Asset Selection Criteria

Global Reserve Capital

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Foreword

The following criteria are used discretionarily in choosing the assets that Global Reserve Capital holds. We take each criterion into account before making an investment decision, but require excellence in all areas.

Technical Criteria

The technical (computer-science related) aspects of a cryptocurrency are the first thing we look at, and are the foundation which all of our other criteria build on top of. Technical details filter the majority of cryptocurrencies out of our portfolio, even if they are fantastic in the other categories.

- Code structure/design
    - The currency should serve as ‘free speech money’. No one entity can block any particular transaction.
    - The Network functions when messages/transactions are dropped or improperly sent.
    - The Network functions when malicious actors are present (Byzantine Fault Tolerance).
    - The codebase must be open-source, and auditable.
    - While proof of work based systems may not be the only consensus mechanism that provides security, they are the best to date and highly preferred.
- Novelty
    - If there are no major non-technical differences, there must be improvements in the technology over the parent currency.
- History of block reorganization?
    - The opportunity for double spend attacks should be limited, if possible at all.
    - There should be little to no risk of any given transaction not being included in the chain.
- Safety vs Reliability
    - Safety should always be preferred to reliability (The network only runs if it has come to consensus).
    - However, the uptime of the blockchain must be close to 100% (Reliability).
- Technical Roadmap

    - The roadmap should be focused on limiting the attack surface of the network; this necessarily means limited features and upgrades.
    - Money should not follow the ‘move fast and break things’ mantra popularized by Facebook and Silicon Valley.
    - Programmable money should be slow to move, and large changes should be met with skepticism.
- Transactions and accounts should be difficult to deanonymize (Fungibility)
- Security
    - What is the cost to attack? In $? In Kilowatt hours? In Hardware?
        - The dollars required to attack the network should be infeasible to acquire or more costly than the benefit of doing so.
        - Similarly to dollars, The cost of accumulating Kilowatt-hours (energy) and hardware in an amount sufficient to attack the network should be very difficult if not infeasible.
    - History of bugs
        - Severity of bugs
            - Most crypto-assets have experienced bugs that could have destroyed the asset, the important piece is that the network fixed the issue and is more robust as a result.
        - Life Cycle of a bug
            - There should be significant urgency to fix bugs.
            - Bugs should be fixed before they are exploited.
        - The past history of dealing with bugs
            - Bugs should be founded and fixed privately, but should be announced when properly taken care of when the issue is resolved.
            - There should be an effort to fix the bug, and then be transparent of its existence and the solution.
- Privacy
    - Privacy gives an asset stronger fungibility and better censorship resistance. This is highly important.
    - What is the track record of the technology? It should be well past the ‘experimental’ stage in its lifecycle. Proven and used in other use cases besides the respective asset.
    - Backdoors?
        - Some privacy technology lowers the auditability of the supply and leaves room for infinite creation, therefore weakening the scarcity in the system.
        - No potential backdoors should be conceivable.

Community Criteria

The community is the group of token holders, developers, designers, researchers, twitter/reddit/IRC activists, and observers that participate in the maintenance of a crypto-asset. The community culture drives the direction of development and is one of the biggest factors in the long-term survival of a cryptocurrency. Lack of a strong culture leads to a lack of direction/focus. The community is a vital part of all cryptocurrencies, and generates the theme and message behind what may or not become money.

- Age of currency - The longer the better (Lindy Effect)
- Culture
    - There should be presence of a coherent identity (Bitcoin as Digital Gold), shared values, and consistent activity.
- The ecosystem and development should be independent from well-funded backers.
    - It is important that the ecosystem's participants are not functioning 'artificially' based on a single outside source's capital injection that could end at any point.
- Who are network participants?
    - There should be everything from developers, designers, miners, node operators, forum moderators and other contributors that perform work for the asset/network.
    - Why do they participate?
        - Participants should be voluntary, and without compensation from anything but the network itself.
    - Is participation sustainable?
        - What happens when the price of a asset collapses? Increases?
            - When the community has sustained a price crash and still is active and iterating it is a very positive signal.
        - Elements of sacrificing for the good of the community?
            - When community members do work pro-bono or without any expectation of compensation, this is signaling of a strong brand and community.
            - People sacrificing resources (Time, Money, Hardware, Energy) in spite of a large economic opportunity cost that would seem to push them elsewhere, is signaling for a very strong community.
- Quantity/Quality of Projects/Businesses building on the network?
    - Bringing high-value stakeholders into a network broadens the adoption of the asset.
    - Money is only useful if people are willing to exchange it as a placeholder for value when businesses accept a crypto-asset they are supporting the asset's use case as money.

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Economic Criteria

The economics of a crypto-asset make or break a system. Incentives must be fully aligned against both good and bad actors to the network. Almost all systems get this wrong or have weak guarantees. The economic considerations of a CryptoCurrency directly affect its security.

- Inflation Schedule (It should be low, single digits, and disinflationary)
- Consensus
    - People who appropriately add security to the system and provide consensus should be rewarded financially.
    - People who act maliciously to the system in an effort to undermine security should be punished.
- Trust minimization present in the system
    - Developers
        - Who controls the code repository? It should be between many proven token holders who are anonymous if possible.
    - Miners
        - No one entity or pool should have more than 51% of hashing power over the network.
        - All newly created tokens should be given directly to consensus bearing stakeholders.
    - Node Operators
        - There should be a high number of operators (Minimum Hundreds).
        - Operators should be spread over a large number of countries and political jurisdictions (Should scale with asset's market capitalization).
- What is the difficulty of 51% attack?
    - One should not be able to purchase the server capabilities on the open market that can take over the hash power of the network.
- Properties of money
    - Scarcity and Decentralization are the two biggest traits among crypto-assets, the asset should be disinflationary and not controlled by any one entity.
    - Fungibility - Any single unit of a crypto-asset should have the value as any other single unit. Fungibility exists (weakly) in all crypto-assets, but is strong among fully private assets.
- Distribution
    - Fiat on/off ramps

        - The more avenues there are for anyone holding government issued currency to convert into the crypto-asset the better.
        - The more avenues there are for anyone to convert a crypto-asset into a government-issued currency of their choice, the better.
    - Crypto on/off ramps
        - We look for assets that are currently on a variety of crypto-asset exchanges and the demand for which is increasing on those same exchanges.
    - Liquidity
        - Money should be the most liquid asset and is the ultimate network effect as such.
        - The asset should become more liquid over time across exchanges.
    - What are newly created tokens used for?
        - Tokens should be minted almost entirely for the purpose of incentivizing a safe network (Masternode's break this rule)
    - Distribution should be far, wide, and increasing in both directions over time
- Is the crypto-asset pre-mined? Does it have a dev tax? Is there some other way of controlling a large amount of the supply in a centralized fashion?
    - In general, all these tactics are red flags, and should be looked at closely to determine motive.
    - Over the long run, we see centralized supply tactics reduce the moneyness of a crypto-asset, and shy away from adding these to our portfolio.