

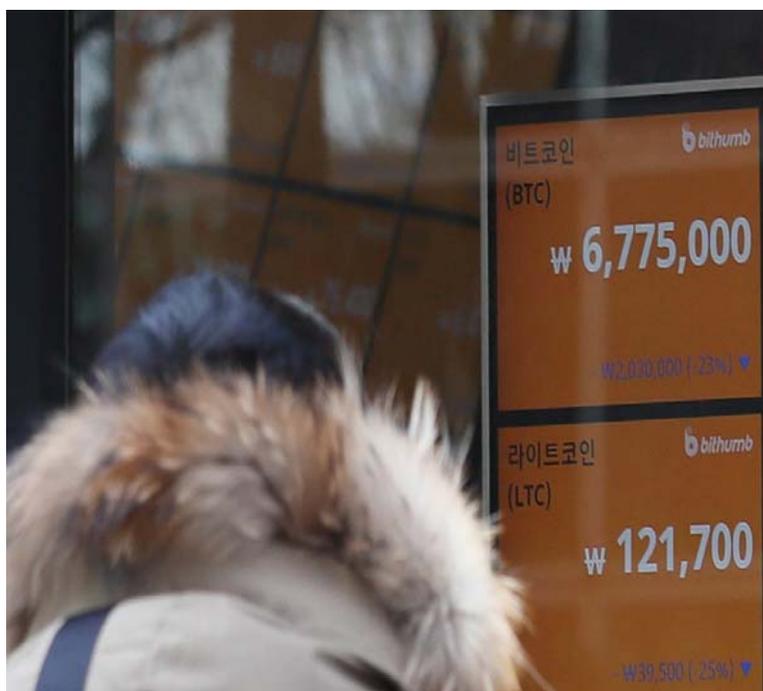
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MARKETS

## Bitcoin's Plunge Weighs on Coin Offerings

Recent low has weighed heavily on so-called altcoins and the newer tokens created via initial coin offerings



An electronic board at a cryptocurrency exchange in Seoul showing the price of bitcoin plunging to the 6 million-won (\$6,000) level on Tuesday. PHOTO: YONHAP NEWS/ZUMA PRESS

By Paul Vigna

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Bitcoin's roughly 70% selloff from the December peak to its recent low has weighed heavily on so-called altcoins and especially the newer tokens created via initial coin offerings.

Throughout 2017, the price rallies in bitcoin and the smaller digital currency ether helped feed the appetite for the new coin offerings, in which startups publicly sell

bitcoin-like tokens. The fundraising method exploded, with more than \$6 billion raised in 2017, according to data service Token Report.

Now, that process is reversing.

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In Tuesday's trading, when bitcoin hit its recent low, many altcoins did as well. EOS, one of the largest initial coin offerings, or ICOs, was down 67% since Jan. 13, when it hit a record of \$18.37.

TRON, which started trading in September, was down 92% since Jan. 22. OmiseGo was down 71% since Jan. 9. ICON was down 75% since Jan. 30. Even an "old" ICO such as Augur, down 69% since Jan. 12, hasn't been spared.

Most of the larger, more established altcoins fell sharply as well. Ether, the currency used on the Ethereum network, was down 60% since its Jan. 13 record. Ripple was down 84% since Jan. 4. Bitcoin Cash was down 82% since Dec. 20. Litecoin was down 71% since Dec. 19.

The sharp moves underscore both how speculative bitcoin and its peers are and how susceptible they are to changes in investor sentiment.

Bitcoin, which is being used for trading more than for buying consumer goods these days, and other cryptocurrencies have little real-world value at the moment, and most ICOs are tied to projects that haven't been launched.

Without any good way to determine a cryptocurrency's value, prices are largely driven by momentum and buyers at the speculative extremes, wrote Gunduz Caginalp, a professor of mathematics at the University of Pittsburgh, and Carey Caginalp, an instructor at Carnegie Mellon University, in a recent research paper.

"Stability will be lacking, so the cryptocurrencies may simply be a mechanism for a transfer of wealth from the latecomers to the early entrants and nimble traders," they noted.

Bitcoin and ICOs also may not be as insulated from the rest of capital markets as thought. In the past week, cryptomarkets have mirrored the selloff in the traditional stock market.

The Dow Jones Industrial Average started turning down last Thursday, and many cryptocurrencies did as well. Bitcoin slid as low as \$5,960 on Tuesday before rebounding. Late Wednesday in New York, it traded at about \$7,930, up 33% from its lows but well below its record of \$19,783.

In lockstep, the other altcoins also rose on Wednesday.

“It seems pretty clear to me that there are a lot of investors whose appetite for risk is dictated by moves in the equity market,” said Galen Moore, who runs Token Report.

A lot of the new investors in bitcoin and ICOs were coming from stock markets, which until this month had been steadily rising.

What that also shows, he said, is that bitcoin and its ilk aren’t immune to developments in the traditional capital markets.

Crypto investors have also been contending with regulators in China, South Korea, and the U.S. In Washington on Tuesday, the heads of two key federal agencies testified to Congress about digital currencies and ICOs.

The market watchdogs said the patchwork of state laws wasn’t effective in regulating the cryptomarket. Securities and Exchange Commission Chairman Jay Clayton added that the agency “may be back with our friends from Treasury and the [Federal Reserve] to ask for additional legislation.”

The market has already started to slow down. Token Report’s Mr. Moore noted ICO projects raised \$911 million in January, down from a record monthly figure of \$1.6 billion in December.

The big ICOs tended to be for technology projects that make big promises about streamlining cumbersome processes and cutting out middlemen. EOS, which has raised more than \$700 million in a coin offering that remains open, proposes to build an alternative platform to Ethereum. Tezos, which raised \$232 million last summer, is also planning its own Ethereum alternative. Filecoin, which raised \$262 million last year, is looking to build a decentralized market for storage space.

Many of the ICOs are for less grandiose projects, though, and those tend to raise less. Less than half of the ICOs from 2017 raised more than \$100,000, according to data from research firm ICORating.

**Write to Paul Vigna at [paul.vigna@wsj.com](mailto:paul.vigna@wsj.com)**

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