Bitcoin & Cryptocurrency

Investment Prospects & Hacking Incidents

If you search Bitcoin on Google or any such search engine, you will see a plethora of results talking about investing in bitcoin or such cryptocurrencies. All these results can be further bifurcated into two categories –

1. Those who consider investing in cryptocurrencies a good idea
2. Those who do not consider investing in cryptocurrencies a good idea

People in both of these categories are making logical and legitimate arguments, that leaves us with a considerable amount of doubt as to whether we should invest or not. Moreover, the recent hacking incidents related to cryptocurrency exchanges also add to the doubt-factor. In this article, we will first discuss prominent cryptocurrency hacking incidents along with precautions that you should take while investing in cryptocurrencies.

PROMINENT CRYPTOCURRENCY HACKING INCIDENTS

The Coincheck Attack (January 2018)

Coincheck is a Tokyo-based cryptocurrency exchange. On 26 January 2018, it made a public announcement that its systems had been hacked and virtual tokens worth $530 million had been stolen. The primary reason for this attack is unknown, however, it is being speculated that the hackers exploited an existing vulnerability in its systems.

During this period, Bitcoin was soaring at a rate of more than $15000 per coin, this incident gained significant popularity and was widely reported by media outlets across the globe.

Mt. Gox (March 2014)

Until March 2014, Mt. Gox was the main way Bitcoins were purchased and sold by people since 2010. However, in February 2014, Mt. Gox reported that the hackers have stolen around 850,000 Bitcoins. During that time, the value of these stolen Bitcoins was around $450 million. It would have been more than $7 billion dollars today.

Many conspiracy theories have been doing the rounds on the Internet but the exact reason for the hack is still unknown. Eventually, the company filed for bankruptcy and its assets were frozen.

Bottom-line

Apart from the above-mentioned two incidents, there have been many small isolated incidents related to the theft of cryptocurrencies. You can find a comprehensive list of such incidents here. In addition, there have been instances where a company advertised for ICO (Initial Coin Offering) and then disappeared from the internet leaving no trace behind. One of such instances is Prodeum[1], based on Ethereum blockchain. The company first advertised with a 12-page whitepaper for building a database of fruits & vegetables and roughly raised around $6 million from the investors. Later, the company changed its websites and disappeared from the internet.

[1] https://www.wired.com/story/cryptocurrency-scams-ico-trolling/

INVESTING IN CRYPTOCURRENCIES

The price of Bitcoin was somewhere around $19,000 during Christmas of 2017. Three months down the line, as of March 15, 2018, Bitcoin is trading at approximately $8,200 per coin. Meanwhile, Bitcoin is not the only cryptocurrency to experience a downfall. Other prominent cryptocurrencies such as Litecoin, Ethereum, and Ripple's per coin value have also taken a significant impact.

Cryptocurrencies *v.* Gold

Gold has a history of thousands of years to support its claim of trading as a commodity in the exchange for money, playing a significant role in the market. Gold is also approved by the central banks across the world. In addition, it possesses an intrinsic value (*i.e.* something can be made out from its raw form). It is also present in the limited quantity, as it is a result of the Earth's internal reactions going on for billions of years.[2]

All the above features do not have any existence for cryptocurrencies. With a simple change in algorithm, the limitation can be easily tweaked. Since all the cryptocurrencies are privately owned, governments are not recognizing it as money until they officially launch a state-sponsored cryptocurrency.

The Two Sides of the Argument

There is also a possibility that the concept of money is finally changing from the traditional currency notes and coins towards the cryptocurrencies. It may be possible that cryptocurrencies will be one of the ways to build a long-term wealth. The crashes and hacking incidents are merely the speed breakers on the highway to a cryptocurrency-dominated market. However, if you are looking to build your wealth faster than most of the other people, you must keep an eye on the *next big thing*.

Since cryptocurrencies are yet to be recognized by many countries, they are neither commodity nor currency. It is an unregulated space whose legality is highly debatable. Along with being mostly used for illegal activities, there is no existing legal recourse dealing with cryptocurrency frauds. Considering the high volatility of cryptocurrencies, the buyer should only buy if he knows how it actually work.

[2] https://www.ft.com/content/42822ebe-fc4a-11e7-9b32-d7d59aace167

CONCLUSION

Before investing in any cryptocurrency, you must understand how it actually works. Easiness of buying and selling cryptocurrencies varies from one country to another. Also, please take note that it is not always a good investment *if the prices are going up lately*. Moreover, the governments would not let everyone trade anonymously and evade taxes and identification. On the endnote, here are a few pointers you should consider –

- Benefits of cryptocurrencies can only be realized when the profits can be converted into real-life currencies such as $, £, €, ¥, etc.

- You must verify the authenticity of a cryptocurrency from multiple sources before making an investment.

- Crypto-market is not singularly dependent on a particular country. It is wholly dependent on all countries. Hence, you should consider global perspective instead of aligning to a country-specific approach. For example, the value of Bitcoin prices reduced by around $2000 on January 11, 2018, when news reports of South Korea banning the cryptocurrency started doing rounds on the Internet.[3]

- In most of the countries, Bitcoin or other cryptocurrencies are yet to be recognized in a legal form such as currency, commodity, property, etc. Hence, in case of a fraud, there is no legal recourse available. You must act appropriately to ensure that your cryptocurrencies are stored securely.

[3]https://www.theguardian.com/technology/2018/jan/11/bitcoin-drops-value-south-korea-trading-ban-cryptocurrencies-tax-gambling