Testing Finance Theories in the ICO Market

Does signaling through retention work in practice in terms of entrepreneurial financing?

The study examines whether Initial Coin Offerings (ICOs) that retain a greater fraction of tokens are more likely to be successful.

For context: An ICO involves the sale of digital assets, or “tokens,” on the blockchain. Despite its theoretical underpinnings, it has not been shown in data that signaling through retention works. Ultimately, in this paper, the authors provide evidence that entrepreneurs signal their quality through retention in ICO

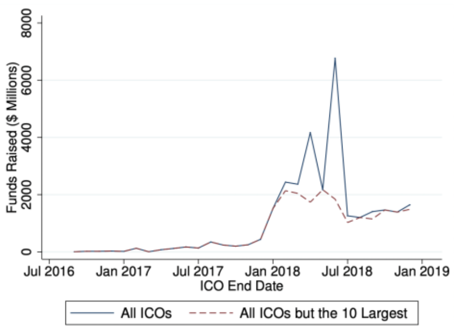

Figure 1: Aggregate Funds Raised Over Time

The figure above shows a steep increase in the capital attracted by token users over the sample period used in this study.

MAJOR TAKEAWAYS:

- Retention works because it is a costly signal: the more you retain, the less you can sell
- The value of the retention signal can change depending on market conditions; when investors are considering early-stage financing, they have limited information- which is why signaling works in the first place as positive signals increase willingness to invest

WHO NEEDS TO KNOW:

- Entrepreneurs considering raising funds through ICOs
- Researchers who study entrepreneurial finance or digital assets

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- De-crypto-ing Signals in Initial Coin Offerings: Evidence of Rational Token Retention https://dx.doi.org/10.2139/ssrn.3286835