Bitcoin: Just The Facts

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Why Should I Care

Unless you have been subject to living underground for the last decade it would have been impossible for you to ignore the hype surrounding Bitcoin. Whether it would be your local news anchor hammering it as a scam or your neighbor trying to give your family free and fantastic investment advice, the phenomenon has swept through every major nation in the world. However, as your average citizen just trying to get on with your day you may have never truly known what the hype is all about. What exactly is Bitcoin? Why are so many people talking about it? Why should you care? Well, all of that and more will be answered in this book as we bring you Bitcoin: Just The Facts.

However, before diving into the deep end of the pool it is important to understand the history of Bitcoin, where it came from and who invented it. All the way back in November 2008, a mysterious inventor known as Satoshi Nakamoto published a whitepaper in an online-cryptography forum where he first made known the details of Bitcoin, how it would operate and what it is. In the header of his whitepaper, Nakamoto described Bitcoin as a “Peer-To-Peer Electronic Cash System” (this title may give away the mystery surrounding Bitcoin in under 7 words). This whitepaper can still be viewed online today and is easy to locate using a simple Goggle search.

The core concept of Bitcoin then is to be a form of electronic currency. Similar to how you may use dollars if you are in the USA or yen if you are in Japan, Bitcoin was to be a currency that exists solely in the digital world and was not to be tied to any government or country the way that regular currencies are. In this modality, it was supposed to be a borderless payment system accessible to all. In the first paragraph of his, whitepaper Nakamoto describes one of the largest and most persuasive benefits of the payment system, and something that has captured the imaginations of millions of investors and laypeople around the world: Bitcoin does not require a central governing authority to regulate it. If you live in the United States you may be aware of an institution known as the Federal Reserve. It is a privately owned organization that helps to regulate the US economy by having the authority to print and store money. In this way, the finances of the entire population are, to a certain extent at least, in the hands of a few individuals who have the ability to inflate a currency. That kind of power, especially in the wrong hands, can be extremely dangerous. Inflation is a door to hyperinflation and this in turn can cause people's life savings to be wiped out in a matter of weeks. Bitcoin is immune to the error of governing that occurs when humans are at the helm of finance.

In order to create this utopian currency however a new form of technology had to be invented to act as the network on which this currency would be used. This technology is known as a blockchain. It is a type of decentralized database that keeps track of every single transaction of peer-to-peer Bitcoin users and is maintained by a number of different people within its network all around the world. One of the fantastic benefits of this type of database is that every transaction is public knowledge. All transactions are readily available to be downloaded at a moment's notice and all transactions can be traced back to their sources meaning that transactions can be verified with relative ease.

Let’s take a slightly deeper look into blockchain, as without this technology the digital currency that Nakamoto proposed would never have come into existence. In essence, the blockchain is made up of several data bites known as blocks. Each block in the database stores a sequence of transactions that

have been made. For example, Person(A) sent Person (B) 3.2BTC, Person(C) sent Person (D) 4.1 BTC etc. Each of these blocks also has a unique identifying HASH signature. This signature is calculated using all of the transactions are that found on that specific block as well as the previous block that came before it. This is why it is known as a blockchain because each of the blocks is directly linked to one another in this manner.

You may be thinking to yourself “well if it is all digital then it can’t be very safe, couldn’t someone just easily hack it and steal all of my Bitcoin?” Well, fortunately, it is not quite that easy for the world's criminals. The data is secured using a cryptographic algorithm known as ‘Proof-Of-Work’. This algorithm has a double function as it makes sure that every person within the network is synched correctly to ensure that people do not have the ability to use their Bitcoin more than once.

In order to maintain the network, there have to be people willing to do so. These people are known as miners and they are rewarded in automatically generated Bitcoin whenever they are able to solve a series of complex mathematical equations (or rather when their computers are able to) which help to maintain the integrity of the network.

So now you know the basics of what Bitcoin is but why is all of this important. Why does everyone suddenly want some? Surely we are already able to send money to each other electronically? Well, the situation with Bitcoin is slightly different. Remember earlier when we mentioned that there is no governing authority that can print more Bitcoin? That is true and means that the total number of Bitcoin that will ever exist is completely limited. There will never be a federal reserve of Bitcoin that can create more using a printing press. And it is in this that Bitcoin obtains some of its major value, its rarity. Supply and demand is simple to understand as an economic concept. If many people want something but there isn’t a lot of it to go around then it becomes highly valuable. In fact, Since its creation, Bitcoin has gone from being worth a mere few dollars to Bitcoin to hitting almost $20,000 at the height of its value. Future predictions place it in the $100-$500K region.

This is the core of why you should care. Many people lament over the fact that they did not buy Apple stock when it was barely worth anything and nobody wanted it. But in time it grew into the powerhouse it is today and its shares have become extremely valuable. Bitcoin has already made many early investors millionaires but it still has the potential to make people a lot of money. You could be one of those people.

How To Get Bitcoin

So now that you understand the value and function of Bitcoin, an obvious question will come to mind: just how do you get your hands on some? Well, you do not need to worry because we will explain that in detail right now.

Bitcoin can be purchased using almost every major world currency including USD, GBP, YEN, AUD, CAD, EUR, etc. So if you have a pile of cash burning a hole in your pocket then you are in luck because you can use it to obtain some Bitcoin. However, in order to obtain Bitcoin, you first need a place where you store it. Within the world of cryptocurrencies such as Bitcoin, these storage places are known as 'Wallets', and just like your bank account, they have a set of numbers associated with it that are unique to each individual wallet. Knowing your wallet address will allow you to receive Bitcoin and knowing someone else will allow you to send Bitcoin to them.

AltCoins

It should also be noted that most wallets only store one specific type of cryptocurrency. Other than Bitcoin there are thousands of other cryptocurrencies, all with their own unique names, investors, benefits, use-cases and wallets. Some of the most popular ones include Etherum, Bitcoin Cash, Bitcoin SV, Monero, XRP and USDT. The first and last one this list is especially of interest as Etherum was originally created to be an upgraded version of Bitcoin, having its own blockchain on which many other cryptocurrencies (not just Etherum) are built. USDT on the other hand is unique because it is directly tied to the United States dollar. One USDT is therefore always going to be worth one dollar, making it a useful cryptocurrency to store your money in when the markets involving the other cryptocurrencies are extremely volatile.

The Process

There are many ways to obtain Bitcoin or other cryptocurrencies but for the sake of this book, we will stick to the simplest method. In order to buy them, you have to gain access to something known as an 'exchange'. These are platforms where people go to trade cryptocurrencies with one another. Some of the most popular ones out there are CoinBase, Binance, Gemini and Kraken. The process to obtain coins is pretty similar across the board so for illustration purposes we will just give the basic outlines on what to do.

1. Navigate to the chosen exchange website (www.coinbase.com, www.binance.com etc.)
2. Sign up for an account using a secure email.
3. Ensure you choose strong passwords and that you have access to your mobile device as most exchanges ask for your phone number to create a two-step verification process by which they will send you a text message with a unique code in order to access your exchange account.
4. Some exchanges will ask that you verify your identity using either an app or a picture of your identity documents.

5. Once you have completed the sign-up and verification processes you will be able to generate wallets directly on the exchange. In CoinBase for example you will have the option to 'create' a wallet for all major cryptocurrencies.
6. You can then buy a number of different currencies directly from the exchanges. Note that not every exchange will be able to directly sell you every type of cryptocurrency. If you want to obtain a type of coin the exchange doesn't directly sell you will have to buy BTC or USDT and then trade it on the open exchange for the coin of your choosing.
7. You can buy the major cryptos (including BTC) from the exchange using your debit or credit card and the coins will be placed in their corresponding wallets directly on the exchange.
8. Congratulations you now are the proud owner of Bitcoin!

For many people, this is as far as they will want to go when it comes to Bitcoin. You can buy a bunch, leave it in the wallet of your exchange and then in a few years, when hopefully it has appreciated in value, you can sell it back to the exchange for a profit.

(Please note that for long term storage it is not advised to leave your coins on an exchange wallet. Some platforms will allow you to create something known as a 'vault' which is exactly the same as a wallet but it is designed for long-term storage. If you are using the method above to buy and hold BTC then it would be useful to, at the very minimum, generate a vault and transfer your coins across to it)

How To Use It

While some may be happy simply buying and holding BTC on an exchange, there are many different things you can actually do with it. One such thing we have already touched upon but will expand on now, and that is exchanging it for other coins.

Bitcoin Trading For Beginners

The open exchanges such as CoinBase and Binance allow you to gain access to hundreds of thousands of crypto-owners who are either looking to obtain certain coins and store them for the appreciation of value over time. Storing your coins that you have bought in this manner is known as investing and is focused on long-term gains. However, there is a way to make money using Bitcoin in the short-term using something known as trading. While the concept may evoke images of financial firms sitting behind a hundred screens and eagerly running around and shouting numbers at one another, the truth is that it can be far more personal. Small personal traders (sub $1 million in total capital usually) are known as retail traders. These types of traders buy and sell Bitcoin for other cryptocurrencies in order to obtain a profit (either in total Bitcoin or in dollar value). There are two major types of trading that you may be interested in exploring.

<u>Day Trading</u>

Day trading is arguably the riskiest type of trading. However, that risk is also usually weighed against the high amounts of returns that are possible. As the name so suggests day trading consists of placing one in-and-out trade in a 24 hour period, though often time's day traders will actually place multiple trades in a single day. Traders will use a range of different tools to help them to know whether they should buy or sell BTC. We will give a basic example here.

John has 1BTC worth $8000. He goes on the open exchange and decides to day trade his 1BTC against USDT in order to obtain more BTC (remember each USDT is worth exactly $1 and can be exchanged for such). He uses a simple indicator known as the RSI or relative strength index to tell him when he should sell his 1BTC and when he should buy it back. When the RSI rises above 80 after a long upward trajectory and then starts showing signs of dipping down John sells his 1BTC for 8000USDT. Three hours later the RSI has continued in a downwards trajectory and with it the value of BTC to USDT. In this example let's say that in the time the RSI hit below 20 (a strong indicator it is about to turn back) the price depreciated by 1000USDT. That means that 1BTC is now worth far less than it was 3 hours ago. At this point John uses his 8000USDT to buy as much Bitcoin as possible meaning he bought back his original BTC for 7000USDT and he has obtained another 12.5% of BTC on

top of that bringing his total to 1.125BTC. John repeats methods such as this for years hoping that in time the value of his accumulated BTC will rise significantly.

Swing Trading

Swing trading follows the same standard philosophy as day trading except with one major difference: trades are left open for a period greater than 24 hours but typically less than a month. It is often less risky to swing trade as the indicators used to determine when to place trades are more accurate. It is also very common that retail traders with large capital or even investment funds will place trades based on the larger picture patterns and indicators, meaning that they are far more likely to play out as they act as self-fulfilling prophecies.

How To Make Money With Bitcoin

By becoming exceptionally good at day trading or swing trading it is possible to make large amounts of money using Bitcoin. However, many people spend hours studying charts, learning indicators as well as scouring new sources to know when it is the best time to place a trade. The vast majority of people who invest in the cryptocurrency market lose money, however, it is just because they enter the arena unprepared. However, if you are reading this book then that means you are likely not one of the people that would just do something like this. Nevertheless, let us help you by giving you tips and tricks you can use to succeed in trading Bitcoin.

1. Choose your goal wisely

Are you looking to increase the amount of BTC you hold or are you wanting to make gains in terms of traditional currencies? You will have to choose which of these is going to be your main focus as it will determine what trades you place and which pairs to choose. On some exchanges, you can trade your BTC directly against traditional currencies while on others you are limited to cryptos. So if you wanted to make a profit in dollar amounts on the latter platforms you would have to trade against USDT (or another stable coin as they are called) and once you are happy with your USDT amount, sell it for regular fiat currency.

2. Choose a good set of indicators

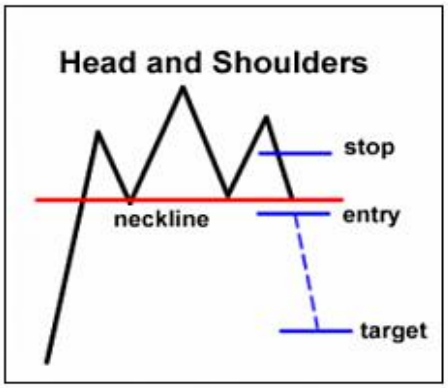
There are literally thousands of different indicators that all operate differently. In the most basic form, an indicator is just what its name implies. It is supposed to help you predict where the price of a given cryptocurrency, or more specifically Bitcoin, is about to go. When you are looking at a price chart of BTC you will be able to overlay indicators on to the chart directly and many traders will use multiple indicators in conjunction with one another to help them to increase the accuracy of their trades. Some exchanges will allow you to place indicators directly on the charts integrated within their platform, however, a much better and flexible approach is to use a charts software that will allow you to monitor market pairs in real-time and apply a number of different and varyingly complex indicators with relative ease. The best software currently on the market is known as TradingView and requires little to no monthly investment. Below is a set of the most commonly used

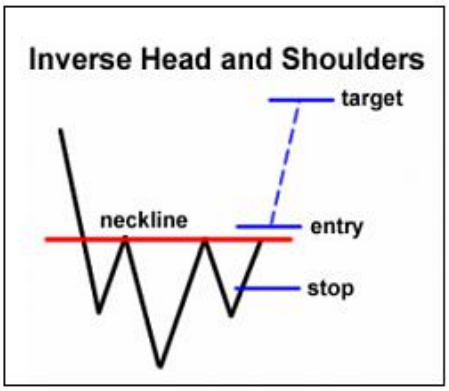
indicators, simply do an online search on how to use each one and integrate your favorite into your trading style:

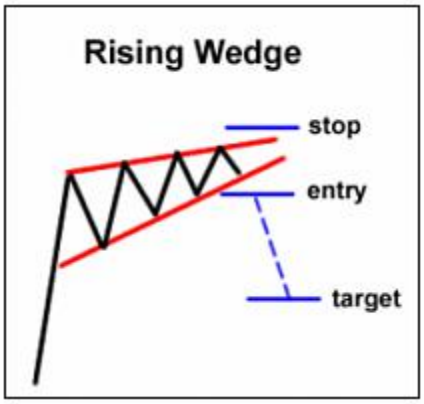
- Simple Moving Averages (SMA)
- Exponential Moving Averages (EMA)
- Relative Strength Index (RSI)
- Ichimoku Cloud
- Stochastic Oscillator
- Moving Average Convergence Divergence (MACD)

3. Learn chart patterns

Before the invention of complex mathematical equation based indicators, people were still trading the markets very successfully. The way they achieved this was by learning chart patterns. Chart patterns emerge on a particular price chart when the price has been trending in specific ways. By learning what the price usually does when a common pattern merges you will be able to know how to best place your trades. Below are an example of some of the most commonly used patterns as well as the entry and target points:


Head and Shoulders
stop
neckline
entry
target


Inverse Head and Shoulders
target
neckline
entry
stop


Rising Wedge
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entry
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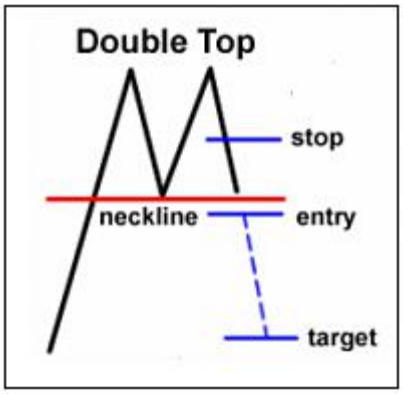
Double Top
stop
neckline
entry
target

4. Become Fantastic At Risk Management

It is far to easy to fall prey to not wanting to complete this step. However, if you want to make money and succeed in cryptocurrency trading, this is probably the most important thing to master. When you succeed in creating a profitable trade the same chemicals get released in your brain, serotonin and dopamine, which are also active when a gambler wins big. However, you are a trader and not a gambler. This means that your risks are calculated and you know when to get out of a trade when it goes against you. Here is an example of bad risk management:

John is trading his BTC directly against the USD on a popular exchange. He is looking to perform a day trade using the Stochastic Oscillator indicator as a guide to know when to place his trade. His target for this trade is a 10% profit and he is confident it will play out because it has many times before. However, soon after placing his trade the trend in price reverses and now his trade is at a 3% loss. John tells himself that it is fine and the price will soon turn back around and his trade will play out. The price continues to fall and now his trade is -5% in the red. John is thinking to himself that he wants to get out of the trade but he will lose too much money if he backs out now, instead, he will try and see if the price will at least jump back up to around -3% and then he will get out. However, suddenly the price drops to another 2% and John immediately exists. He is now down 7% on a trade where his initial target goal was a 10% win.

Here is an example of proper risk management:

Phil is swing trading his BTC against USDT. He is using the exponential moving average in order to determine when to enter the trade. His goal for this trade is a 10% profit. However, before placing his trade, Phil puts a stop loss in place. This is a specific buy or sells signal that comes into effect when the price drops or rises to a specific point (note many platforms will allow you to directly set stop losses on their exchange, however, others will need 3rd party software to do this. It can also just be done manually if you are willing to watch the trade). He sets this stop loss at -3%. This means that his risk to reward ratio is greater than 3 to 1. Now if he places his trade he can rest assured that even if it turns against him, he will never lose more than 3% on his trade.

Some people set their stop-losses higher or lower depending on how risk-averse they are, but it is important not to set it to low or too high as both can have detrimental effects on your trading. Attempt to aim for a 3 to 1 ratio when first beginning to trade and then adjust the ration depending on your individual need. However, always place a stop loss no matter what. Even the most experienced traders have managed to lose all of their accounts by not following this rule.

5. Prepare for volatility

The cryptocurrency market is still in its infancy when compared to other major financial markets. Its total market capitalization at the time of this writing is barely over $200 billion. Compare that with the stock market or the S&NP 500 which have trillions of dollars invested into them. Because the amount of money in the space is so small, and a large amount of the people invested in the market are retail investors, it means that the market is very volatile. Compared to other markets, where an increase in 1% in any given trading pair is big, the crypto market is known for sporadically jumping

up and down multiple percentage points in a matter of moment. This is great for day traders, as the volatility means there is a great amount of opportunity to make a profit. However, it will take inexperienced traders out of the equation quickly as the speed of the changes is too much for them to keep up with. That is why, even if you have traded in different spaces before, it is critically important that you start small in cryptocurrency while you get used to the large tidal swings in prices between the different coins.

6. Keep up to date with news

Every market in the world is affected by one thing: human emotion. This is one of the most unpredictable forces in all of existence but with the right tools, you will be able to navigate the space safely.

Say for example news just broke that the United States governing is going to be integrating XRP (a well-known and popular cryptocurrency) into their international payment system. Once this news goes viral is it pretty self-evident what is going to happen to the price of XRP. It will likely see a sharp incline in price making it a prime opportunity for a swing trader to make the most of the surrounding hype and securing a nice profit. Imagine that you have heard this news through your local news anchor and therefore decide to buy XRP. While this may sound like a wise investment decision there is a problem. Most of the people actually trading in the cryptocurrency market received the news 5 days prior and have already been riding the wave of excitement all this time. By the time you have entered the trade the excitement is already stagnating and your returns, if any, will be minimal.

Because scenarios like these are so common it is vital for you to have a direct link to crypto-related news sites that specifically focus on getting the latest news and gossip surrounding BitCoin and other cryptocurrencies. If you stay up to date with them it is far more likely you will be able to capitalize on news, rather than being left behind. Below are some popular and great choices:

- Coinmarket Telegraph
- Coinmarketcap
- AltCoin Daily

The Wider World Of Bitcoin

Now that you know how to acquire, store, and trade your Bitcoin it is important to understand the wider context of Bitcoin and cryptocurrency. Not many people are aware just of how important Bitcoin really is to our financial lives and how, in the near future, it is going to be impossible to ignore it.

Gold, Silver and Bitcoin

Many wealthy individuals have put in their two cents when it comes to cryptocurrency. However, not many of them have attracted such a wide following through their commitment to financial education as Robert Kiyosaki, the author of one of the most popular books on money management ever written, 'Rich Dad, Poor Dad'. Robert had this to say about the subject:

*"The reason I endorse **Bitcoin** is just for one frickin' reason: You're not part of the system". "It's a separation of government and my money,"*

Since the beginning of human civilization, we as a species have had a need to store value. Back in hunter-gatherer times, it may have been through livestock or farmland. However, the further we drifted towards value being stored in a currency we needed a safe way to keep our value stored that does not degrade over time and that is safe. Historically speaking the main vehicles for this type of value storage have been gold and silver. To a certain extent these, and other precious metals, have always retained a great sense of value even throughout massive financial uncertainty. Gold and silver now in the 21st century have the added benefit of not just being useful as decorations and ornament coverings anymore, but because the metals are heavily used in consumer electronics. This means that the likelihood of them retaining their value will remain.

Bitcoin on the other hand also finds its ability to store value within its use-case now. With a secure peer-to-peer payment system that is limited in the amount that can ever exist (the same as gold and silver as there are only so many tons of those metals within the ground to mine), we have managed to create the equivalent of digital gold. In fact, many people, such as Robert Kiyosaki, put these three stores of value into the same category. However, by Bitcoin being digital and existing pre-tethered to a network designed for sending payments it seems to have the advantage over gold and silver. Almost no one currently accepts pure gold or silver as payment for anything. These metals still need to be liquidated into fiat currency before they are of immediate use. However, more and more businesses are starting to accept Bitcoin and other cryptocurrencies as a form of payment, meaning that its immediate value even surpasses that of gold and silver.

But it is also the fact that it can be sent instantaneously that puts it above these storage methods. If you do manage to find someone who is willing to sell you goods and services for gold, it will involve a very costly and possible insecure method of transporting that gold or silver to the recipient. Whereas Bitcoin can be transferred in just a few hours and is validated

by thousands of miners across the globe to ensure that the payment is truly sent. Bitcoin is truly digital gold.

A Global Race

The value of Bitcoin is not just seen by individual investors and supporters. Entire nations have seen that the future of currency is digital and there is a race on to see who can procure the most. We could liken this to a 21st-century gold rush happening right under our feet and we are hardly aware of it.

Remember when we mentioned earlier that people who maintain the Bitcoin network are known as miners and they are rewarded for their efforts by receiving Bitcoin? Well, China is using this to their advantage and have created massive networks of miners known as 'mining pools' where processing power and electrical resources are shared. Currently, China dominates the mining market with estimates placing the number of total Bitcoin mine at around 60% of all mining operations.

If in the future Bitcoin was to replace gold as the reserve store of value then China would certainly be doing its utmost to acquire as much of it as possible before that happens. But not only that, but it is also the fact that if the value of each individual Bitcoin really does 10-20x in the coming decade, they would also increase their capital by a considerate margin. China has the benefit of cheaper electricity when compared to western counterparts and the fact that many of the pools are government-sponsored only further aids their efforts. If the west does not want to lose its financial dominance in the world it has to wake up to the fact that Bitcoin and cryptocurrency are the future.

Pros and Cons: The Final Word On Bitcoin

Though we have spent the majority of this book talking about the benefits and wonders of Bitcoin, it is slightly more nuanced than that. In order to keep things in their most simple state and allow you to make the best personal decision when it comes to whether you should invest in Bitcoin or stay away from it, we have built a table below of all the major pros and cons. Remember, nothing we have said in this book is investment advice and any purchases of Bitcoin or any other cryptocurrency you make are at your own risk.

Positives	Negatives
Quick Peer-To-Peer Transfers	Non-Private (Every transaction is available to see for everyone with a computer if they would look)
Decentralized	Currently volatile in value
Limited Amount	Other emerging crypto's that are improvements on Bitcoin
Minable	Still requires mass adoption

Photo by Simon from Pexels