

CRYPTO MADE EASY

A Beginner's Guide
to Digital Asset Investments



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CRYPTO MADE EASY: A BEGINNER'S GUIDE TO DIGITAL ASSET
INVESTMENTS

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Written by Heidi Chakos.

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Contents

[Crypto Definition and Technology:](#)

[Key Crypto Terms](#)

[Why This All Matters](#)

[Risks](#)

[Wallet Security](#)

[Security Practices](#)

[Market Analysis](#)

[3 Types of Investing](#)

What is this thing that everyone seems to be investing in? Why is it popular? Why do people make money? How do people lose money? These questions will all be explained to you with this free e-book. Are you going to commit to reading it to become a more savvy cryptocurrency investor?

Crypto Definition and Technology:

Cryptocurrencies are digital or virtual currencies that use cryptography for security. Picture cryptography as using digital envelopes and keys. When you want to send a private message, you put it inside a virtual envelope and lock it with a digital key. The only way to open the envelope and read the message is by having the right key. It's as if you're sending a letter that only the recipient has the magic key to unlock.

Cryptocurrencies rely on blockchain technology, which is a decentralized and distributed ledger that records all transactions across a network of computers. Each transaction is included in a block, and these blocks are linked together in a chain.

You can imagine blockchain as a chain of digital seals. When you want to make sure something is genuine and can't be changed, you put a digital seal on it. Each seal contains information about what it's sealing and the previous seal in the chain. These seals are connected, like links in a chain.

In this chain of digital seals, there's no single boss or keeper. Instead, it's a shared responsibility among all the computers (nodes) in the network. They follow strict rules and algorithms to reach a consensus about which seals are valid and which ones are not. It's like a team of detectives working together to solve a case. Because there's no central authority, it's really hard for anyone to manipulate the seals or the information they protect. It's trust by consensus.

Key Crypto Terms

Most of the mystery surrounding cryptocurrencies are the terms used to describe them and the surrounding ecosystem. The following is a list of terms that will be very helpful for you to learn. These terms can help you understand what people are talking about.

Also, this list will be great for you to reference now and in the future as you advance in your crypto journey. With this new understanding you will be able to recognise important details, you will be prepared to take advantage of opportunities and take action when needed if new security threats are to occur.

Blockchain: A blockchain is a distributed ledger that records transactions in a chronological order. It is the underlying technology that powers cryptocurrencies.

Network: a collection of computers located around the world that monitor and verify the transaction activity.

Decentralization: To be dispersed from areas of concentration. In terms of cryptocurrencies, areas of concentration can and very often are, areas of weakness that allow for manipulation to occur.

Centralization: Often referred (by me and others) as a bottleneck. The bottleneck visualization is helpful in that in order to function, a diverse system is in some way reliant on a single, authoritative entity. Centralization can occur in a number of different aspects of cryptocurrency networks and/or the infrastructure within which cryptocurrencies function: Supply of the coins, control over the network itself, control over the information being shared about the network/cryptocurrency, custody over coins, trading mechanisms, wallet providers, servers, cloud computing providers, the list goes on.

Block confirmation: the number of blocks that have been confirmed after the block that your transaction was included in. This number signifies the

permanence of your transaction.

Gas fees/Transaction Fees: Gas fees and/or transaction fees are the fees that are charged for processing cryptocurrency transactions on-chain. They can vary depending on the network congestion and the type of transaction.

Cryptocurrency: A cryptocurrency is a digital or virtual currency that uses cryptography for security. A defining feature of cryptocurrencies is that they are not created by a central authority like a government. They are designed to be used by anyone from anywhere and for any reason. They are borderless, permission less, and censorship resistant.

Bitcoin: Bitcoin is the first and most well-known cryptocurrency. It was created in 2009 by an anonymous person or group of people under the pseudonym Satoshi Nakamoto.

Altcoins: Altcoins are cryptocurrencies that are not Bitcoin. There are thousands of altcoins, each with its own unique features and applications.

Consensus Mechanism: Any method used to verify cryptocurrency transactions and add them to the blockchain.

Proof-of-work: Proof-of-work is a consensus mechanism. This is the consensus mechanism that uses mining. Miners are the computers that specifically work (compete) to add transactions to the public ledger (blockchain). The miners are working to solve complex mathematical equations faster than the other miners. Miners are rewarded with cryptocurrency for their work.

Mining Pool: A company that allows you to contribute computing power to a larger mining operation and the rewards are dispersed according to your contribution.

Proof-of-stake: Compared to Proof of Work blockchains, which require computational work to qualify for rewards, Proof of Stake blockchains require stake to qualify for rewards. Staking nodes (often referred to as validators) are competing in terms of the amount of coins they hold compared to computing power for miners.

Staking: Staking is the process of locking up cryptocurrency in order to participate in the proof-of-stake consensus mechanism. Stakers are rewarded with cryptocurrency for their participation.

Staking Pool: Staking pools allow individuals holding smaller amounts of a Proof of Stake coin to contribute towards securing the network.

Wallet: A wallet is a software program that gives you access to cryptocurrency. There are many different types of wallets, each with its own advantages and disadvantages.

Exchange: An exchange is a platform where you can buy, sell, and trade cryptocurrency. There are many different exchanges, each with its own trading fees and features.

Centralized Exchange (CEX): A type of cryptocurrency exchange that allows for the trading and storing of cryptocurrencies. Centralized exchanges require you to deposit coins into the custody of the exchange and the trades occur using a centralized order book. The trades occurring on centralized exchanges are not using a blockchain, all trading activity within the exchange itself occurs within their own centralized, private databases

Decentralized exchange (DEX): A type of cryptocurrency exchange that allows you to trade cryptocurrencies in a peer to peer fashion, without giving custody of your cryptocurrencies to a third party. The first decentralized exchanges required you to make or take trades directly with other people, proving to be a slow process for anyone who wanted to buy or sell a large amount of a coin. The advent of liquidity pools in 2018/2019 solved the issue of low liquidity (trading volume), yet most DEXs are still limited to trading coins within specific blockchain ecosystems. As of the time of writing, Ethereum is the largest smart contract based blockchain and as such, hosts the most popular DEXs as well. Other competitors currently include: Binance Chain, Polygon, Avalanche, Solana, Cardano.

Centralized Finance/ CeFi: Centralized finance allows you to lend your cryptocurrencies to third parties and earn an interest rate based on the current market conditions. Just like how centralized exchanges and

decentralized exchanges differ, CeFi requires you to deposit your cryptocurrencies into the custody of the company who then lends out your coins to other clients.

Decentralized Finance/ DeFi: Decentralized finance allows you to lend your cryptocurrencies in a more peer-to-peer fashion with the use of smart contracts. Smart contracts are necessary for DeFi to function. They act as an automated escrow manager of sorts which ensures that once certain conditions are met, the funds that have been deposited into the smart contract will be transferred according to the terms agreed upon by the participants using the smart contract. This allows you to lend your cryptocurrencies and earn an interest rate depending on the current market conditions, while at the same time ensuring that the status of your funds remains transparent.

Decentralized Autonomous Organization (DAO): DAOs allow for governance of a project/business to be run based on the authority of many individuals rather than a very select few. DAO's can be organized in many different ways, but for the most part they allow for community members to have a say on how things develop for a cryptocurrency project or any kind of business that chooses the DAO route.

Fork: A fork is a change to the blockchain protocol. There are two types of forks: hard forks and soft forks. Forks can happen for a number of different reasons but they all are defined by the split of the blockchain.

Hard fork: A hard fork is a major change to the blockchain protocol that results in the creation of a new blockchain.

Soft fork: A soft fork is a minor change to the blockchain protocol that is backward compatible.

FUD: FUD stands for Fear, Uncertainty, and Doubt. It is a term used to describe negative information about a cryptocurrency that is spread in order to lower its price.

FOMO: FOMO stands for Fear Of Missing Out. It is a term used to describe the feeling of anxiety that people experience when they see others making

money from a cryptocurrency investment.

Pump and dump: A pump and dump is a scheme in which a group of people artificially inflate the price of a cryptocurrency in order to sell it at a higher price to unsuspecting buyers.

Rekt: Rekt is a slang term that means "wrecked". It is often used to describe someone who has lost money in a cryptocurrency investment.

HODL: HODL is a misspelling of "hold". It is a term used by cryptocurrency enthusiasts to encourage others to hold onto their investments, even when the price is volatile.

NFT: NFT stands for non-fungible token. An NFT is a unique digital asset that cannot be replaced. NFTs are often used to represent digital art, collectibles, and in-game items.

Why This All Matters

Brief History of Crypto

In order to realise where we are, it's always important to understand where it all started and how far we've come. Bitcoin is not the first attempt at a cryptocurrency, but it is the first successful attempt. It was created by an anonymous entity known as Satoshi Nakamoto in 2009. When Satoshi released it to the public he/she/they chose to make the code open source. This means that anyone anywhere for any reason can view that code, analyse it, critique it, learn from it, imitate it.

There are far more pros than cons that bitcoin was published open source. The more people that can study it and find it's flaws the better. Once flaws are identified, they can be remedied and the project as a whole will be better for it.

Because bitcoin was published open source, it served as the prototype for the many cryptocurrencies that followed. At this point there are tens of thousands of different cryptocurrencies. They are not all created equal, or created by the hands of a skilled development team. Once you can identify the basic red flags, avoiding the scams becomes very easy.

Future of Crypto

There are far more implications that the creation of cryptocurrencies and blockchain technology has yet to accomplish. Blockchain technology employs advanced cryptographic techniques and decentralized architecture, making it highly secure. Transactions recorded on a blockchain are immutable and tamper-proof, reducing the risk of fraud and unauthorized alterations. This heightened security can help protect financial assets and sensitive data.

Although now it seems that the only implementation of blockchain technology is occurring within the financial sector, there are several other

industries that can benefit from this enhancement of security, immutability and transparency of data and its protection from manipulation. Any industry that relies on the integrity of a supply chain or guaranteeing authenticity is well suited to adopt blockchain technology.

Transparency

The transparency of blockchain allows all participants in a network to view and verify transactions in real-time. This transparency enhances accountability and trust in financial transactions, reducing the need for intermediaries and third-party oversight.

There is a common term used within the cryptocurrency crowd and it says “Don’t trust, verify.” This principle stands in stark contrast to the traditional finance sector, where industry leaders historically held the power to control information and manipulate positions without concern for public scrutiny or the ability to verify their actions against the truth. If you don’t believe me, feel free to do a quick web search including the name of any big bank and fines they’ve had to pay for participating in market manipulation, or misappropriation of funds.

Peer-to-Peer

Traditional financial transactions often involve multiple intermediaries, each charging fees for their services. Blockchain's peer-to-peer nature eliminates the need for many intermediaries, resulting in cost savings for individuals and institutions.

This explains why the traditional finance industry leaders have been staunchly against the development of cryptocurrencies. Their positions are very much threatened by this new technology and they have tried to do their best to convince the public of the danger crypto represents.

After more than a decade now, these banks are failing their customers year in and year out. Furthermore crypto is still here, still advancing and they’ve realised it’s better to prove themselves relevant by including cryptocurrency custody services before they are ousted altogether.

Borderless

Blockchain can also enable near-instant settlement of financial transactions, this is impressive particularly for cross-border payments. This speed can reduce delays associated with traditional clearing and settlement processes.

This technology facilitates cross-border transactions and remittances more efficiently and cost-effectively than traditional methods. Being cost-effective for the purpose of remittances is a game changer for those living and working abroad sending money home to family. Often times the fees involved with traditionally sending money home can easily swallow up the value of the transfer itself. This has the potential to make global financial interactions more accessible and affordable.

Cryptocurrencies also have the potential to provide financial services to the unbanked and underbanked populations globally. Through blockchain-based digital wallets, individuals without access to traditional banking can participate in the financial system. Cryptocurrencies can serve as a huge advancement for these people who could finally leverage their assets to achieve bigger financial successes previously out of their reach.

Smart Contracts

Soon after the release of bitcoin, developers in the budding cryptocurrency scene were eager to see what else was possible. They've figured out how to create a monetary tool and transact with it in a basic way, sending funds from Alice to Bob, but what else could money do? What other third parties could be disrupted? Nick Szabo is credited with discovering the possibility of smart contracts (Nick coined the term "smart contracts" as well) back in the early 1990s.

Smart contracts are self-executing contracts with predefined rules written into code. They automatically execute when conditions are met. These contracts can automate complex financial agreements, reducing the need for intermediaries and streamlining processes.

We use them everyday for things like decentralized exchanges, DeFi, airdrops, and IDOs. The use of smart contracts have absolutely boomed the past 5 years, with tens of billions of dollars worth of crypto being poured into them.

Hackers have had a field day exploiting bugs they find encoded within the smart contracts and have come away with billions of dollars worth of stolen crypto over the years. However, things are getting better as skilled dev teams address the issues and find solutions that ultimately make the smart contracts more secure.

Risks

Crypto would be too easy if it weren't for the risks, and there are plenty to be found. I view risks as the reason why the masses aren't flooding in, they are also the reason why anyone brags about "getting in early". It's their badge of honour for seeing the risks and moving forward despite of them.

Let me be clear, this concept of risk with cryptocurrencies can often be overlooked. It's easy to do if you're blinded by greed which is an equally popular affliction of crypto investors.

It can be easy to brush off the risks if you don't think the downside will ever happen to you. Let this section serve as your reminder that it's not a matter of if, but when. I can personally attest to experiencing the downside of each of the following categories of risk for cryptocurrencies. What you're going to need to learn is not only how to identify the risks, but how to hedge against them. That's how you will become an intuitive crypto investor who not only can find success in this market, but maintain it and foster it well into the future.

Price Volatility

This is the most obvious as it's continuously preached by mainstream media and traditional financial institutions. Cryptocurrency markets are highly volatile, with prices subject to rapid fluctuations. This is evidence of two things.

Firstly that the cryptocurrency market is quite small. This means it doesn't take a lot of money to affect change in price. As it grows in size over the years, it takes more money to affect the same percentage change in price.

This is demonstrated everyday by newcomers who see the price of BTC and think that they missed that boat and are looking for newer coins to buy that will have a similar meteoric rise.

Additionally the relatively small size of the crypto market matched with it's unregulated nature often results in price changes that are purposeful due to

active manipulation in the market. Some believe this type of price action has led the crypto market to behave much like traditional markets like equities.

Regardless of the cause, at first volatility can take your breath away, especially if you've ended up investing more than you can afford to lose (if this is you, you've broken the golden rule). But if you spend more time in the market you'll learn to appreciate the volatility, if done right it can be a source of opportunity. Spending more time in the market means time invested in it, not necessarily time spent actively trading or over trading the market. That is a costly mistake that is easy to avoid, just don't do it.

Regulations

Regulatory changes can affect the legality and taxation of cryptocurrencies in different regions. If you're a citizen or tax resident of a country like the U.S. then you've already experienced what it's like to be unsure of how to move forward with your cryptocurrency investments.

Will the current centralized exchange that you use be available to you in the near future? Will you be able to purchase specific new cryptocurrencies on a centralized exchange? Will you need to report each and every cryptocurrency trade and transaction on your tax forms? Will the SEC open a lawsuit against your favourite crypto for violating securities laws?

Until clear cryptocurrency regulations are passed from your current country of tax residence or citizenship, these questions might be left unanswered and you'll need to stay informed and make moves when necessary to protect your investments.

At the moment Europe seems to be in the lead in terms of regulatory clarity. They've now passed MiCA, and have defined the parameters for the types of cryptocurrencies and supporting infrastructure that fall within its regulatory scope. Whether these clear rules are "friendly" or not, at least they've defined their rules and expectations can be managed.

Hacks

I've deliberately kept the most crucial point for the end, although paradoxically, it should be your top priority when it comes to understanding risks because security breaches and hacking incidents can directly result in the loss of your funds.

To say the least it's not fun. To say more, it can change the way you view crypto forever. It might convince you to leave and never look back, it might teach you a valuable lesson that you'll never need to learn again.

There are certain practices that crypto users need to adopt in order to protect their cryptocurrency investments. The biggest realisation that new crypto users need to have is that security isn't by default, it is only accomplished through your deliberate actions. It doesn't matter how secure the development team creates a smart contract/wallet/exchange, the weakest link is always the end user because we are human and subject to making mistakes.

The phrase "Be Your Own Bank" is a popular one, but the implications of this means that you are responsible for securing your investments. This is not to say that it's an impossible task, this is just a reminder that you will be playing an active role in securing your assets.

If you follow certain security practices consistently, your risk of getting hacked or losing funds will be reduced considerably. With that being said, it's also healthy to have the understanding that being hacked is always a possibility and you should invest according to your ability to properly secure it.

Wallet Security

There are a number of different ways you can store your cryptocurrency assets. Not all are equally secure options, or equally user friendly options. Each option listed within this section have their own use case and can be the most appropriate option depending on what your needs are. The following crypto wallet options are listed in order from most to least user friendly. Conversely, this list is also in order of least to most secure in terms of ability to be hacked.

If you're an absolute beginner a more user friendly wallet like the first two options are probably safer for you than the last two options. This is because if you're unable to manage a complicated wallet, your inability is serving as the weakest link. As you spend more time learning about cryptocurrencies I implore you to please prioritise learning how to better secure your investments so that you can mitigate as much risk as possible.

Centralized Exchanges

Most likely your first exposure to cryptocurrencies will occur on a centralized exchange. You will create an account, submit your information, wait for approval, and then make a withdrawal from your current bank account and deposit it into your cryptocurrency exchange account. From there you will purchase the cryptocurrency of your choice. You will see the cryptocurrency balance reflected in your account showing you now own cryptocurrency.

The only information you will need to access the cryptocurrency in your exchange account is your email and password, if you have forgotten your password, you can go through the process to reset your password and still access your cryptocurrency, in this regard it is very user friendly.

However there are the risks associated with holding your cryptocurrencies in a centralized exchange account.

You Don't Actually Own the Cryptocurrency, the exchange does.

When you store cryptocurrencies on a centralized exchange, you are acting as a creditor to that exchange. The cryptocurrencies that show a balance in your account are actually stored in a cryptocurrency wallet that is owned and controlled by the exchange. What is shown in your account is a reflection of their own private database, it doesn't reflect what is happening on chain with the actual cryptocurrency.

If the exchange goes out of business while you are storing coins there, you might never get access to them again.

Over the past decade, 42% of cryptocurrency exchanges have failed. Some of the biggest being Mt. Gox, QuadrigaCX, Cryptopia, FTX, *BlockFi, Celsius, and Voyager.

*The last three listed here aren't exchanges but CeFi (centralized finance) lending platforms, but the concept and the risk are the same.

Your Account Might Get Hacked.

Because the only thing required to log into your cryptocurrency account on an exchange is your email and password, that's also all the information a hacker needs to access your account. Newcomers to cryptocurrency are often fooled by hackers who want to steal the crypto from them. Newcomers might think they are speaking with a "real" person and become convinced to reveal information that leads to theft. They also might click on a link that was maliciously created and presented to them that allows the hacker to gain access to their phone or computer.

How to Protect Your Funds

If you choose to continue using an exchange to store your cryptocurrencies you should absolutely implement additional security tools such as 2 factor authentication. Do not use an SMS option as these are also often subjected

to hackers, instead use options like Google Authenticator or Authy applications.

You can also easily mitigate these risks by moving your cryptocurrency investments into a wallet that you control as soon as you are able to do so. This should be the first thing you learn how to do as a cryptocurrency investor. There are countless resources available online and on YouTube that will show you how to set up a wallet and make deposits and withdrawals from it. What type of wallet should you set up? Continue reading to learn about the options available and different brands I recommend.

Software Wallets and Mobile Wallets (Hot Wallets)

These types of wallets are a step in the right direction. They are more secure than holding your coins on an exchange, but they require more responsibility from you. I personally would only store small amounts of cryptocurrencies on these types of wallets as they are classified as “Hot Wallets”.

A hot wallet is a type of cryptocurrency wallet that is connected to the internet and actively used for various transactions and activities involving cryptocurrencies. Hot wallets are in contrast to cold wallets, which are kept offline and primarily used for long-term storage and security. Hot wallets are designed for active use. They are ideal for users who need quick access to their cryptocurrency holdings for trading or spending.

Mobile wallets are a popular type of hot wallet because most people conduct activities online via their smart phones, this includes their cryptocurrency activity as well. Mobile wallets offer users the convenience of managing and using their cryptocurrencies on the go.

While hot wallets offer convenience, they are inherently more susceptible to cybersecurity threats compared to cold wallets. Because they are connected to the internet, they may be vulnerable to hacking attempts or malware if not properly secured. Hot wallets are generally not recommended for storing large amounts of cryptocurrencies for the long term due to their increased security risks.

Users of hot wallets should implement robust security measures, including strong and unique passwords, two-factor authentication (2FA), and regular software updates.

Hardware Wallets and Paper Wallets (Cold Wallets/Cold Storage)

Cold wallets are considered one of the most secure options as they store your private keys offline. They are designed for the secure, long-term storage of cryptocurrencies and are considered one of the safest ways to store digital assets.

Cold wallets are kept entirely offline, which means they are not connected to the internet. This isolation from online networks makes them immune to online hacking attempts and cyber threats. In a cold wallet, the user has full control over their private keys, which are necessary to access and manage their cryptocurrency holdings.

There are two primary types of cold wallets.

Hardware Wallets: Hardware wallets are physical devices specifically designed for cold storage. They resemble USB drives and are equipped with security features like secure chips. Users connect hardware wallets to a computer or mobile device only when needed to initiate transactions. Popular hardware wallet brands include Trezor, Coldcard, Bitbox and Ledger.

Paper Wallets: A paper wallet is a physical document that contains the user's public address and private key in the form of QR codes or alphanumeric characters. They are called paper wallets because in the early days of bitcoin, these types of wallets were printed out on paper. Now there are lots of companies that produce the medium for recording this information incredibly more resilient; stainless steel capsules for example.

Paper wallets are entirely offline and provide a highly secure means of cold storage. However, they require careful handling to prevent physical damage

or loss. They are also not intended for regular use (making withdrawals). Paper wallets are best used for deposits only and to be stored for very long periods of time.

If you want to make a withdrawal from a paper wallet it is highly recommended that you withdraw the complete balance. This is because in order to make a withdrawal, you need to expose the private key, rendering it effectively compromised and no longer secure.

Cold wallets are an excellent choice for individuals and organizations looking to secure their cryptocurrency holdings for the long term. They are especially recommended for storing significant amounts of digital assets that are not needed for immediate use. However, users must exercise caution in safeguarding their physical cold wallet (hardware wallet or paper wallet) to prevent loss or damage, as recovery may be challenging without the backup seed or passphrase.

Security Practices

Security is of paramount importance in the world of cryptocurrency, especially for beginners. Here are some essential security practices that beginners can learn and implement right away

Use Reputable Wallets

Choose reputable cryptocurrency wallets for storing your digital assets. Look for wallets with a strong track record of security and positive user reviews. For beginners, hardware wallets like Trezor and Bitbox offer excellent security.

Enable Two-Factor Authentication (2FA)

Enable 2FA on your cryptocurrency exchange accounts and wallets. This adds an extra layer of security by requiring you to enter a one-time code from your mobile device when logging in or making transactions. It's not recommended to use an SMS based 2FA as these can be vulnerable to hackers via the SIM swap attack. Google Authenticator and Authy are other reputable options to choose from.

Use Strong, Unique Passwords

Create strong, complex passwords for your cryptocurrency accounts and wallets. Avoid using easily guessable passwords or using the same password for multiple accounts. Consider using a password manager to generate and store complex passwords securely. Do not use a password manager to store your private keys!

Beware of Phishing

Be cautious of phishing attempts. Avoid clicking on suspicious links or providing personal information to unverified sources. Always double-check the website's URL and ensure it's the official site of the cryptocurrency service you're using.

Unsolicited investment advice or special opportunities are ALWAYS a scam, do not waste your time, energy or money speaking to anyone offering this. Scammers will try to inspire fear or greed to make you behave in ways that

benefits them. They might scare you into thinking there is a security breach and they need you to provide your private key (this is always a scam, no one reputable will EVER ask you to disclose your private key/seed phrase).

Secure Your Recovery Seed

If you're using a hardware wallet or a wallet that provides a recovery seed (or mnemonic phrase), keep it safe and private. When it comes to storing your private keys, do so in an analogue manner, not digital at all. Don't take a photo of it with your computer/phone. Don't save it as an email or digital note. Write it down, or use tools like CryptoSteel to record your private key and store it in a safe, private, retrievable manner. Don't share it with anyone otherwise they will have access to withdraw your crypto.

Stay Informed

Stay informed about the latest security threats and best practices in the cryptocurrency space. Follow credible sources, join online communities, and be aware of common scams and frauds.

Use Secure Networks

Avoid using public Wi-Fi networks when accessing your cryptocurrency accounts or wallets. Use a secure, private network to minimize the risk of data interception. VPNs are great tools to help bolster your security online as well. I've found Mullvad to be an excellent option that allows you to pay in crypto as well.

Double-Check Addresses

Before sending cryptocurrency to another user or wallet, double-check the recipient's address to ensure it's correct. Cryptocurrency transactions are irreversible, so sending to the wrong address can result in permanent loss.

Keep Software Updated

Regularly update your wallet software, operating system, and antivirus/malware protection. Software updates often include security patches that protect against known vulnerabilities.

Limit Exposure

Consider keeping only a portion of your cryptocurrency holdings in hot wallets (wallets connected to the internet) for daily use and keep the majority in cold storage for long-term security.

Backup Regularly

If you're using a software wallet, regularly back up your wallet data, and store backups securely. This ensures you can recover your wallet in case of device failure.

Use Recognized Exchanges

When buying or trading cryptocurrencies, use well-established and reputable cryptocurrency exchanges. Research exchanges thoroughly and read reviews before creating an account. If you have to use a CEX, try to limit your exposure and don't create accounts on multiple platforms. The required KYC information they take from you is sensitive and should be protected by you so that your information is less likely to be leaked.

Educate Yourself

Take the time to learn about the specific cryptocurrencies you're interested in and the associated risks. Understand the technology and how to use wallets and exchanges effectively. Take your time prior to investing so that you don't make costly mistakes that could have been avoided.

Diversify Your Investments

Don't put all your cryptocurrency investments into a single asset. Diversifying your holdings across different cryptocurrencies can help spread risk.

Beware of Unrealistic Promises

Be skeptical of offers or investments that promise guaranteed high returns with little to no risk. If it sounds too good to be true, it likely is. Additionally, anyone offering you unsolicited investment advice or opportunities is a guaranteed scammer, avoid communicating with them at all costs.

Remember that security is an ongoing process, and the cryptocurrency landscape evolves. By following these best practices and staying vigilant, you

can significantly reduce the risk of falling victim to common security threats in the crypto space.

Market Analysis

Market analysis is a crucial aspect of navigating the dynamic world of cryptocurrencies effectively. To engage in informed decision-making, consider the following key points:

Data Sources

Begin by studying market data from reputable cryptocurrency tracking websites such as CoinGecko, or others that provide comprehensive and up-to-date information on various digital assets. These platforms offer a wealth of data about individual cryptocurrencies and the broader market.

Let's say you're interested in buying Bitcoin (BTC) and want to find the best price across different exchanges. You visit CoinGecko and compare the current BTC prices on popular exchanges like Coinbase, Binance, and Kraken. This helps you identify the exchange with the most favorable price for your purchase.

Market Capitalization

One fundamental metric to grasp is market capitalization. This figure represents the total value of a cryptocurrency and is calculated by multiplying the current price per unit by the total supply. Market capitalization helps assess the relative size and significance of a cryptocurrency within the market. High market capitalization generally indicates a well-established and widely recognized asset.

Another way to use market cap data to assist in your research is by monitoring the growth of a promising altcoin called "ABC" and want to see how its market capitalization has evolved over the past year. You visit CoinGecko, select the "ABC" coin, and explore its historical market cap data to assess its growth trajectory.

Trading Volumes

Another critical factor to consider is trading volumes. This metric measures the total value of a cryptocurrency traded within a specific timeframe, often 24 hours.

High trading volumes suggest liquidity and active market participation, making it easier to buy or sell assets without significantly affecting prices. A cryptocurrency with a low 24 hour trading volume (\$100,000 or less) will be difficult to make a trade without drastically affecting the price of your trade.

For example, you can analyze the 24-hour trading volume of an altcoin like Chainlink (LINK) on CoinGecko. Note how the trading volume fluctuates throughout the day and how it compares to more established cryptocurrencies.

Price Charts

Analyzing price charts is essential for understanding a cryptocurrency's historical performance and identifying potential patterns or trends. Candlestick charts, line charts, and other technical indicators can provide valuable insights into price movements, support and resistance levels, and potential entry or exit points.

For instance, you're trading Bitcoin (BTC) and want to determine crucial support and resistance levels. You use a line chart to analyze BTC's price movement and notice that it consistently encounters resistance around \$60,000 and support at \$55,000. Recognizing these levels helps you set entry and exit points for your trades.

Trends and News

Stay informed about trends, news, and events that can influence cryptocurrency prices. Market sentiment often responds to significant developments, such as regulatory changes, technological advancements, partnerships, or adoption by mainstream institutions. Analyzing news and sentiment can help you anticipate market movements.

For example, you're actively trading cryptocurrencies and want to stay updated on regulatory developments. You subscribe to a cryptocurrency news website or follow a reputable news aggregator on social media. One day, you receive a breaking news alert about a major country implementing new cryptocurrency regulations.

This news prompts you to adjust your trading strategy or take precautionary measures, as regulatory changes can significantly impact market sentiment and prices.

Fundamental Analysis

Beyond technical analysis, consider fundamental factors that impact a cryptocurrency's value. Evaluate the project's technology, team, use case, and community support. Understanding the underlying fundamentals can provide a broader perspective on a cryptocurrency's potential for growth or stability.

For example, let's say you're researching the fundamentals of a well-established cryptocurrency, such as Ethereum (ETH). Beyond official documents, you explore Ethereum's community forums, social media channels, and developer discussions. You observe a vibrant and engaged community, ongoing development activities, and a strong ecosystem of decentralized applications (DApps). This assessment reaffirms your confidence in Ethereum's fundamentals

Risk Management

Finally, while conducting market analysis, it's crucial to incorporate risk management strategies. Set clear entry and exit points, define stop-loss levels, and diversify your portfolio to mitigate potential losses.

Before purchasing a new altcoin with a relatively low market capitalization, decide on a stop-loss level. For instance, if you invest \$1,000 in the altcoin, set a stop-loss at \$900 to limit potential losses.

Another example is if you're traveling and need to access your cryptocurrency accounts or conduct market analysis from a public Wi-Fi hotspot, such as an airport or café. To enhance security, you connect to a Virtual Private Network (VPN) before accessing any cryptocurrency-related websites or applications. The VPN encrypts your internet connection, safeguarding your sensitive information from potential eavesdropping.

In summary, effective market analysis in the cryptocurrency space involves gathering and interpreting data from reputable sources, assessing market

capitalization and trading volumes, analyzing price charts, staying updated on news and trends, and considering both technical and fundamental factors. By adopting a comprehensive approach to market analysis, you can make more informed decisions when buying, selling, or holding cryptocurrencies. The more sources of information you use to make your decision the better!

3 Types of Investing

Investing in cryptocurrencies offers various approaches, primarily distinguished by the frequency of buying or selling. Your investment mindset dictates the frequency of these transactions, as it centers around either long-term or short-term investment horizons. This section will explain these approaches, beginning with the most long term mindset option and ending with the most short term mindset option.

Before determining the most suitable method for your needs, it's important to understand that conducting a higher number of trades increases the likelihood of making poor decisions and incurring losses.

Buying to Hold Long Term

This method is often endearingly called HODLing, it's a long-term investment strategy in which cryptocurrency investors buy digital assets and hold onto them for an extended period, often regardless of short-term price fluctuations or market volatility. The term "HODL" originated from a misspelled word in a Bitcoin forum post but has since become a meme-like phrase representing the idea of maintaining faith in the long-term potential of cryptocurrencies.

HODLers believe that the value of cryptocurrencies will increase over time due to factors such as adoption, technology advancements, and limited supply (e.g., Bitcoin's capped supply at 21 million coins). They aim to profit from the potential substantial appreciation of their holdings and are less concerned with short-term price fluctuations or day-to-day trading activities.

Holding a cryptocurrency long term is often directly associated with a cryptocurrency that already has a relatively long term history. The older and more established a cryptocurrency is, the less risky it is to hold long term. Brand new cryptocurrencies are not considered to be reputable enough to justify faith in its long term survivability and price appreciation.

Pros:

- HODLing allows investors to potentially benefit from the long-term growth of cryptocurrencies. Many cryptocurrencies have shown significant appreciation over several years, offering substantial returns.
- HODLers are less affected by short-term market fluctuations and daily price volatility. This can lead to reduced stress compared to active trading strategies.

Cons:

- While HODLing may result in long-term gains, it also ties up capital in cryptocurrencies, limiting opportunities for other investments or trading strategies.
- HODLers may face challenges in quickly accessing their funds in case of emergencies or sudden financial needs, as their assets are usually held in long-term storage options like hardware wallets or paper wallets.

DCA

Dollar Cost Averaging is an investment strategy where an investor regularly buys a fixed dollar amount of a specific cryptocurrency, regardless of its price. This approach aims to reduce the impact of market volatility and spread the investment risk over time. When this method is applied to Bitcoin and Ethereum, it's been proven to be the most profitable way to invest, if you have a long term mindset and investment plan.

Here is an example of how this method works.

You choose to invest \$500 in Bitcoin each month. You set up an automated schedule with a cryptocurrency exchange or platform to purchase \$500 worth of Bitcoin on the same day each month.

Over the next six months, you consistently execute your DCA plan. Regardless of Bitcoin's price fluctuations, you buy the specified amount each month. Here's a simplified breakdown of your monthly purchases:

Month 1: \$500 of Bitcoin
Month 2: \$500 of Bitcoin
Month 3: \$500 of Bitcoin
Month 4: \$500 of Bitcoin
Month 5: \$500 of Bitcoin
Month 6: \$500 of Bitcoin

During this period, Bitcoin experiences both price increases and decreases. However, since you're sticking to your DCA plan, you avoid the stress of trying to time the market and don't panic during market downturns.

After six months, you've accumulated \$3,000 worth of Bitcoin through consistent monthly purchases. Your average purchase price is a reflection of the market's ups and downs over this period, and you've mitigated the risk of making a single large investment at an unfavorable time.

Pros:

- DCA spreads out the investment over time, reducing the impact of price volatility. Investors are less affected by short-term price fluctuations and market timing concerns.
- DCA encourages investors to maintain a consistent investment schedule, promoting financial discipline. It can help prevent impulsive or emotional trading decisions often associated with market fluctuations.

Cons:

- While DCA minimizes the risk of making poor market-timing decisions, it may result in missed opportunities to buy during significant market dips or corrections when prices are temporarily low.
- DCA prioritizes risk mitigation over short-term gains. Investors using this strategy may experience lower returns compared to those who time the market well and buy during low-price periods.

Swing Trading

Swing trading is a trading strategy that falls between day trading and long-term HODLing. Swing traders aim to profit from short to medium-term price fluctuations, holding positions for several days, weeks or months, depending on their trading strategy and market conditions.

Swing traders analyze price charts and technical indicators to identify potential entry and exit points. They look for opportunities in market trends, both upward (bullish) and downward (bearish). Unlike day traders, swing traders are not constrained by a single trading day, allowing them to consider broader price movements and trends.

Pros:

- Swing traders aim to capture intermediate-term price movements, allowing them to potentially profit from both upward and downward market trends.
- Swing trading requires less time and attention compared to day trading. Traders can hold positions for several days or weeks while still benefiting from shorter-term trends.

Cons:

- Swing traders are exposed to market risk during the holding period. Sudden, unexpected events can impact their positions while they await price movements. Swing traders may miss short-term trading opportunities that could result in quick profits if their focus is primarily on medium-term trends.

Day Trading

Day trading is a short-term trading strategy where individuals buy and sell cryptocurrencies within a single trading day. Day traders aim to profit from short-term price movements, exploiting both upward and downward price trends. They often execute multiple trades in a single day and typically do not hold positions overnight.

Day traders rely on technical analysis, chart patterns, and market indicators to make quick trading decisions. They seek to capitalize on short-term price volatility and may use leverage to amplify their potential gains (while also exponentially increasing their risk). Day trading requires a deep

understanding of market dynamics and the ability to react swiftly to changing conditions.

Pros:

- Day traders have the potential to profit from rapid price movements within a single trading day, allowing for quick gains.
- Day trading offers a highly engaging and dynamic approach to cryptocurrency trading, attracting individuals who enjoy the fast-paced nature of the markets.

Cons:

- Day trading is associated with significant risk due to the potential for rapid losses, especially when using leverage. It requires a deep understanding of market analysis and discipline.
- The intense focus on short-term price movements can lead to stress and emotional strain. Emotional decisions can result in impulsive trading, leading to losses.

Each of these cryptocurrency trading strategies has its own risk-reward profile and requires a specific skill set. Before selecting the right strategy for your cryptocurrency investments, consider your risk tolerance, time commitment, and overall investment goals. Each method has its pros and cons, and the choice ultimately depends on your personal preferences and market outlook.

HODLing and dollar cost averaging are ideal for those with a long-term investment horizon and confidence in the future of cryptocurrencies. Day trading demands quick decision-making and technical analysis skills for those interested in short-term gains. Swing trading offers a middle ground, allowing traders to capture intermediate-term price movements. Successful traders often choose the strategy that aligns best with their risk tolerance, time commitment, and market outlook.

Table of Contents

Crypto Definition and Technology:

Key Crypto Terms

Why This All Matters

Risks

Wallet Security

Security Practices

Market Analysis

3 Types of Investing

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About the Author

Heidi Chakos is a crypto enthusiast and educator with over 9 years of experience in the industry. Heidi got her start in crypto in 2014, when she was first introduced to Bitcoin. She co-founded the popular YouTube channel Crypto Tips in 2016 with her husband Toby, which has over 200,000 subscribers.

Heidi is passionate about helping people learn about cryptocurrencies and how they can use them to achieve financial freedom. She is able to communicate complex concepts in a way that is easy to understand. Heidi believes that everyone should have access to accurate information about crypto so that they can make informed investment decisions. She believes that cryptocurrencies are a revolutionary technology that have the potential to change the world.

Read more at [Heidi Chakos's site](#).