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Crypto Gets What It Asked For

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As regulation ramps up, crypto gets what it asks for and many are not all that happy. We have heard a recurring theme from leaders of the crypto community as regulation takes hold. Give us clarity so that we can follow the rules. As crypto gets what it asked for, companies like Binance and Coinbase see their business models under attack. It is possible that complying with what the SEC wants could put Coinbase out of business and remove Binance from the US and other nations completely. The [moment of clarity](#) that has arrived for crypto is not what most anticipated.

Regulation Is Worse Than Crypto Winter

[Crypto winter](#) was a market reaction to the Federal Reserve raising interest rates and the potential for a severe economic recession. Falling crypto prices revealed that many crypto businesses were on shaky ground. There were bankruptcies and then evidence of stupid business practices on one hand and clearly fraudulent business dealings on the other. Some, like FTX head Bankman-Fried, are in trouble with the law. Others simply went out of business. The depth of illegal and/or incompetent practices in the crypto world caused a seismic shift in attitudes about regulation. Crypto needed to get its house in order. All it needed were clear rules to follow. Now it appears that regulation is worse than crypto winter for major players in the crypto universe.

Be Careful What You Wish For in the Crypto World

Be careful what you wish for because it may come true. This old adage applies in spades to the pickle that Coinbase finds itself in. About a year ago President Biden sent out an executive order directing government agencies to figure out how crypto should be regulated and by which particular agencies. One of the results of this directive was that the Securities and Exchange Commission determined that a large number of crypto tokens fit the definition for being a security like a stock that might trade on the New York Stock Exchange or Nasdaq. The problem for Coinbase is that they have not run their business with that in mind.

Specific Problems Relating to Crypto Tokens Being Securities

The SEC says that many of the tokens that trade on the Coinbase exchange are unregistered securities. If this view prevails in court, Coinbase will need to stop the trading of these tokens or register them with the SEC. In addition, Coinbase will need to stop acting as a broker-dealer, a clearinghouse for trades, and an exchange all under the same roof. In the stock market these functions are all separate and done by separate business entities. And Coinbase may have to pay fines and compensate its clients for profits it made in what might end up being determined to be illegal activities.

Where Does Aggressive Regulation Leave Crypto?

Nothing in how the SEC is proceeding says that crypto tokens, trading, investing, etc. are illegal. Over the long term the world of crypto can adapt and continue its business. In the short term the costs of a settlement could

drive Coinbase, the largest US-based exchange, out of business. It could leave tokens like SOL, ADA, MATIC, FIL, SAND, AXS, CHZ, FLOW, ICP, NEAR, VGX, DASH, and NEXO with no place to trade, at least in the short term. It remains to be seen if these tokens could be registered to trade on the New York Stock Exchange, the Nasdaq, or over the counter. Prices of altcoins have been falling as investors move into Bitcoin, Ether, and Tether. And there has been a lot of movement out of crypto entirely as investors wait to see how the regulatory drama plays out.

Binance Troubles Worldwide

Binance has its own set of troubles with the SEC. Mostly these have to do with offering illegal crypto trading opportunities to US citizens but also wash trading that distorts the market and misleads crypto traders. Its problems are spreading outside of the US as Nigeria, the second leading area of trading for Binance has designated the exchange as illegal.

The bottom line is that crypto will need to play by a set of rules that have been in place in traditional finance in order to provide security to investors and a level playing field for crypto traders. Crypto got what it asked for and now has to deal with the fallout.

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