market cycles, be unafraid of the drops and wary of the blinding effect of high returns. Be prepared for both, the crypto market is unlike anything else.

Finally, remember that in the short term markets are irrational, remember Mr. Market and heed Mr. Graham's warning. Stick to projects you can understand, and filter for long term staying power. If you invest in a new crypto today, and it is still around and being actively developed 5 years from now, the returns will take care of themselves.

About the Author

Pablo has been working in and around virtual currency for about twelve years. He started his working life dealing with gaming related virtual currencies, and has participated in several e-currency related startups, including: Tradcom South America, Butter Creek Software (Butter-Bot trading software), and LPAL.biz; mostly at a rank equivalent to COO or above.

Pablo has also participated in many other, smaller, retail ventures related to e-money, and had early experience with e-gold and other early attempts to create a means to exchange value over the internet. He has been active in Bitcoin since he found out about it in 2012, and has been active in the altcoin market since 2013.

Notes

If you are able, please take a moment to leave a review on Amazon, this is infinitely useful to us and helps get us started on future projects.

Feel free to reach out to me at Pablo@Pablo-Lema.com for any crypto related matters, I welcome email correspondence.

Please keep in mind that this text does not constitute investment advice, I am not an investment advisor. Always perform your own research before making any investments.

Disclaimer

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