Cryptocurrency. Definition and description

Cryptocurrency is any kind of currency in digital or virtual form; To protect transactions in cryptocurrency, encryption (cryptography) is used. There is no central authority to issue or regulate cryptocurrencies. A decentralized system is used to record transactions and issue new units.

What is a cryptocurrency?

Cryptocurrency is a digital payment system that does not involve banks in verifying transactions. It is a peer-to-peer system that allows anyone, anywhere, to send and receive payments. Cryptocurrency payments exist exclusively digitally in an online database describing specific transactions. They do not imply transactions with physical money that have circulation and the possibility of exchange exchange in the real world. When transferring funds in cryptocurrency, transactions are recorded in a public ledger. Cryptocurrency is stored in digital wallets.

The term Cryptocurrency came into use due to the fact that encryption (cryptography) is used to verify transactions: advanced coding is used to store and transfer cryptocurrency data between wallets and to public registries. The purpose of encryption is to provide reliability and security.

The first cryptocurrency was bitcoin, created in 2009 and the most famous to date. Cryptocurrency trading is interesting in terms of making a profit; as a result of speculative activities, price jumps for cryptocurrencies are periodically observed.

How is cryptocurrency applied?

Cryptocurrencies are processed in a distributed public ledger - blockchain, where records of all transactions are stored, updated by currency holders.

Cryptocurrency units (coins) are created during the mining process. This is a process in which the processing power of a computer is used to solve complex mathematical problems, resulting in the generation of coins. Users can also buy currency from brokers and then store and spend it using cryptographic wallets.

Cryptocurrency is not a material object, it is a key that allows you to move a record or unit of measure from one person to another without a trusted third party.

Bitcoin has been around since 2009, but financially, cryptocurrencies and the application of blockchain technology are still in their infancy; their rapid development is expected in the future. In the future, cryptocurrencies can be used in trading transactions with stocks, bonds and other financial assets.

Examples of cryptocurrencies

There are thousands of cryptocurrencies. The most famous of them are listed below:

bitcoin

Bitcoin, created in 2009, became the first cryptocurrency and still retains the highest popularity. The currency was designed by Satoshi Nakamoto and is believed to be a pseudonym for a person or group of people, while the exact identity of the developer remains unknown.

Ethereum (Ethereum)

The Ethereum blockchain platform was developed in 2015. It has its own cryptocurrency Ether (ETH) or Ethereum. It is the most popular cryptocurrency after bitcoin.

Litecoin

This currency is most similar to bitcoin, but innovations such as faster payments and processes that allow more transactions are more quickly developed in it.

Ripple

Ripple is a distributed ledger system founded in 2012. Ripple can be used to track many different types of transactions, not just cryptocurrencies. The Ripple platform developer has worked with various banks and financial institutions.

Cryptocurrencies other than bitcoin are collectively referred to as "altcoins" to distinguish them from the original.

How to buy cryptocurrency?

The question may arise how to safely buy cryptocurrency. This usually happens in three stages.

Step 1. Platform selection

The first step is to choose a platform to use. As a rule, one can choose between a traditional broker or a specialized cryptocurrency exchange.

traditional brokers. These are online brokers offering the purchase and sale of cryptocurrencies, as well as other financial assets: stocks, bonds, ETFs. These platforms tend to offer lower trading fees but fewer crypto features.

Cryptocurrency exchanges. There are many cryptocurrency exchanges, each offering different cryptocurrencies, wallet storage, interest-bearing account options, and more. Many exchanges charge fees based on the assets traded.

When comparing platforms, it is a good idea to look at the cryptocurrencies traded, fees, security features, storage and withdrawal options, and educational resources.

Step 2. Depositing funds to the account

The next step after choosing a platform is to fund your account so that you can start trading. Most cryptocurrency exchanges, depending on the platform, allow users to buy cryptocurrencies with fiduciary (government-issued) currencies such as the US dollar, British pound, euro, and when paying with debit or credit cards.

Cryptocurrency purchases with credit card payments are considered risky and are therefore not supported by all exchanges. Some credit card companies also do not allow cryptocurrency transactions. This is due to the extremely high volatility of cryptocurrencies - when trading certain assets, it is not recommended to take risks by making transactions on credit or potentially paying high commissions for credit card transactions.

Some platforms also accept ACH transfers (automated clearing house transfers) and wire transfers. Accepted payment methods and deposit and withdrawal times vary by platform, while deposit clearing times vary by payment method.

An important factor to look out for is the size of the fees, which includes potential fees for depositing and withdrawing funds, as well as trading fees. Fees vary by payment method and platform. This question is recommended to be studied at the platform selection stage.

Step 3: Placing an order

Orders can be placed through the website or mobile app of the selected broker or exchange. To buy cryptocurrency, you need to select the "Buy" option, the type of order, specify the amount of the purchased cryptocurrency and confirm the order. A sell order is placed in the same way.

There are other ways to invest in cryptocurrencies. These include payment services such as PayPal, Cash App, and Venmo that allow you to buy, sell, and store cryptocurrencies. In addition, there are the following investment instruments:

Bitcoin trusts. Bitcoin trust shares can be purchased with a regular brokerage account. Such instruments provide individual investors with access to cryptocurrencies through the stock market.

Bitcoin mutual funds. There are Bitcoin-pegged ETFs as well as Bitcoin mutual funds.

Blockchain stocks and ETFs. You can indirectly invest in cryptocurrencies through blockchain companies that specialize in the technologies underlying cryptocurrency mining and cryptocurrency transactions. Alternatively, you can buy shares or ETFs of companies using blockchain technology.

The best option depends on investment goals and risk appetite.

How to store cryptocurrency?

After the acquisition, it is necessary to ensure reliable storage of the cryptocurrency, which guarantees protection against hacking and theft. Cryptocurrency is usually stored in crypto wallets. These are physical devices or online programs used to securely store private keys to cryptocurrencies. Some exchanges provide wallet services, thanks to which the storage of cryptocurrency funds is carried out directly by the platform itself, however, not all exchanges and brokers automatically provide such services.

There are also different wallet providers. There are two types of funds storage: "hot wallet" and "cold wallet".

A hot wallet is a cryptographic storage that uses online programs to protect private keys to assets.

A cold wallet (also called a hardware wallet), unlike a hot wallet, uses offline electronic devices to securely store private keys.

As a rule, there is a fee for using cold wallets, while there is no fee for using hot wallets.

What can be bought with cryptocurrency?

Initially, bitcoin was conceived as a means of daily transactions, allowing you to buy anything from a cup of coffee to a computer or even high-value items such as real estate. These plans have not yet been fully realized. Despite the growth in the number of institutions accepting cryptocurrencies, large transactions using cryptocurrencies are quite rare. However, cryptocurrencies can be used to buy various goods on e-commerce sites. Let's give some examples.

Technology company and e-commerce websites

On the websites of individual companies selling technology products, you can pay in cryptocurrency. Examples are newegg.com, AT&T and Microsoft. E-commerce platform Overstock was one of the first sites to accept bitcoin. You can also use Bitcoin to pay for purchases on Shopify, Rakuten, and Home Depot