

Curious About Cryptocurrencies?

Bitcoin. Blockchain. Digital wallet. These terms have become more common as cryptocurrencies, or cryptos for short, continue moving mainstream, but that doesn't make the concept any less complex.

As with any type of financial speculation, cryptocurrencies can be highly rewarding but also very risky. Let's take a basic look at what they are and why you may (or may not) wish to invest in them.

What are cryptocurrencies?

They are a medium of exchange that circulates only in digital format, as opposed to traditional currencies like the Canadian dollar, U.S. dollar, etc. that also have a physical form. Bitcoin was the world's first cryptocurrency (2009) and remains the best known, although Ethereum, Dogecoin and Tether are among the newer cryptos gaining in popularity.

One notable difference between a crypto and traditional currency is that cryptocurrencies are digitally encrypted and decentralized, meaning they are not backed by a monetary authority like a central bank or government. This contrasts with the Canadian dollar, for example, which is backed by the Canadian government and whose relative value is largely managed by the Bank of Canada.

Similar to traditional currencies, cryptos can be held for investment purposes or exchanged for a variety of goods and services. Cryptos are not yet widely recognized as a means of exchange, but the list of organizations that accept cryptos as currency has grown over the years.

How cryptocurrency works

At the core of every cryptocurrency is blockchain technology. Blockchain is a sophisticated system that digitally tracks information and keeps associated records secure and updated. Think of it as electronic bookkeeping, where the blockchain is a digital ledger that chronicles all transactions in code. Everyone who conducts transactions in a particular cryptocurrency not only has access to the blockchain, but is responsible for its upkeep.

Crypto transactions are recorded in blocks as they happen, and are then linked together with previous transaction blocks to form a cumulative chain of transactions. Whoever transacts with cryptos will use a computer to document their records. Since the software instantaneously logs each transaction and updates the blockchain, the digital ledger remains completely accurate and appears identical when viewed on any user's screen, which creates a consensus value of the crypto at any point in time.

To buy cryptocurrencies, you set up an account on a recognized cryptocurrency exchange and use a digital wallet to hold them. A digital wallet is a software-based system that may also store information related to other payment methods, such as credit and debit cards, so you can execute transactions electronically using an app on your phone.

Investing in cryptocurrency

While cryptos are highly speculative investments given their extreme price volatility, some investors allocate a portion of their portfolio to cryptos because of their growth potential. Some are drawn to the sophisticated technology behind cryptos and consider buying these currencies as an investment in emerging technologies.

You can invest in cryptos via ETFs, some of which provide exposure to a basket of different cryptos for improved diversification. Some funds also invest in crypto companies and technology providers.

If you're interested in cryptos, you'd be well served to consult with an Investment Advisor, who will first determine if they're a suitable investment for you. If so, your advisor can help you decide the best way to gain exposure and what percentage of your portfolio to allocate based on your risk tolerance, time horizon, existing investments and other specific factors.

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