

How the Blockchain is Changing Investing

Like so many other things, the blockchain, also known as distributed ledger technology (DLT), is changing how investors put their money to work. In order to simplify the discussion, I'll narrow it down to three areas where the DLT is making a difference in how investors seek to earn alpha from their financial investments.

1. Cryptocurrencies
2. Initial Coin Offerings
3. Tokenized Assets

Cryptocurrencies and Investing On the Blockchain

In recent news, cryptocurrencies have received widely spread attention for two reasons. Last year, bitcoin and the entire cryptocurrency ecosystem saw a rally where the overall increase in market cap was [over 1,600%](#)--in November. That was before the huge upclimb in December that took bitcoin to its peak of just over \$20,000.

The second reason cryptocurrencies have been in the news is because, in January 2018, the price of virtually every cryptocurrency on the market fell precipitously sending many investors into a panic.

The one thing to understand about investing in cryptocurrencies is that they respond to market sentiment, just like stocks. But because they are not stocks, they aren't as regulated and represent a riskier investment. But investors who understand how to evaluate risk and know when to get into the market (and when to get out) can see big increases.

The Rise of Initial Coin Offerings (ICOs)

2017 also saw the rise of initial coin offerings. Instead of buying equity in a company, investors buy utility tokens that represent actions or events within a given business framework. For instance, if you invested in the [Filecoin ICO](#), you would have received their utility token that allows you to trade digital coin for file storage. Like commodities, utility tokens fluctuate in price daily. If you are one of the early investors in an ICO for a company that later goes viral or increases in popularity, then the value of your tokens can increase. Investors who get into initial coin offerings do so for this reason among others.

ICOs can also issue securities tokens, which operate similar to stocks, and equity tokens, which actually represent ownership in a company the same way that buying equity stock in a company gives you partial ownership of that company.

What Asset-Backed Tokens Have to Offer

An asset-backed token is a token backed by the underlying asset. For instance, [Caviar](#) issues tokens backed by real estate and GOLDX is [backed by gold](#). These tokens actually represent ownership of the underlying asset backing them. So, if you own \$10,000 worth of tokens on the Caviar platform, then you have an investment in real estate valued at \$10,000 at the moment of your investment. Like other investments, that asset can increase or decrease in value.

Do Your Due Diligence First

As with any investment, investors should perform their due diligence before putting their money at risk. The blockchain has been instrumental in helping investors perform due diligence on traditional and non-traditional investments while changing the nature of assets and the nature of investing itself.

Being in the early stages of this new technology means those who get in now have the early bird advantage—not just in asset values, but also in the value of their own education.