From: **Jason Calacanis** jason@launch.co
Subject: "Why do you hate crypto, Jason?" (I don't, but...)
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JC

“If you are right, that 90% of crypto projects are scams or incompetent, what do you gain by taking that position publicly?” asked a close friend.

I took a moment to think it through.

[Click to Tweet (can edit before sending): https://ctt.ec/3a1P0]

Why was I sounding the alarm on Twitter, my podcast, and CNBC, that civilians should be very careful investing in virtual currencies that are unregulated, anonymous, easily manipulated, phenomenally hackable, global, and often run by bad actors or the incompetent?

“To protect people from losing their money?” I answered.

I’ve got a complicated relationship with crypto, having monitored early projects like Bitcoin with enthusiasm.

Six years ago I wrote a piece called “The Most Dangerous Project We’ve Ever Seen,” that introduced many in the investment community to Bitcoin.
http://www.launch.co/blog/l019-bitcoin-p2p-currency-the-most-dangerous-project-weve-ev.html

Full disclosure, while I don’t trade cryptocurrencies, I have a lot of exposure to it by investments in startups like Robinhood, Abra, and Talla.com (to name a few notable projects).

Here are five important points I would like to state for the record:

1. This will end badly for most

It would take me ten articles to catalogue all the risks and scams in this emerging space, but to give you the broad strokes here are the critical issues that most savvy people -- including those with large positions in crypto -- all agree on.

Billions of dollars in crypto have already been stolen, and *most* of the ICOs I see are horrible ideas run by people who have no track record or ability to execute.

Bitconnect is an instructive example that you can read about here:
http://nymag.com/selectall/2018/01/ponzi-scheme-bitcoin-site-bitconnect-shuts-down.html

Most importantly, you should watch this hilarious video:
https://youtu.be/lCcwn6bGUtU

And read about these pump and dump chat rooms, where thousands of people (it seems) are buying crypto coins before marketing them to the next group of suckers.
https://theoutline.com/post/3074/inside-the-group-chats-where-people-pump-and-dump-cryptocurrency?zd=1

Now, it is *possible* that while most projects fail, most of the money in crypto could wind up going to a smaller number of higher quality projects that become long-term successes -- but that is obviously not guaranteed.

In fact, it’s possible that Bitcoin could go to zero (which I talk about below).

2. ICOs are insanely speculative investments/donations

ICOs are initial coin offerings and they are the black eye of the crypto industry for a number of reasons. Most of them have untested teams, but that doesn’t mean that those teams won’t eventually build very successful companies, but it does mean that you are taking serious risk.

When you look at an ICO, understand that there are multiple levels of significant risks stacked on top of each other. Most ICOs share most of these risks:

a. Untested teams -- some are scam artists, others are just wildly naive.
b. Top projects are raising far too much money before they hit any milestones -- overfunding is a very dangerous thing.
c. A large number of bad or derivative ideas with crypto slapped on them (“Uber with tokens!” and “a decentralized Twitter!”).
d. You’re not buying stock in these companies, you’re buying tokens or, even worse, tokens that might show up, some day (i.e., the SAFT: “a simple agreement for future tokens.”)
e. You’re investing in a white paper, which is a fancy way of saying “a bunch of ideas described in a PDF.”
f. There is little legal framework for these offerings, and the SEC is a very serious organization -- and they have started to sound the alarm

alarm.
g. You have zero rights with your tokens -- because they're not equity!

If you compare this stack of risks to a startup, here is what I do for a living in terms of taking risk:

i. We typically invest in startups when they have built their MVP or a product in market with some early traction (as opposed to white papers, which are typically no more sophisticated than the back-of-a-napkin idea).
ii. We get equity in the companies (as opposed to Chuck E. Cheese's tokens that have never even been actually used).
iii. We have protective provisions in our investor agreements that keep us from being diluted, give us information rights, pro-rata, anti-dilution, and other important legal concepts that keep bad actors from absconding with our money.
iv. We have five decades of legal and regulatory stress testing of the system.
v. We meet with the founders of these projects multiple times and do due diligence (as opposed to shipping Bitcoins to their wallets).

Now, I'm not saying I will never buy tokens, but it's very clear to me that tokens are most often either a Kickstarter contribution (you know, without the product being sent two years late), a donation, a gift to incompetent people, or a scam.

There are probably 10% -- a guess on my part -- of these projects that are going to see the light of day and have a similar chance of success as an angel investment.

So, of that small number -- which I put at 10% -- maybe 10-20% will succeed.

This leads me to believe that 98% of these projects will result in people losing their money.

That means you have to make ~50x your money on one of 50 token purchases to break even. That might happen; I had a 3,000x+ investment, and a handful of 20-50x investments as an angel (which I talk about in angelthebook.com).

3. Bitcoin itself could go to zero

The Bitcoin HODL crowd (a play on words for "hold," as in hold your coins, never sell them), think this is insane, but we've watched many times as the early projects in a promising vertical go to zero and the 10th goes to the moon.

Many of us used Ask Jeeves, Lycos, and LookSmart before seeing Google show up in 1998.
https://en.wikipedia.org/wiki/Timeline_of_web_search_engines

Many of us used SixDegrees, Friendster, LiveJournel, and MySpace before Facebook in 2004.

Bitcoin is facing massive challenges around speed of transactions, the size of the blockchain, transaction costs and governance.

Governance could be the thing that takes it down. If you want to jump down that rabbit hole, you can watch this video:
https://www.oii.ox.ac.uk/blog/the-blockchain-paradox-why-distributed-ledger-technologies-may-do-little-to-transform-the-economy/

The majority case in my mind, is that Bitcoin will, as the first technology out of the gate, be supplanted by a much better technology. This could be a fork of Bitcoin or simply a new, much better product.

As time moves on, consumers get savvier, and that means they recognize a better product quicker and move to it faster and faster. We've seen this with people jumping from Hotmail to GMAIL, BlackBerries to iPhones, and dialup to broadband internet.

Consumers will not have the loyalty to Bitcoin that they have to their email account and BlackBerries, because they don't actually use Bitcoin for anything other than speculation. The switching cost will be zero, as opposed to switching your phone, which requires backing up your data, moving your phone number, and setting up your new iPhone and selling your BlackBerry.

We could see a run on Bitcoin that happens in days or hours, not years like the decline of RIM (BlackBerry's parent company) and AOL.

4. There will be an Amazon and Google in the crypto space

I'm guessing we will see an Amazon, Google or Netflix-like company come out of the crypto space. When we do, there will be a ten-year window to buy their stock and be rewarded. As such, if you are in love with the crypto space, my advice to you is:

a. Spend 50% of your time learning.
b. Invest no more than 5% of your net worth in a basket of projects.
c. Be prepared to lose 100% of your investment in this basket of projects.
d. If you do hit a massive winner, say a 50x investment, make sure to sell some along the way as "idiot insurance."

That last part is the critical one. I've had to have a heart to heart with a number of friends who bought Bitcoin early and who are "crypto rich and cash poor."

If 90% of your wealth is in any one currency that is a very bad idea -- unless you control that currency, i.e., if you were Jeff Bezos, owning a lot of Amazon stock isn't a huge problem because you control the company and have massive insight into it.

5. Founders should be very careful doing ICOs

If you take people's money for a token that you hope will someday have utility, understand that the person buying it believes -- 99% of the time -- that this is a security.

If people buy your token to make money it is no longer a utility token, even if those buyers signed a document that says, "I'm buying a utility token not a security."

Why? Because some percentage of our legal system and regulators will side with retail investors. You will get dragged into court and be forced to explain why you did a countdown clock to sell your utility tokens and why you hired promoters to sell them around the world.

Even if you win, it will be a horrible victory. Just ask the people who were sued after the dotcom implosion. It took the brutal part of a decade for most the them to clear their names even if they were in the right -- others got lifetime bans.

Also, as Rob May from Talla points out, there can be additional costs to ICOs that founders might not consider:
https://www.coindesk.com/hidden-trade-offs-icos-entrepreneurs/

Summary
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1. I don't hate crypto, but I do hate seeing people get scammed out of their money.
2. The space is now driven by scams, FOMO, and FOCO, which means it's going to end very badly for a lot of people. (FOCO is the fear of cashing out.)
3. Feel free to invest a lot of your time, if so inclined, but be very careful with your money.

Best @jason

PS - We are giving 1,000 founders a free ticket to LAUNCH Festival Sydney, June 19 and 20. http://launchfestivalsydney.com Please spread the word!

PPS - We are hosting the next LAUNCH Incubator class starting on March 8. If you know of a company in our "Goldilocks Zone" (GLZ) please hit reply and introduce me to them. The GLZ means not too hot and not too cold, which for us means the startup doesn't have a Series A yet, but does have a product in market with some traction (even modest traction, like $10,000/month in revenue or 10,000 daily users). http://www.launchincubator.co/

PPPS -- We are just wrapping Season 2 of my podcast ANGEL. It's free and you can listen here: angelpodcast.com & http://bit.ly/angelpodcast

PPPPS -- If you're an accredited investor and you want to see what I'm investing in, and possibly invest alongside me, you can apply at jasonssyndicate.com.

PPPPPS -- The book is doing great. If you've read and loved it, please consider posting a review, which I understand really helps!
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