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CRYPTOCURRENCY CRAZE - WHAT YOU OUGHT TO KNOW

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Cryptocurrency is hot news – especially these days when major cryptocurrencies such as Bitcoin, Ripple, and Ethereum plummeted in value. From a high of almost $18,000last December, Bitcoin value plummeted to below $7,000 in the first week of February.

For those who shifted their short-term investments to cryptocurrency, this is understandably dreadful news. What seemed like a treasure trove could now look like a depressing dive.

Maybe you've planned on investing in Bitcoin but are now hesitant, or maybe you (like most people) have no idea what it's all about. One thing's for sure – the way things are evolving, we can't afford to snub it and remain ignorant. Here are a few things you ought to know about cryptocurrency:

Bitcoin prices going up and down isn't new; it's always been changeable. As such, cryptocurrency is likely to stay – and would probably be more stable once more countries pass regulations to address the volatility issue. If you're planning on getting into it, make sure to research all the pertinent information you need, and be ready for the unpredictable shifts in its value.

* Money

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WHAT IS IT?

Put simply, cryptocurrency is a form of digital money. When you're buying something online and the store accepts cryptocurrency, you can choose it among the usual options (Visa, Mastercard, Paypal, and then Bitcoin) – provided, of course, that you have some of it in the first place.

The term 'crypto' is used because it utilizes cryptography to ensure security in verifying transactions and in managing the creation of new units. Bitcoin, currently the most famous cryptocurrency, was described by its creators as a 'peer-to-peer electronic cash system.' What this means is that it is completely decentralized (no central authority), resembling (in theory) peer-to-peer networks.

WHAT IS IT USED FOR?

Well, it's money, so it should be used for making purchases or be traded for other currencies (traditional and digital).

The problem is in making sure that it will be accepted by everyone. You'll probably be able to use Bitcoin in online transactions or hotel bookings in 1st world countries, but it would be problematic to use it in paying for gayuma from your suki in Quiapo.

Additionally, the volatility of cryptocurrencies can be a reason for banks to treat it unfavorably. Last February 2, Bloomberg reported that Chase, Bank of America, and Citigroup joined Capital One and Discover in issuing a ban against cryptocurrency purchases on credit cards. Naturally, this has raised concerns on the long-term viability of cryptocurrencies.

SURE IT HAS PROBLEMS, BUT DOES IT HAVE ADVANTAGES?

Cryptocurrency has its advantages, but there are accompanying dangers intrinsic to its nature. For example:

Because it uses cryptography, cryptocurrencies are very hard to counterfeit. The incongruously high prices for each unit, however, can make it an attractive target for thieves. At the tail end of 2017, Nicehash, a marketplace for buying and selling cryptocurrency, suffered a staggering $80 million theft.

In its early days, cryptocurrency was also hailed for its imperviousness to the fluctuations of foreign exchange (because it's not directly tied to any traditional currency). But this is only half of the picture. Volatility is inherent in cryptocurrencies because they're bound to the free market, which is directly determined by humans (instead of institutions). Humans are emotional and erratic, and these characteristics make cryptocurrencies especially vulnerable to bad trends – as evidenced by the alarming crash that happened to Bitcoin amid news of credit card bans and stricter regulation.

WHERE CAN I GET SOME?

There are many 'stores' that buy and sell Bitcoin and other cryptocurrencies, but a word of advice: do your research first so you can find reputable marketplaces.

Alternatively, you can also 'mine' Bitcoin. Bitcoin mining is the procedure where transactions are verified and added to the public ledger (known as 'block chain'). It is also how new bitcoin units are generated and released. 'Mining' involves solving a computationally demanding... you know what? If that's too technical, all you need to know how to 'mine' is this: you need the appropriate hardware (a fast computer with powerful video cards – or better yet, an industrial-grade mining hardware), fast internet, a software for mining (like Nicehash miner app), and a Bitcoin wallet (you can get one from coins.ph). How much you can 'mine' depends on these components, and of course, how long you keep your machine mining everyday.

SO SHOULD I GET INTO BITCOIN?

That's a complicated question. People who bought $100 worth of Bitcoin for its initial price of $0.003/Bitcoin back in March 2010 would have been worth $590 million if they kept it and sold it all last December 15. That's an unprecedented yield – nothing in history compares to that growth. So obviously, it could give impressive earnings – if bought and sold at the right time.

But as we've seen recently, cryptocurrency prices can fluctuate wildly. And while various write-ups claim that cryptocurrency is the future of money, financial experts have their reservations. American economist NourielRoubini, for example, has been quoted saying, that "The fundamental value of Bitcoin is zero." By itself, Bitcoin doesn't generate value – you can't consume it or use it to create something else. It has no artistic or entertainment merit. You can't use it to improve yourself or enhance something that you own. Its function is to act as a medium of exchange; and yet, Bitcoin is mostly bought not to buy something else (as it was intended to be), but to hoard it and sell it later for profit – in other words, it's used as an investment, and not as currency. And as many people unfortunately found out last week in the cryptocurrency crash, anything that has no intrinsic value except the possibility that someone else might be willing to pay a higher price than what you bought it for can be an iffy investment. Perhaps, the only 'safe' way to capitalize on Bitcoin is to invest only the money that you don't need – if there is such a thing.

You can, of course, 'mine' for Bitcoin – just make sure that you've done your computations on how long it would take for you to recoup your hardware investment/electrical bill so that you don't get blindsided.