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A Nescient Investment

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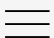
In the 1980s the idea of "digital cash" was introduced by David Chaum, and in the 1990s he developed his own digital currency, digicash. Digicash failed in the 1990s due to a lack of support of the currency, as many merchants refused to accept it. In an attempt to create an effective form of digital money following the failure of digicash and other digital currencies, Satoshi Nakamoto accidentally changed digital currencies for the better. His new currency, bitcoin, was released in 2009 and was not founded on trust, like the U.S. dollar, but on a decentralized digital cash system, which less than a decade later has sparked a craze surrounding the developing cryptocurrency market.

Cryptocurrencies are currencies that exist only digitally. These currencies use different encryption techniques to generate units and regulate the transactions associated with those units, allowing the currency to operate without any connection to a central bank. They have very few regulations due to their lack of a connection to a central bank, which has led to issues throughout the market and an unwillingness of governments to get involved.

One of the most important innovations to come with cryptocurrencies is the blockchain. The blockchain was first implemented by bitcoin, a cryptocurrency which was created by an anonymous source using the alias Satoshi Nakamoto. The blockchain is a widely accessible, editable digital ledger that keeps track of all transactions relating to a certain currency, in this case bitcoin. New transactions are added on to the end of



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For example, if Brooke, editor-in-chief of *The Texas Orator*, sold some ethereum to Wes, cofounder of and writer at *The Texas Orator*, the new transaction would be added to the newest block, at the end of the whole blockchain. This transaction would also be linked back to the previous transaction in which Brooke received the cryptocurrency from some other source. From there, if Wes wished to sell his ethereum, that transaction would then be linked back to the transaction in which he purchased the ethereum from Brooke, validating that he owns some set amount of ethereum and allowing the transaction to be approved.

Blocks are secured by a hash function, preventing new blocks from being added to an invalid block, as each new block would also contain an invalid hash. Hash functions link a key to a specific hash value, which is often associated with access to a certain element that a user may be looking for, so if the correct key is provided, the hash function will produce a valid hash, validating a specific block. The hash for each block essentially acts as a lock for that block. The ledger is accessed by a network of servers that maintain the blockchain, using mathematical models to create a consensus for the network, which allows incorrect hashes to be flagged.

The blockchain and the cryptocurrency market are extremely complex and interesting to computer scientists and investors, but the market has massive issues due to the lack of knowledge investors in the market have and the lack of regulation leading to a multitude of scams.

Within the cryptocurrency market, pump and dump and Ponzi schemes run rampant. Due to the lack of regulations in the market, people can easily create their own currencies or easily begin their own pump and dump schemes.

Pump and dump schemes in cryptocurrency markets begin with a small group of investors. Those investors pick a cryptocurrency, often a new currency that is not well-known. That group buys as much of that currency as they can and then proceeds to tell others to buy the same currency. As the price of the currency increases, other investors may catch on and buy into the same currency, increasing the price even more, until the initial group decides to dump its initial investment and sell what they had initially bought for a profit.

For example, the secretly named https://bigpumpsignal.com/ runs an upfront pump and dump scheme that even publishes a clock for their next pump on the homepage of their website. Many of these pump and dump schemes are layered with notifications for "premium" members being sent early on when to pump and when to dump the currency, allowing those members on the inside of the scheme to make even more money.

Pump and dump groups can be layered, making them increasingly complex, like Big Pump Signal. Some investors in the Big Pump Signal group pay or are added to an affiliate system. The affiliate system notifies its

users a couple minutes before the rest of the pump group, so they can buy the currency at an even lower price than the rest of the group can and then sell at an even higher price. Pump and dumps are a form of securities fraud and are illegal in the stock market, but have not been prevented in the cryptocurrency market, due to its lack of regulations.

Schemes like the pump and dump prey on investors' fear of missing out, also known as FOMO. As the cryptocurrency increases in price, people see the increase and buy in, fearing that otherwise they would miss out on a great opportunity.

Pump and dumps and other fraudulent schemes are common to new markets and are not brought to an end until regulations are placed on that market. The ease of creating schemes like the pump and dump in the cryptocurrency market demonstrate the high instability in these new markets.

These currencies have also led to international trouble recently. President Trump recently wrote an executive order banning transactions in the United States involving all Venezuelan cryptocurrencies. The Trump administration feared that the cryptocurrency would be a way for the Venezuelan government to get around sanctions placed on them by the United States. This is just one example of how cryptocurrencies have recently begun to stir up international trade issues and may present even more issues in the future.

The United States government has set an initial precedent to only step in when a cryptocurrency has been deemed a security, though the U.S. Securities and Exchange Commision (SEC) has been moving to find ways to regulate the market. Aside from that, the SEC has been attempting to inform investors of the dangers of the market, which many seem to disregard.

The lack of knowledge investors have has become apparent. A combination of carelessness in spending money and lack of research have created an unpredictable market. The actions of investors in the market is unforeseeable, as many do not act in their own best interests, but rather follow the pressure and "advice" they receive from the Internet forums they read.

Grayson Pike, a computer science student at the University of Texas at Austin, is a cryptocurrency investor that has been working with cryptocurrencies for three years, but has become more heavily involved over the past year. He has experience developing applications for ethereum and has done research into the ethereum market. In relation to his research into each currency he invests in, he stated, "I have a lot of faith in (ethereum) because of my developer experience, but on the other hand, there are definitely currencies that had complete and wide speculation that it would be going up that I invested in."

An example of this was his investment into garlicoin, which was created as a Reddit meme. Pike actually came out ahead on this investment due to the uniformed strategies of the average investor in the coin. Dogecoin is another example of a meme taking over the cryptocurrency market, as its market cap in early 2018 reached around 2 billion dollars.

Memes like dogecoin and garlicoin are just small examples of how the market has been affected by peer pressure surrounding cryptocurrencies and current Internet culture. Take the "hodl" strategy in cryptocurrency, for example. Hodling means that investors should always hold onto their cryptocurrencies and not sell, with the belief that the coin's value will still increase in the long term regardless of what happens in the short term in that coin's market. This strategy was developed in a post on a bitcoin forum which is easily accessible and has become widely popular as a reference for many cryptocurrency investors.

This post from December of 2013 has become a meme in the current market, as demonstrated by the Gucci Gang remix parody Hodl Gang. Hodling and "buying the dip" are common strategies among investors in cryptocurrency markets. Both of these strategies have been around since 2013, when the market was completely different and more volatile than it is today.

In addition to the hodl strategy, many investors use a strategy of "buying the dip." The idea behind this is that an investor can buy low and then sell high, so when a cryptocurrency has a price drop, or seems to be crashing, investors should buy into the currency and not sell.

Most cryptocurrencies are more likely to fail than become successful. Combining this issue and the strategy of "buying the dip" leads investors into buying into failing cryptocurrencies rather than cutting their losses when given the opportunity, as they "buy the dip" and then must hodl onto that currency at all costs.

The pressure to buy the dip in a currency's value and hold onto that currency when it is losing value are both terrible investment strategies, without being paired with research and a comprehensive understanding of the market. An investor would never find a perfect time to sell, or any time to sell for that matter, due to the use of a combination of the two strategies and the decision to hold hard and fast to that initial game plan. In speaking about strategies like these in the current market, Pike said, "I think that, especially now if you look at the way that the markets are turning out, it is clear that the same strategies that have been good the past two years are definitely not the same because the markets have changed so much."

It is obvious to many that the cryptocurrency market is extremely volatile and unpredictable, but it is possible to make a lot of money. Investors and traders should sit down and do their research before deciding to invest in any cryptocurrency and, on top of that, they should be prepared to lose however much money they put

into the market because they are gambling on the currency. Uneducated investors may be unavoidable, but each investor should at least prepare themselves for the worst possible outcome.

On a personal note, I do believe that there is a lot of room for growth throughout the cryptocurrency market and that the blockchain will soon be expanded to other markets. But I also think that scams, pump and dumps, and Ponzi schemes will continue to be an issue for all cryptocurrency investors and users.

The ineptitude of many of those within the market may work to the advantage of well researched users or may destroy new cryptocurrencies. The combination of hodling and "buying the dip" leads many investors to lose their money on failing cryptocurrencies. Well-informed investors will be able to see the failure of a cryptocurrency and sell, or may even participate in pump and dump schemes realizing they can use schemes like a pump and dump to make money off of investors that see a rising cryptocurrency and feel the need to buy in due to their fear of missing out on the next big thing.

The false sense of certainty many investors receive from the culture throughout the Internet leads many investors awry. More research and a better understanding of the volatility of the cryptocurrency market could go a long way for many investors that currently find themselves using strategies that were popularized in 2013.

Economy

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