DYNASTY WEALTH

INVESTING

Cryptocurrency Community In Desperate Need Of Regulated Infrastructure

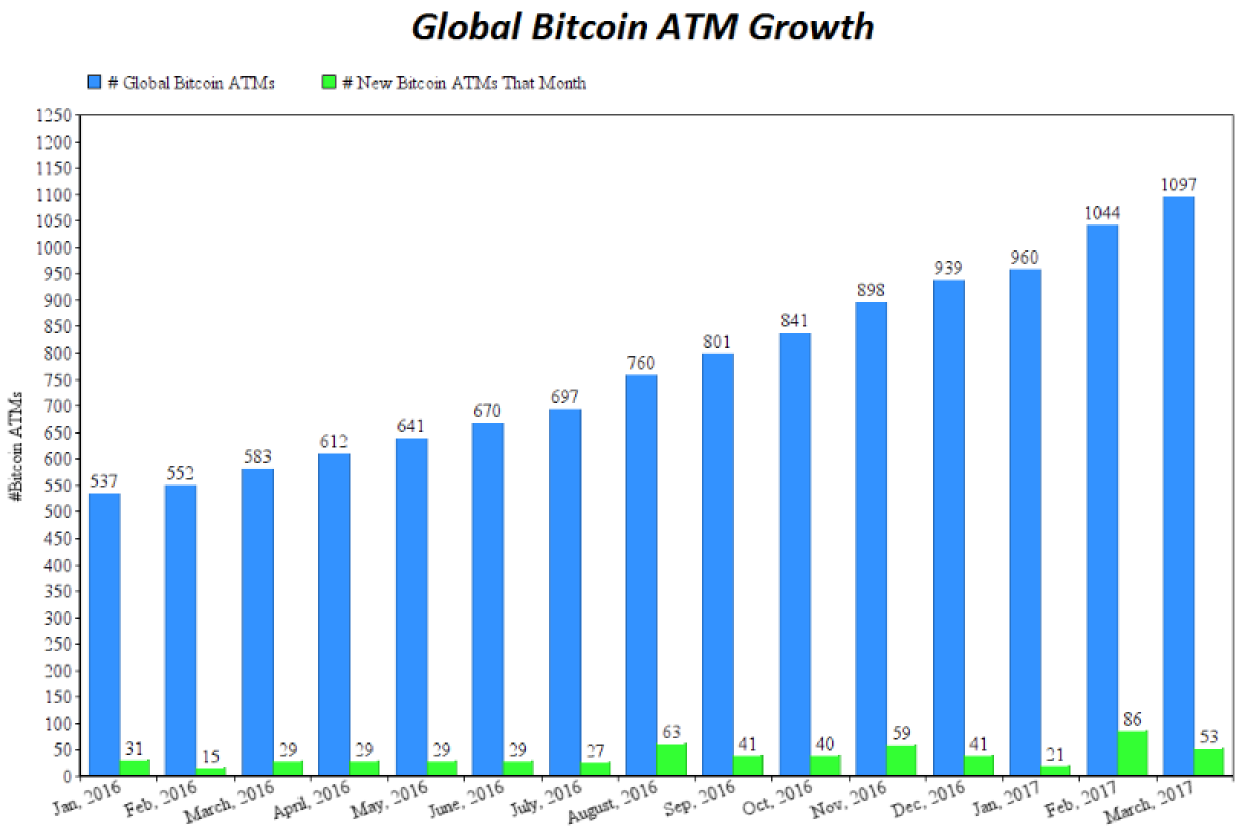
By Michael Markowski, June 5, 2018

The global cryptocurrency community is now in desperate need of regulated infrastructure. Cryptocurrency scams and illicit activities have provoked the ire of the world's governments. As of the end of 2017, the growth of cryptocurrencies had rivaled the exponential growth rates for the web's 1995 to 2000 period. Bitcoin's successes (noted below) had enabled it to burn its brand and also cryptocurrencies as an asset class into the minds of consumers:

- Price of a Bitcoin went from $.008 in May 2010 to its all-time high of $19,783.06 in December 2017

- Futures contracts for Bitcoin began to trade on a regulated exchange in December 2017

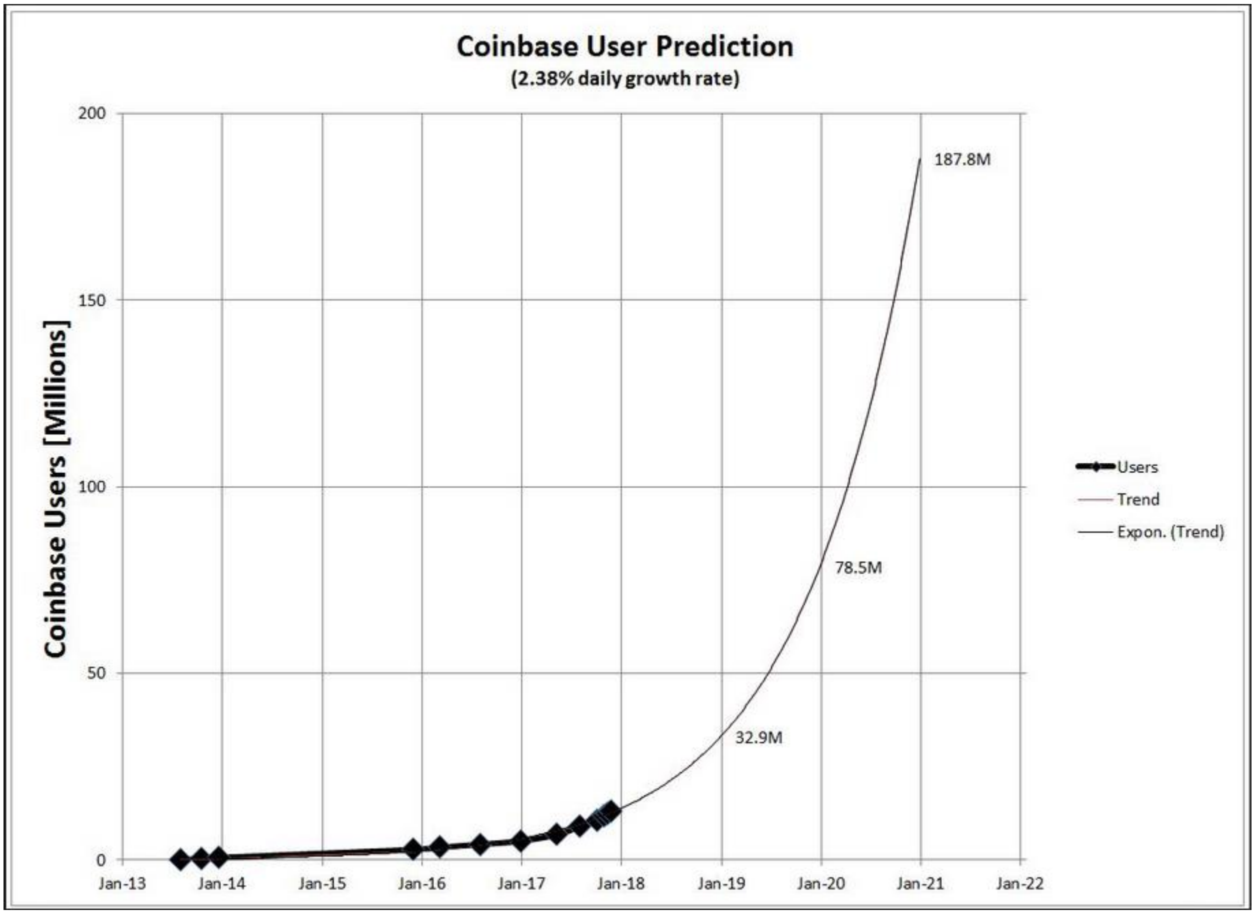
- Bitcoin became a viable alternative to fiat currencies as seen with the growing availability of Bitcoin ATMs (see chart)



Nine years after Bitcoin was launched in 2009, cryptocurrencies went viral in 2017. The aggregate market capitalizations of all cryptocurrencies increased exponentially from $18 billion to $600 billion.

As of the end of 2017, the cryptocurrency community had grown to 193 cryptocurrency exchanges and 1,325 crypto currencies. Coinbase, the US' largest crypto exchange had more clients than

Charles Schwab and predicted that based on its user growth rate of 2.38% per day that it would have 187 million clients by 2020.



Unfortunately for the crypto user community; along with the sensational growth in cryptocurrencies, came fraud. In early 2018, Vietnam banned cryptocurrencies after its citizens were scammed for $660 million. See "Unpacking the 5 Biggest Cryptocurrency Scams", *CoinTelegraph.com, April 18, 2018*. The US recently began an investigation into the illegal price manipulation of cryptocurrencies. See "US Justice Department reportedly opens criminal investigation into bitcoin price manipulation", *CNBC, May 24, 2018*.

The world's governments and the US' Securities & Exchange Commission (SEC) have become increasingly concerned about cryptocurrencies. The world's economic leaders who attended a G-20 Summit in April 2018, concluded that the regulating of cryptocurrencies by governments was long overdue. See "World Governments Target Summer 2018 To Regulate Cryptocurrencies", *TheMerkle.com May 9, 2018*. See also, "Cryptocurrency Regulation: New Laws, Big Changes Coming", *LiveTradingNews.com, May 12, 2018.*

Governments have also been cracking down on the crypto exchanges. Most, if not all of them, are operating illegally. Coinbase, the largest US cryptocurrency exchange, is in danger of being shut down since it is operating without a license. Since the SEC charged a former bitcoin exchange and its founder in February 2018 with fraud, more and more crypto exchanges have voluntarily shuttered. The countries listed below have shut down cryptocurrency exchanges over the last 12 months:

Switzerland
Bulgaria
China
Vietnam
Japan
Venezuela
Romania
South Korea
United States.

The shuttering of exchanges has had and continues to have a lasting negative impact on cryptocurrencies' liquidity and prices. See Ethereum and bitcoin plummet as South Korea decides on shutdown, *Express January 16, 2018*. See also "Bitcoin falls by 10 percent after regulators signal crackdown on exchanges", *Arstechnica.com, March 7, 2018*.

While many in the cryptocurrency community are reluctant to admit it, cryptocurrencies and their holders are in desperate need of regulated infrastructure. The cryptocurrency movement is at a crossroads. Cryptocurrencies gained acceptance with innovators and then gained a foothold with the early adopters in 2017. According to the new technologies and products acceptance chart below, cryptocurrencies must gain additional traction with the early adopters before they can cross the chasm to gain mass market acceptance. To cross the chasm, this will require that regulated crypto infrastructure providers emerge to provide the liquidity for cryptocurrencies as well as the safety for buyers and sellers to enter into transactions.

Each of the world's cryptocurrencies is going to be regulated. All existing and future cryptocurrencies are members of one of the following two groups:

- Currencies

- Securities

In the United States, there are two regulatory bodies which regulate currencies and securities. Currencies are regulated by the Commodities Futures Trading Commission (CFTC). Securities are regulated by the Securities & Exchange Commission (SEC). Based on my preliminary analysis, my rough guess is that 90% of the existing cryptocurrencies are securities and 10% are currencies.

Many have been anxiously awaiting the SEC's establishment of a specific set of new rules and regulations for the issuance and trading of cryptocurrencies. Based on an interview the Chairman of the SEC gave to Bloomberg, there will be no new rules for crypto. Instead, the SEC is relying on the rules and regulations of Securities Acts of 1933 and 1934 to regulate crypto.

The regulations for the issuance and the trading of cryptocurrencies are the same as the regulations which pertain to the issuances and trading of publicly held stocks and bonds. Therefore, the three primary and fundamental categories of regulated infrastructure providers that are needed to support the ecosystem of the cryptocurrency community are as follows:

Exchanges

- Exchanges which are in compliance with US' Securities Exchange Act of 1934 are needed to list and make markets in all of the crypto currencies. There is presently not one crypto exchange that lists all of the 1,325 cryptocurrencies. The "NYSE" of crypto must emerge. *The term "crypto exchange" is a misnomer. The more than 200 existing crypto exchanges operate similarly to an unlicensed broker dealer.*

Investment Banks

- Investment banks which are in compliance with the US's Securities & Exchange Commission's regulations to raise capital for initial coin offerings (ICOs) and secondary coin offerings. The "Goldman Sachs" of crypto must emerge.

Brokers

- Licensed brokers and, more specifically, online brokers are needed to introduce the cryptocurrency asset class to investors. The clients of the brokers will provide the capital for the ICOs and secondary offerings that are launched by the crypto investment banks. The clients will also provide the secondary market liquidity for the crypto currencies which are listed on the regulated crypto exchanges. The "Ameritrade" of crypto must emerge.

Similar to a security the life cycle of a cryptocurrency begins with the:

- *investment bankers structuring the ICOs*
- *clients of the online brokers purchasing the offerings*
- *exchanges listing the cryptocurrencies and conducting the market making activities to provide liquidity*

The table below depicts the valuations for the existing global ecosystem for the public markets consisting of exchanges, investment banks and online brokers.

Aggregate valuations for regulated industries and sectors providing infrastructure for global public markets as of May 11, 2018		
Industries in Sector	**Members of industry**	**Aggregate value of industries and Sector in billions**
Exchanges	CBOE Global Markets, CME Group, NASDAQ, Intercontinental Exch. (NYSE), ASX, LSE, Singapore Exch. Deutsch Bourse, Japan Exch., Hong Kong Exch.	$226.8B
Investment banks	Goldman Sachs, Morgan Stanley, Credit Suisse, UBS	$294.2B
Online brokers	Ameritrade, ETrade, Interactive Brokers	$84.7B
Sector Total	N/A	**$605.7B**

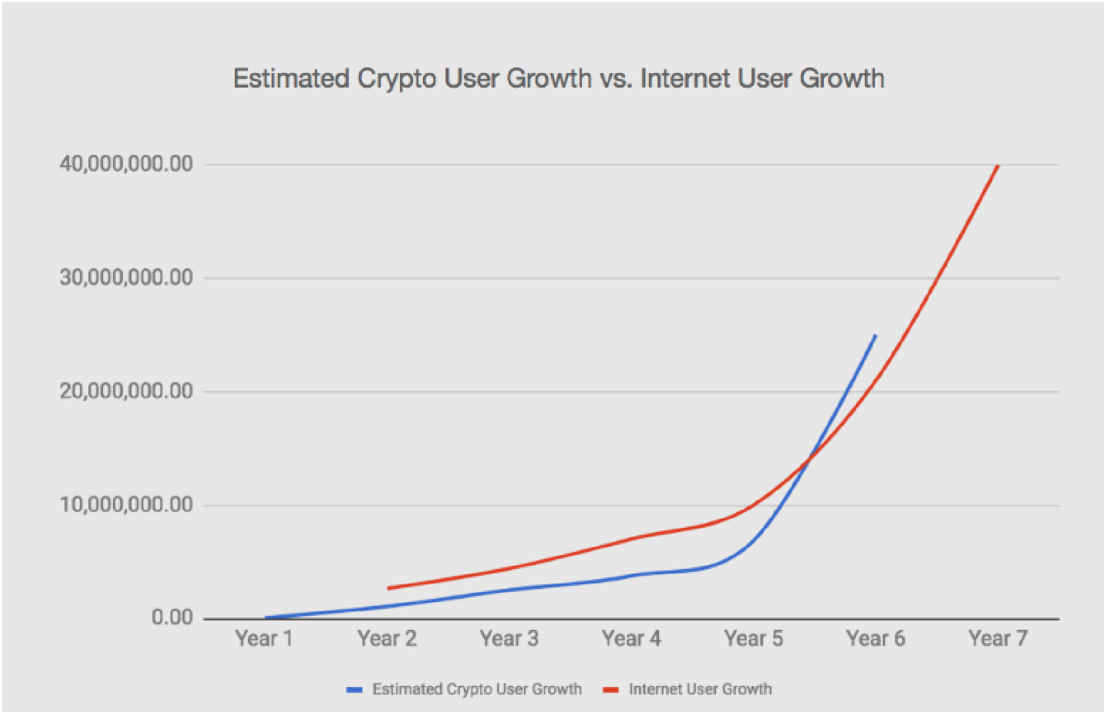
While some including, Warren Buffet, believe that cryptocurrencies will go away; they are here to stay for the following reasons:

a) **More efficient than current system**
The system for the issuing, tracking and transferring paper securities which has been in place from the very beginning is archaic, costly and more susceptible to fraud.

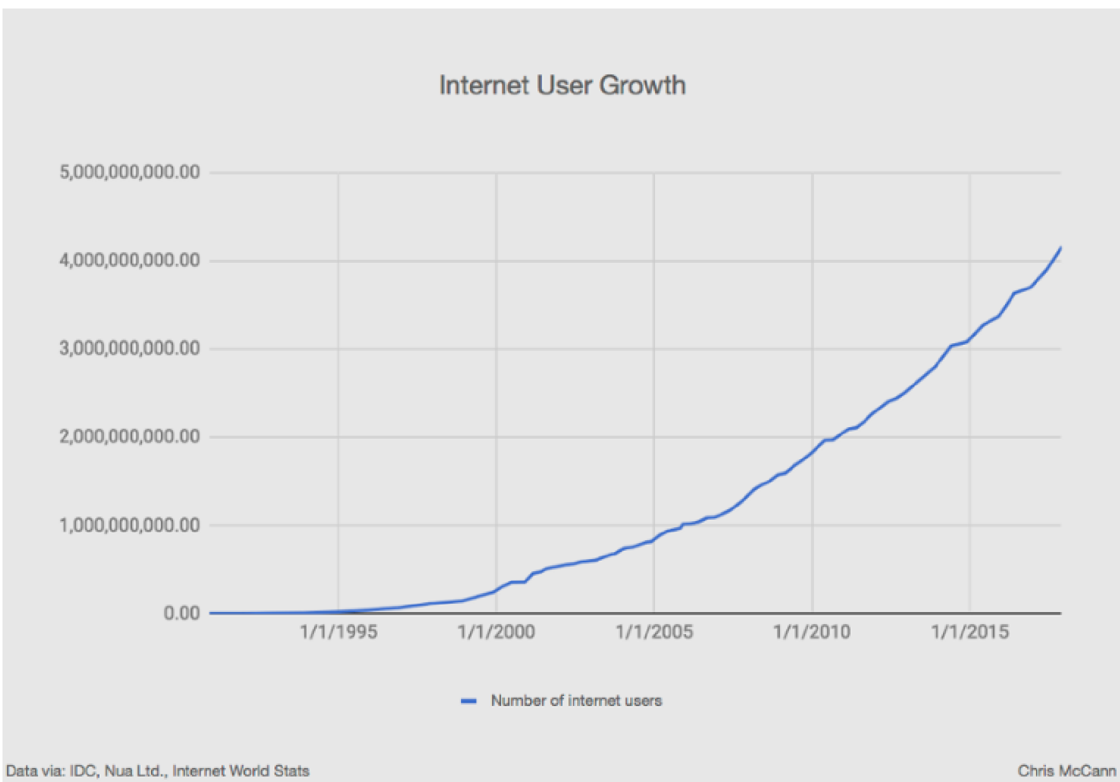
b) **Safer way to speculate**
Due to Dodd Frank the risk for the trading of speculative securities has increased exponentially. See my article "Dodd Frank: Boon for Large Caps, Bust for Micro-caps" *Equities.com, December 12, 2017*. Cryptocurrencies will eventually replace shares for all speculative investment opportunities since they will eliminate naked shorting, etc.

c) **Bitcoin futures now traded on CFTC regulated Chicago Mercantile Exchange**
This has resulted in institutions being able to invest, in turn legitimizing cryptocurrencies as an asset class.

As soon as the regulated infrastructure emerges to support the ecosystem for the crypto community, the adoption of cryptocurrencies by the masses will resume its growth. The chart below illustrates that, for its first five years, the growth of crypto's users has been comparable to the web's user growth for the similar period of its evolution.



This chart below which depicts the web's growth from 1990 through 2017 illustrates just how big the potential for the cryptocurrency user base could be.



The table below includes the performance of the IPOs for some of the web's key infrastructure providers from their IPO prices to their 1999 highs.

Company	**Year of IPO**	**Share price multiple increase**
Yahoo	1996	205X
Amazon	1997	71X
Ameritrade	1997	35X
Ebay	1998	36X

Dynasty Wealth has identified investment opportunities for all three of the categories of regulated cryptocurrency infrastructure providers. All of them are first movers who are crucial to the establishment of the infrastructure that is needed by the global cryptocurrency community. Given the $605.7 billion valuation of the sector which provides the regulated infrastructure to the world's public markets each of the three that have been identified have the potential to be valued for $10 billion by the end of 2020. Below are the market caps and the projected multiple returns on investment for the three opportunities assuming that they reach $10 billion valuations.

Category	Market Cap	Projected (multiple) ROI
Exchange	$460 million	22X
Investment Banker	$70 million	143X
Online Broker	$28 million	357X
Public company	$1.1 billion	9X

The three crypto infrastructure companies in the above table are first movers. Thus, the 3 minute, 52 second video below entitled "Why companies qualifying as a 'First Mover' have the potential to get to $1 billion valuations almost instantly" (3:52sec) is highly recommended.

Insert https://michaelmarkowski.wistia.com/medias/lu46nrgr5x

The 4 minute, 10 second video below entitled "Crypto's Wild West" summarizes the content in this report.

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The four investment opportunities are available to Dynasty Wealth's members. Memberships are available at www.dynastywealth.com.