

Title: A Beginner's Guide to Cryptocurrency Investing

Researchers: Lim Yan Ting, Izzati Zahira, Loh Wee Kent

Reviewers: Evon Chew

Editors: Natalie Eng, Jennifer Ley, Jessie Gan, Nadiah

Introduction

At the end of last year, the price of Bitcoin had quadrupled from its initial value at the beginning of the year. As of 8 June 2021, the price stands at \$33451.38, down by 242.0% year-over-year (YoY). According to the Next Advisor (2021), this price drop was attributed to a series of factors, “from excitement about low-quality coins to negative remarks from Elon Musk, to China’s latest crackdown on crypto services”. With such large fluctuations and uncertainty in the cryptocurrency market, are you still willing to invest your hard-earned money in this asset category? Fret not, we are here to help! In this article, we will guide you through the basics of cryptocurrency and address some common questions on whether cryptocurrency or Bitcoin is worth the investment.

The Linkage Between Cryptocurrency, Bitcoin and Blockchain Technology

First and foremost, it is essential to know how cryptocurrencies work and what the hype is all about. Blockchain, cryptocurrency and Bitcoin are some examples of terms used interchangeably within this growing sector. Bitcoin is the first cryptocurrency to be introduced in 2009. One of the key features that make cryptocurrencies so special is the use of blockchain technology behind their operations. Fundamentally, when thinking of blockchains, think of them as a digital ledger. This digital ledger functions as a database to record transactions of the cryptocurrency. Once the data about the transactions have been recorded into the digital ledger, it can be shared among a distributed network of computers. Keep in mind that there are no physical Bitcoins, only balances kept on a public ledger that everyone has transparent access to. This blockchain technology allows transactions to be made smoothly and efficiently without the need for third-party intermediaries such as banks. Unlike traditional currencies which are only backed by the government and central banks, cryptocurrencies employ special encryption techniques that make them secure, efficient, inflation resistant and transparent. Given all these promising characteristics of cryptocurrencies, they have boomed into a multi-million dollar investment opportunity, attracting hundreds of thousands of new investors every day.

Major Categories of Cryptocurrency Available in the Market

Although Bitcoin is the most popular cryptocurrency, there are many other cryptocurrencies that are worth your time to research!

The broad categories of Cryptocurrency	Common examples
<p>Payment Crypto</p> <ul style="list-style-type: none"> - The biggest category in terms of total market capitalization - Mainly used for a store of value, payment and transactions 	<p>Bitcoin (BTC)</p> <p>Bitcoin Cash (BTH)</p> <p>Litecoin (LTC)</p> <p>Dash (DASH)</p> <p>Ripple (XPL)</p>
<p>Privacy Crypto</p> <ul style="list-style-type: none"> - Privacy cryptos utilise tools and technologies in shielding transaction details (e.g., participants' identity, IP address) which directly provide greater security and anonymity. - Potential rise in the use of such cryptos for illegal purposes (e.g., Money Laundering) 	<p>Monero (XMR)</p> <p>Zcash (ZEC)</p> <p>CloakCoin (CLOAK)</p> <p>DASH (DASH)</p> <p>Verge</p> <p>Horizen</p> <p>-Check out more details on https://www.investopedia.com/tech/five-most-private-cryptocurrencies/</p>
<p>Finance/Fintech Crypto</p> <ul style="list-style-type: none"> - Cryptocurrencies facilitate the creation of a decentralised financial system. - Not only have they contributed to a hassle-free transaction process (e.g., payment without a third party) but they have also made lots of financial services available to the general public, including those without bank accounts. 	<p>Ripple (XRP)</p> <p>Stellar Lumens (XLM)</p> <p>OmiseGo (OMG)</p> <p>Populous (PPT)</p>

Exchange-specific Crypto - Mainly used for cryptocurrency exchange	Binance Coin (BNB) KuCoin Shares (KCS) Bibox Token (BIX) COSS Coin (COSS)
--	--

There are also other specific categories of Crypto such as Gambling, Gaming, the Internet of Things (IoT), social etc. Check out more on [Discover Blockchain & Cryptocurrency Assets | Upfolio](#).

The Truths and Myths of Investing in Cryptocurrency

As cryptocurrency is still a relatively new medium of trade, there is limited literature on it. Hence, our knowledge regarding cryptocurrency can often be shrouded in myths which can lead us into making suboptimal investment decisions. The table below debunks some of the “too good to be true” fallacies surrounding cryptocurrencies.

Myths	Truths
Cryptocurrencies are unregulated.	This is the biggest misconception in society since people believe they are backed by a central bank. The truth is there are increased regulations on digital currencies exchange across all the countries to minimise the risks of illegal activities being carried out. For instance, under the enforcement of Malaysian law beginning December 14, 2017, digital currency exchangers (Crypto Investors) must declare their full personal details to the Bank as a reporting institution in line with Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) regulations. Failure to declare the details might lead to the potential termination of the usage of financial services in Malaysia.

<p>Cryptocurrencies are the best criminal getaway as the purchaser can make anonymous transactions.</p>	<p>This is indeed true for privacy cryptos (e.g., Monero, Dash) as they focus on purchasers' privacy and anonymity. However, this is not the case for other categories of cryptocurrency, in which all transactions are recorded on a public ledger known as the blockchain. Even though they don't disclose the user's personal data during the transaction, there are ways for regular people to track identities across the blockchain, and all the more so are sophisticated instruments that provide blockchain forensics for illegal activities to various governmental and financial entities.</p>
<p>Cryptocurrencies are non-taxable.</p>	<p>Cryptocurrencies are indeed taxable. They are taxed differently depending on each country's policies. In Malaysia, only active cryptocurrency investors are required to declare their gains to the Inland Revenue Board (LHDN) via their annual income tax declaration. Non-active investors are not required to pay the taxes. According to the statement of LHDN: "If the transaction is more of a capital gain, passive, or as done occasionally, unplanned, or unsystematic, then the profit from such sale and purchase is a tax-free income. "On the other hand, for those who are involved in or using this cryptocurrency actively, systematically, and repeatedly where the patterns of badges of trade exist, then the party is considered to have conducted a transaction or profession.</p>

<p>Cryptocurrencies are trying to replace money.</p>	<p>It is trying to provide an alternative that works faster, more securely, more cheaply and irreversibly which does not require an intermediate (third party for approval & supervision) through the decentralized blockchain platform.</p>
--	--

Here comes the interesting part: Should you invest in Cryptocurrency?

1. The advantages of investing in Crypto

Decentralised Nature

Cryptocurrencies can operate without the need for authorities such as the central bank to regulate them . Since the transactions between individuals made with cryptocurrencies are recorded and passed down effectively through the blockchain, third party intermediaries may no longer be needed anymore. For example, two people can simply transfer their Bitcoins to one another without any extra transaction fees or delay!

No Inflation

The supply of cryptocurrencies is strictly controlled. To illustrate this, the maximum number of Bitcoins in circulation is strictly limited to only 21 million. Therefore, Bitcoins will not depreciate quickly as there is no excessive supply. Additionally, since cryptocurrencies are decentralised and not controlled by a single authority, they are not subjected to political and corporate influence. Thus, cryptocurrencies are considered an inflation hedge as they do not serve the interests of any specific entity. This may prove to be beneficial to investors because it prevents the real value of their investment from falling.

Less corruption

Cryptocurrencies cannot be duped, copied or manipulated. Due to the underlying technology behind them, it is relatively impossible to tamper with the data registered in the blockchains without the risk of it being deemed invalid and rejected from the blockchain altogether. These safeguards guarantee the integrity of the entire system and reduce corruption as transaction information cannot be easily manipulated due to the sophistication of the blockchain technology. As a result of this tremendous potential for improving the system's integrity, more and more companies have begun to accept Bitcoin as a form of payment. For example, Amazon has recently started to accept Bitcoin, Lightning, Dash, Dogecoin, Litecoin, Ethereum and Tether in exchange for Amazon gift cards. This is an intelligent move as it prevents any swindling or fraud within the internal operation of the company.

2. The potential risk of investing in Crypto

Cryptocurrency is volatile

Volatility in this situation is described as the value of cryptocurrency changing rapidly and unpredictably. This is dangerous as it may lead to huge losses for investors. Moreover, unexpected changes in market sentiment can lead to sharp and sudden changes in price. It is not abnormal for the value of cryptocurrencies to drop quickly by thousands of dollars and soar again the next minute.

Cryptocurrency has high regulation risk and low investor protection

Since cryptocurrencies are relatively new to the market, there is still no regulatory framework properly established to govern it. Unlike other markets, there are no protection schemes available to protect cryptocurrency investors and traders. For example, investors of cryptocurrency in the UK may not have access to facilities such as the Financial Services Compensation Scheme (FSCS). Furthermore, since they are not backed by governments or other legal entities, the central bank cannot take corrective measures to protect the value of cryptocurrency in a crisis. This is highly risky as investors may sustain substantial losses in cryptocurrency trading and investing.

Cryptocurrencies are susceptible to forks

In the world of cryptocurrency investing, “forks” are defined as sudden changes which could lead to the collapse of investor confidence. This results in major price fluctuations. Developers of the cryptocurrency may decide to change the cryptocurrency’s protocol to expand or change its fundamentals as we have seen with Bitcoin and Bitcoin Cash. Additionally, hard forks may result in the creation of new cryptocurrencies. For example, at first there was only Bitcoin, but after a few hard forks split the currency, Bitcoin Cash, Bitcoin SV and Bitcoin Gold emerged.

Cryptocurrencies are susceptible to discontinuation

Given the multiple hazards associated with cryptocurrency (including the uncertain legal environment), it is possible that cryptocurrency may be phased out. This could be due to the

low demand or high risk of regulating the cryptocurrency. As the currency is discontinued and the demand plummets, investors may suffer significant losses as the value of the cryptocurrency depreciates rapidly. For example, Darwinex will be discontinued starting from 2021 onwards.

Cryptocurrency has limited legal status

Since the market for cryptocurrencies is still relatively new, many countries have yet to determine their legal nature. It is still unclear how the trading and investing environment of cryptocurrencies should be regulated. However, evolving regulations may alter the status quo, making cryptocurrency investors susceptible to huge losses and sharp price falls.

For example, China was once the most active market for cryptocurrency trading. Evidently, Bitcoin traded with the Chinese Yuan accounted for over 90% of global trading in Bitcoin. However, due to a new policy passed in 2013 to restrict cryptocurrency services, China ceased to recognise cryptocurrencies as legal tender, banned initial coin offerings and prohibited cryptocurrency trading platforms. As a result, cryptocurrency is now nearly extinct, accounting for only 1% of global trading. This posits a huge risk for cryptocurrency investors as the value may easily fluctuate depending on the environment of cryptocurrency regulations.

Another important example is India as it has recently passed one of the world's strictest policies against cryptocurrencies which criminalises the possession, issuance, mining, trading and transferring of crypto-assets. This is a huge blow to millions of investors piling into the new red-hot investment opportunity as they are forced to liquidate their assets to avoid severe penalties.

Where to buy Cryptocurrencies in Malaysia legally and safely?

Digital currencies are not recognised as a legal tender in Malaysia, but this does not mean that they are illegal. The Malaysian government has even announced that cryptocurrencies will not be banned since the government does not intend to ban or put a stop on any innovation that is perceived to be beneficial to the public. Nonetheless, the Malaysian government regulates digital asset exchange platforms for trading Bitcoin and other digital currencies. Hence, any digital asset exchange that wants to operate in Malaysia has to comply with a set of regulations issued by the Securities Commissions (SC) of Malaysia in order to protect users and their assets.

On 31 January 2019, the SC registered three Recognized Market Operators (RMOs) to establish and operate digital asset exchanges in Malaysia. These are **Luno, Sinergy Technologies and Tokenise Technology.**

In Malaysia, Luno's digital AUM consists of four approved cryptocurrencies with bitcoin accounting for 62% of the total, ethereum (23%), ripple (10%) and litecoin (5%). Luno has reached seven million customers globally representing growth of more than 300% YoY in the number of apps installed with over RM34 billion transacted.

Conclusion

When weighing the advantages and potential risks of investing in cryptocurrency, it is vital to remember that, despite the fact that cryptocurrencies carry relatively huge risks due to their modernity, they can also provide very high returns to the knowledgeable investor.

However, the real question is, should *you* invest in cryptocurrency? Well, the decision to invest or not to invest often depends on what type of investor you are. If you are an aggressive or moderate investor who is willing to take risks in exchange for big returns, then cryptocurrency might just be for you. Keep in mind that cryptocurrency is riskier than many other investments. Nothing is guaranteed other than its volatility as the prices of crypto coins swing wildly from minute to minute.

As cryptocurrency is constantly on the rise and the industry is growing stronger every day, it may be considered as a good long-term investment. Financial giants such as Paypal and Square are making it easier to buy and sell cryptocurrency on their popular platforms while Tesla has also invested \$1.5 billion worth of bitcoin in early 2021. Clearly, cryptocurrencies possess a lot of upward potential.

As is the case with most investing advice, you should always diversify your portfolio to ensure not all of your eggs are in one basket. Dumping all of your life savings into one type of investment is unwise as diversification may help in spreading out risks. As an investor, you should always remember to do thorough research prior to investing to equip you with the knowledge to make well-informed investment decisions.

References:

Bunjaku, F., Gjorgieva-Trajkovska, O., Mietva-Kacarski, E. (2017). Cryptocurrencies - Advantages And Disadvantages, [online], p. 7-8. Available at
<http://scholar.google.com.my/scholar_url?url=https://js.ugd.edu.mk/index.php/JE/article/download/1933/1706&hl=en&sa=X&ei=CXKwYLnYFcSLywTO356YCg&scisig=AAGBfm1OcSLQLfw56kEinL-oQiNIjQBJwQ&nossl=1&oi=scholar>

Iredale, G. (2020). 6 Key Blockchain Features You Need To Know Now. [online]. 101 Blockchains. Available at
<<https://101blockchains.com/introduction-to-blockchain-features/>>

Szalay, E. (2021). Bitcoin: too good to miss or a bubble ready to burst? Financial Times, [online]. Available at
<<https://www.ft.com/content/be796d33-a5e7-4753-98a8-b586f1680d58>>

cmcmarkets.com, (n.d.). What are the risks of trading cryptocurrencies? [online]. Available at
<<https://www.cmcmarkets.com/en/learn-cryptocurrencies/what-are-the-risks>>

Barrett, C. (2021). Bitcoin: “I’ll either be rich, or wrong”. [podcast]. Financial Times. Available at
<<https://www.ft.com/content/144441bd-936e-4223-94b3-1cd845b8919f>>

commodity.com, (2021). What are the risks of trading cryptocurrencies?. [online]. Available at
<<https://commodity.com/cryptocurrency/what-are-forks/>>

neteller.com, (n.d.). NETELLER Cryptocurrency Service - Risk Statement. [online]. Available at
<<https://www.neteller.com/en/policies/cryptocurrency-risk-statement>>

Azhar, A. (2021). Bitcoin and the Future of Decentralized Finance. [podcast]. Harvard Business Review. Available at
<<https://hbr.org/podcast/2021/03/bitcoin-and-the-future-of-decentralized-finance>>

learn.tradimo.com, (n.d.). What determines the value of a cryptocurrency. [video]. Available at
<<https://learn.tradimo.com/cryptocurrencies/crypto-value>>

Nagarajan, S. (2021). Bitcoin slides 5% after Elon Musk hints at a potential split with the popular cryptocurrency in a tweet with a broken-heart emoji. [online]. Yahoo! News. Available at

<<https://www.yahoo.com/news/bitcoin-slides-5-elon-musk-080531493.html>>

Aziz, A. (2021). Luno Malaysia's digital AUC surpasses RM1b. [online]. The Malaysian Reserve. Available at

<<https://themalaysianreserve.com/2021/04/15/luno-malysias-digital-aum-surpasses-rm1b/>>

Lim, J. L. (2020). Is It Safe (Or Legal) To Buy Bitcoin In Malaysia? [online]. iMoney Learning Centre. Available at

<<https://www.imoney.my/articles/buy-cryptocurrencies>>

sc.com.my, (2021). List of Registered Digital Asset Exchanges.[online]. Security Commission Malaysia. Available at

<<https://www.sc.com.my/regulation/guidelines/recognizedmarkets/list-of-registered-digital-asset-exchanges>>

Morton, D. T. (2020). The Future of Cryptocurrency: An Unregulated Instrument in an Regulated Instrument in an Increasingly Regulated Global Economy, Loyola University Chicago International Law Review, [online] Volume 16(1), p. 129 - 143. Available at

<<https://lawecommons.luc.edu/cgi/viewcontent.cgi?article=1219&context=lucilr>>

cnbc.com, (2021). India to reportedly propose cryptocurrency ban, penalizing miners and traders. [online]. Available at

<<https://www.cnbc.com/2021/03/15/india-plans-cryptocurrency-ban-will-penalize-miners-and-traders.html>>

Vargas, I. (2021). The Relationship Between Social Media and Crypto Prices. [blog]. Paxful. Available at

<<https://paxful.com/blog/social-media-and-crypto-price/>>

Yeung, T. (2020). 3 Important Factors Driving the Price of Bitcoin. [online]. Investor Place. Available at. <<https://investorplace.com/investing-in-bitcoin-price-strategy/>>

Aziz, A. (2021). Active cryptocurrency traders not spared from LHDN. [online]. The Malaysian Reserve. Available at.

<<https://themalaysianreserve.com/2021/01/05/active-cryptocurrency-traders-not-spared-from-lhdn/>>

Global Legal Research Directorate. (2018). Regulation of Cryptocurrency Around the World. [online]. The Law Library of Congress, p 114 - 116. Available at <<https://www.loc.gov/law/help/cryptocurrency/world-survey.php#malaysia>>

Danial, K., 2019. *Cryptocurrency investing*. Hoboken, NJ: John Wiley & Sons, Inc.

Token, M., 2018. *9 misconceptions about cryptocurrency*. [online] Medium. Available at <<https://medium.com/@tokenmeister.social/9-misconceptions-about-cryptocurrency-53b91826817>>

Ryan, H., 2021. The Price of Bitcoin Continues to Fall. Here's How Worried Investors Should Be, According to Experts. [online] Time.com. Available at

<<https://time.com/nextadvisor/investing/cryptocurrency/bitcoin-crash-continues/>>