VF Blockchain

Hands-Off: Avoiding Shitcoins

The cryptocurrency boom in the past years has produced many winners and interesting blockchain projects. Unfortunately, the media frenzy surrounding cryptocurrencies has also attracted many questionable actors who seek to capitalize on the current hype to make quick money. Social networks such as Facebook, Twitter, and Slack are particularly popular among these actors, who use them to lure investors with dubious profit promises or exorbitant price targets.

Beware of pump and dump schemes on social networks:

Therefore, do not follow buying recommendations in social networks and unreliable YouTube channels and spam emails that aggressively promote certain coins with exorbitant price targets. Many opportunists use social networks like Facebook, Twitter, Slack, Telegram, Xing, or LinkedIn to promote specific coins. The intention behind such actions is usually the same. Typically, the actors first buy up little-known coins on a large scale, which are then promoted in social media with high profit promises. When the price jumps and rises significantly, the initiators usually sell their coins at a high profit. These selling waves then noticeably depress the price again. The private investor who entered late usually loses out and ends up with losses. In this context, people often talk about the so-called pump and dump - the price is pumped up to later sell coins at the highest possible price. The victims are investors who entered late.

Stay away from multi-level marketing (MLM) projects:

Other actors exploit the current hype surrounding cryptocurrencies to promote schemes such as Ponzi schemes or so-called multi-level marketing (MLM) schemes related to cryptocurrencies. You can recognize these schemes by the fact that each participant in the system must recruit additional participants to reach a higher level or tier, in order to achieve, for example, a higher payout. While referral marketing is not inherently illegal, and there are indeed sensible referral programs (such as those at Coinbase), where new customers and referrers receive a small bonus, caution is warranted if the business model relies exclusively on referrals.

Pyramid and Ponzi schemes are legally prohibited:

Investors should be aware that illegal Ponzi and pyramid schemes are legally prohibited. These systems are characterized by a constantly growing number of participants being necessary to ensure their function. In these systems, profits primarily arise from new participants joining and making deposits. The actual product, on the other hand, fades into the background. To give the product a reputable appearance, these projects often operate under the name of multi-level marketing (MLM). If you have already become a victim of a Ponzi or pyramid scheme, involve the relevant financial supervisory authorities.

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How to recognize dubious blockchain projects:

Below are some helpful tips on how to recognize potential scam coins yourself. The characteristics of these coins are very similar. Most of these coin and blockchain projects lure with unrealistic profit and return promises:

- Cloud mining services with irrational profit promises
- Bitcoin investment packages (BIPs) with above-average return promises
- Multi-level marketing (MLM) projects where you have to buy expensive packages initially

Unreliable blockchain projects often have the following characteristics:

- No code base available (blockchain)
- Essential information is missing (white paper, team members, etc.)
- The coin is not traded on any significant crypto exchange

If the above points apply, you should be suspicious and better not invest in the coin and the blockchain project. In general, blockchain projects that are still in development always carry a greater investment risk than established blockchain projects such as Bitcoin or Ethereum. Note: Participating in an initial coin offering (ICO) is even riskier. In ICOs, which often take place on the Ethereum blockchain, young blockchain companies raise capital from investors by selling tokens for other cryptocurrencies (Bitcoin, Ethereum). Here you have to trust that the initiators will keep the promises they make in the white paper or on the website. Unlike with a stock, you have no further rights with a utility token. In general, do not put all your eggs in one basket or coin. Diversify your crypto portfolio and do not invest everything at once. View cryptocurrencies as an additional diversification to your portfolio and not as the sole investment instrument for your retirement planning.