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**UNDERSTAND YOUR FINANCES**

# 5 things you need to know about cryptocurrency

By **Beth Braverman** • Posted: 03/15/18

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Cryptocurrencies like Bitcoin are frequently discussed in the media, and dinner





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—during an  
employment gap

Wondering what all the fuss is about? Here are answers to five common questions about cryptocurrencies:

### **1. What is a cryptocurrency? Is it just Bitcoin?**

They are a virtual currency that's relatively secure and anonymous. But they're not regulated or backed by a government, or most traditional bank. The money transfers directly from one account to another, without the need for third-party payment processors.

Bitcoin is the oldest and the most well known of the digital currencies, but there are hundreds of other types of cryptocurrencies, such as Ethereum and Ripple. The total value of all cryptocurrencies has reached more than \$4 billion, with most of the value since early 2017.

### **2. What can you do with cryptocurrency?**

You can use cryptocurrencies to buy and sell goods and services, just like any other currency, but the trick is finding



mortar retailers.

Rather than using the currencies to make purchases, many people are simply holding onto cryptocurrencies in their portfolios with the hopes that it will continue to increase in value. "Even though there isn't a mainstream application, most of the value in cryptocurrency comes from speculation around future value, and what's coming next," says Dmitriy Solomonov, who writes the daily cryptocurrency newsletter, CoinSheet.

### **3. What is the difference between cryptocurrencies and block chain?**

Cryptocurrencies are the digital money itself, while the blockchain is the secure technology that's used to track them. Blockchain is an enormous, computerized ledger system that tracks cryptocurrencies as they are transferred between one account and another. Once a transaction occurs, it becomes public record, making accounting discrepancies impossible.



manufacturer's supply chain to keeping patient medical records or preventing voter fraud. Many companies and industries that are wary of the staying power of cryptocurrencies are also very interested in the potential of blockchain technology.

#### **4. Some of these currencies seem expensive. Is there a less expensive way to buy some?**

Yes. One Bitcoin is currently worth more than \$10,000, but you don't need to have \$10,000 in order to purchase some. Instead, you can purchase a fraction of a cryptocurrency.

"When you're talking about a US Dollar, a penny, or 1/100<sup>th</sup> is the smallest amount you can transact," says John Omar, who runs the cryptocurrency course Chainoperator. "You can buy 1/1000<sup>th</sup> of a Bitcoin, or 1/100000<sup>th</sup>."

No matter which currency you buy, you'll need to download an exchange app like Coinbase or Kraken, which will charge you a small fee to make the purchase. (Expect a call from your bank or



for you, or you can keep it in your own crypto wallet. The wallet will hold access to the account on the ledger where the currency is stored, and you'll use a digital key, essentially a long password, to access it. This password is unlike the ones that you use to access other accounts in that if it's lost or stolen, it's impossible to recover and you'll lose access to your cryptocurrency.

### **5. Okay, I bought some. Now what?**

Get ready for a roller coaster ride. Cryptocurrencies are extremely volatile, and it's not yet clear when or if they'll be accepted or traded by more mainstream platforms.

*"I always tell clients that the fastest way to lose your* If you're planning to simply hold onto it, diversify so your cryptocurrency investment is a small part of your overall portfolio. "Carefully research the cryptocurrency you are interested in investing in," says Tyler Gallagher,



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*asset class that you do not understand."*  
Tyler Gallagher people invest in cryptos through their retirement accounts. "I always tell clients that the fastest way to lose your money is to invest in an asset class that you do not understand."

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