



CONFUSED BY BITCOINS? WHY DIGITAL CURRENCIES LIKE BITCOIN ARE RISKY

What is a bitcoin? In simplest terms, bitcoin is a digital currency, also known as a cryptocurrency, that can be used to make electronic payments anywhere on the globe to any person or company that accepts it. "Bitcoin is different from the coins and dollars in your wallet in many ways, not the least of which is that it's not backed by any government," says Christina Tetreault, senior staff attorney for Consumers Union, the advocacy division of Consumer Reports. In other words, there is no "full faith and credit" behind bitcoin, as there is for the U.S. dollar. Another difference is that bitcoin exists only digitally. "Any transfer is done electronically and is recorded in a master ledger, known as a blockchain," Tetreault says, adding that bitcoin transactions are made without the intervention of any bank or payment processor. Neither is bitcoin subject to the vagaries of inflation, because its creators capped the number that will ever circulate at 21 million.

Where did it come from? The identity of bitcoin's creator or creators is a matter of some speculation. What is known is that bitcoin appeared as early as 2008 and was invented by one or more computer coders using the alias Satoshi Nakamoto. Generally considered to be the first cryptocurrency, bitcoin caught on early with twin internet entrepreneurs Tyler and Cameron Winklevoss (perhaps best known for suing Mark Zuckerberg over the creation of Facebook), among others. Thousands of other cryptocurrencies have since been created.

So who is using it? Because of the perceived anonymity that bitcoin provides, it has been used by people trafficking in illicit goods, such as drugs. Unlike credit cards, debit cards, or online payments made through banks, bitcoin cannot easily be linked to your identity. Though its current volatility makes it impractical as a day-to-day form of payment, some predict that it will one day be used for everyday transactions (a few mainstream retailers, including Expedia and Overstock.com, are already accepting bitcoin). Currently, it is seen mostly as a highly speculative form of investment.

How risky is it? Very. The value of bitcoin can rise and fall dramatically and quickly. At the start of 2017, one bitcoin was worth around \$1,000. By the end of the year, its closing price had soared to almost \$20,000 before trading around \$7,400 on June 5, 2018. It continues to swing drastically. Like all cryptocurrencies, bitcoin is not backed by any government or central bank, so its holders have no protections such as those provided by the Federal Deposit Insurance Corporation, which safeguards money deposited in insured banks and savings institutions. The Consumer Financial Protection Bureau has warned consumers that cryptocurrencies are subject to risks that include hacking, fraud, and fewer consumer protections. "Some states are taking steps to regulate exchanges where cryptocurrencies are bought and sold, but the status of these efforts varies," Tetreault says. "Consumers should heed the CFPB advisory and fully understand the risks before buying cryptocurrencies."

Still want to buy some? The simplest way to buy bitcoin is probably through one of the several online cryptocurrency exchanges, such as Coinbase, which accepts debit cards and U.S. dollars transferred from a bank account, among other forms of payment. (You don't have to purchase an entire bitcoin; Coinbase permits purchases of as little as \$2 worth of cryptocurrency.) You can leave the bitcoin in your exchange account or move it into a cryptocurrency wallet, a piece of hardware that resembles a thumb drive. It is also possible to obtain bitcoin through a process known as "mining," which is impractical for most people because it requires extreme technical savvy and powerful computers.

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