



TOKENS

Our definitive guide to tokens

COIN RIVET

Independent British blockchain and crypto news

[← PREVIOUS](#)

CONTENTS

WHAT IS A TOKEN? 3

- Types of tokens 3
- How can a token be used? 3

DIFFERENCES BETWEEN TOKENS AND CRYPTOCURRENCIES 4

- Why does the distinction between the two terms matter? 4

INVESTOR PROTECTION AND BUYERS' RIGHTS 5

- The right to buy and sell 5

UNDERSTANDING TOKENOMICS 6

- What is actually going on? 7
- Supply of tokens 7
- Concentration of tokens 7
- Locked up tokens 7
- Burned tokens 8
- Token flow 8
- GitHub repository 8
- Community 8
- Beware 8

CONCLUSION 9

WHAT IS A TOKEN?

With the rise of cryptocurrencies, the term token has found a new life in a new context, and it's now part of the technological revolution currently sweeping our society. In the crypto space, a token is simply a **cryptocurrency** built on top of an existing **blockchain**.

The most basic definition of a token is that it constitutes a unit of value issued by an organisation. In the crypto industry, we must add the fact that it's accepted by a community and it's also supported in a blockchain.

An organisation creates a token in the context of a specific business model so that it can incentivise user interaction and distribute rewards throughout the network of token holders.

Types of tokens

When a company raises funds in an **Initial Coin Offering (ICO)**, it does so by issuing tokens which it distributes to buyers interested in contributing with crypto-funds. These tokens can have many different uses, but we can classify them into two sections: **security tokens** and **utility tokens**.

Security tokens are similar to traditional shares because their value is derived from a tradable external asset. Once governments agree on the right regulatory framework, it's safe to assume that, because of their nature, security tokens will be subject to the same regulations. Companies that fail to meet this standard will incur substantial fines and their projects will grind to a halt, while those that abide by it will stand to gain from being certified investments.

Utility tokens, however, aren't designed as traditional investments. Instead, they grant holders access to a company's future product or service.

Depending on the design, utility tokens could very well be exempt from the regulation aimed at securities. In the same way that a bookstore can accept orders for a book that hasn't yet come out, a blockchain start-up can sell digital tokens which will allow the buyer to acquire a product that hasn't been built or a service that can't yet be provided.

Think of this method of raising capital as a way to bypass investors and going straight to your future customers. This way, if a start-up finds enough people interested in paying for the product or service before it can be delivered, they have enough capital to get the project off the ground without having to grovel at investors' feet.

How can a token be used?

Ultimately, the possible uses of a given token will be determined by the company that issues a token.

As blockchain enterprises mature and address the issues of government regulation and end user accessibility, we can expect more innovative ways to put tokens to use. Tokens will be used as a method of:

- ◆ Payment between different parties who accept to use it as a currency
- ◆ Digital asset ownership (real estate, products, company shares)
- ◆ Accounting for digital actions
- ◆ Reward to participants in a network
- ◆ Ensuring network protection
- ◆ Installing a gateway to extra services
- ◆ Providing a better user experience

DIFFERENCES BETWEEN TOKENS AND CRYPTOCURRENCIES

A lot of people use cryptocurrency and token interchangeably, which causes a great deal of confusion. Although it appears they refer to the same thing, the fact is they don't. **Tokens** are a subset of cryptocurrencies.

A **cryptocurrency** is a digital currency that uses cryptography to secure and verify its transactions, recording them in a decentralised and immutable ledger known as blockchain. Cryptocurrencies can be divided into two categories:

those that are supported by their own blockchains, like Ethereum and Bitcoin (BTC), and those that are built on top of other blockchains, also known as tokens.

A useful way to distinguish between an independent cryptocurrency and a token is to ask the question: is this crypto independent from other platforms or is it supported by a pre-existing blockchain? While Ethereum is an independent cryptocurrency with its own native token, Ether (ETH), ERC20 tokens such as 0x, JNT, and OmiseGo (OMG) are tokens that would not exist without Ethereum's platform.

Within the independent cryptocurrencies, there is a further distinction. They can either be Bitcoin-derived blockchains, like Litecoin, Dogecoin, or Dash, or they can have their own native blockchains, like Ripple or the aforementioned Ethereum. All cryptos in these two categories can also be called altcoins, as they're an alternative to the original cryptocurrency: Bitcoin.

Why does the distinction between the two terms matter?

All tokens are cryptos, but not all cryptos are tokens. From the investors' point of view, this is an essential difference, because it provides a key measure to assess the potential of any crypto-asset.

If you're analysing an independent crypto that has multiple projects, each with their native tokens built on its blockchain, you know it's a reliable product trusted by many developers, which increases your earning potential.

The more applications that are built on that blockchain, the better.

That doesn't mean it's the only thing you need to look out for, but it's usually a good predictor of the medium-term success of that crypto – other projects looked at the market and decided it was their best choice, so in a way, you can co-opt their option.

Conversely, if you're assessing the potential value of a token-based project, it helps if it's supported by a highly respected blockchain such as EOS or Ethereum. Never neglect the value of doing your own research.



INVESTOR PROTECTION AND BUYERS' RIGHTS

There is virtually no investor protection for buyers of **tokens**. Traditional investors may be used to seeing an extensive list of investor protection, rights and opportunities afforded to them in their many investments.



However, the world of ICOs is different than anything we've ever seen before, and with that novelty comes new operation standards and expectations.

While it might be difficult for some financial industry experts to fully embrace the implemented changes of **blockchain technology** and new investment avenues, these changes look like they are here to stay amongst – and possibly overtake – old investment ways.

With a massive amount of resources being dedicated to the advancement of blockchain technology, it would do us well to fully understand its nuances. Particularly, as an investor, how do **cryptocurrency investments** differ from other investment types and what investor protection do you have? Your rights as an investor or buyer are particularly limited, especially in comparison to your usual rights on the traditional stock exchange.

Many lessons learned in cryptocurrency and tokens come as a result of trial and error, entering the unknown, seeing what works and what doesn't and enrolling in the 'school' of hard knocks.

This approach may get you to the answer you desire, but will likely result in some damage along the way. Sure, "what doesn't kill you makes you stronger," but you'd still be much wiser to take a proactive approach that saves you time, money and heartbreak in the long haul. Don't get scammed, cheated and/or left out in the dark just because you didn't want to research your rights as a cryptocurrency token buyer.

The right to buy and sell

Rights in **cryptocurrency** investing are pretty individualised; they vary significantly from project to project.

Most terms are laid out in a token's ICO, so be sure to be vigilant before making an investment. One thing that's usually safe to assume is that you will have the right to eventually sell and/or trade your tokens to a willing buyer. If you don't have this one right, you're asking for trouble. What good is an investment that you're locked into for eternity?

Unless you value the act and process of holding – and being bound to – a digital token itself, you should be absolutely certain that you have the right to remove yourself from an investment, cash in on increased market demands and reward your patience. Fortunately, you don't have much to worry about here.

Investment liquidity will vary, but almost all tokens have a mean of peer-to-peer transfer that can facilitate exchange based on market supply and demand.

UNDERSTANDING TOKENOMICS

So now that you understand what tokens are and what your rights are, let's take a look at what tokenomics is.

VERITASEUM TOP 100 TOKEN HOLDERS

NUMBER 1 TOKEN HOLDER

97.8504%

TOTAL: 97,850,353.56 TOKENS



THE OTHER 21,638
TOKEN HOLDERS

1.13%

TOTAL: 1,125,039.58 TOKENS

THE REST OF THE TOP 100
TOKEN HOLDERS

1.0196%

TOTAL: 1,024,606.86 TOKENS

Source: Etherscan.io

Tokenomics is a new and evolving field of financial literacy. Knowing the ins and outs of this exciting field will help you navigate your way to finding fundamental value in tokenised projects. Let's talk through some key factors to look out for as you are evaluating value for different tokenised projects.

What is actually going on?

For any project the best place to start would be the official website. You should be able to take away in only a few minutes what the stated use case and business model will be for any tokenised project. A key area you should look out for is the potential demand for the utility that the token is offering. It's good to try and think about other businesses trying to go after the same customers; without being on the blockchain of course. If you can find other businesses you should look into how profitable they are and if that business is in growth or not.

Supply of tokens

Token supply is a 'must-check'. You need to understand this metric to work out what the total market cap of the tokens is (multiple token supply by average traded price). You can compare this market cap figure in relative size to other key metrics.

If you can't find the total current supply of a particular token, then this is a red flag for any project. If the token's on Ethereum then check etherscan.io. If it's a native blockchain then try and find a block explorer for the project.

Concentration of tokens

This relates to the number of tokens (in issuance today) that are centralised in a wallet or with a stakeholder. An example stakeholder could be the treasury/foundation for the project. Concentration can sometimes be a good and bad thing. If tokens are largely spread between over a large number of addresses it could point towards a large user base with good decentralisation characteristic.

Locked up tokens

This relates to any tokens which are 'cryptographically' locked up. This means that absolutely no one can release a certain supply of tokens until the smart contract is unlocked. The parameter is usually time, but it can also be other criteria. This type of feature demonstrates long-term incentives and belief in a project, due to a reduction in token supply.



Burned tokens

Burning tokens is a strategy used by several projects to decrease the overall supply of tokens. The burn rate is usually linked to a parameter being tracked as part of the business model of the project. A great example of this is Binance's native token (BNB). Every quarter a number of these ERC-20 tokens are cryptographically burned in proportion to profits generated from the exchange (BNB token can be used as a pre-payment of trading fees at Binance).

Token flow

Flow can be measured in a few ways. It could relate to the daily trading volume (as a percentage of market cap) but a better measure, especially for dApps, would be the flow of specific tokens through smart contracts. A good place to check out this data would be either dappradar.com or stateofthedapps.com. Both these websites keep track of dApps across the EOS and ETH ecosystems. For each project, you can monitor key information like the volume of transactions through a contract address or the number of unique users using the application in a set time period.

GitHub repository

Many projects have an open GitHub repository which hosts open source code – again, another red flag if you can't find one. A great place to check out this data is coinpaprika.com. On the site you can click on the community tab and then see some key statistics on the right-hand side of the screen. Two key attributes to look out for are Stars (think of this as the number of accounts subscribed to a repository) and contributors. The one-month commits are also a useful indicator to evaluate recent activity. A commit is a single proposal from someone to change an element of the codebase (does not mean that this change was approved or not).

Community

Most crypto projects have a presence across several social media channels. The main channels to track would be Twitter, Reddit and Telegram. Again, using data from coinpaprika.com you can see the number of Twitter followers, the number of subreddit subscribers and the members in their Telegram group (all this information can be seen in the community tab).

Beware

It's not easy to find value in many tokenised projects. Our recommendation to anyone researching this space would be to look for the real value in what a project is creating in terms of its business model. There are many projects out there with lots of funding and slick marketing material. Don't be taken in by the hype and make sure to look a little deeper for your due diligence.



CONCLUSION

Given its potential to change the way our society organises itself, the tokenisation of real-world assets such as gold or real estate needs to be taken seriously. Once tokens integrate with the existing global banking infrastructure and operate under sensible government regulation, they will gain the public's trust.

At that point, our economy will be set to capitalise on the democratisation of assets, which will allow even the smallest investors to buy a fraction of a booming asset. To keep up-to-date with the latest tokens and what's going on in the world of economics, be sure to follow [Coin Rivet](#).



Bringing you news, analysis, opinion and insight from the fast-moving blockchain world.

Our team of journalists and contributors cover the likes of cryptocurrencies, wallets, exchanges and ICOs across a wide range of sectors including retail, fintech, banking and gaming. We go beyond the press releases and marketing hype to tackle all the industry topics that matter.

Featured in



coinrivet.com

