Before you invest in cryptocurrency, read this

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Credit: AI-generated image (disclaimer)

We've all heard the headline stories about cryptocurrencies – they're millionaire-makers and dream-destroyers. They're part of a decentralised market that supports criminal activity, yada yada yada. But how do you separate facts from fiction? Here are six cryptocurrency myths you need to get on top of.

Decentralised market = always a good thing

One of the key selling points for cryptocurrencies is that they're not under the thumb of major financial institutions – and in countries with unstable financial systems (like these African countries), or spiralling inflation (like in Venezuela), cryptocurrency can present an opportunity to circumvent traditional methods of getting, spending and exchanging money. But it also faces some pretty significant challenges as day-to-day tender – it's not widely accepted as a form of payment, and the crazy price fluctuations associated with the major currencies can make them pretty volatile when it comes to everyday transactions. Some of the coins also come with pretty hefty transaction fees, which just adds to the complexity of using Bitcoin to buy your milk.

It's easy to keep your digital currency secure

In short, there are two basic ways to store your cryptocurrency. The first is set up your own digital wallet (there are lots of different types), which requires a public and a private security code to access (just don't lose your codes, like this guy did). While setting up a digital wallet can be a fiddly process, it should be impossible for someone guess your codes once you've done it – but be warned: hackers have lots of other tricks up their sleeves to get their hands on your loot. Don't want to DIY? The other option is to stash your fortune with a third-party digital currency exchange – but even these can be vulnerable to some pretty major hacks. In Japan, Coinbase lost $660 million worth of NEM earlier this year, while CoinDash was swindled out of $13 million in Ether in 2017 – and these are just two examples from a painfully long list.

Blockchain transactions are all anonymous

Nope. While cryptocurrencies have a reputation for anonymity, patterns in the blockchain can still reveal information about users at either end of a transaction. There's even some suggestion that a user's IP address can be made visible during the transaction process – basically, these transactions leave a 'digital trail' that can reveal your identifying information. So, if you're saving up your digital coins to purchase military-grade weapons, illicit drugs or any other illegal goods, be warned.

There's no risk in investing in it

Unless you've been living under a rock, you'd be aware that cryptocurrencies are known for their violent lurches in value – which is why there are so many crypto millionaires out there today, and also why more than a few people have been left crying into their beer. The question is, WHY are cryptocurrencies so vulnerable to such huge peaks and troughs? Well, there are lots of reasons, including media hype, political risk, regulatory changes and governance issues, and speculation on social media – according to The Guardian's Mark Beaumont, "the merest hint of FUD (fear, uncertainty and doubt) on a coin's Twitter or Reddit threads can tank its price quickly."

It's the currency of choice for criminals

This is a bit of a stretch. Research from UTS shows that half of all bitcoin transactions are used to purchase illegal goods – so if you're a criminal, you're in great company. The flipside is that presumably the other half of all bitcoin transactions AREN'T used to purchase illegal goods. At any rate, there's nothing inherently illegal about cryptocurrency and blockchain, but there could be in future: German researchers have found a trove of illicit materials embedded in the Bitcoin blockchain, including links to child pornography. "As a result, it could become illegal [or even already is today] to possess the blockchain, which is required to participate in bitcoin," they write.

It's a regulator's nightmare

Actually, this one is true. According to the Washington Post, cryptocurrency brings with it the threat of "illegal initial coin offerings, money laundering, tax evasion, cyberthefts, exchange outages, excessive speculation and more." That's great news if you're a career criminal; less so if you're trying to build long-term financial security. There's no global solution yet, but regulators around the world are talking about what needs to be done to bring the Wild West of digital currencies under some kind of control. Whether or not that's a good thing depends on how you think about the new financial paradigm we're living in – but either way, watch this space.

Provided by University of Technology, Sydney

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