

FOREX TRADING

CRYPTOCURRENCIES 101



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We believe that sound investment and trading decisions begin with a strong grounding in financial education. Our goal is to make this available to everyone - and this free eBook is part of that commitment.

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THE NEW TREND?

FOREWORD

It's fair to say the cryptocurrencies phenomenon shows no signs slowing. It's a trend that has caught the imagination of investors and first-time retail traders.

For instance, at the time of writing, we've seen Bitcoin breakthrough \$17,000 threshold. That's a staggering price considering one bitcoin was worth approximately \$1,000 at the start of 2017.

If you're thinking of investing in cryptocurrencies, it's vital that you understand what they are and the dynamics that affect their price. That's the purpose of this eBook - I hope you find it useful.

Patrick Latchford
CEO, Blackwell Global Investments (UK) Limited

EXPLORING THE BASICS

WHAT ARE CRYPTOCURRENCIES?

The cryptocurrency movement started with an entity known as Bitcoin. Many describe this as a 'digital currency' that is free from a single authority, whether that be a central bank, government or private company.

Other cryptocurrencies have followed suit. These digital currencies are often described as 'decentralised'. This simply means that no organisation owns the cryptocurrency.

For example, Bitcoin was created as a 'peer-to-peer' digital currency. Specifically, Bitcoin transactions aren't stored on one central server owned by an organisation. Rather, Bitcoin transactions are shared between all Bitcoin users on a public ledger.

The transaction mechanics of cryptocurrencies also rely on peer-to-peer coordination. The 'buyer' and 'seller' simply create a digital

file, which contains their respective wallet keys, along with the transaction amount.

Cryptocurrencies use cryptography (hence the 'crypto' prefix) to keep transactions safe and secure. Once a transaction file is created, they are typically verified by people known as miners. Miners are essentially community curators - they use computer software to verify transactions before sharing them to a public ledger.

Like traditional currencies, cryptocurrencies exist to facilitate the purchase of goods and services.

In recent times, cryptocurrencies have become popular with investors too. The reason for this is that cryptocurrencies like Bitcoin have 'caps'. In the case of Bitcoin, there are approximately 17 million (of a maximum 21 million) in circulation. If we follow the laws of supply and demand, we know the value of Bitcoin will increase as its supply falls.

POPULAR DIGITAL CURRENCIES

THE TOP FIVE CRYPTOCURRENCIES

In addition to Bitcoin, there are many other cryptocurrencies that exist. Each cryptocurrency has distinguished points of difference relating to decentralisation and mining.

Below is a summary of the world's most popular cryptocurrencies:

Bitcoin: This cryptocurrency currently accounts for nearly half of the entire digital currency market. A major factor driving the popularity of Bitcoin is the limited availability of these coins, since its creator limited it to a maximum of 21 million units. This means the Bitcoin's value is likely to continue rising as long as more people buy it. It's this dynamic that will encourage people to hold it for the long term, as opposed to spending it to purchase products.

Ethereum: The second most valuable cryptocurrency after Bitcoin, Ethereum is a programmable blockchain that allows developers to build all sorts of distributed apps and technologies. This platform,

first envisaged by a 19-year-old Bitcoin programmer, enabled many companies to raise hundreds of millions of dollars in funding for their Ethereum-based projects. Although the currency has faced some scaling issues, developers of this platform are working to resolve this. The currency is likely to adopt a new and more efficient 'Proof of Stake' transaction verification system.

Ripple: Released in 2012, Ripple is different from other digital currencies, since it does not use a public ledger (blockchain) to establish consensus for transactions. Instead, it uses an iterative consensus process that is faster than the Bitcoin network. Since Ripple's structure doesn't require mining, it reduces the usage of computing power and minimises network latency. But as discovered by another rival network, this can expose the entire network to attacks, making it unsafe. Ripple, however, has found favour with various financial institutions, including Japan's large banks, to test a public ledger (blockchain) and possibly implement it in the future.

Bitcoin Cash: This recently introduced cryptocurrency has become highly popular largely because of support from the Bitcoin mining giant ASICs. A new and revised version of Bitcoin, Bitcoin Cash aims to do away with the SegWit feature of the original Bitcoin, which makes for cheaper transactions.

New Economy Movement (NEM): This cryptocurrency is different from others, since it works on 'Proof of Importance', rather than 'Proof of Work' or 'Proof of Stake' features to verify a transaction. The 'Proof of Importance' algorithm tracks a user's transactions to determine how important that user is to the overall NEM economy.

TRADING CRYPTOCURRENCIES

Given their increasing popularity, many traders now want to trade futures contracts that speculate on the value of popular cryptocurrencies.

However, this should be approached with extreme caution. Trading cryptocurrencies is high risk. If we look at the performance of Bitcoin in 2017 alone, it's been incredibly volatile. Therefore, analysing how the price of Bitcoin may move in the future is difficult.

On the other hand, it's true to say that those who back the best cryptocurrencies early could make a substantial return on investment.

Our advice is simple - keep a close eye on how the market share of the most popular cryptocurrencies changes. If you get a sense that one cryptocurrency is gathering traction and momentum, it could be time to make a conservative investment.

However, we must stress that you should only invest what you can afford to lose given the volatile nature of cryptocurrency prices. But if you back the right digital currency, you could make a profitable investment.



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