

Cryptocurrency Questions, part 1

Cryptocurrencies have been around for almost 10 years, but hit the headlines in a big way in 2017. Suddenly they captured the imagination of businesses, the media and investors. This has turned into a massive increase in valuation, but what's behind the hype? And what do they do anyway? Our FAQ starts to delve ...

Frequently Asked Questions part 1 – crypto what?	
What are cryptocurrencies?	They are digital currencies. Their virtual ‘coins’ can be bought and sold by users online, a bit like dollars and pounds. There is an increasing number of trade exchanges supporting an increasing number of cryptocurrencies as time goes on.
Why are they different to traditional currencies?	They use cryptography (complex maths) for security and their records are usually maintained in a public database so all users can verify the transactions. Most are <i>decentralised</i> , allowing direct payments from user to user. This is without the risk of double-payments being made so it avoids the need for central control. Thus, institutions do not own them, banks are not needed to utilise them and governments cannot manipulate them (for instance print more money, as in quantitative easing after the financial crisis).
How many cryptocurrencies are there?	Thousands. And thousands more are in development. The largest and most famous are probably Bitcoin and Ethereum but others such as Ripple and Litecoin are catching up. As for how many there will ever be, no one knows. It is largely an unregulated market so anyone can create a currency hoping that it will catch on. Most have additional features for a distinctive business use, but only a subset will be successful.
What's the biggest?	Bitcoin is the daddy. It was the first to be created and has about 50% market share at the start of 2018. It is now 9 years old and it remains to be seen whether it can maintain its position for the long term as other cryptocurrencies incorporate increasingly innovative features.
What's the smallest?	The answer will be different today and tomorrow. Many of the new currencies have a price of a tiny fraction of a cent. But of course, the important number is the total value of its coins in circulation and the concern of the investor is the % change. Most currencies have low liquidity (a tiny daily trading volume), are hard to buy and difficult to sell.
Why has the market seen consistent growth?	It hasn't! In 2017 everyone was talking about the boom but in other years the cryptos lost value – for instance Bitcoin lost around 90% of its value twice – in 2011 and 2014. Dozens of crypto currencies and businesses have gone bust in the rush to find the best business models. 2017 was not a representative year. At this point no one knows what 2018 holds.
Cryptocurrency has been called a scam and also the re-invention of financial services. Which is it?	The underlying technology is powerful and is here to stay. Most people believe that electronic currencies are a significant part of the future but no one knows which currencies will be successful. Some of the newer ones have little to differentiate them and have been accused of being a scam to lure in early investors. In the past, Bitcoin has also been termed a scam but most actual investors disagree, even if they expect the value to be highly volatile.

Where do Cryptocurrencies come from?	A sort of crypto mine! These are powerful computer networks that compete to solve complex maths calculations. The calculations generate codes that validate user transactions, maintain the record of all user balances and create new coins – all of which are stored in a chain of ‘blocks’. The new coins are usually allocated to the first miner that solves the calculation for each block, as a reward for their work. Most cryptocurrencies have a defined number of coins – some issued in advance and others mined over a period of time, up to an agreed maximum.
Why would I buy cryptocurrency?	Two reasons; to use it or to invest it. Ultimately their purpose is for use but the value does need to be stable before payments can become widespread. In the early stages, most people bought to invest as the price rises were spectacular. Some early adopters are claiming that one use is a ‘store of value’, ultimately replacing gold. However, there are still security problems with the cryptocurrency infrastructure, with both individual users and entire exchanges being hacked and the coins stolen.
Where could I spend cryptocurrency?	Crypto coins can be used to buy goods and services and there is a growing number of businesses that take Bitcoin and other currencies. In the same way that some companies choose to accept US Dollars or GB Pounds or both, each business must decide whether to accept any cryptocurrencies. There is a <i>but</i> . When the price of coins is increasing, its not advisable to pay in crypto coins. And when it is decreasing its not advisable to sell goods for crypto coins. In 2010, a man famously bought a pizza for 5k Bitcoin, worth \$100m by 2017. It must have seemed like good value at the time as the poor fellow ordered two. No pizzas are that good.
Can I become a crypto millionaire?	There is still an investment opportunity and new cryptocurrencies are being created weekly. The ‘Initial Coin Offerings’ (ICOs) are a bit like a traditional IPO, a crowdfund, a new asset or a combination of all three. In 2018, the risks of ups and downs are as great as they ever were. This does not constitute investment advice!
Which currencies should I buy?	That is the million-dollar question. The market was volatile in 2017 but most rose steeply. 2018 may be as unforgiving as prior years. For investments, the advice is always to research well, have a strategy, spread your risks and of course don’t invest more than you can afford to lose, especially in a market as volatile as crypto. Or just wait and use the new platforms and services when you need them.
Can I buy a bit of a Bitcoin?	Yes. Most Cryptocurrencies are divisible into tiny portions. For instance, Bitcoin is divisible into hundred-millionths (each ‘Satoshi’ worth a tiny fraction of a cent) but some Exchanges have a minimum deposit value and a minimum purchase value.
Where do I get sound advice?	Good question. There is lots of advice out there but much of it is contradictory. The only consensus is that the whole market is very risky (which means that in some months the value rockets and in others it crashes). High risk does not mean high return; it means that some players are big winners and others are big losers. As always, do your research and consider a wide variety of opinions, including from those affected by your winnings and losings!

James Crawford, Touchpoint Change Consulting.

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james.crawford@touchpointchange.co.uk Tel. 0777 55 90192.