



SCHNEIDER DOWNS

Wealth Management

Cryptocurrency 101

CryptoCurrencies, Blockchain, Hash Generator, BTC, Ethereum.... If you weren't sure if this was English, you are not alone. While Bitcoin is one of the biggest stories in today's world, many still don't understand what it is or how it works. To try and demystify this complex topic that has cemented itself within the daily news cycle, we have broken down some of the most commonly used jargon from this new technology.

Cryptojargon	Meaning
Blockchain	A shared database, often viewed as a ledger, where the summation of all transactions in the network are recorded.
Node	A computer connected to the blockchain network who, jointly with all other nodes, maintain the blockchain.
Miner	Special nodes where the computer does complex computations to compete to be the one who creates the next block (entry) in the blockchain. They are rewarded when their computer is the one who is able to create the next block.
Coin	The reward for being the miner who completes a block often takes the form of a coin or token. Because this coin can be hard to earn, some view it to hold value and so it's called a cryptocurrency. It's secured through a key (password/identifier).
Bitcoin (BTC)	Largest cryptocurrency by market cap.
Ether (ETH)	Next largest cryptocurrency. It is the reward/currency on the blockchain Ethereum. It differentiates itself through the ability to use "Smart contracts" or programmable money that automatically transacts or transfers ownership when agreed upon conditions are met.

Now the next time you hear the word Bitcoin on your nightly news or it appears on your newsfeed, the jargon won't be so intimidating. While Bitcoin and blockchain are exciting developments in technology, they are still in their infancy. Many are uncertain about the future of the technology and what regulations or pitfalls may await. Also due to its unusual nature, valuating such an asset has proved difficult as can be seen by its drastic price movements. Much of the current discussion regarding this technology is speculation of what it may be and how it may be used.

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Will you see Bitcoin as an investment option in your employer's retirement plan?

For now the answer is: No. The vast majority of participants do not have the knowledge or expertise to make an informed and prudent allocation to this sector. The volatility that is seen in the sector can lead to a bumpy participant ride and poor participant outcomes. This level of volatility is not the ride you want.

The price of Bitcoin and other digital currencies has fluctuated unpredictably and drastically. You could experience significant and rapid losses. Profits or losses from investing in Bitcoin are virtually impossible to predict.

Digital currency like Bitcoin is not legal tender. Laws do not require companies or individuals to accept Bitcoin as a form of payment. Instead, Bitcoin use is limited to businesses and individuals that are willing to accept Bitcoins.

Platforms that buy and sell Bitcoins may be unregulated, can be hacked. In addition, these platforms may stop operating, and some have failed. Furthermore, like the platforms themselves, digital wallets can be hacked. As a result, consumers can—and have—lost money.

Bitcoin transactions can be subject to fraud and theft. For example, a fraudster could pose as a Bitcoin exchange, Bitcoin intermediary, or trader in an effort to entice you to send money, which is then stolen.

Unlike banking institutions that can provide FDIC insurance, there are no such safeguards provided to digital wallets. Bitcoin payments are not reversible. Once you complete a transaction, it cannot be reversed. Reversing a transaction depends on the willingness of the recipient to do so.

When researching and evaluating a potential investment, investors must decide for themselves whether the investment fits with their time horizon, financial circumstances, tolerance and preference for volatility, and risk of loss. Anyone thinking of investing in Bitcoin or in Bitcoin-related investment opportunities should do their research, be prepared for significant price gyrations, and proceed with caution. ■

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