

ZClassic Investment thesis

Bitcoin smaller cousins

The invention of Bitcoin has led to the creation of thousands of alternative crypto-currencies (altcoins). They are listed on websites such as <https://coinmarketcap.com/>. At the beginning of 2017, eighty of these altcoins have a market cap of at least \$1M. Twenty-five have passed the \$10M mark, and five are over \$100M: Ethereum, Ripple, Litecoin, Monero and Ethereum Classic.

Historically altcoins tend to rise by waves either:

- In the wake of Bitcoin price increases when more people get to discover Bitcoin or finally decide to invest. Some of the new money will flow into altcoins for diversification purposes or because they might offer a higher return potential due to their smaller market cap. Some people always feel like they "missed the train" with Bitcoin.
- When Bitcoin holders have concerns about Bitcoin. That makes them want to hedge their crypto-currency bet and makes diversification more appealing. This especially benefits altcoins with technological innovations. We've seen this in 2016 around the contentious issue of the blocksize.

The leading altcoins

In 2016, 3 altcoins in particular have seen huge returns:

- Ethereum went from a market cap of \$72M to \$698M (peaked at \$1.2B)
- Ethereum Classic split from Ethereum and is worth \$140M (peaked at \$270M)
- Monero went from a market cap of \$5M to \$180M

Besides the blocksize issue, there are also potential worries about Bitcoin imperfect anonymity. A part of the Bitcoin ecosystem might be reluctant to support efforts to improve Bitcoin anonymity for fears of government crackdown on their business, particularly in China. Critical upgrades in cryptocurrencies are only achievable through network consensus; lack thereof will either result in coin splits (Ethereum vs Ethereum Classic) where the market will decide of the eventual outcome or in indefinite stalling. Bitcoin is precisely going through a battle for consensus on the blocksize issue at the moment, and privacy might very well be the next point of contention.

There are thousands of altcoins. Many of them are solely used as vehicles for "pump and dump" schemes, much like penny stocks. However, a few intrinsically different altcoins found their niche because they offer unique features and a narrative justifying their existence apart from Bitcoin.

The anonymous, privacy-focused altcoins

2017 should prove another good year for altcoins and especially for privacy-focused altcoins.

The following coins: Monero, ZCash and by extension ZClassic should be the center of attention. There is consensus in the technical community that they have the best privacy technology.

Bitcoin are "mined" (issued) following a predetermined schedule known by everyone from day one. There will only ever be 21 million bitcoins and the number of bitcoin created every 10 minutes is halved every 4 years. Some altcoins, such as Ethereum, have been partially issued through auction. It results in a less efficient distribution as most of the supply is already "mined" in a very short time and at a low market cap.

A big reason why Monero has been successful is because it is one of the few coins that is both interesting from a technological standpoint and is a "grassroots" coin that has been issued in a transparent manner from day one like Bitcoin or Litecoin, and has grown organically. Though it should be noted that Monero is following a sped up issuance schedule where after only 2 years and a half, 75% of the coins have already been mined.

ZCash was originally planned as an upgrade of the Bitcoin protocol and became its own coin for various reasons. It was long awaited and has finally been released at the end of 2016. Both Monero and Zcash technology hold promise and at this point it's hard to know which one will prove more successful. And its design, closer to Bitcoin, makes it easier to develop for. ZCash also boasts a world class team of cryptographers, and has the exact same coin issuance model as Bitcoin (minus a "slow start" period that I will explain in the "ZCash flaws" section) making it easier to compare the coins prices.

ZCash flaws

Now while technologically very appealing, ZCash suffers from some major problems. It is the product of a US incorporated company with paid developers and with closed funding. The company behind ZCash has decided to impose a 20% hardcoded tax on mining until half of the total supply is mined,

"Pre-issuance" of coins is frowned upon in the crypto community and any form of premine is usually perceived as going against the ideals of Bitcoin and crypto-currencies of building an open, fair and decentralized financial network for everyone. The case of ZCash is even worse because instead of holding an auction open to everyone like the Ethereum foundation did, they have a closed group of investors. This is a step back to the old boy network practice of the Wall Street IPOs.

Furthermore, Crypto-coins supported by a foundation/corporation have their own set of dangers as shown by the Ethereum/Ethereum classic split. Foundations appear as towering figures of authority and thus tend to lead to centralisation of the technical decisions, giving a false sense of consensus and providing a potential target for legal attacks. This is in contradiction with decentralization and the spirit of crypto-currencies.

Finally, from a trading/investing perspective, ZCash was managed like a highly anticipated IPO. They also added a "slow-start" feature that resulted in an extremely constrained supply in the first 34 days¹. It all gave birth to a coin that started trading at a very inflated price; coupled with the high inflation rate of the first 4 years, it puts a lot of pressure on the price from a trading standpoint. That will make it hard for people to hold and invest in ZCash and for the currency to get positive momentum.

ZClassic

Fortunately, as all crypto-currencies are open-source, developer Rhett Creighton "forked" the ZCash code to a new chain as soon as it was released however removing the 20% tax and the slow-start feature.

By all accounts, ZClassic is what ZCash should have been.

It is ZCash without its self-imposed shackles. A privacy-focused altcoin that is community-based, fair and decentralized. Creighton announced it publicly at the time so that everyone could mine from the very first block. As it is customary for any new altcoin he posted on the "Bitcointalk" message board². He also submitted a serie of articles on the platform Medium.

ZClassic currently has a micro market cap in the low hundred thousands of USD, with a rapid inflation of 7200 coins per day (for the first 4 years like Bitcoin). It has all the right and rare characteristics to convince people of its potential once it achieves the tipping point of sustainability and awareness. It is one of these very rare coins that answer a real need that justifies their existence, like Ethereum or Monero. But just 2 months after its release, it is flying completely under the radar.

For comparison purposes, the price of ZClassic is currently less than 1% of ZCash, while Ethereum Classic, which also broke away from corporate coin Ethereum, is standing between 10 and 20% of ETH and has some momentum. Moreover ZCash has much less "moat" than Ethereum: it is not protected by a core community devoted to its ideal or its creator, unlike Ethereum. People have invested in ZCash for the technology and ZClassic could even take on ZCash with proper momentum as its grassroot narrative is much attractive.

What's more, ZClassic is not even traded on Poloniex yet. Poloniex is the number 1 venue for altcoin trading and most coins see an increase in volume and often price once they trade on it.

1 <https://forum.z.cash/t/zec-slow-start-info-for-miners/5785>

2 <https://bitcointalk.org/index.php?topic=1671982.0>

2017 offers ideal conditions for ZClassic

- Bitcoin finished 2016 on a furious rally to 1000 USD/BTC, which should lead to increased awareness of the crypto-currencies space.
- Bitcoin \$16B market cap makes the altcoin space look really small in comparison. The Bitcoin dominance index (Bitcoin share of all the crypto-space) currently stands around 88%, a return to the historic mean of 80% seems likely.
- Some big funds are already positioning themselves to take advantage of this environment³. Money that has yet to be deployed.
- The contentious issue of the blocksize is not solved while privacy will offer a new battleground in 2017 and in the following years.
- 2016 has shown the danger of corporate coins with for example the Ethereum/Ethereum Classic split.
- Ethereum Classic has shown that there is a strong demand for coins that preserve the ideals of decentralisation and that a smaller fork can coexist with a bigger coin and can aim to overtake it.
- ZClassic low market cap and low market awareness offer huge potential returns.

Taidji 01.01.2017

³<http://www.businessinsider.com/olaf-carlson-wees-polychain-raises-money-from-union-square-ventures-2016-12>

Useful

links:

- Community Website: <http://ZClassic.org/>
- Slack channel: <http://ZClassic.herokuapp.com/>
- Bitcoin talk announcement: <https://bitcointalk.org/index.php?topic=1671982.0>
- Bittrex, main exchange for ZCL: <https://bittrex.com/Market/Index?MarketName=BTC-ZCL>
- Coinmarketcap: <https://coinmarketcap.com/currencies/ZClassic/>
- ZClassic wallet: <https://github.com/vaklinov/ZClassic-swing-wallet-ui>
- First android wallet that should support ZCL in next release: <https://coinomi.com/>
- Explorer: <https://classic.zcha.in/>
- Medium Posts from intial "forker" Rhett Creighton:
 - > <https://decentralize.today/five-reasons-ZCash-is-the-most-corporate-cryptocoin-youve-ever-seen-a77ac430b0e8>
 - > <https://decentralize.today/five-reasons-ZCash-is-the-most-corporate-cryptocoin-youve-ever-seen-a77ac430b0e8>