

Executive Summary

Bitcoin was launched in 2009 by someone called Satoshi Nakamoto. It is the first cryptocurrency ever created. It is theorized that Bitcoin was created in response to the financial crisis of 2008. Nakamoto wanted to create a “decentralized currency with no server or central authority.” It is a highly advanced work of technology and is still constantly evolving. Bitcoin has been a hot topic this past year and it doesn’t seem to be slowing down any time soon. It has caught the attention of many investors looking to cash in on the exceptional gains Bitcoin has made.

What You Need to Know

What is Cryptocurrency?

A cryptocurrency is a line of computer code that holds monetary value. Cryptocurrency is a decentralized means of moving money. There are no banks, regulators, or governments involvement. Anonymity is what first made cryptocurrencies such as Bitcoin so appealing, especially to those partaking in illegal activities such as black-market purchases and money laundering. However, Bitcoin’s legitimacy has progressed since its inception, and is now being accepted by some retailers.

Distribution

Unlike traditional currency, which is issued from government institutions, Bitcoin is “mined”. Miners solve extremely complex mathematical problems to unlock bitcoin. Here is how it works.

When someone sends a bitcoin to someone else, the transaction is recorded within the Bitcoin network. A group of transactions made in a certain period of time are known as blocks. The miners inscribe these blocks on a digital ledger. Collectively, these blocks are known as blockchain. Blockchain is a technology that keeps track of every transaction that has ever been made. Miners convert these blocks into sequences of code. When this new code is generated, it is added to the end of the blockchain where it is then publicly distributed. There is a limited amount of bitcoin available, 21 million to be exact. It is estimated that only 12 million bitcoins have been mined to date.

Value

What people consider to be the value of Bitcoin is open to interpretation. Unlike a traditional investment, such as a stock, Bitcoins value is not associated with any earnings

or profitability. The value of Bitcoin is totally determined by what people are willing to pay for it. Much like gold or other precious metals, there is a limited supply of it which makes it desirable, but there is no real intrinsic value.

Risks

As an investment and as a currency, Bitcoin is extremely risky. The price of Bitcoin is highly volatile and can fluctuate drastically from day to day, making it less of an investment and more of a gamble.

One of the major risks with owning Bitcoin is theft. As it is a digital currency, Bitcoin is an attractive target to hackers. Unfortunately, once your Bitcoin has been stolen there are very few avenues to getting it back. Once a transaction hits the blockchain it is final and cannot be tracked.

Future

The future of Bitcoin is unknown. Bitcoin would have to overcome a wide variety of security and regulatory concerns to truly become a mainstream financial system. Since Bitcoin's inception thousands of alternative cryptocurrencies, commonly known as alt-coins, have hit the market. Only time will tell if there will be a currency created that would be both sufficiently secure and user-friendly enough to be integrated into regular use.

The Bottom Line

Bitcoin is an exciting phenomenon that has peaked many investors' interest. It is, however, imperative to act cautiously when investing in Bitcoin or other cryptocurrencies. The future and value of cryptocurrencies are constantly evolving and there are a lot of unknowns. It is important that investors are fully aware of the unique risks that their investments could face.