ICO Series Discussion 2
Misleading Market Decentralisation

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How Much Do ICOs* Really *Raise?

Behind the question of why market-based ICOs are simply more efficient than the Dutch Auction Decentralised-style ICOs we discussed in the first paper is the principle question as to how much one can expect to raise in an ICO. The answer is not what at first it appears to be.

The Blockchain market, encompassing all digital assets, is expected to grow by over 60% per year over the forthcoming 5 years, to a 2021 estimate of $2.3 billion (MarketsAndMarkets). Of this growth, a sizeable portion may be attributed to ICOs. Consider that there is around $110 billion in current market value, and there is approximately a 53x growth multiple on projected value. This is probably inflate by around 75% or so. However, much of this inflation – maybe up to 90% of it – is probably equally a reflection not of market overpricing but *inappropriately-directed* market resources. For this reason, the contents of this paper are extremely important: how they are handled amounts to whether there will be another 2014-2017-style slump in the Blockchain development market, or whether continuous growth will be allowed to occur. If things stay as they are now, the former will happen. If we develop appropriate market-based solutions to the ICO process however, the next five years could see value increases in underlying Blockchain solutions up to the $10 billion level, which would justify market prices of tokens today.

During 2017, there has been reported an unusually exponential growth curve in the ICO market that is most likely false to a large extent. According to data provided by Smith+Crown, contributions to ICOs rose by almost 200% during the second quarter of 2017, to just under $120 million. Meanwhile however, the total number of ICO projects funded dropped by around 25%, to just 17 fully-funded token offerings.

This data is misleading to say the least. A literal reading of the numbers would result in the conclusion that in Q217 there were 17 projects that received an average funding amount of $7 million each, with the remainder receiving negligible amounts of capital. in the first quarter of the year the number of ICOs funded was approximately 23, with committed funds totalling $40 million, giving an average of $1.74 million per funded ICO.

Thus, while the amount of total funding for ICOs rose just 2 times over the next quarter, the average raise shot up 4 times in size. The problem with this is that as we have observed, the number of ICOs funded dropped commensurately by a quarter. It is simply illogical to think that a market would see spikes of such magnitude in funding, both on a total funding and an average funding basis with a commensurate drop in individual projects funded. Cleah

Smith+Crown suggest the largest projects are receiving the lion's share of proceeds, but the data doesn't suggest this at all. In fact, it shows a more – not less – distributed average, with the average rising twice as fast as the total amount raised across fewer ICOs.

Observations of The Trend

Everex, a microlending platform headed up by Jean-Baptiste Decorzent, was introduced to the author by a Silicon Valley-based programmer who had personally participated in the ICO in July 2017 and who had also purchased COEVAL and MNY and wanted to introduce two of the founders of his favourite ICOs.

It was a genuinely kind gesture, except the value proposition that the introducing party seemed to present – that the two firms could establish an operating synergy together – seemed to be secondary among Decorzent's priorities.

"It has been and is still an epic time for us. In July 24th at 11am UTC+1, we launched our main Token Sale campaign and raised over $26.5 million. We also got an investment from an the Holley Group into Everex for half a million, plus further options to a few millions more from major banks," wrote Decorzent gushingly in his introductory e-mail.

"First, Thank you for your interest, indeed Everex has successfully raised significant amount of money to move to the next levels," he stated in the e-mail. "However, I have always advocated that Everex needed the right balance of crypto contributors (crowdfund) and equity investors (smart money). To my humble opinion, business angels and VCs would be a tremendous advantage/asset for Everex' mid and long-terms approach."

There are two things that seem bizarre about the claim of raising in excess of $26.5 million here. First, the singling out of Holley Group's $500,000 participation presumably means that this was the largest single contribution, while references to "further options to a few millions more" certainly doesn't sound like capital raised, but rather, ongoing discussion as to capital *being raised*.

Second, for someone fresh off the back end of raising such a large sum of money, Decorzent's introduction seems unusually solicitous here. This would make sense were the company to have not got anywhere near $26.5 million at its ICO but nearer the $500,000-mark; after all, the latter doesn't last long when you're beefing up operations.

It's probably a fair bet that Everex's Asian microlending platform ICO obtained about $1 million or so of real funding, in other words. Considered in the light of the Q117 average of $1.7 million per ICO (and this is likely inflated somewhat too), this $26.5 million makes much more sense than it does among the Q217 $7 million average bracket.

The point is not to single out Everex as the guilty party here, but rather to charge the market as a whole of being guilty of fabricating the same fiction with respect to their raise amounts. The answer as to why firms may choose to take this course of what amounts essentially to lying to the market is simple (and even defensible given that they have investors already committed): the tokens are likely to fare much better in on-exchange trading post-ICO if the perception of the public is that the raise was a high one.

Further compounding the potentially higher-than-likely Everex numbers, consider Digital Developer's Fund (DDF), in which Monkey sunk 1000 Ethereum and to which the author personally contributed a further 250 or so Ethereum on July 24, around the same date. This ICO ultimately announced a closing raise of just 6000 Ethereum, what was at the time around $1.2 million in USD terms. Even this number is almost certainly overinflated by around 25% or so (that money simply being allocated to insiders on the ICO).

How The ICO Game* Really *Works

The suggestion of larger-than-$2 million capital raise events at ICO stage seems to be more fiction than fact, and certainly, the elusive $100 million ICO doesn't exist at all. Logically, this makes sense: companies raising capital according to very precise discounted valuation criteria on the public equity market with equally good performance prospects cannot raise a fraction of this sum of money very often; it is highly unlikely that ICO candidates can therefore do so in such a high quantity.

I strongly believe the Securities & Exchange Commission (SEC) has not become involved in regulating or interfering with ICOs simply because of the fact that they are aware of how little money is actually being raised by the supposed 8-figure or 9-figure ICO candidates.

With so little of the public wallet purchasing such issuances, they don't present any real regulatory risk – it's that simple. The only time we have seen the SEC take an active anti-ICO stance seems to have been not because of any specific sum raised – the ICO in question, Prostars, raised only $50,000 – but rather because the Commission sought to target the method of capital raising known as the Decentralised Autonomous Organisation (DAO) which we discussed in the previous Paper.

If the DAO is clearly in the sightlines of the regulatory bodies, and there isn't really much money to be had raising cash via Dutch Auction most of the time anyway, why hold an ICO? The answer is simple: because the tokens themselves when traded on any number of Crypto exchanges ended up garnering real value, which can be sold by founders for Bitcoin or Ethereum and then the proceeds used in a completely legitimate fashion to fund personal lifestyle and/or private businesses as the seller of the tokens sees fit.

That is the real objective of most "in-the-know" ICO participants – not to raise huge sums of cash materially from investors, but rather, to get to market as fast as possible.

Hence, as a result, commensurately with the increased raise amounts you have seen the time period in which the ICO is open fall dramatically to in some cases, just a period of minutes. This is yet another mathematical improbability: the chances that the time a fund raising event is open would negatively correlate with its total raise amount is close to zero.

So – what's the point?

ICOs are still in abundant supply – in fact, so much so that at the time of writing, TokenMarket had listed a total of 48 ICOs scheduled so far for the forthcoming financial quarter (Q417). In this sense, clearly the news of "mega-ICO" events has had an effect on the ambitions of would-be entrepreneurs who wish to raise capital via a Blockchain-enabled solution.

The issue, as we have discussed in the course of this paper, is that such ICOs are either destined to fall far short of their founders' anticipated hopes or they will only succeed at generating the founders any real investible return once they are brought to market.

In the case of COEVAL, and subsequently MNY, Monkey Capital front-ran this process – at first almost by accident, and then subsequently in the case of the latter as a deliberate response to the market conditions of the former – by selling the tokens over Waves Decentralised Exchange (DEX) at lower-than-average (per ICO) market value.

The effect was to create an enormous rise in the value of COE, and, before market manipulators sought to destroy the value of both, at first in MNY, too.

The knock-on effect of this effect was to create a surge in trading volumes, whereby at the end of July COE and MNY combined represented in excess of 85% of all Waves DEX $2 million + average daily trading volumes even as the prices of both were in decline as a result of the market manipulation forced on them by those wishing to undermine the market-based ICO process.

Why would someone deliberately attempt to destroy an ICO which had created in excess of 15,000% of value for initial purchasers? Simple: if everyone was to go about doing the same thing, market expectations would not be on the part of the founders for multi-million dollars sums but rather, on the part of the investors for multi-thousand percentage point returns. This represents a highly undesirable position from the perspective of the venture capital firms that are playing the "ICO game" off against an unknowing market alongside a few "insider" whale investors.

The reason that the Monkey Capital (non)-ICO event generated such enormous controversy for a non-event wherein the majority of people made far more money than the ones who lost saw dissipate afterwards as a result of the market manipulation was simply that it undermined the entire market-based model on which all the large Dutch Auction-DAO model ICOs are effectively premised.

The point of this Paper is not undermine the Dutch Auction / DAO-based ICO approach. I have already succeeded in doing that in the first paper in this series. The point is to make it clear that when it comes to raising capital on the Blockchain, because of the inherent design of the technology's protocol, market-based capital raises are the *only way* in which decentralized structures work efficiently in any way whatsoever.

In the next paper I will examine some creative and original mechanisms for holding market-based ICOs which do not require bleeding out capital upfront in the way that the COE issuance was done, but which investors can expect multiple thousands of percentage points in returns as a result of participating in.

In the first two papers then I have established the validity of a core observation with respect to Blockchain economics. The observation is equivalent however to the one in which we find to be the case in any economic environment: that is, that a marketplace is the centrifugal aspect to value generation.

Without a solid market based approach, you've got pretty much nothing there at all. Thus, by establishing a series of fundamentally sound market-based approaches to token listings, we stand the chance of creating and identifying not just speculative but even fundamental value on the Blockchain. Up until now, that is something that no one has been successful in doing. Φ