



Public Announcement Regarding Dangers of ICOs

We are now awash in a wave of issuings known as ICOs, an acronym for Initial Coin Offerings. The term is borrowed from stock-exchange issuings known as IPO's (Initial Public Offerings). With IPOs companies raise investment from the public in exchange for stock that represents ownership and grants several rights, such as taking part in profits.

Similarly, with ICOs companies develop a project (often a platform using the blockchain technology), and raise money from the public by issuing tokens, which are digital coins that usually sit on top of the blockchain of an existing coin, such as Bitcoin or Ethereum. This is done under the understanding that if the project succeeds, the value of the tokens will go up and the investors will profit.

There is no doubt that this is an interesting and innovative area. The wide assortment of varied projects using this mechanism, as well as the technical ease of raising money in this way, illustrates the huge potential that inherent in the technology behind Bitcoin – the blockchain. This mechanism encourages a flow of people and resources into the field, and will surely help advance the field forward and intensify the revolution that Bitcoin heralds.

That said, it's very important to understand the huge risks that exist in investing in ICOs. This new world tends to captivate innocents tempted by the hope of getting rich quick. **We implore the public considering investment in ICOs to treat the matter with serious consideration, out of a recognition that investors might lose all their money.**

Beyond the risk of failure that accompanies every investment, a few characteristics of this activity intensify the risks inherent in it:

- 1) This is a new field that has not yet arrived at an equilibrium, and as a rule of thumb, the amount of money being invested today in a typical ICO is

disproportionately high compared to what stands behind the ICO. Millions of dollars go to a project based on a whitepaper with no product or proof of the execution ability of the team.

This probably results from the charm this world casts on people who are afraid to miss out on a chance for a profit and are willing to invest at almost any price. On one hand, there are people who feel they have “missed the boat” with more established coins like Bitcoin and Ethereum; and on the other hand, there are people who have already profited from the aforementioned coins and are looking for the next thrill, trying to continue riding the wave.

Because these projects might raise astronomical sums to begin with, the tokens will struggle to live up to expectations, to go up in price and give value to their investors.

2) The regulatory attitude towards this area is yet to be clarified. On one hand, this means investors will find it difficult to demand their rights, due to a lack of an appropriate infrastructure. On the other hand, it is possible that in the future there will be a regulatory intervention in a specific project or in the whole domain, which may hurt its continued operation.

3) In an attempt to circumvent the regulation, a typical ICO does not offer stock in a company (which comes with legal rights), but rather tokens. These tokens' usefulness, their relevance to the project and how they are supposed to gain value are often unclear. Even if the project succeeds, there is no guarantee that this will manifest in an increased value of the token and in a profit for the investor.

We are of the opinion that the ICO market today is similar to the High-Tech market in the era of the Dot-com bubble. There is nothing wrong with High-Tech, the Internet or Dot-com; the entire modern world is based on what started developing back then. This does not contradict the fact that in a certain period, people had excess enthusiasm and exaggerated expectations out of companies in this area, which blew up in investors' faces. Maybe if they would have toned down their enthusiasm, they wouldn't have suffered such bitter let downs.

Here, too, we of course encourage innovation and careful optimism for what is to come, with the understanding that investment in this field might turn out in retrospect to be unsuccessful.

It's important to understand that even though the concept of ICO is tightly connected to the world of Bitcoin and crypto-currencies, it has a life of its own. You should discern and differentiate between them, and should not directly deduce from one about the other. While Bitcoin and the like are based on decentralization - on canceling the need for trust by using verifiable open-source code - when investing

in an ICO you are giving full trust to the entrepreneurs. Even if it does turn out ex post facto that we are in the midst of an ICO bubble, that does not reduce the legitimacy of the crypto-currencies in the original sense of the word. They will also keep growing in parallel and independently of the world of the ICO.

If you still choose to try your luck, there are several things that are worth taking notice of if you wish to discern between more and less successful issuings, and choose a suitable ICO. It is highly recommended to read the article "[The Token Craze: 10 Recommendations for the Wise Investor](#)," that complements this public announcement. It explains the background for the idea of ICO, and details aspects one should examine while considering investing in an ICO. Its main points are outlined below:

1. Invest only in teams that seem trustworthy.
2. Make sure you understand the role of the token in the project.
3. Check if there is code and a basic product.
4. Make sure there is a final cap to the amount of money raised.
5. Check the terms of the issuing.
6. Read the Smart-Contract before you sign.
7. Beware of aggressive marketing.
8. Demand full transparency.
9. Pay attention to developments in the area of regulation.
10. **Do not invest more money than you can afford to lose.**