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want to think of this as a form of gambling. While I know many CPAs who love ...

Randy Johnston • Sep. 10, 2018

Cryptocurrency has made a lot of millionaires and multi-millionaires in the last three years. That said, remember cryptocurrencies are highly speculative, and you may want to think of this as a form of gambling. While I know many CPAs who love Las Vegas and New Jersey Casinos, others would never lay a chip on a table or put a coin in a slot. Likewise, some believe that long-term wealth is built through the stock market and others believe it is simply a wealthy person's legalized gambling playground. While I would never tell you what to do or not to do, understanding that cryptocurrencies have risk and that cryptocurrencies can make you a lot of money are both important facts. The greatest risk to most of the cryptocurrencies is that they are not backed by any government.

According to Blockgeeks: "A cryptocurrency is a medium of exchange, created and stored electronically in the blockchain, using encryption techniques to control the creation of monetary units and to verify the transfer of funds. Bitcoin is the best known example." Further, a cryptocurrency 1) has no intrinsic value in that it is not redeemable for another commodity such as gold, 2) has no physical form and exists only in the network, and 3) its supply is not determined by a central bank and the network is completely decentralized.

Like all of the emerging technologies we have covered in these emerging technology columns, Cryptocurrency has pros and cons.

On the positive side:

- Provides seamless, distributed, secure transactions
- 100's of options, a few leading choices
- Eliminates the involvement of banks

On the down side:

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used to launder funds around the world.

- **Tax Evasion.** It is virtually impossible for taxing authorities to enforce local tax regulations.
- **Black Market.** It is the currency of choice for black market goods.
- **Valuation.** The instability of the price makes it difficult to use in real world business transactions.

[Pie chart: Market Capitalization]

Why?

Cryptocurrencies have become very common:

- There are over 1,500 cryptocurrencies being purchased and sold in over 9,500 exchanges all-day, every day.
- A large number of cryptocurrencies have failed. Some reports indicate as many as 900 have failed. If the cryptocurrency had value, this would have smacked of fraud.
- The market capitalization of all cryptocurrencies exceeds \$281B USD and is growing at over 10% annually.
- Bitcoin makes up about 45% of the market capitalization of the marketplace.
- The daily trading volume exceeds \$14.5B USD per day.
- Blockchain (see last month's article) and cryptocurrency are cutting edge technology that are in their infancy.
- Compare your thoughts about the Internet in 1996 to your thoughts about it today.

- This is a long-term technology that will take 5+ years to gain mainstream

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businesses by offering an Initial Coin Offering (ICO), similar to an IPO. An ICO is faster, less expensive and almost unregulated.

- Filecoin ICO raised \$257M
- Tezos ICO raised \$232M
- EOS ICO raised \$180M
- Bancor ICO raised \$153M

What?

Bitcoin (₿)

- The oldest, most widely used, and highest market capitalization cryptocurrency.
- Proposed by [Satoshi Nakamoto](#) in a 2008 white paper, the current blockchain for Bitcoin started in 2009
- A Bitcoin is a “store of value”, just like any other investment, security, or fiat currency.
- It can be used to store wealth or conduct business transactions just like any other financial instrument.
- The algorithm sets a hard supply limit of 21M Bitcoins, which should be reached around the year 2140, with about 16.8M currently in circulation.
- Adjusts itself to generate a new block of transactions in its blockchain every ten minutes.
- Uses “proof of work” to verify transactions and volunteer miners who are paid in “printed” bitcoins for their work maintaining the bitcoin ledger.
- Is the “parent” currency to Bitcoin Cash and Bitcoin Gold, which were spun off in hard forks of the currency on 8/1/2017 and 10/24/2017.

- Bitcoin was a novelty technology for the first several years of its existence. It was

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Bitcoin investors have seen massive returns thanks to large price run-ups, which resulted in the loss of millions of dollars.

- **Despite the significant ups and downs, Bitcoin's valuation has consistently increased by a minimum of 200% year over year. A \$10K investment in Bitcoin in 2010 would be worth upwards of \$150M in 2018.**
- Bitcoin inspired additional blockchain and cryptocurrency technologies. Some of these technologies (e.g. Litecoin) were released to compete with Bitcoin, but others (e.g. Ethereum) were developed to fill a different need in the marketplace.

[Chart: Price of Bitcoin]

Ether

- Like Bitcoin, Ethereum is a store of value, but it is also a decentralized computational platform. Meaning, you can actually run applications or store data inside the Ethereum blockchain.
- The transaction times and processing fees are considerably lower compared to Bitcoin.
- Ethereum can be used in wide range of use cases from issuing insurance policies to performing supercomputer research for science discoveries.
- Currently utilizes Proof of Work but will be transitioning to Proof of Stake in future releases.
- There is not currently a hard supply limit of Ether, but that might change in future releases. There are approximately 100M currently in circulation.
- Has wide adoption with technology, financial, healthcare and government agencies with the Enterprise Ethereum Alliance (EEA).

- Historically, Ether is the cryptocurrency with the second highest market

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- There is an Enterprise Ethereum Alliance dedicated to the platform.

Ripple

- Ripple is a centralized real-time gross settlement system, currency exchange, and remittance network.
- Offers secure, instantly nearly free global financial transactions of any size with no chargebacks.
- Focuses on interbank payments between financial institutions.
- Unlike Bitcoin, Ripple is a centrally managed blockchain with a US-based company behind the technology.
- The hard supply limit is 100B units with approximately 39B currently in circulation.
- A platform and a cryptocurrency (XRP), Ripple was created as a payment protocol to provide secure payments to members of an online network.
- Originally founded as OpenCoin, but renamed Ripple Labs – funded by venture capital.
- Has a smart contract platform as well.
- Has been adopted by some financial institutions for cross-border fund transfers.

[Image: A bunch of logos]

Some of the financial institutions using RippleNet

Litecoin

- Nearly identical to Bitcoin; in fact, it is a fork of the original codebase.

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Other Notable Cryptocurrencies

- **Dogecoin**, which was named after a popular meme.
- **Golem**, an open source, decentralized supercomputer.
- **Basic Attention Token**, linked to ads on the Brave web browser.
- **Dentacoin**, which aspires to be the “blockchain solution for the global dental industry”.
- **Kyber Network**, a token affiliated with a cryptocurrency exchange.

[Image: Currency list with symbols and marketcap]

How?

So how do Cryptocurrency approaches work?

- Miners are independent, worldwide, and disinterested of each other. This ensures that collusion or fraud cannot occur in the processing.
- Miners (users) in the system verify the details of the transaction by processing the block. A block is a group of transactions.
- Transactions are held to strict cryptographic standards. If a transaction does not meet those standards, then it is immediately discarded.
- Transactions will be initially verified by a single miner, but over the course of a few hours, it will be verified by thousands of miners.
- Once verified, the block is added to the chain. The chain is a permanent, non-editable, transparent record of every single transaction that has ever occurred.
- Once the transaction is independently verified many times over, the Bitcoin is deposited in the recipient's wallet.

- The system is always in perfect balance as it is mathematically not possible to be

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- Exchanges are generally **NOT** regulated by any government or trade associations but are subject to banking and credit card regulations.
- Funds are generally deposited and withdrawn by ACH or wire transfer via the exchange's local bank.

Wallets – Jaxx, MyEtherWallet

- A wallet is where cryptocurrency is stored.
- Wallets come in many forms, such as online, hardware and paper.
- An online wallet is a wallet that is stored with an exchange.
- A hardware wallet is a physical device that stores the user's private key.
- A paper wallet is an offline backup of the user's private key.
- It is recommended to utilize multiple wallets and have a few backup copies of the private key. This is for the user's safety, integrity and security. The wallet's private key should always be confidential.

Block Chain Mining

- Mining is the process of calculating a block, validating the transactions, and adding them to the blockchain.
- For their effort, miners obtain new cryptocurrency as a reward. They are welcome to keep their new cryptocurrency or sell it on the open market.
- Rewards can vary depending on the blockchain and the current demand. If there is low demand than the reward is typically lower.
- There are two main types of mining:
 - o Proof of Work (PoW): Blocks are validated by miners through complex calculations and consensus is required.

- o Proof of Stake (PoS): Blocks are validated by the user's that actually use the system.

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- o You can accept Bitcoin right inside of QuickBooks online!
- o Low Fees. Starting from 0% to get paid in settlement currency. No additional surcharges or foreign transaction fees.
- o No Chargebacks. Bitcoin transactions are irreversible. It guarantees on-time funds availability and reduces fraud.
- o Quick Deposits. Bitcoin transactions are completed instantly, and local payouts occur the next-day.
- o No Exchange Risk. You can choose to receive the exact invoice amount in settlement currency. No currency conversion risk.
- o <https://paybycoin.intuit.com/>
- Credit Card Transactions by Monaco
 - o A real-world credit card backed by virtual cryptocurrency.
 - o It will allow you to purchase real world items using cryptocurrency holdings.
 - o They will offer a variety of cards for every budget and spending habit, from high rollers to budget spenders.
 - o Low transaction fees and cash back on all purchases.
 - o <https://mona.co/>
- Predicting and forecasting by Augur

- o Augur combines the magic of prediction markets with the power of a

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- o Sia and Filecoin leverages underutilized hard drive capacity around the world to create a data storage marketplace that is more reliable and lower cost than traditional cloud storage providers.
- o In a nutshell, you can rent out part of your hard drive space to Sia or Filecoin and get paid for its use.
- o Alternatively, you could store information in either Cryptocurrency and have it available on any other device.
- o <https://sia.tech/> or <https://filecoin.io>
- Digital Identity Management by Civic
 - o Civic's Secure Identity Platform (SIP) uses a verified identity for multi-factor authentication on web and mobile apps without the need for usernames or passwords.
 - o Civic creates a digital identity of a user and stores that information on a public Cryptocurrency. That identity can then be used to interact with other 3rd parties.
 - o That identity can then be used to sign contracts, purchase goods online, sign up for websites, store medical records and much more.
 - o <https://www.civic.com>

Here's a summary of what you need to know about Cryptocurrency:

[Image: Two column table of Key Information and

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How to get started with Cryptocurrency using Ethereum as an example:

- Create an offline wallet
 - o There are tons of providers for wallets, but they mainly come in two categories, online and offline.
 - o An online wallet is typically housed with an exchange and is used for trading.
 - o An offline wallet is when the private key is stored offline and is best used for cold or long term storage of value.
 - o If you plan on holding your investment long term, it is strongly recommended you store your investment offline in a private wallet you directly control.
 - o When you create your wallet, it will create a public key and private key.
- Your public key is what you share with other people. It is the destination address for people to send you funds.
- Your private key is how you unlock your wallet and access your investment. You should back this key up in at least two secure locations and safeguard it as you would cash.
- o **DO NOT STORE YOUR PRIVATE KEY UNENCRYPTED ON ANY DEVICE (E.G. COMPUTER, PHONE, ETC.) AT ANYTIME.**
- Create a trading account on a crypto exchange
 - o There are dozens of US-based exchanges to purchase your currency. Some exchanges are geared towards new users while others are focused on seasoned

traders.

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order at the current market price. A limit order will fill the order at a specific price, but only when that price is available.

- o You can fund your investment through a credit card, ACH, or wire transfer.
- Transfer your purchase from the exchange to your offline wallet
- o Again, once your order has been filled, it is strongly recommended you transfer your money off the exchange to your offline wallet for long term storage.
- o You would transfer your funds to the public address of the wallet you created. It will take anywhere from 5 minutes to an hour for the transaction to post to your wallet.
- o Ready to sell or purchase something? You would log into your wallet and send funds to another public address.
- Watch the value
- o **CryptoWatch**
 - This is an excellent trading tool for keeping an eye on virtually every currency and market in near real-time.
 - It is highly customizable and allows you to focus on the markets, trading pairs and statistics that are important to you.
 - You can see the order books being processed in near real-time.
 - <https://cryptowat.ch/>
- o **Coin Market Cap**

- Great website for tracking the current price, volume, supply and market cap of the

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- The price of cryptocurrency changes on a minute-by-minute basis. It is important to keep up to date while on the go.
- Blockfolio can track your entire portfolio in near real-time and calculate your gain or loss right from your mobile device.
- Blockfolio also gives you breaking news about cryptocurrency and blockchain technology.
- It is a free app and available for both iOS and Android devices.
- <https://www.blockfolio.com/>

- Taxable impact

- o Tracking tax ramifications of your investment can be difficult. Virtually every transaction will trigger a taxable event. As such, you need to know if you have a gain or loss every time you conduct a trade.

- o It is important to know your cost basis, sale price and date of every transaction.

- o Coin Tracking can automatically import your portfolio and track your transactions. It is helpful in determining if you have a tax liability at the end of the year.

- o Coin Tracking offers a free tier of their service that is perfect for the casual investor. They offer higher tiers for regular traders and professionals.

- o <https://cointracking.info/>

- Learn more

- o **Reddit**

- Reddit is a social news aggregation and discussion website. It allows people to

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in general.
- /r/CryptoCurrency
All cryptocurrencies
- /r/CryptoMarkets
Just the marketplaces.
- /r/Bitcoin
Everything about Bitcoin
- /r/EthTrader
Everything about trading Ethereum
- /r/EthTrader
Everything about trading Ethereum
- /r/litecoin
Everything about Litecoin
- /r/altcoin
Everything but Bitcoin
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Discussions about investing

Cryptocurrency is here to stay. Just like you learned about market instruments and eventually purchased stocks, bonds and other holdings, we expect many will be motivated to do the same with cryptocurrencies. While theft has occurred, and fraud is certainly possible, you can see from the numbers in this article that this is a very

active market. We've tried to give you enough background that you can understand

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