8 PAGES ABOUT...

The New New Thing In Financial Innovation:

THE I.C.O.

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ABOUT OUR '8 PAGES' SERIES:

The Librarium Associates monthly '8 Pages About..' series is a publication created by our team focused on topical current issues that we feel warrants a deep dive were we can distill the key developments and provide an alternative view on such topics.

We are constantly engaged in active horizon scanning while adhering to our belief that students of the lessons of history and permanent features such as geographic realities can provide superior insights.

From these broad scenarios we work to identify investable trends and specific opportunities. We find that such a broad approach provides an 'early alarm' system for risk management and an indicator of attractive price/value situations across asset classes.

The intention of our research and the basic premise of this publication is to present rational perspectives based upon a diligent analysis of historical data. Through organizing the data logically, information is created. Through understanding and developing perspectives on the information, knowledge is generated. With knowledge, one can then start to make informed decisions.

The most practical way to imagine the future is to question the expected, this is best done making use of what we call 'critical thinking' – Critical thinking is the careful, deliberate determination of whether one should accept, reject or suspend judgment about a claim and the degree of confidence with which one accepts or rejects it. Critical thinking employs not only logic but a broad intellectual criteria such as the one outlined above. Critical thinking requires extensive experience in identifying the extent of one's own ignorance in a wide variety of subjects which is often captured in the following sentence; I thought I knew, but I merely believed.

As J.F. Kennedy put it; "Belief in myths allows the comfort of opinion without the discomfort of thought." Our aim is always to avoid this trap of the mind, when one attempts to look into the future one is better of exhibiting a more intellectually humble approach and challenge one's beliefs and opinions by asking the question; What if we took the opposite view? This leads to a more balanced set of insights in our view.

The insights and opinions offered in this document are meant as a summary of events and our views – not a conclusive or exhaustive overview or for that matter a specific investment recommendation.

We hope it will offer some food for thought and that it can form the basis of conversations between our clients, interested parties and ourselves.

Sincerely yours,

Mr. S.H. Sorensen
Senior Associate

A WELL TRODDEN PATH OR NEW TERRITORY? LET'S GO EXPLORE:

After publishing our '8 Pages About Crypto' – which took a look mainly at Bitcoin in November last year and our '8 Pages About Investing in Innovation' – which takes a look at innovation & technology from an investors perspective with the lessons of history and glimpses of what's on the horizon – I was often asked about my thoughts on the ongoing Initial Coin Offering (ICO) wave.

What follows is my thoughts on this fast moving area, much is still fluid in the space and it has all the inherent pitfalls of an untested idea mixed with naïve exuberance and fantastical narratives driven by both real visionaries and outright fraudsters. Nonetheless it is a kaleidoscope of ideas that are worth exploring, as what is known is that our current financial system can certainly be improved upon.

With a fiduciary mindset it has all the tell-tale signs of a FOMO induced bubble with all the bells and whistles that go hand in hand with any new financial 'innovative' field. With a flawed price finding mechanism due to illiquid OTC style operations operated by unregulated entities, a lack of transparency, standardized rules for filling requirements and oversight and enforcement of these rules, it is only natural that much hubris flooded in.

But this is not new and unique, as the guidelines from the US Commodity Futures Trading Commission in the segment titled 'Old Scam, New Technology'; *"Pump-and-dump schemes have been around long before virtual currencies and digital tokens. Historically, they were the domain of the "boiler room" frauds that aggressively peddled penny stocks by falsely promising the companies were on the verge of some major breakthrough.."*

The SEC raises some good balanced points in their own press release: *"Distributed Ledger Technology (DLT) may in fact be the next great disruptive and productivity-enhancing economic development. If history is any guide, DLT is likely to be followed by many more life-changing innovations. But we will not allow it or any other advancement to disrupt our commitment to fair and sound markets."*

With this in mind I have spend the last 3-4 months digging into this new arena, the amount of 'noise' has been extreme and the journey has certainly been an interesting and colorful one. Much of the buzz – both the potentially game changing concepts and the pure nonsense - has taken me back to the heady days of the last great technological move in the financial and economic tectonic plates – the Internet boom/bust of the late 1990s.

As the self-proclaimed visionary technologists and the marketing people of various new offerings are keen to highlight; 'in 1994 email was adopted by less than half a percent of the global population and in 2017 crypto currencies are adopted by less than half a percent of the global population'. And as the venture capital guys and their investment bankers are fond of saying when riffling through their power-point presentations; 'You do the math'.

Journey with us through the evolution of financial markets for some much needed perspectives. From the 'Scritta' to underneath the Buttonwood Tree via Amsterdam and The City of London:

"It is not quite accurate to call Amsterdam the first stock market, as people often do. State loan stocks had been negotiable at a very early date in Florence and Venice - with its use of book-keeping (scritta) the miraculous method of settling transactions between merchants on the spot, by transferring payments, without the use of cash and without having to wait for the infrequent settlement days of fairs, before 1328, and in Genoa, where there was an active market in the Luoghi and Paghe of Casa di San Giorgio, not to mention the Kuxen shares in the German mines which were quoted as early as the fifteenth century at the Leipzig fairs, the Spanish juros, the French rentes sur l'Hotel de Ville (municipal stocks) (1522) or the stock market in the Hanseatic towns from the fifteenth century. The statutes of Verona in 1318 confirm the existence of the settlement or forward market (...) In 1428, the jurist Bartolomeo de Bosco protested against the sale of forward loca in Genoa.

All evidence points to the Mediterranean as the cradle of the stock market. But what was new in Amsterdam was the volume, the fluidity of the market and publicity it received, and the speculative freedom of transactions." - *Fernand Braudels*, The Wheels of Commerce.

The Buttonwood Agreement, which took place on May 17, 1792, started the New York Stock & Exchange Board now called the New York Stock Exchange. This agreement was signed by 24 stockbrokers outside of 68 Wall Street, New York under a buttonwood tree. The organization drafted its constitution on March 8, 1817, and named itself the "New York Stock & Exchange Board." In 1863, this name was shortened to its modern form, the "New York Stock Exchange."

In brief, the agreement had two provisions: 1) the brokers were to deal only with each other, thereby eliminating the auctioneers, and 2) the commissions were to be 0.25%. It reads as follows: We the Subscribers, Brokers for the Purchase and Sale of the Public Stock, do hereby solemnly promise and pledge ourselves to each other, that we will not buy or sell from this day for any person whatsoever, any kind of Public Stock, at a less rate than one quarter percent Commission on the Specie value and that we will give preference to each other in our Negotiations. In Testimony whereof we have set our hands this 17th day of May at New York, 1792.
- Wikipedia

THE INTERNET OF VALUE

THE VISION:

The internet of value will be as transformational as the internet itself. It's a decentralized global network for exchanging 'value' in a fast, frictionless and transparent manner. It will integrate all assets for all people and all geographies, from money, shares, bonds, derivatives, property titles, commodities to loyalty programs via the so-called 'tokenization' - a process of transformation of asset accounting and management were digital tokens represent ownership of an asset and/or rights to income streams/interest etc.

Transactions will be cryptographic using 'smart contracts' and electronic tokens were once paperwork, handled by middlemen at a cost and often with conflicting interests, was the rule. With such fluid digital assets flowing through a global decentralized electronic ledger system the benefits will be speed of transfer, mitigation of settlement risk, absolute transparency of all transactions in the system, for audit and regulatory aspects you will have a universal record of truth with all entries permanent and unchangeable.

Customers will have the full convenience of big data analytics drawing on deep transaction metadata to indentify suitable products for their consideration. The decentralization and the universal nature of the network will enable participants all around the world to participate, providing them with greater choices and increased freedom which in turn will create new pools of liquidity which will lead to more efficient markets.

Smart contracts will provide new methods for arbitration and structuring of contracts pertaining to investments and operational contracts with far reaching consequences and the ability to rationalize many of the current functions in the market place.

Via the 'network effect' this global digital ledger eco system will create enormous value, as it will eventually bring billions of people together in a truly universal and borderless financial system unlike anything ever known to mankind.

Sources: Derived from etchings in the deep crevices of the Twitter threads of the spiritual ones, the visionaries, the technologists and the slide decks of a few institutional investor types who have joined the path, mixed with the musings of too many podcasts and sprinkled with the magic dust of grinded down horn of the unicorn.

The journey continues...

Moving on from the cozy gentlemen's club under the buttonwood tree and taking a look at an innovative 'upstart' with roots going back to 1790 – The NASDAQ which started out as the Philadelphia Stock Exchange and has since become a global player with a lot of 'firsts.'

In 1971 they were the first to invent electronic trading and the modern IPO. In 1989 they were the first to support Silicon Valley innovators. In 1991 they were the first to sell their technology to power other exchanges and the first to operate an integrated derivatives trading and clearing system. In 1996 they were the first to launch a financial website. In 2012 it became the first to offer a financial services-specific solution for data and infrastructure management in the cloud. In 2013 they became the first technology provider to offer cloud-based storage for regulatory records retention.

But they will have to hurry up if they want to be the first to offer a blockchain-based clearing and settlement platform for token sales in North America, as the Canadian Securities Exchange (CSE) plans to launch an initiative that will see the CSE move to list so-called "Security Token Offerings," through which blockchain-based assets which are explicitly securities would be offered and sold.

IS THE NEW NEW THING IN SIGHT OR IS IT JUST A MIRAGE?

Will the ICO/Tokenization space become an integral part of the 'Internet of value' or just another seedy corner of the global financial markets?

Time will tell, but listening to various presentations (One grainy Youtube based presentation on the ICO revolution started with the ballsy assertion that the discussion would cover; "What it means for the future of humanity and beyond" which was followed by a lot of drops of "awesome") and reading the new mantras pumped out by the next 'Bodhisattva of the crypto sphere' (Think Patrick Swayze's amazing 'Bodhi' character in the original Point Break movie but more nerdy) I kept coming back to vivid descriptions by the always eloquent Mr. Lewis and his excellent 1999 book; 'The New New Thing'. He provides this timeless observation in a 1999 New York Times Magazine article titled ' The Search Engine' which preempts the book:

"It's a new thing, or rather the new new thing. It's easier to say what the new new thing is not than to say what it is. It is not necessarily a new invention. It is not even, necessarily, a new idea — most everything has been considered by someone, at some point. The new new thing is a notion that's poised to be taken seriously. It's the idea that is moments from gaining general acceptance and, when it does, will change the world."

This seems to be very apt for the times we are currently in, he goes on to say the following in the Preface of 'The New New Thing':

"In the second part of the 1990s Silicon Valley had the same center-of-the-universe feel to it as Wall Street in the mid-1980s. There was a reason for this: it was the source of a great deal of change. Up until April 4, 1994, Silicon Valley was known as the source of a few high-tech industries, and mainly in the computer industry. On April 4, 1994, Netscape was incorporated. Suddenly - as fast as that - Silicon Valley was the source of changes taking place across society. The Internet was a Trojan horse in which technogeeks entered all sorts of markets previously inhospitable to technogeeks. Wall Street, to take just one example, was turned on its head by new companies and new technologies and new social types created just south of San Francisco. The financial success of the people at the heart of this matter was unprecedented. It made 1980s Wall Street seem like a low-stakes poker table. As yet, there is no final reckoning of the wealth the Valley has created. Hundreds of billions of dollars, certainly; perhaps even trillions. In any case, 'The greatest legal creation of wealth in the history of the planet,' as one local capitalist puts it.

Will the current developments lead to similar advances and riches for the early adaptors?

Again only time will tell, in my search for insights I have certainly come across some real visionaries with strong ideas with wide ranging implications if implemented and as we stated in our 'Letting History be the Guide' segment of our '8 Pages About Investing in Innovation' report; *"My two main conclusions are that technology develops cumulatively, rather than in isolated heroic acts, and that it finds most of its uses after it has been invented, rather than being invented to meet a foreseen need. (...) Because technology begets more technology, the importance of an inventions diffusion exceeds the importance of the original invention. Technology's history exemplifies what is termed an autocatalytic process: that increases with time, because the process catalyzes itself."*

Considering this it's hard to identify the exact path forward and the full potential of the new technologies being introduced from this vibrant global community. What is clear is that financial markets have always evolved seeking better efficiencies, widening offerings and investor bases and often getting a little lost in the process but always finding it's way back to the path that has helped mankind finance the greatest achievements over the last 3-400 years.

The pathology of technology investing:

"In the case of the Internet, the losers are easy to categorize but difficult to identify. Unlike most previous technology changes, there is no obvious industry being supplanted. It is not railroads replacing canals, or the telephone replacing the telegraph.

However, it is about electronic replacing physical delivery, which is a change that applies across a whole range of industries, not just one sector. (...) The financial sector, though, is larger and likely to be more profoundly affected. There have been early moves in the stock-broking sector and to a lesser extent the banking and insurance sectors, but these are only the tip of the iceberg. It is entirely possible that brand new companies could be created with cost structures quite different from the current players.(...) The problems of out-of-date and inadequate computer systems, the so-called legacy problems in many financial services companies, are such that there is little possibility of them being able to react in time to prevent a sharp erosion in their business from competitors who can use the technology of the internet to full effect.

Margins are fat in the finance business, just as they once were in the PC business. This looks set to change. It will be possible to automate the manufacturing of financial products through to their distribution to the end user and to do it all electronically. (...) The financial sector as a whole has relied on the lack of transparency to maintain its margins. The Internet will remove this lack of transparency by allowing the various parts of the supply chain to be broken up and competition to attack each of them.

From the excellent book: Engines that move markets - Technology investing from the railroads to the internet and beyond.' by Nairn published in 2002. Is the 'Internet of value' the next step in this evolution?

WHAT ARE WE LOOKING AT?

Before we take a deeper dive into the lessons of history, take a look at the disrupter Vs. disrupted scenarios and outline some ideas for the path forward and how fiduciaries and investors can position themselves, let get some definitions in place.

What is an ICO?

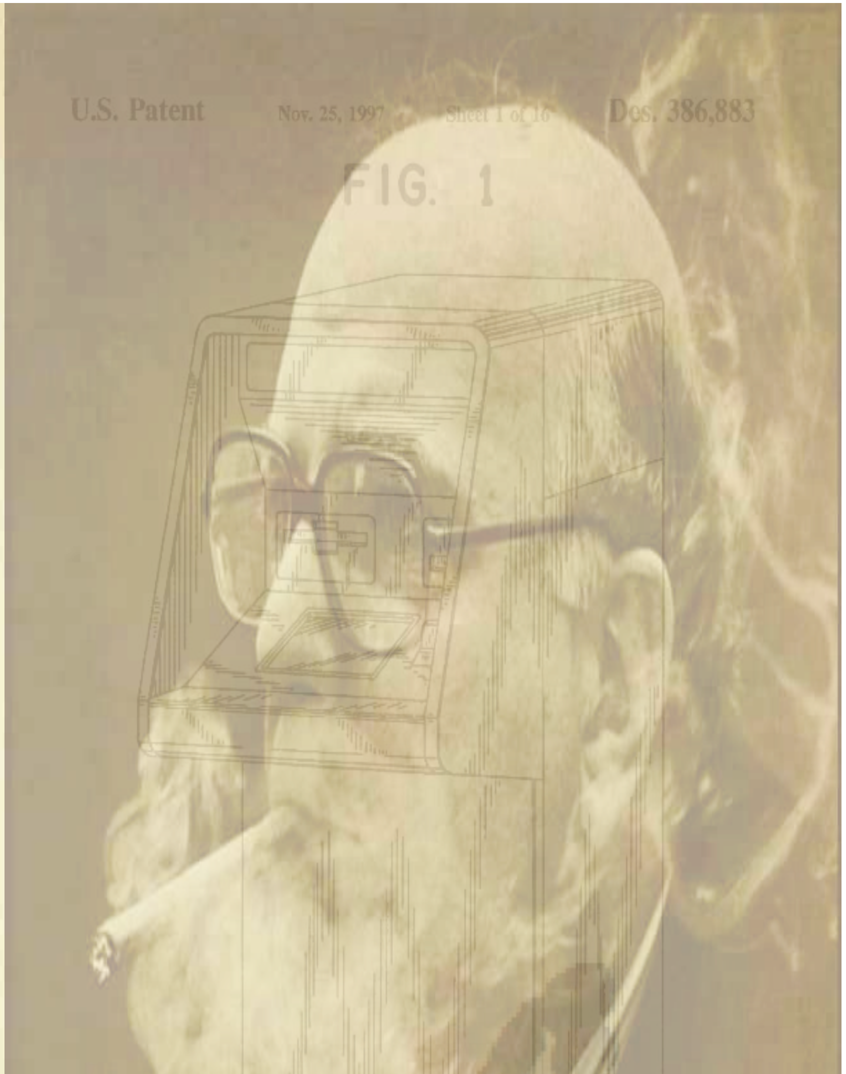
An Initial Coin Offering, also commonly referred to as an ICO, is a fundraising mechanism in which new projects sell their underlying crypto tokens in exchange for Bitcoin and Ether. Regulatory definitions differ around the world and in the early stages confusion was rampant with a host of actors, including some bad ones, scrambled to access this new source of funding and newly 'rich' holders of Bitcoin and Etherum sought diversification and/or the next hot thing. These were joined by a curious more mainstream group who had missed the earlier rush in the initial coins and who wanted to make up for lost time, sometimes with the dubious 'advice' of Twitter charlatans, snake-oil salesmen and a host of other flamboyant characters who kindly offered ideas of what to buy next.

You can view ICO projects as unregulated securities that allow founders to raise an unjustified amount of capital with case-by-case somewhat murky legal understandings of what exactly the 'investor' owns, while others argue it is an innovation in the traditional venture-funding model, akin to the recent bloom in web-based crowd funding platforms. Due diligence can be near on impossible for the average investor in the current formats as most projects are 'pre-product' and are largely based on a website and a 'white paper' and as mentioned the definition of ownership varies and the regulatory maze is clouded with uncertainty in many places.

The most useful overview I found is from the always pragmatic and forward looking Swiss, who's financial regulator, FINMA, has taken a balanced approach to ICO projects that allows legitimate innovators to navigate the regulatory landscape, so they can launch their projects in Switzerland in accordance with the standing laws that protect investors and the integrity of the financial system. FINMA's guidelines identify three categories of ICOs:

1. The Payment ICOs, which are transferable and can function as means of payment. These have to comply with anti-money laundering regulations but are not treated like financial securities. Think of these as electronic casino chips, Disney dollars or company scrip.
2. The Utility ICOs, which does not qualify as securities if their only purpose is to confer digital access rights to an application or service. Think of them as an electronic subway token – a way to access a closed system.
3. Asset ICOs, are treated like equities or bonds if, for example they pay dividends or interest, or give rights to earning streams. These are subject to the stricter standard securities law requirements. Think of these as an electronically title held asset.

However even in Switzerland, which was initially chosen as the go-to destination for ICOs, it is dealing with the fallout from early adventures in the space. One of the early high profile digital-currency projects was the ill fated Tezos Foundation and their 'Tezzie Tokens,' which is now under fire from both outsiders and insiders over false marketing and mismanagement. At the core of the issue is the controversial use of a traditional Swiss foundation structure with a subsequent undefined definition of the status of the funding – was it an investment or a charitable contribution? And what exactly is the rights of the 'investors'? In due time the courts will have to decide.



While addressing a room full of bankers and so-called financial engineers in the aftermath of the 2007 financial crisis, Paul Volcker stated that the biggest innovation in finance in the last 20 years was the humble yet extremely convenient ATM. Is that still the case today?

50 SHADES OF GREY – US REGULATIONS:

For the US it is a little more complicated, the SEC's recent decisions, has managed to clear up some gray areas.

In some cases, the token is simply a Utility Token, meaning it gives the owner access to a specific protocol or network; thus it may not be classified as a financial security.

On the other hand, if the token is an Equity Token, meaning that it's only purpose is to appreciate in value, then it looks a lot more like a security.

While many individuals purchase tokens to access the underlying platform at some future point in time, it's difficult to refute the idea that most token purchases are for speculative investment purposes. This is easy to ascertain given the valuation figures for many projects that have yet to release a commercial product.

The SEC decision may have provided some clarity to the status of utility vs. security tokens; however, there are still plenty of room for testing the boundaries of legalities.

For now, and until further regulatory limits are imposed, entrepreneurs will continue to take advantage of this new phenomenon, but with recent clamp downs in mind it pays to be smart and take proper legal advice and ensure your venture is in compliance with the basic guidelines of the SEC. These are currently primarily based around the REG-S/REG-D & REG-A+ framework which has been used for OTC offerings to Accredited Investors mainly and with restrictions on offering procedures and a mixed record long before the ICO train pulled into the station.

Hybrids of old school REGs and Token offerings has been the preferred option by most, but it still has a lot of grey areas. Furthermore, during the writing of this report the SEC and the Treasury has been making noises that ICOs may need to be compliant with the Bank Secrecy Act, which would mean that new and old offerings in the US may have to implement full Know Your Client (KYC) procedures. To comply companies must do normal initial KYC data collection and have an active process in place to investigate customers and report suspect transactions to authorities.

As for the inconvenient reality that you are going to have to pay taxes somewhere even on gains/income from a 'universal tokenized asset' – According to reports, the IRS has started to request the customer data from US based exchanges in recent weeks. As always Investors should consider taxation implications and other risks such as liabilities connected to lawsuits, when choosing their holding structures – As the saying goes; **Before you chose what to own, establish how to own it for the optimal outcome.**

It pays to be on the right side of the legal framework and as it is evolving, as innovation takes place and the dialogue between regulators and entrepreneurs is ongoing, stay abreast of developments.

For investors any offering that refrains from declaring clearly its status and format in writing or attempts to circumvent the rules is best avoided, as they are either most likely incompetent or fraudulent.

AXIOM: REGULATORS GONNA REGULATE...

IT PAYS TO KNOW THE RULES...

THE STORY SO FAR...

The guys at NASDAQ, who not so long ago was the upstarts with a new way of doing things upsetting the established order, provides a good summary of the path of ICO offerings so far:

"Several projects used a crowd sale model to try and fund their development work in 2013. Ripple pre-mined 1 billion XRP tokens and sold them to willing investors in exchange for fiat currencies or Bitcoin. Ethereum raised a little over $18 million in early 2014 – the largest ICO ever completed at that time. The DAO was the first attempt at fundraising for a new token on Ethereum. It promised to create a decentralized organization that would fund other blockchain projects, but it was unique in that governance decisions would be made by the token holders themselves. While the DAO was successful in terms of raising money – over $150 million – an unknown attacker was able to drain millions from the organization because of technical vulnerabilities. The Ethereum Foundation decided the best course of action was to move forward with a hard fork, allowing them to claw back the stolen funds. Although the first attempt to fund a token safely on the Ethereum platform failed, blockchain developers realized that using Ethereum to launch a token was still much easier than pursuing seed rounds through the usual venture capital model. Specifically, the ERC20 standard makes it easy for developers to create their own cryptographic tokens on the Ethereum blockchain. Some argue that crowd funding projects might be Ethereum's "killer application" given the sheer size and frequency of ICOs. Never before have pre-product startups been able to raise this much money and in this little time. Aragon" raised around $25 million in just 15 minutes, Basic Attention Token raised $35 million in only 30 seconds, and Status.im raised $270 million in a few hours. With few regulations and such ease of use, this ICO climate has come under scrutiny from many in the community as well as various regulatory bodies around the world."

Furthermore it should be understood that this field is so early that the rules are literally being made up as we go along, and as can be expected with the boom and a powerful FOMO narrative in recent years with unbelievable gains blasted across the media and social platforms the recent history includes many negative experiences.

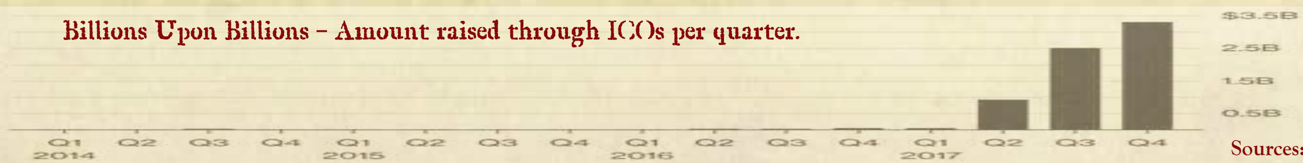
An Ernst & Young study of the ICO space outlines an array of risks for investors and companies raising funds. They found that more than 10% of funds raised through ICOs are lost or stolen in hacker attacks. When looking at the 'white papers', akin to offering documents, they where shocked by the overall poor quality, clear coding errors and issues of conflicts of interest between issuers and the supposed 'community' token holders.

They also found several instances in which the underlying software code of a project contained hidden investment terms that had not been clearly disclosed, or contradicted previous disclosures. They analyzed more than 372 ICOs and found that roughly $400 million of the total $3.7 billion in funds raised to date had been stolen. Phishing was the most widely used hacking technique for ICOs, with hackers stealing up to $1.5 million in ICO proceeds per month. The study found that, as was the case with the 'Internet boom' years in 1999, that as the frenzy built and the demand for offerings and volume exploded issuers raised their fundraising goals and more incoherent offerings jumped on the bandwagon leading to a marked drop in quality.

According to a comprehensive study by Tokendata, who tracks ICOs, last year they identified and tracked 902 'crowd sales.' Of these, 142 failed at the funding stage and a further 276 have since failed, either due to taking the money and disappearing, or slowly fading into obscurity. This means that by mid Q1 of 2018 46% have failed. The number of ICOs that are still a going concern is actually lower. An additional 113 ICOs can be classified as 'semi-failed', either because the team has stopped communicating on social media, or because the community is so small as to mean the project has no chance of success. This means that 59% of last year's 'crowd sales' are either confirmed failures or failures in the making.

Welcome to the jungle...

Billions Upon Billions – Amount raised through ICOs per quarter.



Sources: Bloomberg, Smith + Crown.

REALITIES...

None of these developments are all that surprising taken in the context of the history of financial innovation – surely some less than forthright characters set up shop in the alleys around 68 Wall Street back in the late 1790s and whispered alluring tales of massive gains with little risk to anyone passing who would listen. And certainly the madness of crowds is nothing new nor is tales of confused regulators, and fierce lashing out by the established order against any new challengers to their profitable system is a given.

Channeling Mr. R.W. Emerson's wisdom; **"Build a better mousetrap and the world will beat a path to your door."** The real question is do we actually have 'a better mouse trap'?

Since the days of the 'scritta' by the canals of Venice, people have raised funds for their ventures – large and small – from the crowd. This has taken many forms as we have experimented with different models and today we have a multitude of ways for entrepreneurs and companies to get funded such as traditional loans, bonds, private equity & public equity.

Our current system, especially in the publically listed space, has undergone significant evolution in the last 50 years with the move from the 'open outcry' system to a purely electronic format and with many exchanges combining multiple global markets. Since 1971, when the NASDAQ first introduced electronic trading and the modern IPO, we have seen nothing short of a revolution with the incumbent cozy 'good ol' boys club' of the established exchanges being brutally awakened by the onset of 'e-trading' and low-cost brokers providing increased access to global markets with instant pricing and a 'fire hose' outlet of information all via the wonders of the internet. Today competition has shaved the fat fees down significantly and high-frequency trading accounts for the majority of the major markets. Comprehensive – but by no means perfect – rules, regulations and oversight is the norm providing issuers and investors with a relatively predictable, transparent and functional liquid market place. With products such as index funds and ETFs the average investor can access most global public market assets relatively frictionless.

It is not clear that the tokenization process has much to offer here, besides some aspects of the distributed ledger technology being incorporated within the existing system in order to further rationalize their 'back office' and it may lead to a rationalization of the current 'alphabet soup' of service providers that handle processing and record keeping such as CREST. Some exchanges may establish their own options or purchase some of the best operated new token exchange operators to add a new line of revenues and in order to provide a comprehensive range of services, not to mention to tap into the energy of the current zeitgeist.

Over the long term should 'the vision' unfold and global investors and entrepreneurs increasingly embracing the new model, the question is if over time markets will transform from the current public centralized nature to a private decentralized format with less incentive to go public in the traditional sense.

In highly sophisticated markets with mainly professional actors, such as derivatives and debt instruments, one could imagine a wider application within some of the much derided 'closed distributed ledger systems' that are currently being trialed by the major global banks.

The real and more immediate changes this 'new new thing' may bring about is a challenge to the areas of the financial system which has the most 'fat to be cut' or where the ICO model is a direct competitor, such as the recently popular 'peer-to-peer' lending/crowd funding platforms.

Ironically it may end up disrupting the disrupters with venture capitalists, who has historically been leading the disruption in the other sectors, seeing their traditional model come under pressure and reduced fees and equity packages becoming the norm. The smart ones will naturally pivot and address the changes and cease the opportunities at hand by incorporating it in their business model.

Others such as the traditional investment banking industry and their cohorts of corporate lawyers may find themselves facing a 'change or die' conundrum as the ICO process increasingly empowers the entrepreneurs. Again a pivot to providing a more comprehensive range of services with a more à la carte fee format could take hold.

The private equity industry is also ripe for changes, with the funds having so-far avoided the pressures to reduce fees that have afflicted the hedge fund industry. With a more automated process one could imagine platforms operating strategies with investments in multiple private companies and/or CRE/RE projects that can be accessed by investors with less friction.

Other illiquid high value items with similar profiles to CRE/RE such as collectables and art could also be an interesting avenue as could more community orientated projects, such as sports ventures owned by their fans akin to the FC Barcelona model or even infrastructure projects such as toll roads, rail transportation or renewable energy were the benefits and the profits can accrue for the benefit of the users.

HOW TO APPROACH IT ALL AS A FIDUCIARY/INVESTOR:

In our ' 8 Pages About…Crypto' Report we conclude with the following observations, that also seems apt for investors and fiduciaries looking at the ICO/Tokenization sphere:

"As a fiduciary, who takes their responsibility seriously, can you really signoff on an investment into this space? The answer should be yes, if you have done your due diligence and found supporting fundamentals that match your mandate. It, crypto and related ventures, should in our opinion be considered akin to traditional VC investing – high risk/high return with increased illiquidity risk - and once the boom/bust cycle clears out the hubris it may very well turn out to be one of the great wealth creation opportunities of our time.

As Shakespeare put it; **"There is a tide in the affairs of men, which taken at the flood leads on to fortune. Omitted, all the voyage of their life is bound in shallows and in miseries. On such a full sea are we now afloat. And we must take the current when it serves, or lose our ventures."**

However it may, as is often the case when new innovation and discovery interrupts, be that the real opportunity is around the edges, in the less spectacular and the more mundane. It was Mr. Levi and the sellers of shovels and provisions who rode the California Gold Rush to fortune. Revolutions often lead to spectacular episodes of wealth destruction whereas the quieter cousin, evolution, with the benefit of compounded interest dynamics, often ends up the real wealth creator.

A generational wave will eventually drive all things electronic to new levels, my kids navigate a digital world with the swipe of a finger and I recently discovered that they where making virtual money in the online game; Minecraft by selling their constructions and innovations to players around the world. We live in interesting times, stay curious yet with an all important sense of critical and independent thought. It has served mankind well for millennia."

One might add that if you are an entrepreneur and/or owner of assets such as CRE/RE and high value collectables and are looking to raise funds you should certainly look into the potential options ICO/Tokenization has to offer.

If the current challenges - in terms of regulatory, governance and illiquidity aspects - can be overcome and a comprehensive system can be established, drawing on the expertise of the established actors and harnessing the creative energy of the new innovators, it should be well positioned to intersect with what some have described as 'the biggest wealth handover of all time' from baby boomers to the more technology enabled millennials in the coming decade. This could be a major catalyst for taking it mainstream and for 'the vision' to be realized.

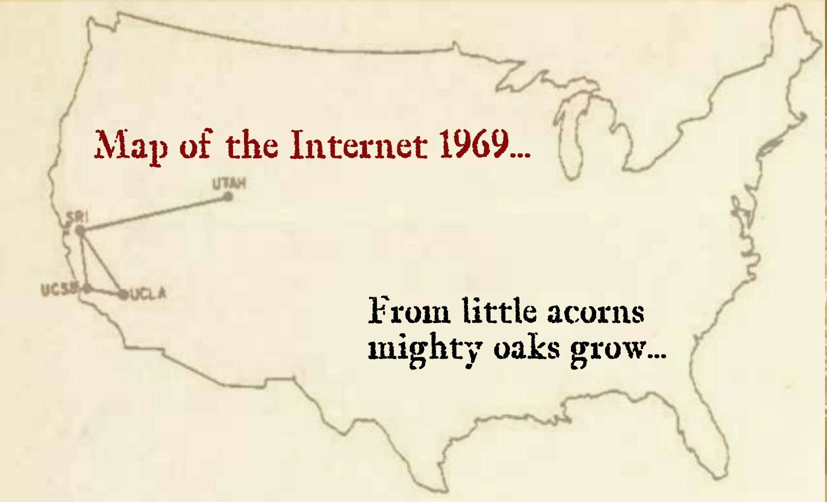
A word of caution to this positive long term vision is the fundamental question of whether we are heading towards a world that values decentralized universal borderless freedom – economic and otherwise. The current trends seems to be more focused on confrontation than collaboration between nation states and even within nations. On a less philosophical level one has to ask – as some investors in the last crop of ICOs are - 'Who enforces the rules in a universal decentralized world and is a 'smart contract' worth the paper it isn't written on?

Another important question is; How many people – investors and companies – are at the ICO trough just because of the buzz surrounding the space? Besides the FOMO driven feeding frenzy, Is there actually any tangible benefits in place right now – besides the negative ones of lack of disclosure requirements, which invites in bad elements? When testing the waters with the new new thing investors are always wise to focus on **'the return of my money over the return on my money.'**

One is well served to heed the old adage that; **"Liquidity is a coward, it's never around when you really need it."** By association illiquid markets are notoriously poor indicators of value, when you have lightly traded offerings where only minute amounts of the float is trading on a daily basis it is ripe for manipulation. Furthermore, you have to question how much of these incredible market moves are driven by extremely 'hot money' racing around a comparatively closed system, where the key 'currencies' – Bitcoin and Ether – are very volatile and have seen outlandish appreciations creating a lot of 'easy money' seeking the next wave to surf amongst a lot of inexperienced 'surfers' who have never seen prolonged periods of troubled waters. The more level headed enthusiasts are the first to admit that the valuations are questionable, but in their opinion the 'asset class' is not. Taking my own advice from our '8 Pages About…Investing in Innovation' report; **"Don't judge a book by its cover."** I would tend to agree with that observation and will be keeping an eye on this 'new new thing' with an open mind to pursue opportunities in the space.

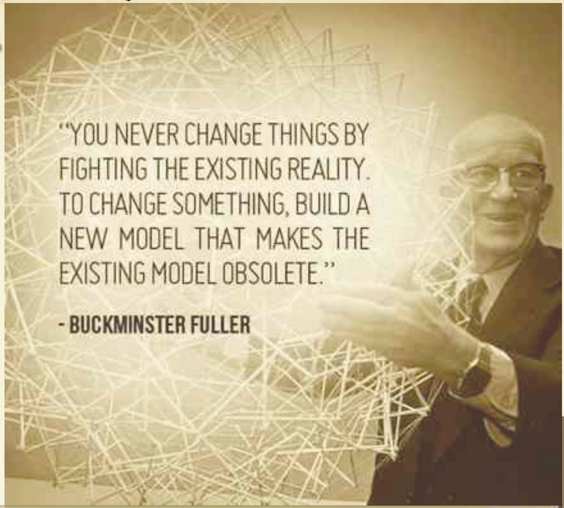
From our '8 Pages About Investing in Innovation Report'.

Random thoughts from the journey...



Map of the Internet 1969...

From little acorns mighty oaks grow...



Life comes at you fast...

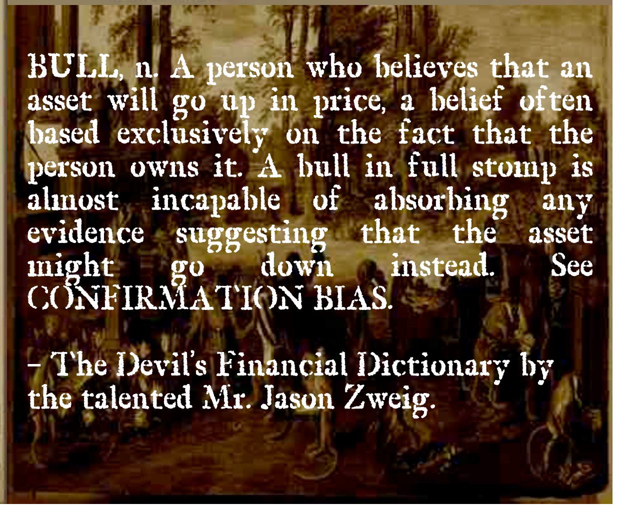
Oct. 2017: Twitter ads for ICOs...

Nov. 2017: Twitter ads for lawyers to sue the ICO crew...

"This time it's different are the most expensive words in the investing language". – Sir John Templeton

"No traditional Graham & Dodd investor invested in AOL, said a banker at the table. They shorted it. And got fucked. They're learning the new model."

– The New New Thing: A Silicon Valley Story by Mr. M. Lewis



BULL, n. A person who believes that an asset will go up in price, a belief often based exclusively on the fact that the person owns it. A bull in full stomp is almost incapable of absorbing any evidence suggesting that the asset might go down instead. See CONFIRMATION BIAS.

– The Devil's Financial Dictionary by the talented Mr. Jason Zweig.

SOURCES & INSPIRATION...

In the words of Sir Isaac Newton: "If I have seen further it is by standing on the shoulders of Giants." On this page we humbly give thanks to those great individuals, source materials & books that provided us with the insights shared in this report.

The Books:

Civilization & Capitalism 15th-18th Century by F. Braudel.

The New New Thing by M. Lewis.

Engines that move markets: Technology investing from the railroads to the internet & beyond by A. Nairn.

Against the gods: The remarkable story of risk by P. Bernstein.

House of Cards: How Wall Street gamblers broke capitalism by W.D. Cohan.

The Devils Financial Dictionary by J. Zweig.

Keep an eye on:

For a comprehensive overview of developments in the global regulatory framework with this excellent interactive guide from LexMundi:

www.lexmundi.com/News/7181/Lex-Mundi-Publishes-Interactive-Global-Token-Sales-Guide

Read:

Stroll memory lane for a good laugh & to realize that there is nothing new under the sun with the eloquent Mr. Lewis:
https://partners.nytimes.com/library/magazine/home/19991010mag-new-lewis.html

Twitter thinkers to watch in this sphere:

@pomp
@markyusko
@naval
@sbmckeon
@Melt_Dem
@_jillruth
@VinnyLingham
@peterpham
@carlosdomingo
@AriannaSimpson
@andy_bromberg
@benhoneill
@DavidSacks
@AriDavidPaul
@arrington
@cryptomanran

Hat tip to Mr. Pompliano for his suggestions for this list. He is a real resource and I recommend you go read his 'Guide to Tokenized Securities' here:
www.medium.com/@apompliano/the-official-gide-to-tokenized-securities-44e8342bb24f

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