Key terms and FAQs

How to understand cryptocurrency

Assets - A resource that holds some significant value. There are several forms of assets such as property (houses), stocks/shares, bonds and commodities. Most investors buy assets with the expectation that these assets will rise in value over a period of time.

Bitcoin - The first successful 'peer 2 peer' digital currency. Bitcoin was created by an anonymous individual called 'Satoshi Nakamoto'. Bitcoin is considered the world's first decentralised cryptocurrency.

Blockchain - A publicly distributed ledger technology that groups a list of records into 'blocks' and secures them using cryptography. It is used to keep decentralised records of transactions through a computer network.

Bonds - A type of fixed income asset through which an entity (such as a government) borrows money from investors. The borrower issues the bond and investors buy it, on condition that the money is paid back after a set period of time and with the addition of an interest rate.

Coins (Crypto Coins) - Crypto coins are the native unit of exchange for a certain blockchain platform. E.g. The Bitcoin network uses 'bitcoin' as its coin while the Ethereum network will use 'Ether' as its blockchain coin.

Commodity - A resource or good (such as rice, coffee or copper) that can be bought and sold (traded) between investors.

Cryptography - the practice and study of techniques to keep information secret and safe by transforming it into a form that unintended recipients cannot interpret.

(Crypto) Wallet - An application that stores your cryptocurrency's public and private keys (note - cryptocurrency is never stored 'on a wallet', but rather the wallet has the ability to access the cryptocurrency using the public and private keys).

Currencies - A medium of exchange for goods and services. A currency usually comes in the form of coins and notes but there is also now digital currency (also referred to as cryptocurrency).

Investing - The act of placing money into an asset with the hope that the asset increases in value. This is the basic foundation of how the stock market works.

Markets - A market is a place where investors can buy and sell assets. Today, most markets are digital and can be accessed via a broker using websites and trading apps.

Market cap- For a cryptocurrency like Bitcoin, market capitalisation (or market cap) is the total value of all the coins that have been mined. It's calculated by multiplying the number of coins in circulation by the current market price of a single coin.

Node: A machine that takes part in the global network by running the bitcoin software.

Percentage Return -A percentage expressing by how much the current price of an asset is higher than its original purchase price.

Pump and dump - A type of scam where a group of traders spread misinformation to artificially increase the price of a stock/asset/cryptocurrency with the goal of selling their assets at a higher price, which then causes the value of the stock/asset/crypto to drop drastically. Pump and dump scams are very common within the world of cryptocurrencies. They result in a large number of investors losing their money in a very short period of time.

Risk - A way of measuring the possibility of losses when it comes to investing.

Shares - These are the 'units' stocks are bought and sold in. For example, you can buy 100 shares of Apple (a stock).

Stocks - Stocks are small parts of companies that you can buy on a public trading market/platform. For example, you can buy a fraction of companies like Apple, Facebook, and Google on the stock market.

Tokens (Crypto Tokens) - Crypto tokens are usually created on an existing blockchain platform (e.g. USDC (US Dollar Coin) is a token built on the Ethereum blockchain). They do not exist on their own blockchain network but rather use a pre-existing one.

Volatile/Volatility - Used to describe the (often) sudden changes in the price of assets/cryptocurrencies. Cryptocurrencies tend to experience high levels of volatility (meaning their prices jump up or down very quickly).

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FAQs

INVESTMENT QUESTIONS

1. What is an investment?
An investment is something you buy with your money with the goal of getting back more money than you put in. But there is also a chance that you could lose money on any investment.

2. What can I invest in?
The most common investments are property, stocks, bonds, commodities like gold or currencies like the pound or the dollar. But people can invest in all sorts of things, ranging from collectibles such as classic cars to pieces of art. Recently, more people have started to invest in crypto.

CRYPTO QUESTIONS

3. What is the difference between Bitcoin and blockchain?
Bitcoin is a cryptocurrency. It is the largest and one of the first cryptocurrencies. Blockchain is the technology that is used to keep the record of who owns Bitcoin units. Blockchain technology is used in lots of other cryptocurrency projects.

4. How did Crypto begin?
The crypto industry that we know today began with the cypherpunk community back in the 80s. The movement advocates the widespread use of strong cryptography and privacy-enhancing technologies as a route to social and political change. Members of the cypherpunk community released important projects such as Ecash (1983), HashCash (1997), B-money (1998), Bit gold (1998), and most recently Bitcoin (2008) which marked a new era for the crypto industry. After Bitcoin, the number of crypto projects has increased substantially to ~20,000 including Ethereum, Monero, Zcash and Solana.

5. Why do cryptocurrencies like Bitcoin go up and down in value?
Like any asset, Bitcoin's price will rise when more people want to buy it and fall when more people want to sell it. There are lots of reasons people decide whether to buy or sell Bitcoin. Positive news about crypto, often on social media, is one thing that encourages people to buy.

6. Who can create a cryptocurrency?
Anyone can create a cryptocurrency if they have access to the internet and the right technical skills. The largest and best-known cryptocurrencies, like Bitcoin and Ethereum, took a lot of expertise to create, but there are thousands of smaller crypto coins that have been created by less experienced people.

7. If I buy some crypto, what can go wrong?
The biggest risk of buying crypto is that you will lose your money. Crypto prices go up and down very fast. You might find that when you want your money back, the crypto price is down. So you will get back less money than you put in. Another important risk is the chance that you lose access to your crypto wallet.

8. I want to buy some crypto. What is the best way to do that?
The easiest way to buy crypto assets is through exchanges registered with the Financial Conduct Authority (FCA), the list is here. But remember, just because an exchange is registered with the FCA, it doesn't mean it is safe. You can still lose your money. You can also buy cryptocurrencies from another person directly or through 'peer-2-peer' exchanges, although this can be riskier than using a recognised exchange.

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9. Is it better to put my money in crypto than in a bank?
Your money is much safer in a bank than it is in crypto. The money you have in a bank is protected (up to £85,000) by the Financial Services Compensation Scheme, an official body. There are no protections for crypto and you can lose some or all of your money.

10. Who controls crypto?
Blockchain networks like Bitcoin, Ethereum, and Solana are decentralised by nature which means that no one controls it. However, Bitcoin is the only network where the creator is unknown which is not the case for the rest of the blockchain networks.

11. Is there any regulation at all?
Regulations are rules made by the government to try to protect people. There is a bit of regulation in crypto, but not as much as for banks or other investments.

12. Could I get paid in bitcoin?
Yes, you can get paid in Bitcoin but you will need a wallet. The easiest way to store bitcoin and any other crypto asset are with hosted wallets from firms approved by the Finance Services Registry. You can ask any person to send you bitcoin to your wallet address without intermediaries.

- Ends -