

*RSIS Commentary is a platform to provide timely and, where appropriate, policy-relevant commentary and analysis of topical and contemporary issues. The authors' views are their own and do not represent the official position of the S. Rajaratnam School of International Studies, NTU. These commentaries may be reproduced with prior permission from RSIS and due recognition to the author(s) and RSIS. Please email to Mr Yang Razali Kassim, Editor RSIS Commentary at [RSISPublications@ntu.edu.sg](mailto:RSISPublications@ntu.edu.sg).*

---

## **Altcoins: Hidden Gems or Outright Scams?**

*By Tan Teck Boon*

### **SYNOPSIS**

*Altcoins have seen spectacular growth until recently. They are unsuitable for most people due to their volatile and cryptic nature. Because there is room for fraud, it is important to raise public awareness of the risks involved.*

### **COMMENTARY**

THE COVID-19 pandemic has fuelled a speculative frenzy in altcoins. Quite simply, an altcoin is any cryptocurrency that is not [Bitcoin](#). But now that the sizable market for these Bitcoin “alternatives” has [tanked](#), one cannot help but wonder if investors have been pouring big bucks into crackpot schemes all along.

If there is fraud, then there is room for policy intervention. Unfortunately, it is impossible to take a deep dive into every altcoin here. But by looking at a select few, it is possible to tell what is happening in that fascinating space.

### **Ether: Successor to Bitcoin?**

Ether is the digital currency of the [Ethereum](#) blockchain network, an ecosystem of app developers and users not unlike Apple's App Store. With a market capitalisation of about US\$260 billion, the number two cryptocurrency was snapped up by investors expecting it to become the future currency of an idealised financial system in which individuals and businesses transact directly, cutting out intermediaries like banks that take a cut from every financial transaction.

There are reasons why Ether may dethrone Bitcoin to become the world's most-wanted cryptocurrency. Firstly, Ether uses only a fraction of the energy needed by

Bitcoin thanks to a more energy-efficient mining system. In a world increasingly concerned about sustainability, Ether certainly has a more compelling story.

Ether also appeals to investors because it fixes Bitcoin's limited [smart contract](#) capabilities and these digital agreements are key to the financial disintermediation that cryptocurrencies will supposedly bring about.

Obviously, Ether's future hinges on the continued growth of Ethereum and no one knows if the blockchain network will ever become a \$2 trillion behemoth like [Apple](#).

But some speculators did jump ahead betting that the altcoin would head to the moon – only to get burned when it plunged by more than 50 percent recently. So even if Ether is a gem, its extreme volatility makes it inappropriate for investors seeking stable and predictable returns over time.

### **Monero: The 'Dark' Coin**

While Ether fixes Bitcoin's limited smart contract capabilities, Monero targets Bitcoin's deficient privacy features. There is a common misconception that Bitcoin transactions are private. They are not since Bitcoin transactions are logged in an [open ledger](#). Monero, in comparison, blocks any efforts to uncover specifics of its transactions through the use of strong encryption.

Since its launch in [2014](#), Monero has built a significant following among people who consider the privacy or "dark" coin the true cryptocurrency. Thanks to its ultra-strong privacy features, Monero has long been used by criminals, hackers and fringe characters.

With a market capitalisation of about \$4 billion, it is the largest privacy coin out there right now and true to its enigmatic nature, its creator(s) is a mystery while its army of developers has remained largely anonymous.

Given its popularity among privacy enthusiasts, is Monero a gem? There are several things to look for in [an investment](#). At risk of over-simplifying, it must be a super high-quality business that is easy to understand. Besides great products, it should have excellent management. These essential qualities are clearly missing in Monero.

It is particularly cryptic for the average person to understand. The altcoin is great, albeit for illegal activities, and good luck figuring out the key players running it. As more government [crackdown](#) looms, the case for Monero is even weaker.

### **OneCoin: A Blockchain Ponzi Scheme**

No discussion of altcoins would be complete without bringing up OneCoin, a crypto scam that duped millions of investors worldwide of more than [US\\$4 billion](#) between 2014 and 2017. Quite simply, it exploited investors' greed and ignorance by promising them a chance to get rich fast with cryptocurrencies. And what better way to pitch the scam to them than by getting their friends and relatives to do the deed through a multi-level marketing scheme.

First of all, investors were told to buy a [training package](#) containing digital tokens used to mine OneCoin. Those who did must in turn sell the package to others. Commission from each purchase was then funnelled up to the ringleaders.

In reality, there was no mining or blockchain. OneCoin was simply an epic [Ponzi scheme](#) that made its handful of Eastern European fraudsters incredibly rich at the expense of everyone else.

The scam took off because it preyed on investors' fear of missing out on the next big cryptocurrency. Some [early Bitcoin investors](#) did strike gold and OneCoin's appeal was that it supposedly gave investors a second chance to get rich. The ringleaders also used the cryptic nature of cryptocurrencies to their advantage. They knew perfectly well that investors would not figure out that it was all a scam until too late.

### **Altcoins – Unregulated, Poorly Understood**

Altcoins are largely unregulated and poorly understood. Hopefully, the examples above have shown that even the hottest ones are fraught with significant risks. Even if some of them turn out to be gems one day, fortunes will be blown before they are found given how messy and inchoate the space is. Then there are the scams to contend with and one can be sure that OneCoin is not the last.

Meanwhile, regulators are hamstrung because the organisations behind these cryptocurrencies often operate outside their jurisdictions. Going after the scammers is also easier said than done when you do not even know who they are.

Ultimately, it is up to the investor to do the necessary due diligence. Unfortunately, there is so much conflicting and biased information out there that the man on the street will be hard-pressed to separate the wheat from the chaff.

It is safe to say then that there is a need to raise the public's understanding of altcoins with high-quality accessible information. This will level the playing field by making it harder for those in the know to take advantage of others. It will also help ordinary folks make better decisions with their hard-earned money.

So on the policy front, raising public awareness should go hand in hand with tighter regulations. A caveat emptor attitude is just not good enough because an ounce of prevention here is worth more than a pound of cure; in the case of OneCoin, it could literally be worth billions.

---

*Tan Teck Boon is Research Fellow in the Office of the Executive Deputy Chairman, S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University (NTU), Singapore.*

---