

Cryptocurrency: How and when to invest, without losing your networth

Here's everything you need to know about digital money and the new economy.

Arshie Chevalwala Nov 20, 2017



There's a running joke in Silicon Valley that there are engineers who're convinced they can fix the wildfires of California with blockchain and VR because they're the future of tech. Blockawhat, you say? At its most basic, the blockchain is a growing list of records, aka blocks, that are linked and secured using cryptography. The first major spin-off of this revolutionary tech was Bitcoin, the world's first cryptocurrency released in the Noughties. Since then, several new cryptocurrencies have been vying to become the world's next digital dollar. It's like, can you remember a time before Uber? Us neither.

Bitcoin 101

Bitcoin was created in 2009 by an anonymous person/s under the alias Satoshi Nakamoto. But, unlike the dollar, it's not a physical currency – just 31,000 lines of code birthed via an internet announcement. Essentially, it's a digital "coin" made of "bits" divisible up to eight decimals, meaning you can purchase a very, very small unit too, called a Satoshi. 100,000,000 Satoshis make 1 bitcoin. In August this year, it was also forked into two parts: the classic Bitcoin (BTC) and Bitcoin Cash (BCH). With the split, everyone who owned BTC received an identical amount of BCH.

How does cryptocurrency work – and why should I switch to using it?

Transactions are made using blockchain tech without any middlemen (read: no banks), and with minimal transaction fees.

Think of blockchain as a magical book. All parties involved have a copy. When a transaction's made, it's noted in everyone's copy, and they all tally up. Plus, an

le. Which is why everyone from ICICI Bank to Yes Bank, Kotak Mahindra to Axis Bank have run pilots. Air France uses it for supply-chain-tracking; the governments of Andhra Pradesh and Telangana are in the process of digitising land deals and ownership.

Any drawbacks?

The transfer is instantaneous and money once sent is sent. It's impossible to reverse a transaction the way a bank can.

Where can I buy and sell cryptocurrency?

Zebpay or Unocoin in India, or on international exchanges like Coinbase. If you bought a piece early on, you're already rich (it's estimated to reach approximately \$6,000, or ₹3.9 lakh, a pop by the end of 2017). If you buy any on an Indian exchange, you'll pay a slightly higher rate, plus a premium, but it's a better bet – mostly because you can use an Indian credit or debit card, and you'll be protected by Indian laws governing monetary transactions.

Can I use it to buy regular goods and services?

Only a few merchants currently accept the currency. You can buy air tickets on Flybits, while Pocketbits supports sites like Amazon and Myntra.

What about investing in it?

Invest only surplus income, and in small denominations to begin with, till you get a hang of the system. Also, check out our guide on the following page.

Bitcoin vs Ether vs all other Altcoins

The second-most popular cryptocurrency is Ether, backed by Ethereum's blockchain, which is slightly different from Bitcoin's, but also allows for payment customisations. It's valued at `19,911 at the time of printing, and is your second-best investment choice. "Try to steer clear of investing in anything brand new and cheap, because we don't know the future of it. Anything that's mature, which has gone through a cycle of changes and developments, the way Bitcoin has [Ed's note: see timeline above], and which has become stable, that's a good choice," says Saurabh Agarwal, co-founder of digital exchange and trading portal Zebpay. Called Altcoins, everything from DogeCoin (the meme) to PutinCoin to PotCoin exists on the market, but the ones worthy of investment are Litecoin, Ripple, Dash and IOTA.

Do I get tax benefits?

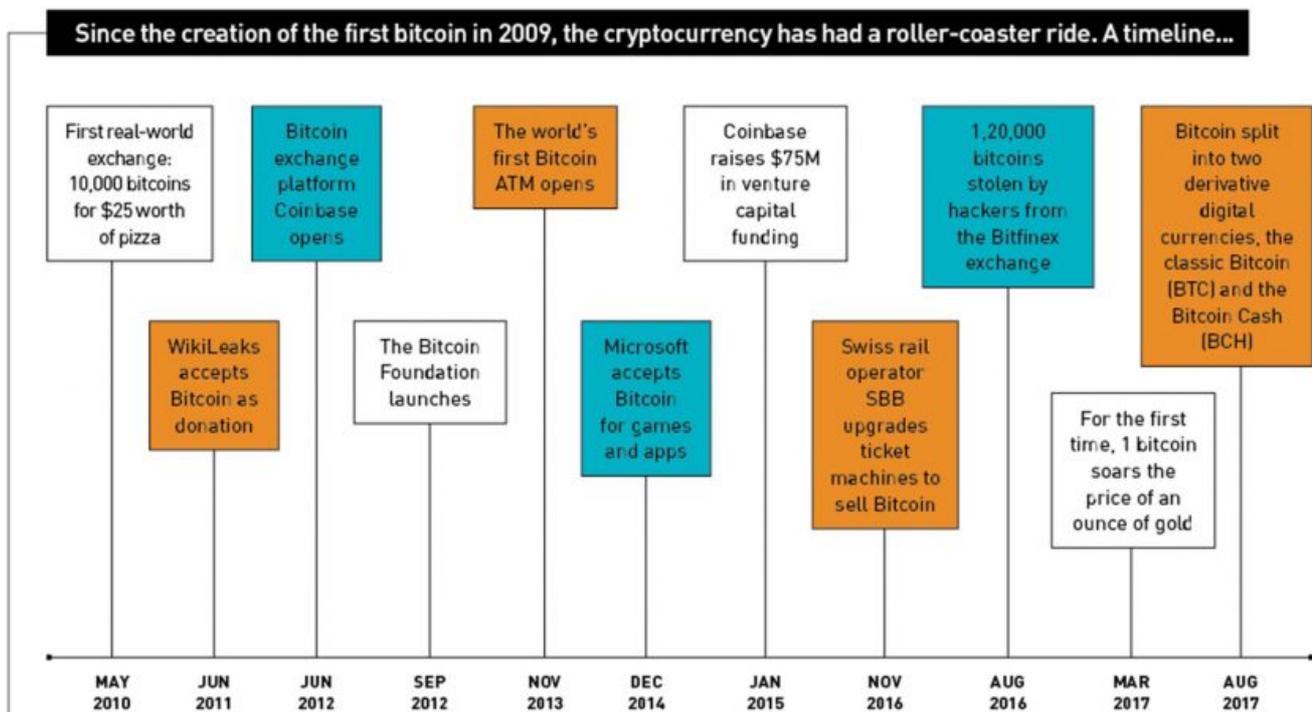
No. Cryptocurrency isn't regulated by the government in India, but by a self-regulatory body called The Digital Assets and Blockchain Foundation India (DABFI).

So, it's illegal, then?

No, the rules are just different. "Cryptocurrency players are subject to various laws of general application like the Consumer Protection Act, the Indian Penal Code, the Prevention of Money Laundering Act and the Prize Chits and Money Circulation Schemes (Banning) Act," explains Jaideep Reddy, of Nishith Desai Associates, the tax and legal counsel appointed by DABFI that's petitioning the Ministry of Finance and RBI to pass a regularisation bill.

Mining

Nakamoto's auto-controlled invention is programmed to release a total of 21 million bitcoins over the next 20 or so years. Every couple of minutes, coins are distributed through a "lottery" process, awarded in exchange for authorising transactions of the digital ledger. Miners – people seeking coins – play the lottery by constantly adding transactions to the ledger, and the fastest computer wins the most money. This has resulted in people setting up mining rigs across India and China (which still is the top contributor of bitcoins) and Ponzi rigs that promise unimaginable returns.



Investing in cryptocurrency

Akshay Haldipur, VP of marketing at digital media company Culture Machine, started investing in Bitcoin in 2013, and has a net crypto worth in the six figures (USD); here's his two cents. The cardinal rule: It's a volatile market that dips every time a government (China, South Korea, etc) bans Initial Coin Offerings (which are basically the IPO version of cryptocurrency).

Do your homework: Look up blockchain, ICOs, Altcoins, trading basics, technical analysis, fundamental analysis and different exchanges. Bookmark dedicated news websites like Coindesk and Cointelegraph to stay up-to-date.

Never chase the pump: What goes up must come down. When the market retraces, that's when you get a good entry.

Safety comes first: Only trade with an amount you can afford to lose. Diversify your portfolio. Keep a certain percentage for daily trading and divide the rest among other opportunities. Enter into trades with a clear plan in mind. Use cold storage, ie offline hardware ledgers like Ledger Nano S or Trezor – flash drives with little LED displays – to store your coins, instead of digital wallets, which may be susceptible to hacking.

Know your ICO

An Initial Coin Offering is fundraising using cryptocurrency. New businesses are launching their own coins in exchange of goods and services to be provided at a later date. So, it's like pre-purchasing "tokens" for things you know you'll need/use/consume anyway. An organic banana vendor, who's just setting up farms, can release an ICO for "BananaCoin" to purchase now, so you can have a steady supply of bananas once the produce is ready, when you need them (it's great potassium!) – and it won't matter if inflation causes the price to go up. Several governments are concerned that ICOs are being used for money laundering, and are thus banning them. But, Ponzi schemes aside, ICOs are redefining consumerism, distribution of wealth (instead of going to VCs for funding, you can go directly to consumers) and leading the way to the new economy.

The New Economy

While investing in crypto is one possibility, there's another school of thought that believes that digital currency has the potential to disrupt the way we think about money, and the way we use it.

"We're making a shift from the transactional economy to the circular economy, and the new economy is fuelled through an issuance of tokens," says Siddharth Sthalekar, founder of Sacred Capital, an asset curation firm that matches you to companies you should invest in or buy tokens from. "Think of buying tokens as a way to pre-pay for your needs in advance. Platforms such as Bancor use blockchain technology to create a marketplace for you, so you can exit these tokens at any point of time. You might also want to buy five years' worth of coffee because you anticipate that the price of coffee will rise in the next 60 months. Essentially, this is like building a portfolio on steroids. Only, instead of using the USD as a proxy that allows you to fulfil needs at a later date, you just buy what you need right away. Of course, you can buy tokens you think will appreciate in value, but you're much better off choosing tokens that fit your needs, and are relevant to you."

IN SHORT

While banks aren't going anywhere anytime soon, the way we think about money is slowly changing. Inflation is going to matter less if you've already pre-bought Netflix tokens for the next decade. Statistics show millennials prefer to invest in products that they consume, care about, as well as those with great social fabric. In the future, we'll all be woke and – cash-free.