CryptoScores Whitepaper

April, 2018

CryptoScores Core Team

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Introduction

2017 was a year of enormous growth in the cryptocurrency market, as the world witnessed Bitcoin and it's associated "altcoins" surge from a total market cap of $17.7 billion on January 1st, to over $565 billion by December 31st. The cryptocurrency market grew over 3000% in one year, creating an unprecedented financial environment that reacts unlike any other modern market in the world. Comparatively, the S&P 500 recorded significant growth while opening at $2268.90 on January 3rd of 2017, and closing at an all-time high of $2673.61 on December 29th. This growth resulted in an 18% increase in the overall market during 2017. It is clear that the cryptocurrency market behaves significantly different than any traditional security or commodity trading exchange, and as such, must be regarded as a new and isolated marketplace with new standards and best practices.

Cryptocurrency Total Market Capitalization - 2017 (top) vs S&P 500 Daily Close - 2017 (bottom)

The cryptocurrency market behaves as a separate entity from any other centralized economy, but is in dire need of transparent, accurate, and unbiased investment information. In the stabilized and economically efficient exchanges like the NYSE and LSE where securities and fixed income is traded, numerous agencies structure and regulate the industry to ensure investors receive a fair opportunity, and to avoid an economic collapse as a whole. This process of auditing, researching, and rating corporations ensures the market is transparent and investors are put in a position to act of clear and accurate information. In other words, the Efficient Market Hypothesis proposes that it is impossible to "beat the market", as all investors are rationally making decisions based on public knowledge. But with cryptocurrencies, almost all of the principles an efficient marketplace can be disregarded. The cryptocurrency market lacks accuracy, transparency, and is plagued with misleading or even fake information. In turn, the market rises and falls in large part from speculation, creating a high-risk environment for inexperienced investors. As of January 6th, 2018, the number of Bitcoin wallets in the world sit at just under 22 million, revealing that the cryptocurrency market is still made up of an extremely small number of active traders. With time, and as more investors become involved, the market will continue to stabilize towards the efficiency displayed in the traditional stock market, but to make this happen solutions must be created to help accelerate the process.

Need for CryptoScores

The most necessary and beneficial solution to help provide a more accurate, transparent, and risk-adverse cryptocurrency market is the implementation of unbiased and accessible information available to all investors. Regulated markets with bonds and stocks rely on risk ratings as well as quarterly reports. The cryptocurrency market is in need of a risk-ratings system adapted to its own unique marketplace. Currently, the cryptocurrency market is composed of a select group of traders who vary significantly in knowledge, capital, and experience. There are not enough active investors for the market to act rationally and in a completely stable sense, whereas the mainstream stock market is balanced by the financial activities of institutional investors and hundreds of millions of worldwide traders. CryptoScores seeks to be an essential resource for institutional and retail investor alike. Our research team is able to cut through the hysteria and marketing schemes, giving accurate ratings and key information that can help anyone trade like a professional. Our proprietary scores take several factors into account including team, technology, token economics, utility, volatility, potential growth amongst others to formulate an overall picture of the project and determine whether or not a token is investable. Our goal is to protect investors from potential bad actors as well as bring legitimacy to this emerging asset class.

Creation of the Scoring Method

When deciding which criteria to consider in the CryptoScores risk rating system, the team initially began exploring the historical results of a variety of cryptocurrencies, including both quality projects and previously exposed fraudulent coins. With the intent of creating a risk-rating system that could be used to protect and aid investors, it was extremely important to consider the failures of "scam" coins. In turn, the stigma towards identifying weaknesses, or highlighting risk, became a foundation in our rating criteria selection. Through months of tests, adjustments, and significant developments in the cryptocurrency

market CryptoScores was able to identify which signs most clearly illuminate bad, risky coins, and which measurements reward the best investments on the market. As such, the CryptoScores 1.0 Risk Rating system is based on the 5 equally weighted categories of **Volatility**, **Returns**, **Liquidity**, **Application**, and **Industry measurements**.

Volatility was implemented as a measurement to consider the overall stability of a coin's price on cryptocurrency market. It measures the coin's daily returns in relation to the overall market's returns. Coins will then exhibit a behavior showing over-volatility, under-volatility, or (very rarely) reverse-volatility in regards to the market. This means that the coin's returns have either more dramatic daily swings with regard to the market, less dramatic daily swings, or swings that contradict the market's momentum.

Returns have been implemented as a measure of average daily returns, in order to consider the overall success and historical data trend of the coin. Unlike volatility, which takes into account the coin with regards to its performance to the market, this looks purely at the gains and losses that the coin has taken over a certain period of time. All historical data is considered and is consistently and frequently updated to ensure an accurate representation of each cryptocurrency analyzed by the CryptoScores team.

Liquidity was implemented as a measure of how easily the coin can be actually traded, and helps identify if a coin is in a risky single-exchange situation. The coins are measured against the top exchanges in order to determine how many exchanges each coin is listed on. This not only provides a measure of accessibility to each coin, but can also be used as an indicator of the market's overall trust and belief in a certain coin. Most exchanges have a scrupulous review process to allow coins to be traded on the exchange, so the more exchanges a certain coin is on, the more the market trusts that certain coin.

Application was introduced as a qualitative measurement that rates the cryptocurrency on its use case and technological strength. The technical criteria that go into creating this rating include a coin's current applications and its potential for growth. Both of these criteria are divided into sub-criteria in order to provide a more accurate analysis of where the coin stands in relativity to others. Although a coin may currently be valued highly, its overall potential for growth may be lacking, and we may be seeing the coin close to its peak valuation. It is important to take into account many characteristics in order to be able to provide an accurate analysis of each coin's position in the market.

Industry was introduced as a qualitative measurement that rates the cryptocurrency on its market acceptance and institutional support. The criteria for this measurement are current capital and industry support. Both, again, are divided into sub-criteria in order to provide a better analysis of the coin's industry acceptance. While some coins may have a high valuation based on their potential, it is hard to gauge the correct valuation because of the actual adoption that the coin has seen. Once a coin starts to become adopted by the industry, only then will it truly begin to fulfill its full valuation. A coin could very well fail after receiving a high valuation for its potential. This score looks to differentiate the hype surrounding a particular coin and the actual adoption that it is seeing.

Use Case

The goal of CryptoScores is to provide a broad scope of the cryptocurrency world and educate users on how to invest safely and confidently. The users of the CryptoScores' technology will be comprised of any individuals or groups ranging from novices with no knowledge of the industry to experienced investors that wish to get specific information on a potential investment, and everything in between. The goal of the users can range from simply gaining knowledge, to value investing, as well as frequent traders.

In order for a beginner to grasp what cryptocurrencies are, the benefits, and the risks, they simply need to read through the Novice Guide, where the CryptoScores team lays out all of the basic information in simple, easy to understand language. Following this, there steps that show the user how to invest, and expert financial data to understand past performance. Along with the quantitative data, we have rated the cryptocurrencies on a multitude of factors relating to the development team, industry acceptance, potential growth, and more.

If a CryptoScores user is already well informed within the industry, we provide a quick look into the info of a coin that can help identify whether a potential investment by the user is worthwhile. Through a beta coefficient score, past performance volatility, live charts, transaction fees, and more (see *Creation of the Scoring Method* above), these cryptocurrency investors are able to quickly and efficiently make decisions on whether they will invest, and the potential timeframe of the investment.

Along with providing in-depth technical and fundamental data on specific coins, CryptoScores also provides recommendations for specific cryptocurrency portfolios that the user will purchase themselves. Each portfolio is given a brief description containing all risk information and any other crypto-specific information, along with an average calculated beta and recommended allocation. Every portfolio has been intricately created with specific characteristics depending on what the investor is seeking. These characteristics can range from; all coins listed on a specific exchange, a beginner portfolio with the most popular cryptocurrencies, or a portfolio with a specific type of cryptocurrency. The CryptoScores team is always striving to provide new portfolios with varying characteristics to cater to our vast and diverse audience.

The latest feature created by the CryptoScores team is our portfolio tracker. With this tracker, any user can create their own portfolio by inputting specific coins after researching on CryptoScores.org. After inputting the ticker symbol, amount invested, and the price at which they bought, the portfolio tracker will automatically calculate the returns made on that investment, and track the portfolio's gains as the prices progress in the future. This tool is essential for an investor that wants to know exactly how much their investment has appreciated, which cryptocurrencies are dragging the portfolio down in value, and whether or not they need to diversify the portfolio.

Conclusion

Blockchain utilization is the future of technology and finance. The variability and falsified information is holding the industry back from its full potential. An accurate, transparent, and risk-free market is possible with the implementation of unbiased and accessible information on a mass scale. Traditional markets operate on risk ratings and public intel, and the cryptocurrency market requires a risk-ratings system adapted to its own unique functionality. Mass acceptance of the technology will incur upon such implementation. The cryptocurrency market is currently polarized among its participants which has lead to the market's massive fluctuations in pricing. Crypto markets can be balanced by the financial guidance of institutional blockchain-oriented investors and millions of worldwide traders. CryptoScores offers a necessary solution to this problem. Its platform is valuable for novice and experienced cryptocurrency users, and its risk-rating information and guidance will bridge the gap amongst the polarization.