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7 Key Factors to Evaluate Before Investing a New Cryptocurrency

Buying a cryptocurrency for the first time may seem intimidating. However, there are some wise and highly effective strategies you can use to make your decision easier.

The cryptocurrency market draws the attention of not only seasoned investors but also ordinary people with no previous experience in buying crypto. While [bitcoin](#) (BTC) was the first cryptocurrency – and is still the largest by market cap – it wasn't long before alternative coins (altcoins) emerged, including [Ethereum](#) (ETH), [dogecoin](#) (DOGE) and many more.

Today, 19,000 cryptocurrencies exist, and many of these altcoins frankly don't have a promising future. So it's important to learn how to tell which coin is worth your time and money. In this guide, you will learn seven effective ways to evaluate a cryptocurrency so you can invest with more confidence.

1. Review the crypto project's website

Any cryptocurrency worth your time and investment should have a website. These days, building a website is relatively easy, and any company serious about its business will have an updated, engaging and informative one.

Things to look for on a cryptocurrency's website:

- It's up to date and easy to use
- Clean and free of spelling and other errors
- Discloses the team members and partnerships
- Clearly defines the token's objective
- Offers a white paper

2. Read the whitepaper

A crypto white paper is one of the most important tools for evaluating a cryptocurrency as it serves as the backbone of the project's proposal. It's an authoritative document outlining the goals and strategies for the cryptocurrency's usage. Moreover, white papers serve as a road map for the token, and they are usually one of the first things that potential prospects read before allocating money to the project.

In addition, a cryptocurrency white paper is where you will encounter the tokenomics of a coin. The tokenomics include details of how the token will be distributed among the investors as well as its supply limits. It also includes information regarding minting new tokens as well as token burning, if that is part of the ecosystem.

Granted, some white papers get so technical and detailed that you don't necessarily need to understand every aspect of the tech specs, but knowing who the team behind the project is, what their goals are and how they will achieve them is important.

Not having a white paper is a major red flag, and any trustworthy white paper should be free of spelling and grammatical errors.

3. Check out social media channels

To gain keen insight into a crypto community, first visit its social media accounts. Most cryptocurrency projects will have Twitter, Reddit or Discord channels - and usually all three - that they manage.

Take note of the number of followers they have and the interaction in the comment sections. Assess whether the community moderators are answering questions, promoting news events and actively participating in discussions. For example, if people are posing legitimate questions in their Discord channel and getting ignored or told they "just don't get it," that's a bad sign.

Learn to spot social media crypto scams. Stay away from groups that are too spammy in their sales approach. A strong project won't need to resort to such tactics.

Second, do a general search across social media for mentions and discussions of the cryptocurrency. If a lot of people are talking positively about the cryptocurrency on social media, that can indicate there will be buying pressure and investment interest. On the flip side, if the mentions are mostly negative, that can be a warning sign - though it's important to understand the context of conversations, both positive and negative, on social media.

4. Evaluate the project team and partner relationships

The success of a cryptocurrency is dependent upon its team members. Many reputable coins have project members who were involved in other successful coin launches. This helps to induce more trust within the community. You should be able to find the founders and key members in the project's white paper and website. Research the team to determine its reputation and thought leadership in the blockchain ecosystem. A team with a prior history of successful projects is a great sign, while a team entirely new to the crypto community might not have the experience to achieve its goals.

Apart from the project team, look at the list of partnerships, if any. You can usually find this on the landing page of the website. Sometimes you will find partnerships with well-known brands like Google (GOOG), Amazon (AMZN), JPMorgan (JPM), Visa (V) and IBM (IBM). As with all things crypto, do your own research and verify that the partnerships are legitimate.

5. Evaluate market metrics of the cryptocurrency

To check this information, you will need to visit a cryptocurrency aggregator such as CoinMarketCap. What sets a novice investor apart from a seasoned one is a working knowledge of these three basic market metrics.

Market cap

The market cap of a cryptocurrency is calculated by multiplying the price of the cryptocurrency with the total number of coins or tokens in circulation. Generally, it's safer to invest in cryptocurrencies with a high market cap (over \$1 billion), but this isn't a fail-safe as some cryptocurrencies with high market caps are still high-risk, so judging the value potential by market cap alone isn't recommended. You can also find many newer projects with amazing potential and partnerships backing them up that just need more time or exposure to reach that threshold. Generally, coins ranking in the top 100 are safer investments than those lower on the list.

Trading volume

Another indicator to watch for is the coin's trading volume. This metric shows how much the cryptocurrency has been traded within a specified time frame. A high volume means a lot of investors are buying and selling, which leads to more liquidity and price stability. An example of high volume is ETH which, as of this writing, has a daily trading volume of more than \$14 billion. In contrast, a low volume signifies low investor faith in the price action and can lead to large price swings and poor liquidity.

Max supply

Most cryptocurrencies have a max supply, which essentially means the maximum number of coins that will ever exist. There are cryptocurrencies such as ETH that have an unlimited supply, but the majority have some limit even if it's in the hundreds of billions of coins.

The circulating supply indicates how many are currently either being traded or held in a wallet. This metric can be used to understand the potential scarcity of a coin, which can affect its price in both directions. Knowing the difference among maximum, circulating and total supply will help you make sound buying decisions.

6. Study the past performance and price history

In addition to understanding the market metrics, you should always take note of the price history of a cryptocurrency. The crypto market is volatile, so it's normal to see fluctuations in price, but look for a gradual increase in price over time. It's wise to observe the price over different time spans, including the "all time" history view to get as broad an understanding as possible of the long-term and shorter-term price trends.

Avoid coins that have exaggerated highs followed by sudden drops as this can indicate a pump-and-dump scenario – a scam whereby a coin's price is inflated due to false hype and then immediately sold off for profit. This is also referred to as a "rug pull."

7. Determine the utility of the cryptocurrency

Not all cryptocurrencies serve a practical purpose. Look for coins that offer utility in the blockchain ecosystem. Is the coin project seeking to solve an issue within the network or enhance its functionality? One prominent example is Ethereum. Many smart contracts, [NFT](#) projects and businesses depend on its technology to survive, so you know it should retain its value over time. Others, like bitcoin, are decentralized digital currencies used for payments and as a store of value.

Other types of coins worth noting include utility tokens. These tokens serve an objective purpose. One example is Basic Attention Token (BAT); this utility token is used by advertisers to pay for ads on the Brave browser, which blocks all ads by default. Users who choose to see ads can join a program that pays them for their attention in BAT.

In contrast, some coins exist only as jokes. Or, like the meme coin, they are heavily promoted by social media influencers. This is not to say that you can't make money with these coins. You should be aware of the risks, as many of them are prone to failure at some point. However, if you decide to invest in meme coins, learn how to do so safely.