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ICOs For Noobs

What Is An ICO?

An ICO, or “Initial Coin Offering,” uses cryptocurrency to raise capital for new business ventures. Each ICO provides a unique, project-specific crypto token, often referred to as an “ICO coin” or “ICO cryptocurrency.” This token becomes available for public purchase when the ICO begins. When individuals buy ICO coins, they effectively invest in the project. The idea behind an ICO is to garner mass participation. ICOs are designed to raise as much capital as possible, which in turn strengthens the blockchain on which the token is based.

ICOs are similar to crowdfunding in that they use digital networks to aggregate financial support from multiple funders. But they have several features that do not apply to traditional crowdfunding platforms. For example, the asset acquired by a participant’s investment (i.e. the ICO coin) can appreciate in value. This is a primary incentive for investing in an ICO. Beyond that, ICOs are risky: they present a swath of unprecedented legal and ethical concerns. The concept of using blockchain technology to facilitate early-stage project funding is very new. Thus best practices for policy, regulation, and security are evolving.

Novelty notwithstanding, ICOs have been remarkably successful. In the last year alone, they have already raised over one billion USD in capital. While a small group of technologists and financiers were aware of coin offerings before 2017, their popularity is now expanding beyond any niche. As interest increases, ICOs are proving their effectiveness as fundraising tools.

If it sounds like a good fit for your project, the experts at Draglet can help you set up your own ICO. Our team will work with you to navigate the complexities of ICO funding and crowdsales. We will maximize the support you receive at the earliest stages of project development.

Why Would Anyone Invest In An ICO?

ICO tokens confer monetary value, although the specific categories of asset they can represent vary widely. A major benefit of ICOs is that their developers are at liberty to determine the exchange rate and functionality of coins. For example, an app development company might develop ICO coins that can be used to make in-app purchases. Once a new app is released, ICO participants will already have currency to spend. If the currency gains in value, participants may sell their coins to other app users. Otherwise, they can enjoy the benefits of having gained more money to spend. Depending on the stipulation of the ICO, coins might also be traded for other cryptocurrencies, such as Bitcoin or Ethereum, on applicable crypto exchange platforms.

ICO funding can be thought of as paying in advance for a tool or service that is still in beta. Funders have the potential to capitalize on the risk inherent to any new project. Because there is always the possibility that a project will fall short of expectations, potential investors are encouraged to learn as much as they can about a new project before they fund it. Fortunately, there are many ways to do this. In the case of virtually all ICOs, developers provide a white paper at launch time. Thus potential investors can review technical specifics before choosing to participate. ICO developers also frequently build investor trust by posting their code on an open platform like Github.

At the time of writing, ICOs are almost exclusively used by technology initiatives — and mostly blockchain-based projects, at that. But this may change. For obvious reasons, ICOs have been most enthusiastically embraced by the digital currency community. As the concept gains traction, however, a growing number of non-blockchain and even non-technology initiatives may become interested.

How Impactful Are ICOs, Really?

Past ICOs have demonstrated a promising margin of success, although they are not without their drawbacks. The biggest issue is security. Luckily, technologists are learning from past oversights. The most noteworthy security breach was the attack on the DAO, which served as a case study in the difficulties and complexities of running an ICO. The ICO process used by the team at Draglet places security first and foremost, just any responsible ICO proprietor should.

Despite their attractiveness to hackers and the reverberations of the DAO hack, the success rate of coin offerings has grown significantly over time. Ethereum was one of the first big projects to be funded by an ICO, raising eighteen million dollars in forty-two days. The Ethereum token, Ether, is now the world's second most popular cryptocurrency. A number of successful blockchain initiatives, including multiple ICOs, have been built on the Ethereum platform.

Other ventures, including The Golem Project — a tool for harnessing idle computer power — and Aragon — a blockchain platform that supports autonomous, decentralized businesses — were able to amplify their success with coin offerings. Golem's token sale raised [over eight million dollars in under ten minutes](#); meanwhile, Aragon [raised twenty-five million dollars in twenty-six minutes](#).

The current success rate of ICOs is also encouraging. The August 2017 sale for Filecoin, a tool that rewards participants for hosting files with the Ethereum-based Filecoin token, [raised two hundred million dollars in an hour](#). There is a wide variety of resources to investigate recent, current, and upcoming ICOs, such as [ico-list.com](#) and [icoalert.com](#). These demonstrate that the trend toward ICOs is spreading at a very promising rate.

Security, Regulation, and Related Concerns

With so much excitement, the fact that there are few established conventions for their governmental oversight and general security must be addressed. As mentioned, the biggest concern is hacking. Since they typically hold a high amount capital, bad actors have been interested in ICO crowdsales from the very start. The DAO hack was not the only ICO offering to be hijacked, and every instance of a security breach has led to scrutiny and debate among coin holders and the digital currency community in general.

The practices used by Draglet consolidate expert research in this area. Part of Draglet's defense approach is to offer ICO proprietors a database where each investor has their own specific address. This helps to prevent capital from being drained in its entirety, as it is much more difficult for attackers to breach multiple different addresses as opposed to just one. We also use Google Authenticator. This tool works against the popular hacking method of back-end address change. Relatedly, we provide services to investors in case they lose the password by which they can access their ICO coins, which in some cases would mean they'd forfeit their whole investment. Our team will walk you through everything you need to know about keeping your ICO safe.

The legal and regulatory status of ICOs is another complexity. The fact that ICOs are unregulated by state and national governments is frequently cited as both a benefit and a problem. To this day, ICOs have been conducted without government intervention. However, networks that support Bitcoin and other cryptocurrency exchanges have garnered some government attention. In a handful of instances, they have come under scrutiny for their capacity to facilitate money laundering and the sale of illegal goods and

services. For example, the Silk Road used the anonymity of Bitcoin to protect the identity of its users.

The capital generated from crowdsales is not currently subject to the same taxation laws as traditional investments, including those made during an IPO. Because they are inherently transnational, the policy that governs ICO taxation will be difficult to develop. Nevertheless, it's possible that they will be more heavily regulated in coming years. In the United States, policy advocates such as the Chamber For Digital Commerce (digitalchamber.org) have been working with government officials to discuss what this looks like. Meanwhile, the owners of an ICO are urged to follow best Know Your Customer (KYC) practices. Blockchain, Bitcoin, and all ventures that depend on them should establish themselves as reputable, ethical tools. When blockchain developers and company owners comply with the law, they contribute a future where this technology can do the most good.

How Are ICO Coins Purchased, Stored, And Sold?

The first step to purchase ICO coins is to buy Bitcoin or Ether. Future ICOs may accept traditional currency and other forms of crypto, but the norm has been to exchange these popular tokens for ICO coins. Although BTC is more widespread, ETH is commonly accepted by ICOs (in part because so many ICOs run on Ethereum).

The next step is to make sure your digital currency assets are held in a wallet that you entirely own and control. Many popular digital currency wallets, including the Coinbase wallet, do not offer users private keys. If you invest in an ICO from Coinbase, your ICO tokens will flow into the entire Coinbase system. User-controlled wallets include Parity and My Ether Wallet (for ETH) and the blockchain.info wallet (for BTC).

To make the investment, you send cryptographic information associated with your digital currency to an address posted by the ICO. The ICO holders receive BTC or ETH at this address. Normally, they publicize the amount of capital they earn on their website. It's common to incrementally raise the price of an ICO coin as more money is earned. Displaying earnings can help accelerate interest in the ICO.

It's important that the address to which you are sending your information is legitimate. Hackers can drain ICOs by establishing false addresses as the real ones for an ICO. It's also possible to automate your ICO investment with a smart contract. ICOs can operate quickly, generating huge amounts of capital in minutes and potentially bottlenecking the system. Automating your investment may be wise if you're interested in keeping pace while the coin price is most affordable.

After the purchase, it's advisable to use cold wallet (offline) storage to hold the cryptographic information necessary to cash in. Draglet's ICO system allows proprietors to offer cold-wallet storage to their funders. This is one of the simplest and most effective ways to protect ICO coins and other digital currency assets.

Draglet ICOs

The world of Initial Coin Offerings hold great promise promise. At Draglet, we believe in their power to fuel great ideas. Our expertise can help you yield a secure, highly successful crowdsale. If you're interested in learning more, contact us today.