



What is Cryptocurrency?

For the next article in my series “If I Can Understand It So Can You,” I decided to tackle cryptocurrency so I could finally understand it.

Quite a few years ago when cryptocurrency came into public view, a friend introduced it to me, convincing me to invest in it. She assured me I would get super rich really fast with my measly \$100 investment. I didn't understand what crypto was at the time, but I figured the worst that could happen would be that the company would go under, and I'd lose all my money. Which it did, shortly thereafter, along with my \$100. I wasn't too disappointed but determined I would no longer invest in something I did not understand.

Fast forward. Most of my friends are buying the stuff and they seem to understand it. I was starting to feel left out of things but still determined to not put my money in something that I couldn't understand. However, having read Goldilocks' posts for the past few months, I realized I needed to get on board. Obviously, this crypto thing was going to be very important. I don't know about you, but for me to understand something I must immerse myself in it. So, for that reason I'm going to assume you're like me and I'm not going to overwhelm you—just give you the basics and some places to go for a deeper dive.

With help from Seeds of Wisdom Team members, I received clarification on some things that had been beyond my level of understanding. I had been unable to think about crypto as anything but coins like quarters in my piggy bank. Though there are similarities, there is truly no comparison.

First a tiny bit of history: On October 31, 2009, Satoshi Nakamoto (the mystery remains unsolved as to whether this is an individual or a group) launched the first cryptocurrency, the Bitcoin project. (See link to white paper below). One of the reasons cryptocurrency (cryptos) has become popular is the nature of its blockchain technology and the concept of decentralization. It can be applied not just to finance, but other industries, needs, etc. In addition, it's just plain fast! Transfers with blockchain can occur almost instantly.

As of March 2022, there were more than 18,000 different types of cryptocurrencies. Most, however, are not used for money or even have any value. Cryptos are not issued, regulated, or backed by a central authority like a bank or the government. They are created using a distributed ledger (blockchain) and peer-to-peer review (see my article on blockchain) and encrypted/secured with a specialized computer code called cryptography. Cryptos are generally stored in digital wallets (blockchain wallets), which allow users to manage and trade their coins.

Currently, most crypto coins are used as investments and can be bought, sold, or traded on crypto exchanges and are used less for actual purchases of items such as food or gas. Others can offer solutions to many economic problems besides finance, including agriculture, cybersecurity, fine art, gaming, healthcare, insurance, law, real estate, etc.

Coins/tokens are divided into four main categories. (There are differences. I invite you to research that if interested.) There are other less common categories, but too much to go into for this overview.

- **Payment tokens** are used for buying and selling goods and services on digital platforms without a middleman, such as bank.
- **Security tokens** (similar to stocks) derive value from external assets and can be traded under a financial regulation as security. They are used for securitized tokenization of properties, bonds, stocks, real-estate, property, and other real-world currencies.
- **Utility tokens** give its holders the right (not ownership) to a product or service of an equivalent token value as long as the holders have the tokens. They are unregulated and not investment products. They can lose value completely.
- **Stablecoins**, as the name suggests, have predictable, stable value. They used to be backed in part by now defunct fiat money but are now backed by tangible assets (**XRP/RIPPLE** backed by gold, **XLM/STELLAR** backed by silver, **XDC** backed by copper, **IOTA** backed by iridium, and **ALGO** backed by palladium.)

How does this affect you? Presently, most of these are used for investment purposes. Many can be purchased fairly inexpensively. For stablecoins, consider XLM, as the price of silver could go much higher. (Will silver be the new gold?) Other cryptos may represent tangible assets you may want to invest in such as organic farms or energy technologies. Or less tangible services such as new social media platforms.

I will attempt to address how to use cryptos for purchasing things like food and gas in a future article. I am still asking questions about how that will work with so many different payment cryptos available.

For a deeper dive, I suggest the articles below:

Origins of Bitcoin: <https://bitcoin.org/bitcoin.pdf>

<https://www.softwaretestinghelp.com/types-of-cryptocurrency/>