

# CRYPTO CURRENCY SECRETS



# Contents

1-0 - What Is Cryptocurrency?	1
2-0 - The Types Of Cryptocurrency Available	11
3-0 - How To Open An Account To Invest	19
4-0 - Strategies To Invest	35
5-0 - How To Collect More Bitcoin	40
6-0 - Why Buy Cryptocurrency?	46
7-0 - Are There Any Drawbacks?	51
8-0 - The Future Of Cryptocurrency	56

## 10 – What Is Cryptocurrency?

What is cryptocurrency? I'm sure many of you are curious of this so-called "21<sup>st</sup>-century money of the future" and due to its increasing recognition and security, the cryptocurrency market looks bright ahead.

By the end of this e-book, you'll certainly know more about cryptocurrency than most people out there. For this first chapter, we will be covering 5 topics:

1. What Is Cryptocurrency?
2. How Do Cryptocurrencies Work?
3. How Are The Cryptocurrencies Value Determined?
4. What Is Cryptocurrency Used For?
5. Why Cryptocurrency?

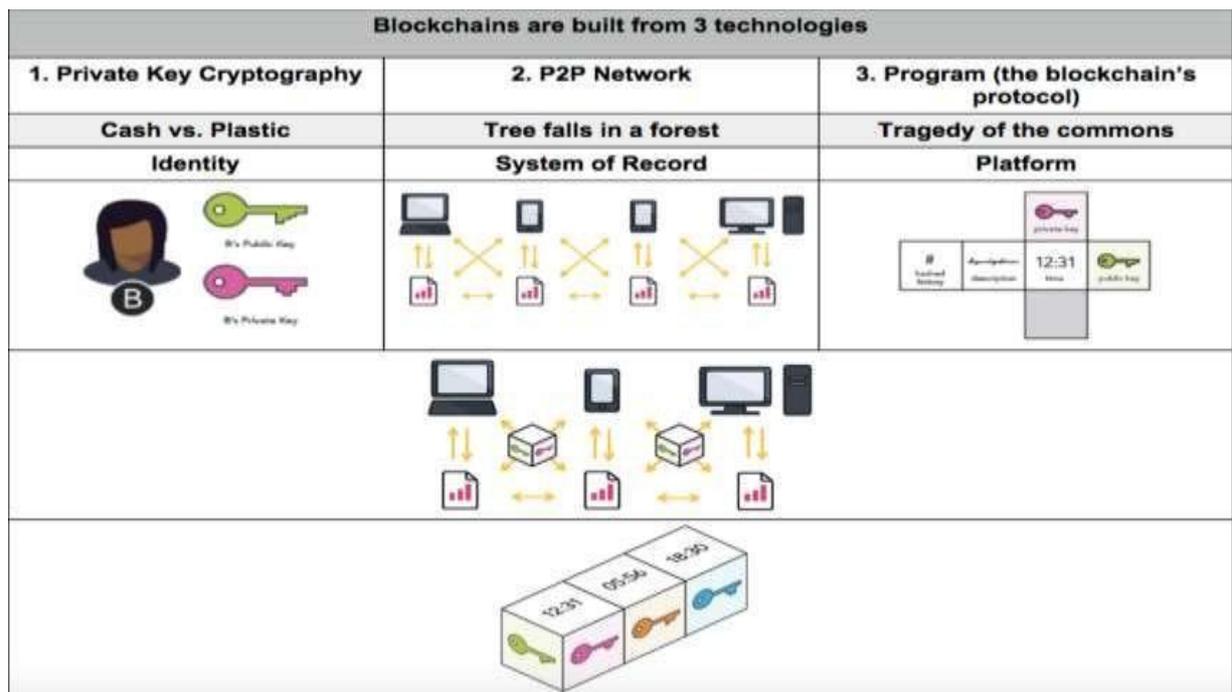
### What Is Cryptocurrency?



This is one of the most frequently asked questions out there. What is cryptocurrency? To make it simple, cryptocurrency is a digital version of money where the transactions are done online. A cryptocurrency is a medium of exchange just like your normal everyday currency such as the USD, but designed for the purpose of exchanging digital information through a process known as cryptography.

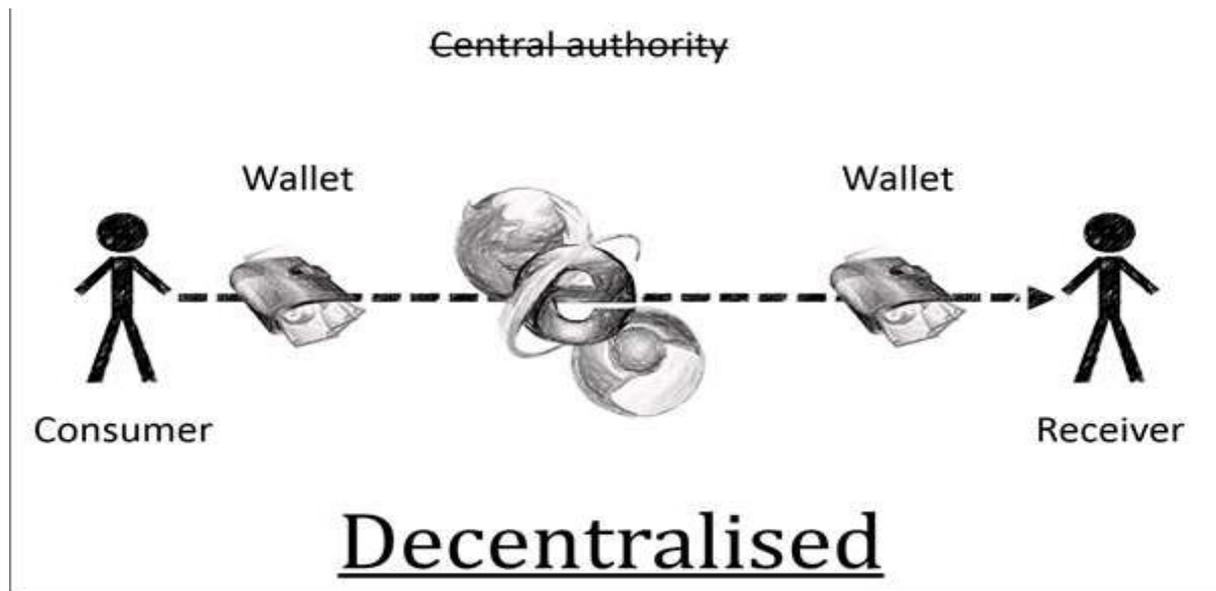
The first ever-successful cryptocurrency emerged from the invention of Bitcoin, by Satoshi Nakamoto. This was then followed by the birth of other types of cryptocurrencies competing against Bitcoin.

### How Do Cryptocurrencies Work?



The reason why cryptocurrencies are such in demand right now is because Satoshi Nakamoto successfully found a way to build a decentralized digital cash system. What is a decentralized cash system?

A decentralized system means the network is powered by its users without having any third party, central authority or middleman controlling it. Not the central bank or the government has power over this system.



The problem with a centralized network in a payment system is the so called "double spending". Double spending happens when one entity spends the same amount twice. For instance, when you purchase things online, you have to incur unnecessary and expensive transaction fees. Usually, this is done by a central server that keeps track of your balances.



This is most commonly known as the Blockchain Technology. Cryptocurrency is derived from the word "Cryptography", which refers to the consensus-keeping process secured by strong cryptography.

Blockchain technology functions in managing and maintaining a growing set of data blocks, and this is by using the decentralized or known as the P2P (Peer to Peer) network. In blockchain, once a piece of data is recorded it cannot be edited or changed.

To put it in simpler terms, it enables you to send a gold coin via email. The P2P network is a consensus network, which allows a new payment system and the transactions of new digital money.

Let's illustrate an example. Cryptocurrency like Bitcoin consists of its own network of peers. Every peer has a record of the complete history of all transactions as well as the balance of every account.

By the end of every transaction and upon confirmation, the transaction is known almost immediately by the whole network. A transaction includes a process where A gives X amount of Bitcoins to B, and is signed by A's private

key. After signing, a transaction is broadcasted in the network. The information is sent from one peer to every other peer on the network.

Confirmation is a critical stage in the cryptocurrency system. Confirmation is everything. When the transaction is not confirmed, it has the possibility of being hacked and forged.

When a transaction is confirmed, it is set in stone. It can't be reversed, it is impossible to be hacked, it is not forgeable as it is part of a permanent record of the historical transaction: The Blockchain.

The blockchain can be likened to an online ledger, where all transactions are recorded and made visible to the whole network.

This comes to show that cryptocurrencies are not secured by people or trust, but by complex mathematical equations. It is very secure and it's highly unlikely that the address of a currency is compromised.

Only miners are able to confirm a transaction. This is their role in the cryptocurrency network. They record transactions, verify them and disperse the transactional information in the network.

For every completed transaction monitored and facilitated by the miners, they are rewarded with a token of cryptocurrency, for instance with Bitcoins.

Since miners play a major role in the cryptocurrency system, let's look at their role in more detail.

### **What Are Miners Doing?**

First and foremost, principally anyone can be a miner. Miners are needed because of the nature of the decentralized network where they have no authority to delegate tasks and the cryptocurrency needs some kind of system

to prevent any form of network abuse. For instance, a person may create thousands of peers and spread forged transactions. It will disrupt the system immediately.



In order for you to be a miner, you would need to solve a cryptologic puzzle which is a set of very complex mathematical questions set by Satoshi Nakamoto himself. If you successfully solved the puzzle, as a miner you can build a block and add it to the blockchain.

The miner is also given permission to add a cryptocurrency transaction to the system which automatically grants him a specific number of bitcoins. This is the only way to create valid bitcoins. Bitcoins can only be generated if a miner can solve a cryptographic puzzle. The level of difficulty increases with the amount of computer power the miners invest.

## **How Are The Cryptocurrencies Value Determined?**

The value of cryptocurrencies are dependent on the market, where the prices of various cryptocurrencies vary a lot and is one of the most fluctuating and volatile markets to date.

The price of cryptocurrencies like any other products is dependent on demand and supply. If more people demand a particular currency and it is short in supply, then the value increases. More units are mined by miners to balance the flow. However, most currencies limit the supply of their tokens.

For instance the total amount of Bitcoin issued is only 21 million. Therefore Bitcoin's supply will decrease in time and will reach its final number by 2140. It also explains why Bitcoin's value is higher as compared to other cryptocurrencies.

Now you must be wondering, **what is cryptocurrency used for?**

Cryptocurrencies can be spent for different purposes and the best part is, all transactions are completed online! There are 3 different transactions that can be performed when using cryptocurrency:

- 1. Bitcoin Trading**
- 2. Personal Spending**
- 3. Crowdfunding**

Firstly is **Bitcoin trading**.

Bitcoin trading can be very profitable for both professionals and beginners. The market is new, where arbitrage and margin trading is widely available. The currency's high volatility has also played a major role in bringing new investors to the trading market.

Compared to other financial currencies, Bitcoin has very little barrier to entry. If you already own Bitcoin, no verification is required and you can start trading almost instantly. Moreover, Bitcoin is not fiat currency. This simply means the price is not related to the economy or policies of any single country.

And unlike stock markets, there are no official Bitcoin exchanges. Instead, hundreds of Bitcoin exchanges operate 24/7 around the world. Because of no official exchanges, this results in no official Bitcoin price where the currency is known for its rapid and frequent price movements.

Secondly is **personal spending**. You can use Bitcoin to purchase almost anything! From buying cars to travelling the world.

In December 2013, a Tesla model S was purchased for a reported 91.4 bitcoins. The dealer, located in California continues to accept Bitcoin as a means of payment. They have since managed to sell a Lamborghini Gallardo for 216.8 Bitcoin.

You can also travel the world using Bitcoins! Just head to [www.cheapair.com](http://www.cheapair.com). On 22<sup>nd</sup> November 2013, they announced that they would be the first online travelling agency accepting Bitcoin. You are able to purchase flights, hotels, car rentals and cruises. You can even book the whole package.

Cryptocurrency also provides the chance for you to **give back to society**. How? By crowdfunding. You are able to be part of someone's success story by donating to a crypto crowdfunding project. Companies such as Lighthouse have built their crowdfunding platform using Bitcoin.

The perks of donating through this system are you will not be charged for your donation and funds will not be released unless the project meets its criteria.

You are also able to withdraw from the campaign before its completion.

You have complete control over the donation! Examples of successful funding campaigns are from Dogecoin, which includes campaigns run for Nascar driver Josh Wise.

### **The question is, Why Cryptocurrency?**

Apart from cryptocurrency being very secure and is run through a decentralized network, there are other properties which project why cryptocurrencies may be the most talked about topic in town. It has also been considered as potentially an investment vehicle, which may garner massive returns.

Have you heard of Erik Finman? The teenage Bitcoin millionaire who started picking up Bitcoin at only \$12 a piece back in May 2011, when he was just 12 years old. He received the Bitcoin as a tip from his brother and a \$1000 gift from his grandmother.

He now reportedly owns 403 Bitcoins, which holds a value of roughly \$2,600 where it has accumulated to a stash of \$1.08 million and change.

There are various concrete reasons why you should invest in cryptocurrency. This will be elaborated further in chapter 6, but let me give you a brief summary on the perks of buying cryptocurrency.

Firstly are its transactional properties. Cryptocurrency transaction is fast and global. Transactions are propagated immediately in the network and are confirmed within minutes. Since the transactions are managed by a global network of computers, they do not take into account your physical location. It is possible for you to send your cryptocurrency to someone in your vicinity, or even if they are living on the other side of the world.

Secondly are their monetary properties. The currencies are in controlled supply thus there is a high chance that the value of the currencies appreciates over time. As mentioned earlier, Bitcoin will somehow reach its final number somewhere in 2140.

Third is their revolutionary property. You have more control of what is going on in your account and how the system works and operates. This is due to the decentralized network of peers which keeps a consensus on account balances and the transactions made. As compared to your physical bank account, which can be changed and controlled by people you don't see and governed by rules you don't even know?

## 2-0 - The Types Of Cryptocurrency Available

The world of cryptocurrency has always revolved around Bitcoin until recently, when virtual currencies has served a very important purpose in the investment realm and people start flocking to cryptocurrencies as compared to fiat currencies.



Believe it or not, aside from Bitcoin, there are over 800 cryptocurrencies! However, we will only discuss the top 5 most prominent currencies in the market. The 5 cryptocurrencies are:

1. Bitcoin
2. Ethereum
3. Litecoin
4. Monero
5. Ripple

Firstly, is **Bitcoin**.

This is the first ever cryptocurrency invented and remains by far the most sought after cryptocurrency to date. Bitcoin is known as the digital gold standard in the cryptocurrency network. As explained in the previous module, Bitcoin is the pioneer of Blockchain Technology that made digital money possible.

It is the first ever decentralized peer-to-peer network powered by its users without any central authority or middleman which means, no unnecessary costs are included in the digital money transaction.



Over the years of Bitcoin's existence, its value has fluctuated tremendously from zero to over \$2000 per bitcoin to date. Its transaction volume has also reached 200,000 daily transactions.

One major advantage that it has over other cryptocurrencies is bitcoins are impossible to counterfeit or inflate. The reason being there are only 21 million bitcoins created for mining, no more no less. Therefore it is predicted by 2140, all bitcoins will already be mined.

Thanks to its blockchain technology, you have ultimate control over your money and transactions without having to go through a third party such as the bank or Paypal.

Bitcoin transactions are also impossible to be reversed. Therefore, you should only deal with trusted parties as Bitcoin is also used as a means for cyber-crime like dark net markets or ransomware.

Media companies and investment firms in South Korea, India, Australia and Japan have started discussing on how Bitcoin may surpass the value of certain fiat currencies in the future as an alternative monetary system.

ABC News, a national news service in Australia have also reported recently it is likely for Bitcoin to replace even the USD in the next 10 years if it sustains its current exponential growth.

The second most popular currency is **Ethereum**.

Created by Vitalik Buterin, it has scored itself the second spot in the hierarchy of cryptocurrencies. This digital currency launched in 2015 is predicted to surpass Bitcoin and may be the cryptocurrency of the future. Ethereum is currently worth \$279 since its launch.

**Is Ethereum similar to Bitcoin?**

It is in a way, but not really. Like Bitcoin, Ethereum is a part of a blockchain network. The main difference between the two currencies is that Bitcoin blockchain focuses on tracking ownership of the digital currency while Ethereum blockchain focuses on running the programming code or network.

Instead of having to build an entirely original blockchain for each new application, Ethereum enables the development of thousands of different

applications in a single platform. In the Ethereum blockchain, miners work to earn Ether. Ether is a crypto token that helps run the network.

Another use of the Ethereum blockchain is its ability to decentralize any services that are centralized. For instance, Ethereum is able to decentralize services like loans provided by banks, online transactions using Paypal as well as voting systems and much more.

Ethereum can also be used to build a Decentralized Autonomous Organization (DAO). A DAO is a fully autonomous organization without a leader. DAOs are run by programming codes on a collection of smart contracts written in the Ethereum blockchain. DAO is designed to replace the structure of a traditional organization and like Bitcoin, eliminating the need for people and a centralized control.

What are the most obvious benefits of Ethereum?

Firstly, a third party cannot make any changes to the data. The system is also tamper and corruption proof. This is because Ethereum is built based on a network formed around a consensus as a result, making censorship impossible.

Secondly, just like Bitcoin, Ethereum is backed up by secure cryptography. Therefore, the applications are well protected against any form of hacking.

The third cryptocurrency is **Litecoin**.

When the currency was first launched in 2011, it aspired to be the 'silver' to Bitcoin's 'gold'. Litecoin also recorded the highest market cap of any other mined cryptocurrency, after Bitcoin after its launch.

The main reason of Litecoin's creation is to make up what Bitcoin lacked. The main difference between Litecoin and Bitcoin is the 2.5 minute time to generate a block for Litecoin, as opposed to Bitcoin's 10 minutes.

For miners and technical experts, the Litecoin possesses a very important difference to Bitcoin, and that is a more improved work algorithm which speeds up the hashing power and system altogether.

One of the biggest advantages that Litecoin possesses is it can handle a higher volume of transactions thanks to its algorithm. The faster block time also prevents double spending attacks.

While Litecoin failed to secure and maintain its second place after Bitcoin, it is still actively mined and traded and is bought by investors as a backup in case Bitcoin fails. The current value of Litecoin is \$46.

The fourth currency is **Monero**.

This digital currency was launched in 2014 and its main goal was to create an algorithm to add the privacy features that is missing in Bitcoin. Monero invented a system known as the "ring signatures" to conceal the identity of its senders and recipients.

Ring signatures combine a user's private account keys with public keys obtained from Monero's blockchain to create a ring of possible signers that would not allow outsiders to link a signature to a specific user.

While Monero users have the ability to keep their transactions private, they are also able to share their information selectively. Every Monero account has a "view key", which allows anyone holding it to view the account's transactions.

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