

RED STAR FINANCIAL EDUCATION



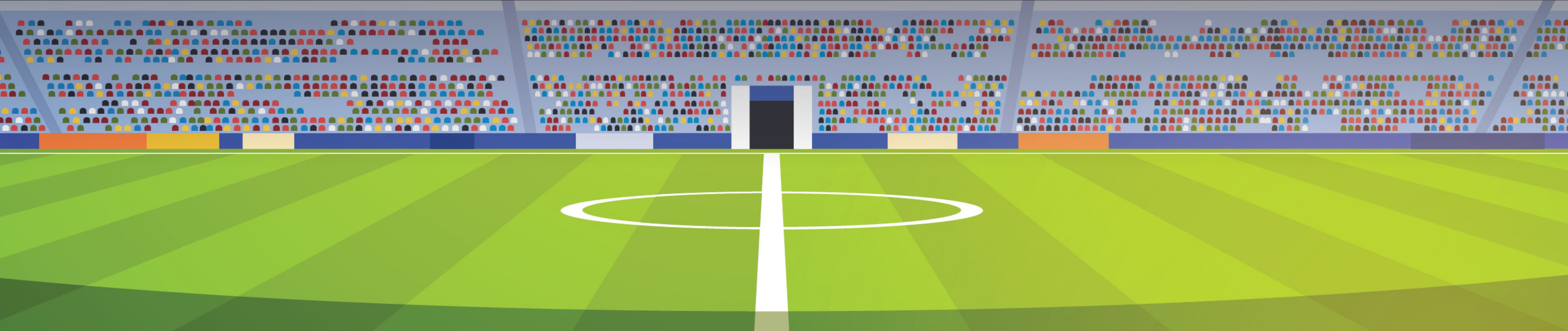
Cryptocurrency

What is Cryptocurrency?

- **Cryptocurrency is any form of currency that exists digitally or virtually and uses cryptography to secure transactions. Cryptocurrencies don't have a central issuing or regulating authority (like regular currencies), instead using a decentralised system to record transactions**
- **It's a digital payment system that doesn't rely on banks to verify transactions**
- **It enables anyone anywhere at anytime to send and receive payments**
- **Instead of physical money being exchanged in the real world, cryptocurrency exists as digital entries to an online database. When you transfer cryptocurrency funds, the transactions are recorded in a public ledger**
- **Cryptocurrency got its name because it uses encryption to verify transactions - the aim of this is to provide security and safety**

How does cryptocurrency work?

- They run on a public ledger called Blockchain which keeps a record of all transactions updated by current holders
- Units of cryptocurrencies are created through a process called 'mining' which involves using computer power to generate coins. Users can also buy currencies from Brokers
- If you own cryptocurrency, you don't own anything tangible. What you own is a key that allows you to move a unit from one person to another without a trusted third party or regulator



How to buy cryptocurrency safely

There are typically three steps involved. These are:

Step 1: Choosing a platform - the first step is deciding which platform to use:

Traditional brokers - these are online brokers who offer ways to buy and sell cryptocurrency, as well as other financial assets like stocks, bonds, and ETFs (exchange traded fund). These platforms tend to offer lower trading costs but fewer cryptocurrency features

Cryptocurrency exchanges - there are many cryptocurrency exchanges to choose from, each offering different cryptocurrencies, wallet storage, interest-bearing account options, and more. Most exchanges charge asset-based fees

When comparing different platforms, consider which cryptocurrencies are on offer, what fees they charge, their security features, and storage and withdrawal options

Step 2: Funding your account

Once you have chosen your platform, the next step is to fund your account so you can begin trading. Most crypto exchanges allow users to purchase crypto using government-issued currencies such as the US Dollar, the British Pound, or the Euro using regular debit or credit cards – although this varies by platform

Buying Crypto with a credit card is considered very risky, and some exchanges won't support them. Some credit card companies don't allow crypto transactions either. This is because cryptocurrencies are highly volatile, and it is not advisable to risk going into debt – or potentially paying high credit card transaction fees – for certain assets

An important factor to consider is fees. These include potential deposit and withdrawal transaction fees, plus trading fees. Fees will vary by payment method and platform, which is something to research at the outset

Step 3: Placing an order

You can place an order via your broker or mobile platform

There are also other ways to invest in crypto. These include payment services like PayPal, Cash App, and Venmo, which allow users to buy, sell, or hold cryptocurrencies. In addition, there are the following investment vehicles:

Bitcoin trusts: you can buy shares of Bitcoin trusts with a regular brokerage account. These vehicles give retail investors exposure to crypto through the stock market

Blockchain stocks or ETFs (exchange traded fund): you can also indirectly invest in crypto through blockchain companies that specialise in the technology behind crypto and crypto transactions. Alternatively, you can buy stocks or ETFs of companies that use blockchain technology

Bitcoin mutual funds: there are Bitcoin ETFs and Bitcoin mutual funds to choose from

The best option for you will depend on your investment goals and risk appetite

Storing Cryptocurrency

Once you have purchased cryptocurrency, you need to store it safely to protect it from hackers or theft. Usually, cryptocurrency is stored in crypto wallets, which are physical devices or online software used to store the private keys to your cryptocurrencies securely

Some exchanges provide wallet services, making it easy for you to store directly through the platform. However, not all exchanges or brokers automatically provide wallet services for you

There are different wallet providers to choose from:

Hot wallet storage: hot wallets refer to crypto storage that uses online software to protect the private keys to your assets

Cold wallet storage: Unlike hot wallets, cold wallets (also known as hardware wallets) rely on offline electronic devices to securely store your private keys

Cold wallets tend to charge fees, while hot wallets don't

Is it safe?

Cryptocurrencies are usually built using blockchain technology. Blockchain describes the way transactions are recorded into "blocks" and time stamped. It's a complex process, but the result is a digital ledger of cryptocurrency transactions that's hard for hackers to tamper with

In addition, transactions require a two-factor authentication process. For instance, you might be asked to enter a username and password to start a transaction. Then, you might have to enter an authentication code sent via text to your mobile phone

While securities are in place, that does not mean cryptocurrencies cannot be hacked. Hackers have cost cryptocurrency start-ups heavily

Unlike government backed money, the value of virtual currencies is driven entirely by supply and demand - this creates wild swings that produce significant gains or huge losses

Cryptocurrency investments are subject to far less protection than traditional financial products like stocks, bonds, and mutual funds because they are completely unregulated

Invest in cryptocurrency safely

Research exchanges: before you invest, learn about cryptocurrency exchanges. It's estimated that there are over 500 exchanges to choose from. Do your research, read reviews, and talk with more experienced investors before moving forward

Know how to store your digital currency: if you buy cryptocurrency, you have to store it. You can keep it on an exchange or in a digital wallet. While there are different kinds of wallets, each has its benefits, technical requirements, and security. As with exchanges, you should investigate your storage choices before investing

Diversify your investments: diversification is key to any good investment strategy, and this holds true when you are investing in cryptocurrency. Don't put all your money in Bitcoin, for example, just because that's the name you know. There are thousands of options, and it's better to spread your investment across several currencies

Prepare for volatility: the cryptocurrency market is highly volatile, so be prepared for ups and downs. You will see dramatic swings in prices. If your investment portfolio or mental wellbeing can't handle that, cryptocurrency might not be a wise choice for you

Cryptocurrency is still in its relative infancy and is considered highly speculative. Investing in something new comes with challenges, so be prepared. If you plan to participate, do your research, and invest conservatively to start

If you would like more information
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