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All the Cryptocurrency Investment Questions You Are Confused and Dare Not Ask

Cryptocurrency is controversial, risky, wildly volatile — and is rapidly gaining traction. For those looking for new ways to make money, the world of digital currency is a booming tool. It is regarded by some as a progress of investors - a “currency 2.0”, which will democratize finance and provide power for the meta world. For others, bitcoin, stability coin and NFTs are just old scams in new, digital forms for fraud and fraud. Others believe that the whole effort is an empty foam, destined to burst.

Simply put, cryptocurrency is a digital token whose ownership is recorded on the blockchain, which is an uncontrolled distributed software ledger - theoretically to make it more secure. Bitcoin and Ethereum are the two most well-known cryptocurrencies, but more than 18000 tokens are traded under different names (dogecoin is a famous example).

Despite volatile prices and lack of regulation, cryptocurrency is becoming the mainstream of the next financial sector. Developments such as President Joe Biden’s desire to explore Super Bowl advertising from digital dollars to millions of dollars underscore the growing desire of powerful governments and business institutions to quickly legalize cryptocurrencies in the same way as stocks and bonds.

But Does This Make Cryptocurrency Your Wise Investment?

“Cryptocurrency is one of those investment categories that do not have traditional investor protection measures,” said Jerry Walsh, senior vice president of investor education at the financial industry regulatory authority. “They are outside the field of securities trading. In terms of regulations, this is a changing field.”

Professionals warned that investors should not put more than they can lose into cryptocurrency, because cryptocurrency has few safeguards, many traps and unstable records. If you want to add cryptocurrency to your portfolio, here are five key considerations before you start.



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How Do I Start Investing in Cryptocurrencies?

In terms of cryptocurrency investment, the simplest way is to use US dollars to buy cryptocurrency and use popular exchanges such as coinbase, binance or FTX. A few well-known payment applications — including venmo, paypal and cash app — will allow you to buy and sell cryptocurrencies, although they are usually limited and expensive.

Whether you use coinbase, binance, venmo or PayPal, you need to provide some sensitive personal and financial information - including official identification. (that's the reputation of bitcoin's anonymous transactions.).

Once your account is established, it's easy to transfer money from your bank. And the entry threshold is also very low. The minimum trading volume of coinbase is \$2 and binance is \$15.

What Percentage of My Portfolio Should be Used for Cryptocurrency?

Cesare fracassi, head of the blockchain initiative at the University of Texas at Austin, said cryptocurrency is so new that there is not enough data to determine how much of your portfolio "should" be cryptocurrency.

"We need decades of returns to see if a particular asset is good in the portfolio," fracassi said. "We know that, on average, the return of stocks is about 6% higher than that of bonds. This is because we have 60 to 100 years to observe the average return of stocks and bonds."

Like all investment decisions, how much money you pour into cryptocurrency will depend on your risk tolerance. But investment professionals advise investors to keep their exposure low - even those who devote themselves to the technology. Anjali jariwala, a registered financial planner and founder of fit advisors, suggested that clients allocate no more than 3% of their portfolio to cryptocurrencies.



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What are the Risks of Investing in Cryptocurrencies?

Before investing in cryptocurrency, you should know that there is little protection for cryptocurrency investors. Because this virtual currency is extremely unstable and driven by speculation, this is a problem. It's easy to get caught up in twitter, tiktoks and Youtube Videos touting the latest currency - but the adrenaline surge in the market can easily be diluted by a dramatic collapse.

You should beware of cryptocurrency scams. A frequently used scheme is pumping and dumping, in which swindlers encourage people to buy certain tokens, leading to an increase in their value. When it goes up, the swindler will sell it and often push down the price of others. These scams are prominent. In 2021, they absorbed cryptocurrencies worth more than \$2.8 billion.

Judging from the current policy of the US government, you can only rely on yourself. At present, the government does not provide deposit protection for cryptocurrency as for bank accounts. This may change after Biden's executive order in March, which instructs government agencies to investigate the risks and potential benefits of digital assets.

Cryptocurrency Has a Viable Future

As far as we know, only one company provides cryptocurrency insurance. Breach insurance, whose crypto shield promises to provide hacker protection for your account. Other companies, such as coincover, provide theft protection and will alert you if your account has suspicious activities.

Coincover maintains an insurance backed guarantee that if its technology fails, it will pay you the amount you are eligible for, depending on the level of protection provided by the wallet you use. (neither coincover nor breach insurance provides you with anti fraud insurance).

Despite all the hype, fraud and inherent risks in this market, fracassi still believes that cryptocurrency has a viable future."I think cryptocurrency provides a possible solution to some problems in the traditional financial industry," fracassi said. "At present, the traditional financial system is non inclusive, it is slow and expensive, and employees, including large banks and financial institutions, basically have a lot of control. I think cryptocurrency is a place through which you can really break the system."



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Do I Have to Pay Tax If I Make Money in Cryptocurrency Transactions?

yes. Whether you buy, sell or exchange cryptocurrency, the IRS wants to know about it. Your tax liability depends on your specific circumstances, but cryptocurrency investments are widely regarded as the same as other investments, including stocks and bonds.

If you don't sell or exchange another type of cryptocurrency, you don't need to report cryptocurrency on your tax return. Purchases and holdings also do not need to be reported. However, if you do sell or exchange cryptocurrencies, you need to report any gains or losses realized, just as you do with stocks and bonds.

Increasing cryptocurrency transactions will not make your tax refund easier. However, popular tax software like turbotax, cointracker and koinly are now connected to wallets and exchanges to automatically track your cryptocurrency holdings, sales and transfers.

Is There a Way to Understand Cryptocurrency Without Investing in the Currency Itself?

Buying tokens is the most direct way to understand cryptocurrencies. However, while exploring the cryptocurrency world, there are other opportunities to protect your money from seesaw fluctuations. Here are some alternatives.

Buy shares in cryptocurrency companies. Many companies in cryptocurrency are publicly traded. Buying shares in coinbase global or PayPal holdings, rather than the coins themselves, allows you to benefit from the business gains of these companies, which are generated in part by cryptocurrencies. You can also buy shares in companies that make cryptocurrency related hardware, such as NVIDIA and AMD.

Invest in cryptocurrency ETFs or derivatives. There is a special exchange traded fund, ETF, which can be used for cryptocurrency. ETF is a basket of securities, such as stocks, commodities and bonds, followed by an index or sector, in this case, cryptocurrency. Futures and options can also be used in some cryptocurrency products, although these advanced investment vehicle types also have their risks.

Looking for a job in cryptocurrency. LinkedIn, indeed and monster list thousands of efforts in cryptocurrency. Whether you have a traditional financial background or a software engineer, the blockchain labor market is booming. There is cryptocurrency jobs, a recruitment website for blockchain professionals.

It's ultimately up to you whether you'll be involved in cryptocurrency, but remember that it's not the only place to start your investment journey. In addition to cryptocurrency, there are other digital assets to consider, including NFTs. However, if you really devote yourself to it, you must invest in a good wallet to ensure the security of your digital currency.