

Clear, simple, jargon-free investment information from IWIinvestor

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crypto currency trading

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## Crypto in a nutshell

- By Sarah Delany

**Remember paying cash for everything? It was the 80s. Like me, you probably still remember having to physically go into the bank on a Friday to get cash out for the weekend. It was time consuming, things needed to change.**

Slowly but surely, paying cash started being replaced with newer emerging technologies. New Zealanders caught on quickly to EFTPOS in 1989. Now we are spoilt for choice with credit cards, store cards, payWave, Apple Pay, and After pay. The latest new payment technology everyone seems to be talking about is crypto. Is it a BIG SCAM or the next BIG THING? Lets take a look at what it actually is.

Crypto currency is a way to exchange value, but its digital, bypassing the banks and other intermediaries such as credit card companies or finance companies. This avoids any foreign exchange charges or banking fees.

It is also fairly anonymous, and crypto currency trading is creating issues for regulators because it can be a mechanism for fraud and money laundering. Traditional currencies have complex regulation safeguarding the public and their assets from criminals (you've probably all filled in the forms proving your identification and address details), this is part of that anti-money laundering and counter financing terrorism regulation that crypto currency trading is not currently subjected to.



## Other names for 'crypto'

- Crypto currency
- Crypto assets
- Virtual assets
- Digital coins
- Tokens

## All notes have a unique code

Imagine you don't have the physical note, but you know the code on the note. You exchange value using this serial number, so you have no need for the note. This enables you to exchange value with someone else bypassing banks, credit card companies. It also avoids all of the foreign exchange fees and costs of physical note production.

## Where Block chain fits in

Blockchain is a database that stores information and has a crucial role in enabling the crypto currency system to exist. The aim of blockchain is to allow digital information to be recorded and distributed.

The way the database is structured, data is collected into 'blocks', and when filled, the blocks are closed and then linked to the previously filled block. This chain of data is known as the 'blockchain'.

The blocks make an irreversible timeline of data and when a block is filled, it is set in stone and becomes part of a timeline with an exact timestamp of when it was added to the chain, and cannot be edited.

It is decentralised so that no person or group has control, and all users collectively retain control, and once data is entered, it is irreversible and permanently recorded and viewable to anyone.



## Types of Crypto

Crypto types generally fall into 2 categories - coins and tokens:

### • Coins

This includes Bitcoin and altcoins (non-bitcoin crypto-currencies). These have their own 'blockchain' and are intended as a form of currency. Ether (ETH) is the cryptocurrency based upon the Ethereum blockchain, for example. Any cryptocurrency that is not Bitcoin is referred to as altcoin.

### • Tokens

These are built on an existing blockchain, but they aren't considered currency - but are programmable assets that allow for the creation and execution of smart contracts. These contracts can establish ownership of assets outside of the blockchain network. They represent units of value including real world items like electricity, money, coins and more, and can be sent and received. For example BAT (Basic Attention Token) is built on the Ethereum platform and is used in digital advertising.

## Concerns so far

There are genuine concerns regarding investing in crypto currencies:

- It's unregulated, and therefore not subject to many rules and regulations we see of other types of investments such as cash and shares
- Price volatility: unexpected changes in the perception of crypto currencies can lead to sharp and sudden moves in price
- Lack of understanding; there are 14,708+ cryptocurrencies in existence according to CoinMarketCap.com at the time of writing this article - how do you choose the right one?
- They may be susceptible to error; as a digital currency, there may be technical glitches, human error or hacking
- Anonymous transfers facilitate proceeds of crime to be laundered and tax to be evaded
- Cryptocurrencies come and go - according to one crypto research company, there are 2,345 dead, abandoned or fraudulent currencies since 2011<sup>1</sup>.

### According to the Financial Markets Authority:<sup>2</sup>

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*"Cryptocurrencies are high risk, speculative products that operate differently to traditional investments. Only invest what you can afford to lose and use New Zealand-based platforms to give yourself some level of protection."*

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## Why are people talking about crypto?

### To invest

- Some people who invest buy and sell and if the value of your crypto increases in value, you may make a profit.

### To make payments

- Some people use their crypto currency to pay for goods and services without going through the banking system

### To avoid fees

- People use crypto currencies to avoid transaction fees and online processing payments

### To buy other assets

- Crypto is used to acquire non-fungible tokens (NFTs). NFTs are one of a kind digital "anything".

## Summary

If you are thinking of investing personally in crypto assets, please be aware that:

- Crypto currency trading is highly volatile. Prices can change very quickly
- Being an online product, there is risk of cyber-crime. Your cyber wallet can be stolen, with little chance of it being returned. The marketplaces where you buy and sell can also be at risk of attack
- Cryptocurrencies are not widely accepted yet
- You understand what you are getting into and make sure you are using a New Zealand platform which does have some regulation (many overseas platforms are unregulated)

**Disclaimer:** The information contained in this publication is general in nature. It may not be relevant to individual circumstances. Always seek regulated financial advice from a Financial Advice Provider operating under a FMA licence before making investment decisions.

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<sup>1</sup> Coinspy.com/dead-coins/, 29 November 2011

<sup>2</sup> [www.fma.govt.nz](http://www.fma.govt.nz), Ways To Invest, Cryptocurrencies, 5 July 2021