



Crypto Chronicles Part 1 - Safety, Security and Legitimacy

This article explores issues surrounding crypto's association with criminal activities, safeguards against hacks, regulatory developments, and the prevalence of scams, offering insights into the complex crypto landscape.

Tawanda Mushore - Seed Head of Research explores Safety, Security and Legitimacy of Crypto Currency.

Navigating the Shadows and Hurdles of Cryptocurrency

A hundred US dollars invested in Bitcoin 2 years ago is worth USD55 as of 31 August 2023. It is unsurprising that there is less chatter about cryptocurrency (crypto) given the more recent destruction in value. One wonders if is this a sign of the inevitable end or a perfect time for astute investors?

Crypto divides opinion. Those in favour of it, claim it is the future of money, and the huge past returns leave others green with envy. Critics cite high levels of volatility, and some believe it is a scam.

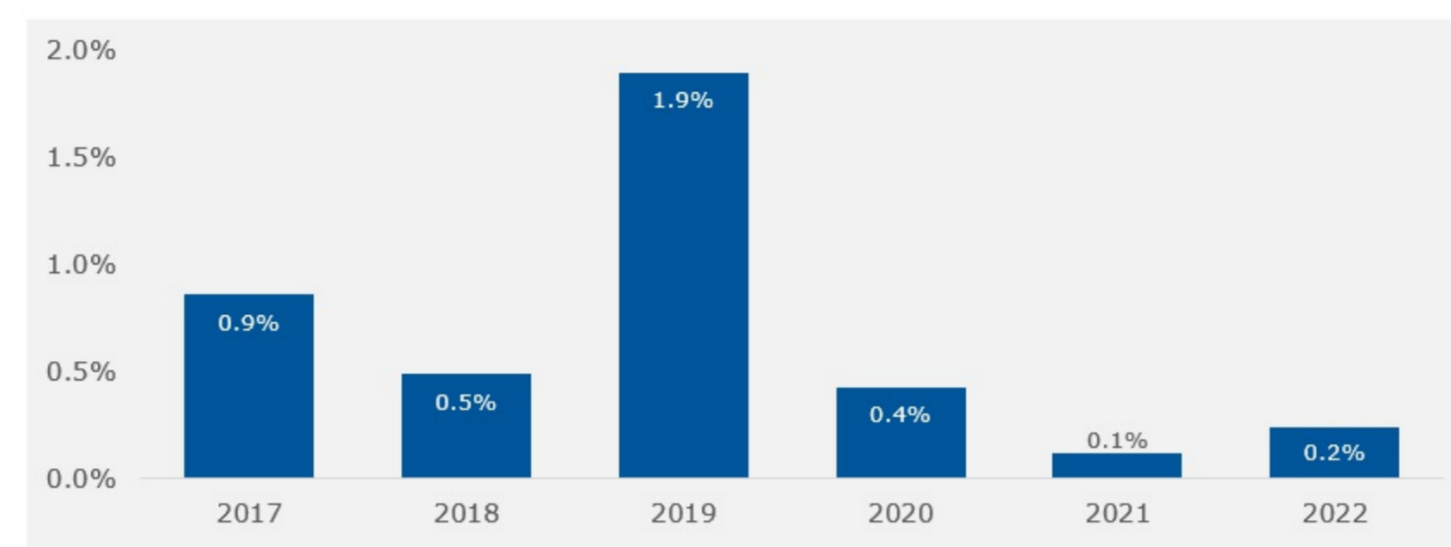
Is it a scam? We discuss this and other issues around crypto safety, security, legitimacy and viability.

Is Crypto Mostly Used By Criminals?

"The Silk Road Darknet Market was launched in 2011. The online black-market accounted for nearly 20% of Bitcoin's daily economic activity. With illegal drugs among other illegal and legal product listings, the site facilitated sales amounting to 9.5 million Bitcoins before It was shut down by the FBI in 2013."

The advent of crypto was associated with a high proportion of criminal activities. However, with increased law enforcement, some regulation, and blockchain analysis tools, there has been a significant reduction. According to Chainalysis, illicit activities accounted for less than 1% of overall crypto transaction volume in 2022, which is the trend in recent years.

Chart 1: Share of all Cryptocurrency Transaction Volume that is illicit (2017 – 2022)

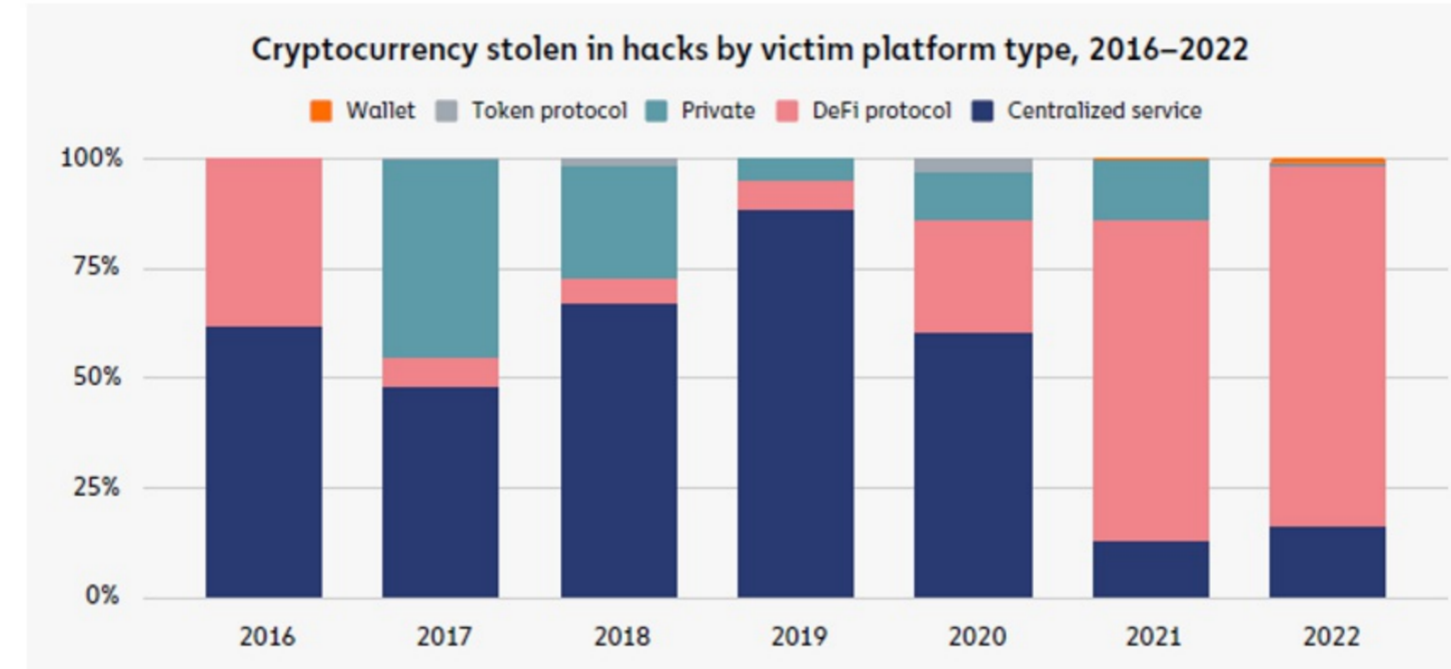


Source: Chainalysis, July 2023

Is it Possible To Guard Against Hacks?

"Mt. Gox bitcoin exchange was launched in 2010. At its peak, it accounted for over 70% of Bitcoin transactions. It is estimated that between 650,000 and 850,000 coins were lost in suspicious wallet activity on the exchange. The Bitcoin was worth an estimated USD473 million when Mt. Gox filed for bankruptcy in 2014."

Most hacks used to occur on central exchanges. However, central exchanges have become more established and have improved security capabilities. Fewer hacking incidents now occur on exchanges. In fact, in 2022 less than 18% of all stolen cryptocurrency was housed on a centralised exchange. Decentralized Finance (DeFi) protocols have become the main targets, but these have been working on fixing vulnerabilities.



Source: Chainalysis July 2023

Is Crypto Completely Unregulated?

The regulatory space is growing. In 2019, the Intergovernmental Financial Action Task Force (FATF) issued detailed global standards for combating illicit finance amongst its participating countries. Singapore, Australia, the United States, European Union parliament, and the United Arab Emirates have subsequently made strides in regulating digital assets and aligning local standards with the FATF. While regulatory uncertainty exists in many areas, progress is being made globally.

Is Crypto a Scam?

"The Mirror Trading International scam of 2020 saw unsuspecting investors lose nearly USD590 million in the pyramid scheme. Most of the Bitcoin was transferred from central exchanges by duped investors and was laundered."

There have been numerous scams involving crypto. The implosion of several firms in 2022 including FTX, Celsius and Three Arrows Capital amid fraud allegations have not helped efforts to dispel the notion that crypto is a scam.

What Do the Numbers Tell Us?

According to research done by Chainalysis, amounts made from crypto scams declined by 46% in 2022 compared to the prior year. Scams racked in USD6 billion, down from USD11 billion in 2021. CoinMetrics estimates that USD8 trillion worth of transactions went through the Bitcoin blockchain in 2022. Scam revenue represented 0.08% of mainstream services flows.

CoinMarketCap estimates that there are roughly 23,000 cryptocurrencies traded on over 600 exchanges. Several of these do not have a use case and therefore are mostly a bet on the value rising. Without any real utility, such cryptocurrencies appear "scammy". Investors need to be vigilant when it comes to what they buy into. Crypto might not necessarily be a scam but there are fraudsters abound.

The world of crypto is complex and requires vigilance. Arguments can be made for and against its safety, security and legitimacy. We now turn our attention to the viability and future of crypto.

Don't miss next week's article for this discussion.



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If you have any further questions or require any guidance please don't hesitate to reach out to our team on investmentteam@seedinvestments.co.za.

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