

BITCOIN BASICS

A Beginner's Blueprint To Cash
In On The Bitcoin Gold Rush



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Bitcoin Basics

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All the information and facts provided in this report were correct and up to date at the time of writing.

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What Are Bitcoins?

Bitcoin is a new currency that was created in 2009 by an unknown person using the alias Satoshi Nakamoto. The unique thing about bitcoins are they are transacted the same as money and provide the same value as money, but there is no middle man or person - meaning, no banks, credit unions or other financial entities that one usually has to go through to complete a financial transaction.

There are no transactions fees and no need to give your real name if you don't want to. Bitcoins are electronic currency. You don't see them or touch them like money or a check but they are just as real and accomplish the same thing. The real difference is its all-digital.

Small wonder that Bitcoin emerged in 2009 just after it became clear and known that big banks were misusing borrowers' money, duping clients, rigging the system, and charging boggling fees. Bitcoin pioneers wanted to put the seller in charge, eliminate the middleman, cancel interest fees, and make transactions transparent, to hack corruption and cut fees. Through the advent of Bitcoin a decentralized system was created where you could control your funds and know what was going on.

Bitcoin's history started a bit rocky but is now a very strong and moving currency force that is making the world economy and financial institutions take notice and accept it worldwide. There is hardly a nation now that does not recognize and accept Bitcoin as a currency for negotiating and payment of transactions. Wherever you can use cash or paper checks, credit cards and etc. you can now use Bitcoins (BTC).

Bitcoin has come far in a relatively short time. All over the world, companies, large and small from the corner convenience store to international conglomerates accept its currency. Billion dollar businesses such as Dell, Expedia, PayPal, and Microsoft do, too. Websites promote it, publications such as [Bitcoin Magazine](#) publish its news, and forums discuss cryptocurrency and trade its coins. It has its own application programming interface (API), price index, and exchange rate. There is even a [bitcoin directory](#) where there is a list of shopping, trading, investing and other entities that deal in bitcoin.

One of the best things about Bitcoins is the ability to buy things anonymously. Payments can be made around the world easily and cheaply because bitcoins are not tied to any country or subject to regulation. If a small business or any business for that matter decides to accept bitcoins for exchange of goods and services, there are no credit card fees.

Bitcoin is also extremely fast. You can send money anywhere and it will arrive minutes later, as soon as the bitcoin network processes the payment.

One very important note about bitcoins is the fact you must be very careful when you utilize the system to buy or sell anything. The way the bitcoin system works, once done, the transaction cannot be undone. When your bitcoins are sent, there's no getting them back. Unless the recipient returns them to you, they're gone forever.

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Therefore one must be very careful and not make a mistake. However, this one point should not be a discouragement at all - just a note to be particular when transacting with bitcoin as one would in any financial transaction.

How Are Bitcoins Made?

Unlike paper currency that is made through a printing process called minting, no one really makes bitcoins. This currency isn't physically printed in the shadows by a central bank, unaccountable to the population, and making its own rules. The traditional banking system can simply produce more money to cover the national debt, thus devaluing their currency.

Instead, bitcoin is created digitally, by a community of people that anyone can join. Bitcoins are 'mined', using computing power in a distributed network. This network also [processes transactions](#) made with the virtual currency, effectively making bitcoin its own payment network.

The bitcoin protocol – the rules that make bitcoin work – say that only 21 million bitcoins can ever be created by miners. However, these coins can be divided into smaller parts (the smallest divisible amount is one hundred millionth of a bitcoin and is called a 'Satoshi', after the [founder of bitcoin](#)).

Miners are crucial to the creation of bitcoin, its security and stability. Miners secure the Bitcoin network and process transactions. Without miners, Bitcoin would be vulnerable to attack and become worthless. The miners are rewarded for their work of securing and processing services with new bitcoins and [transaction fees](#).

Blocks

Each time a miner successfully solves Bitcoin's [proof of work](#) algorithm that miner mined a "block". The miner or mining pool that mines a block is rewarded through the [block reward](#), a set amount of bitcoins agreed upon by the network. The bitcoins included in the block reward are all new bitcoins. This is the only way that new bitcoins are created.

How Many Bitcoins Will Be Created?

The block reward started at 50 bitcoins per block, and halves every 210,000 blocks. This means that each block up until block 210,000 will reward 50 bitcoins, but block 210,001 will reward just 25.

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The [Bitcoin difficulty](#) makes sure that blocks are found on average every 10 minutes. With an average of 10 minutes per block, a block halving occurs every four years.

This means new bitcoins are generated every 10 minutes. Anyone can publically verify the creation of new bitcoins using a [block explorer](#).

Eventually the block reward halves many times and becomes so small that no new bitcoins can be created. The blockchain concept for Bitcoin is designed to max out at 21 Million Bitcoins. With the algorithmic sequence set up by the founder of Bitcoin the last Bitcoins will be mined in 2040 at which time no more Bitcoins will be created.

Some prognosticators have estimated each Bitcoin will likely have a value of [\\$500,000 or more](#) at that time and likely even more.

Can Counterfeit Bitcoins Be Created?

Only bitcoins rewarded to miners can be spent. It is impossible for a single user to bring new bitcoins into supply.

This is because Bitcoin uses cryptography to verify all transactions. Only the correct digital signature will allow bitcoins to be spent. Miners verify and process this data while they try to solve the proof of work. This prevents people from spending bitcoins they do not own or creating bitcoins that were not issued by the network.

Someone could create their own fork of Bitcoin that gave themselves new bitcoins. Since this would create a fork, the new bitcoins would only be valid on the new fork of the network. The main Bitcoin chain would see the new coins as invalid and unspendable.

What is bitcoin based on?

Conventional currency has been based on gold or silver. Theoretically, you knew that if you handed over a dollar at the bank, you could get some gold back (although this didn't actually work in practice). But bitcoin isn't based on gold; it's based on [mathematics](#).

Around the world, people are using software programs that follow a mathematical formula to produce bitcoins. The mathematical formula is freely available, so that anyone can check it.

The software is also open source, meaning that anyone can look at it to make sure that it does what it is supposed to.

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What are its characteristics?

Bitcoin has several important features that set it apart from government-backed currencies.

1. Its decentralized

The bitcoin network isn't controlled by one central authority. Every machine that mines bitcoin and processes transactions makes up a part of the network, and the machines work together.

That means that, in theory, one central authority can't tinker with monetary policy and cause a meltdown – or simply decide to take people's bitcoins away from them.

2. it's easy to set up

Conventional banks make you jump through hoops simply to open a bank account. Setting up merchant accounts for payment is another nightmarish task, beset by bureaucracy. However, you can set up a bitcoin address in seconds, no questions asked, and with no fees payable.

3. It's anonymous

Well, kind of. Users can hold multiple bitcoin addresses, and they aren't linked to names, addresses, or other personally identifying information. However...

4. It's completely transparent

Bitcoin stores details of every single transaction that ever happened in the network in a huge version of a general ledger, called the **blockchain**. The [blockchain](#) tells all.

If you have a publicly used bitcoin address, anyone can tell how many bitcoins are stored at that address. They just don't know that it's yours.

There are measures that people can take to make their activities more opaque on the bitcoin network, though, such as not using the same bitcoin addresses consistently, and not transferring lots of bitcoin to a single address.

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Cryptocurrency and Bitcoin: What's The Difference?

According to Wikipedia, **cryptocurrency** (or **crypto currency**) is a [digital asset](#) designed to work as a [medium of exchange](#) using [cryptography](#) to secure the transactions and to control the creation of additional units of the currency. Cryptocurrencies are a subset of [alternative currencies](#), or specifically of [digital currencies](#). Bitcoin is itself a “cryptocurrency.” It is the trend setter for all other cryptocurrencies that are in circulation today and attempting to compete with Bitcoin.

Bitcoin became the first decentralized cryptocurrency in 2009. Since then, numerous cryptocurrencies have been created. Bitcoin and its derivatives use decentralized control as opposed to centralized [electronic money](#)/centralized [banking](#) systems.

Bitcoin has not just been a trendsetter, ushering in a wave of cryptocurrencies built on decentralized [peer-to-peer](#) network; it's become the de facto standard for [cryptocurrencies](#). The currencies inspired by Bitcoin are collectively called [altcoins](#) and have tried to present themselves as modified or improved versions of Bitcoin. While some of these currencies are easier to mine than Bitcoin, there are tradeoffs, including greater risk brought on by lesser [liquidity](#), acceptance and value retention. Below are six (6) popular cryptocurrencies that are being mined and traded similar to Bitcoin.

1) Litecoin (LTC)

[Litecoin](#), launched in the year 2011, was among the initial cryptocurrencies following bitcoin and was often referred to as ‘silver to Bitcoin gold.’ It was created by Charlie Lee, a MIT graduate and former Google engineer. Litecoin is based on an open source global payment network that is not controlled by any central authority and uses "scrypt" as a proof of work, which can be decoded with the help of CPUs of consumer grade. Although Litecoin is like Bitcoin in many ways, it has a faster block generation rate and hence offers a faster transaction confirmation. Other than developers, there are a growing number of merchants who accept Litecoin.

2) Ethereum (ETH)

Launched in 2015, Ethereum is a decentralized software platform that enables [Smart Contracts](#) and Distributed Applications (DApps) to be built and run without any downtime, fraud, control or interference from a third party. During 2014, [Ethereum](#) had launched a pre-sale for ether which had received an overwhelming response. The applications on Ethereum are run on its platform-specific cryptographic token, [ether](#). Ether is like a vehicle for moving around on the Ethereum platform, and is sought by mostly developers looking to develop and run applications inside Ethereum. According to Ethereum, it can be used to “codify, decentralize, secure and trade just about anything.” Following the attack on the DAO in 2016, Ethereum was split into Ethereum (ETH) and Ethereum Classic (ETC). Ethereum (ETH) has a market capitalization of \$4.46 billion, second after Bitcoin among all cryptocurrencies. (Related reading: [The First-Ever Ethereum IRA is a Game-Changer](#))

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3) Zcash (ZEC)

Zcash, a decentralized and open-source cryptocurrency launched in the latter part of 2016, looks promising. "If Bitcoin is like http for money, Zcash is https," is how Zcash defines itself. Zcash offers privacy and selective transparency of transactions. Thus, like https, Zcash claims to provide extra security or privacy where all transactions are recorded and published on a blockchain, but details such as the sender, recipient, and amount remain private. Zcash offers its users the choice of 'shielded' transactions, which allow for content to be encrypted using advanced cryptographic technique or zero-knowledge proof construction called a zk-SNARK developed by its team. (Related reading, see: [What Is Zcash?](#))

4) Dash

Dash (originally known as Darkcoin) is a more secretive version of Bitcoin. Dash offers more anonymity as it works on a decentralized mastercode network that makes transactions almost untraceably. Launched in January 2014, Dash experienced an increasing fan following in a short span of time. This cryptocurrency was created and developed by Evan Duffield and can be mined using a CPU or GPU. In March 2015, 'Darkcoin' was [rebranded](#) to Dash, which stands for Digital Cash and operates under the ticker – DASH. The rebranding didn't change any of its technological features such as Darksend, InstantX.

5) Ripple (XRP)

[Ripple](#) is a real-time global settlement network that offers instant, certain and low-cost international payments. Ripple "enables banks to settle cross-border payments in real time, with end-to-end transparency, and at lower costs." Released in 2012, Ripple currency has a market capitalization of \$1.26 billion. Ripple's consensus ledger -- its method of conformation -- doesn't need mining, a feature that deviates from bitcoin and altcoins. Since Ripple's structure doesn't require mining, it reduces the usage of computing power, and minimizes network latency. Ripple believes that 'distributing value is a powerful way to incentivize certain behaviors' and thus currently plans to distribute XRP primarily "through business development deals, incentives to liquidity providers who offer tighter spreads for payments, and selling XRP to institutional buyers interested in investing in XRP." One distinct thing about Ripple is its investment strategy to ride the small economy "[ripples.](#)"

6) Monero (XMR)

[Monero](#) is a secure, private and untraceable currency. This open source cryptocurrency was launched in April 2014 and soon spiked great interest among the cryptography community and enthusiasts. The development of this cryptocurrency is completely donation-based and community-driven.

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Monero has been launched with a strong focus on decentralization and scalability, and enables complete privacy by using a special technique called 'ring signatures.' With this technique, there appears a group of cryptographic signatures including at least one real participant – but since they all appear valid, the real one cannot be isolated.

The Bottom Line

Bitcoin continues to lead the pack of cryptocurrencies, in terms of market capitalization, user base and popularity. Nevertheless, virtual currencies such as Ethereum and Ripple which are being used more for enterprise solutions are becoming popular, while some altcoins are being endorsed for superior or advanced features vis-à-vis Bitcoins. Going by the current trend, cryptocurrencies are here to stay but how many of them will emerge leaders amid the growing competition within the space will only be revealed with time.

How To Buy Bitcoin

Now that you know some history about Bitcoin, how they are produced and, in general, the landscape of cryptocurrency, let's delve into the steps to buy some Bitcoin.

The first step is to take it slow to start. Bitcoin can be and often is more volatile than the stock market, although very strong and earning huge returns for those who buy and hold on to the coins or understand how to trade with them.

Start with one Bitcoin or even less. They can be purchased in fractional amounts which you can use to monitor and determine if the Bitcoin investment road is for you. Like any investment, it is always wise to test, test, test before you launch in big way.

In addition, like any other investment, don't use more money or financial sources to buy Bitcoin than you can reasonably afford to lose should there be a upheaval in the market and your Bitcoins take a dive and go from high to very low. Remember, it's very similar to trading in stocks and comes with no guarantees. This is not to say investing in Bitcoin is more likely to lead to loss than investing in any other investment vehicle.

Personally, I have never lost when investing in Bitcoin and quite frankly have enjoyed return on investments of well over 25% returns whereas I've lost my shirt investing in funds trusted to Wall Street investor advisors. This is an opinion based on personal experience. Take it for what you feel it's worth should you decide to invest in Bitcoin.

So How Do You Buy Bitcoin?

You can buy bitcoins from either exchanges, wallets, or directly from other people via various marketplace avenues

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You can pay for them in a variety of ways, ranging from hard cash to credit and debit cards to wire transfers, or even with other cryptocurrencies, depending on who you are buying them from and where you live.

First, get yourself a bitcoin wallet or open an account with a bitcoin exchange.

You will need a place to store your new bitcoins. In the bitcoin world, they're called a "wallet" or an "exchange."

A bitcoin wallet site is a service that allows you to store your bitcoin securely. It is used simply to buy bitcoins and from there one can sell them as well. A wallet cannot be used to exchange Bitcoin for other types of cryptocurrency such as Bitcoin to Litecoin or Litecoin to Ethereum .

One word of advice when searching for a bitcoin wallet site for your own bitcoin; always choose one with **multi-signature** security.

The reason why you **must** choose multi-signature security is because the bitcoin wallet service will only hold one private key while you will hold two private keys. Private keys are what you need when wanting to spend or send your bitcoin. Multi-signature security requires more than one key for your bitcoin to be spent, so a 2 of 3 multi-signature scheme would require both you and the service to sign 1 private key each or 2 out of the 3 for the transaction to occur. The 3rd private key is usually held as a backup key or given to a trusted person.

Now, to get to why this security aspect is so important: if the service is hacked or bankrupt or disappears... **they don't disappear with your Bitcoin!** That's because this wonderful technology would require two keys to be used for them to move your bitcoin... and since you have two keys and them only one, then well, they can't!

Think of a wallet the same or similar to a bank account. This is where you can store your bitcoin once it is purchased. There are wallet companies that will allow the creation of an account and you store your bitcoins there. Unlike money in your bank, the great thing about bitcoins stored in a wallet is they are sensitive to the bitcoin market.

What this means is the value of each of your bitcoins in the wallet will rise or fall on a daily basis depending on what the market value dictates a bitcoin value to be. For example, if you bought a bitcoin for \$1,000 today and tomorrow the value goes up to \$1200, which would not be uncommon, you are now credited with \$1200 value in your bitcoin wallet account. You could sell it and would have immediately gained \$200 in profit in 24 hours. Try doing that with a bank. Conversely, should the market of bitcoin dip to \$800 you suffered a loss of \$200. Bitcoin's history within the last two years has only been steadily increasing.

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Depending on the security levels you want, different wallets will provide different levels of security. Some act like everyday spending accounts and are comparable to a traditional leather wallet, while others tout military-grade protections.

The main options are: (1) a software wallet stored on [the hard drive of your computer](#), (2) an online, web-based service or (3) a 'vault' service that keeps your bitcoins protected offline or multisig wallet that uses a number of keys to protect the account.

Most have their vulnerabilities: if you store bitcoins locally on your computer, make sure you back up your wallet regularly in case the drive becomes corrupted; and online web wallets employ varying degrees of security against hackers, from quite good (multi-factor authentication) to quite poor (ID and password).

A bitcoin exchange is a website that handles the trading of bitcoin to [fiat](#) or other cryptocurrencies such as Litecoin or Ethereum. They can be used also for other and more sophisticated transactions where trading bitcoin for other property and etc. can be utilized. Wallets are not designed for this type of transaction.

In practice, the major [wallets](#) and [exchanges](#) handle both types of accounts. So opening an account with one can serve two different purposes. If you are simply going to buy and sell bitcoin a wallet may work well for you. If your strategy is to trade between types of cryptocurrencies or transfer bitcoin in exchange for property and sales of things that aren't bitcoin then an exchange would likely serve your purposes better.

Warnings about exchanges, wallets and banks

Despite the proof of identity requirements, remember exchanges and wallets don't provide the same protections banks do.

For example, there is often no or limited insurance for your account if the exchange goes out of business or is robbed by hackers, such as was the case with the infamous failed exchange [Mt Gox](#).

Bitcoin does not have legal status as a currency in the entire world, ***although this status is rapidly changing***, and authorities usually do not know how best to approach thefts. Some larger exchanges have replaced customer funds after a theft from the exchange itself, but at this stage they are not legally obliged to do so.

More recently, exchanges like [Coinbase](#) have removed the worry about recovery of bitcoin loss in case of a hack, employee theft or loss through bankruptcy.

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This U.S. based exchange/wallet is insured by Lloyds of London for such losses, which should give any bitcoin exchange or wallet holder a significant level of comfort.

What is not covered under any insurance policy is if a theft from your personal wallet occurs due to a security or password lapse on your part, you do not have any guaranteed way to recover your funds.

Face-to-face or 'over-the-counter' (OTC) trades

If you live in a city, prefer anonymity or don't want bank hassles, the easiest option to acquire bitcoin is to make a face-to-face trade with a local seller.

[LocalBitcoins](#) is the primary site where such transactions are arranged and prices negotiated. The site also provides an escrow service as an added layer of protection for both parties.

There are security [considerations](#) for both buyers and sellers, especially if the trade is a sizeable one. Always meet in a busy public place, don't meet in private homes and take all the precautions you'd usually take when walking around with large amounts of cash.

Remember, if you're meeting face-to-face somewhere, you'll need to have access to your bitcoin wallet. Whether it's a smartphone, tablet or laptop, you'll also need live Internet access to confirm the transaction.

If one-on-one trades aren't your thing, check out [Meetup.com](#) to see if your area has a bitcoin meetup group, where you can do it all in a group setting and learn a lot from the other members in the process.

Bitcoin ATMs

Another source for purchasing bitcoins is ATMs. They are growing rapidly across America and globally around the world. More are on the way, from a number of different vendors including [BitAccess](#) and [Coinatmradar.com](#)

Like a face-to-face exchange but with a machine, you insert your cash and either scan your mobile wallet QR code or receive a paper receipt with the codes necessary to load the bitcoins onto your wallet.

Exchange rates vary, and may be anything from 3% to 8% on top of a standard exchange price.

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Buying bitcoins can be confusing but is getting easier day by day. The good news is the number of options are increasing and the opportunity to be involved in this breakthrough finance and investment opportunity is available to anyone willing to learn about the concept and take the necessary steps. It can lead to financial independence very quickly if done in a prudent and safe manner.

Is Bitcoin Safe?

The Legality of Bitcoin

Bitcoin has created quite a storm in the global financial world and in many circles a lot of questions about the legality of bitcoins. This concern and the questions often are association with misunderstanding about how bitcoins can be used and the fact that bitcoins are not a physical product at all. They are electronic. Although there are pretty pictures showing images of bitcoin, that is all they are “pretty pictures” they are concepts of bitcoin.

Bitcoin transactions do not lend themselves to easy traces and openness like money and paper currency transactions and thus often are looked at by government regulators with a high degree of concern that they can be used to support illegal activity such as money laundering.

This has caused many would be bitcoin buyers, sellers, traders, and investors to ponder and wonder “are bitcoins legal” along with the inquiry is bitcoin safe?

The various legalities and pundits about the rules and regulations that apply to bitcoin are beyond this “Ebook.” Nevertheless, the answer to whether bitcoin is legal is a definite “yes.” There are however a handful of countries (small) that have not yet embraced the fact that bitcoin is a viable, sustainable and helpful means of accommodating and helping to sustain economies.

Countries that have determined bitcoins are legal and can be used the same as money or paper negotiable instruments are contained in a [list](#). Refer to it when determining where you might want to engage in bitcoin activity.

Bitcoin Transaction Safety

Investing in bitcoin should be no different from any other prudent investment decision. Do your homework, learn the history, the market, study charts, make sure you can absorb the loss of the investment if it goes sideways, and then decide to buy it or not for whatever reason you have in mind.

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First, have a thought out reason for purchasing bitcoin. Have a clear strategy why you are starting and have a clear strategy for afterwards.

Begin with the end in mind. Have a purpose and mission for your actions. If your purpose and mission is solely to make a profit and get out then stick to that purpose. Don't get side tracked with all the bells and whistle that will certainly come to attract your attention otherwise. Also remember, there is no trader or investor who never loses, at least sometimes. The equation is simple. If profits are your goal, get the total profits to be higher than the total losses. This is one of the best ways to make bitcoin buying a safe transaction.

Another way to look at the safety and assurance of bitcoin is "who is trading and being active using bitcoin as a substantial part of their business?" If there are large international companies using bitcoin as a means of payment and trade that strongly suggests that bitcoin is viewed as safe and viable. Some companies that now accept bitcoin the same as dollars for transactions are:

- Amazon
- Subway
- Victoria's Secret
- Fiverr
- Zappos
- Tesla Motors
- Home Depot
- Sears
- Kmart
- Expedia

The above is just a small representative list of the more than 100,000 companies that now accept bitcoin for payment transactions worldwide.

If you are about to become involved in Bitcoin, remember, Bitcoin lets you exchange money in a different way than usual banks. Bitcoin should be treated with the same care as your regular wallet, or even more in some cases.

Securing your wallet

Like in real life, your wallet must be secured. Bitcoin makes it possible to transfer value anywhere in a very easy way and it allows you to be in control of your money. This, of course, comes with great security concerns.

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However, Bitcoin can provide very high levels of security if used correctly. Always remember that it is your responsibility to adopt good practices in order to protect your money. Review the security features of any wallet you decide to open before doing so.

Bitcoin price is volatile

The price of a bitcoin can unpredictably increase or decrease over a short period of time due to a number of factors, including illiquid markets. Consequently, keeping your savings with Bitcoin is not recommended as a stand along financial strategy. Bitcoin should be seen as a high risk asset, and you should never store money that you cannot afford to lose with Bitcoin. Once you receive payment or gain an increase from your bitcoin trading or investment you should seriously consider converting your bitcoins into money by transferring from your wallet to your bank account or selling them to another bitcoin buyer for equivalent cash.

Bitcoin payments are irreversible

Be careful with bitcoin transactions. Any transaction issued with Bitcoin cannot be reversed. They can only be refunded by the person receiving the funds. That means you should take care to do business with people and organizations you know and trust, or who have an established reputation. Bitcoin can detect typos and usually won't let you send money to an invalid address by mistake.

Making Money With Bitcoin

Bitcoin Faucets

The first and lowest risk way to make money with Bitcoin is starting your own [Bitcoin faucet](#). This concept is simply a website you set up which gives away bitcoins in exchange for visiting your website and take a specific action or for spending a certain amount of time on the website. The way you make money is to charge for the ads and banners that advertisers will gladly post on your website and pay you a specific amount of money for those ads.

These ads are designed to attract and market to the people that come to your site. You invest a certain sum of bitcoin into the faucet and then pay it out in very low increments called a Shitoshi . The money you make with the site will hopefully be more than you have to payout and from that profit you can purchase bitcoin. The faucets are simple and work but they do require a substantial amount of work and the return may or may not be worth the effort and expense. Nevertheless, bitcoin faucets are popular and are a proven way to get involved in making money with bitcoin. [Here is list of bitcoin faucets](#) to review for informational purposes.

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ARBITRAGE BETWEEN DIFFERENT EXCHANGES

This one is a bit higher risk than starting your own Bitcoin faucet but the reward increases significantly. Arbitrating between Bitcoin exchanges works the same way arbitrating works in any other markets. Popular exchanges to arbitrage between are BTC-E, Bitfinex, Bitstamp, and Coinbase. There is usually a spread of a few dollars in either two of those exchanges so buying Bitcoins from one exchange and selling it on another can earn you a few percent on your holdings.

The risky part comes in the form of Bitcoin market volatility. Because buying Bitcoins from exchanges takes a few days if the market moves significantly one way then you can potentially lose any margin from the arbitrage. Some exchanges like Coinbase offer instant buy up to a certain amount so using that feature can reduce your risk threshold for arbitrating, but with the low limits you can only make so much.

LEND BITCOINS FOR PROFIT

Yet another way to make money with Bitcoin - this one about as risky as arbitrating - is lending your Bitcoins using person to person lending services like BTCJam or Bitbond. As an investor you are expected to earn anywhere from 10-14% back on your investment per year depending on the type of investment strategy you use. Furthermore, you can visit the [Lending](#) section in Bitcointalk and lend Bitcoins for some sort of collateral, sometimes the collateral can be Altcoins which you can turn into profit.

While companies do all in their power to verify user's credit history there will always be those that slip through the cracks. There is a risk of fraud as a user can sign up to a lending website using fake or stolen credentials, while the risk of that happening is low it still must be taken into account.

BUY AND HOLD FOR PROFIT WHEN SELLING

Buying a holding bitcoin is another strategy to make money. This one is fairly simple and straightforward. Let's say you purchase \$10,000 in bitcoin today and each bit coin is valued at \$2000 each. This would mean you purchased 10 bitcoins. The market in bitcoin is very volatile but in recent months at the writing of this report (June 2017) has been steadily climbing, even after slight dips here and there. If your strategy is to buy and hold you could simply wait until the bitcoin reaches a value of say \$2500 or \$3000 per bitcoin and then sell the bitcoin or have your bitcoin value transferred immediately into your bank account. Whatever the value of the bitcoin is at either of those moments is what you will receive. If the value is \$3000 at the time you earned a healthy profit of \$10,000 the difference between what you paid and what the value of the bitcoins are at the time of selling or transferring to your bank account.

The downside to this strategy is it takes a few days sometimes to convert the bitcoins from an exchange or wallet and between those times the value of bitcoin could conceivably fall significantly and on the day it is "actually" transferred it could be less than \$3000 per bitcoin. It could also be higher. If the bitcoin is sold person to person however, the transaction would take place immediately.

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Understanding the bitcoin market and how to buy and sell could make this strategy worthwhile.

SELL BITCOINS ON LOCALBITCOINS

A less risky way to make money with Bitcoin is selling them on Localbitcoins. There is a robust market on Localbitcoins for buying and selling bitcoins. You may be surprised to find out that Localbitcoins isn't only good for finding buyers and sellers locally but it's good for converting Bitcoin to other payment methods. Customers are willing to pay high premiums of up to 15% to be able to buy your Bitcoins using alternative payment options such as PayPal, Amazon Gift Card, Venmo, Netspend, etc. It goes without saying that accepting PayPal or Amazon Gift Card presents a huge risk for a chargeback or gift card deactivation due to potential fraud.

Using a Localbitcoin strategy for making a profit with bitcoins should be used with great caution when dealing with someone using a PayPal or gift card manner of payment for the reasons stated above.

MINDING BITCOINS

When bitcoins were created there was great opportunity for persons with computer savvy to create a mining operation using a computer and some other hardware to create bitcoins for which they would be paid. In 2009 a bitcoin miner could "mine" as many as 200 bitcoins in a day. With bitcoin value now at \$2000 at the writing of this EBook, the value of those bitcoins, if held, is now \$400,000.

Since 2009 that has changed. Due to the tremendous volume and trading in bitcoin, bitcoin mining is no longer as attractive and certainly no longer as lucrative as it was when bitcoin first started. Mining for one just one bitcoin now takes a tremendous amount of time and the expense to mine it is prohibitive to most would be miners.

Mining of bitcoin is not so dissimilar to the old days of mining for gold. When the gold rush got started a few people found the gold veins and mined quickly for high returns. As the word got out and others rushed in to seek and find their share of the gold rush, the mining got more difficult and expensive and the rich veins became scarcer, yet demand for gold remained high which drove up the price of gold.

That same analogy applies to bitcoin. Demand is very high for bitcoin, there are many more miners, the cost of mining has gone up and the creation of bitcoins through mining is much less. The scarcer the bitcoins the higher value they bring.

Only 21 million bitcoins will ever be allowed to circulate. This is the total amount of gold, so to speak, that will be mined worldwide. It's already at around 12 million bitcoins and the 21 million bitcoins total will end in the year 2040.

[Investopedia](#) provides a general background on the bitcoin mining. If you are interested in learning more about mining as a method to earn money from bitcoin you should visit the site.

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CLOUD MINING ALTCOINS

This is the most risk way to make money with Bitcoin. Using your Bitcoins you can rent hashpower on sites like [Miningrentals](#) or [Nicehash](#). You can rent rigs running all sorts of hashing algorithms suited for all types of Altcoins. You can use a website like [Coinwarz](#) to determine which coins are profitable to mine, but if you are a real risk taker another way of profiting off of cloud mining is mining newly launched coins. If you visit the [Altcoins Announcement](#) section on Bitcointalk you can find daily announcements of new altcoins launched every day. A word of advice is don't get too excited as a very small percentage of the coins released actually succeed and hold their value. Also beware of malware being distributed as wallet software when downloading any files from the forum.

Renting cloud mining rigs can be a fun and profitable activity if you do your research before choosing to invest into any altcoin. However, don't make the mistake of renting cloud mining rigs which promise daily payouts on an arbitrary formula as those are 99.9% ponzi schemes. Only rent mining rigs which you have control over, rigs rented on Miningrentals allow the use of custom mining pool and the selection of each rig's hashpower and duration.

RETIREMENT FUNDING WITH BITCOIN (IRA AND 401(k) INVESTING

More recently, bitcoin has become recognized for its potential use in long term planning for retirement purposes and is now in a category similar to mutual funds, stocks and precious metals when considering ways to make money using retirement vehicles.

A Bitcoin IRA works pretty much like other types of IRAs. You fill out a form and you invest. You can invest in a traditional IRA (with pre-taxed assets) or a Roth IRA (with after-taxed assets) if you're under 70 ½. Remember, you can't take distributions in either type of IRA – a traditional or Roth – without a penalty unless you're at least 59 ½. Generally, employees invested in their employer's 401K are subject to the same penalty if they take distributions before they're 59 ½.

Whether you have a 401K (through an employer) or an IRA, it would have to be explicitly self-directed for you to earmark it for bitcoin investment. Incidentally, this is also true of precious metals or collectible investments. In other words, as a plan participant, you get to choose the investment vehicle. Although this provision is changing in many 401K plans, most plans still specify a choice of only particular types of investments – usually stocks or stock funds.

Nobody can predict the future value of any investment. At this juncture, bitcoin is speculative. But given the rapidly increasing acceptance of bitcoin worldwide, its value can increase rapidly. Since its inception, we've already seen evidence of this. Under the circumstances, your IRA or 401K bitcoin investment could turn out extremely profitable over time – especially after you factor in your tax savings. (For related reading go to: [Top Alternative Investments for Retirement](#))

As with IRAs or 401Ks in precious metals or collectibles, a bitcoin IRA is handled through a custodian. Since bitcoin IRAs and 401Ks are a recent development in the financial community, only certain custodians will handle them.

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Adding bitcoins for retirement purposes should be a consideration for those thinking ahead for retirement. [Check out this site for more details.](#)

Taxation of Bitcoin Profits

Government taxes and regulations

Although bitcoin is not an official currency, the profits from trading and investing in bitcoin is nevertheless considered income. Most jurisdictions, including the U.S., require you to pay income, sales, payroll and capital gains taxes on bitcoin transactions.

Make sure you do the things necessary to comply with the taxation rules and regulations of your government, locally, statewide and nationally with your bitcoin activities.

Within the U.S., the IRS has concluded that bitcoin falls into the category of “property” and therefore view tax reporting responsibility on the basis of reporting income as a property transaction.

If money is made from mining bitcoin that would be classified as business income and would be ordinary income for tax purposes just like selling a widget and getting paid for it in a widget business. The gross amount of income would be subject to ordinary income tax rules less reasonable expenses and cost of goods to produce the gross income.

If you buy and sell bitcoin and then hold it or use it to purchase property it will be treated as a capital gain asset. As such, you must pay the taxes on the profits as a short term capital gain if held for less than one year and must pay long term capital gains if the property or bitcoins are held for more than a year and profit is realized. [Investopedia](#) outlines the various taxing scenarios under the above circumstances.

The Future of Bitcoin

So what’s next for Bitcoin (BTC)? As outlined previously, it has many advantages and for this reason it will remain relevant as a currency. The vast majority of BTC transactions by volume are made in China, at this time. Japan is very strong in the BTC arena as well and the U.S. market is beginning to become fire hot. Globally Bitcoin is poised to do well despite its volatility. These circumstances will remain interlinked.

Likely the biggest risk to Bitcoin is the possibility and in all likelihood the reality of the substitution and/or parallel use of other cryptocurrencies. Bitcoin enthusiasts claim that this is never going to be an issue since Bitcoin is the pioneer of cryptocurrencies and as such enjoys first-mover privilege.

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However, such an argument does not hold water because although BTC is used for payments, this is only a relatively small percentage of all Bitcoins. One of the primary uses is being a store of value and for this reason other cryptocurrencies can always step in and enjoy similar status if the total demand for cryptocurrencies demands it.

An analogy might be the market share of Coca Cola and Pepsi Cola and then there are others. Coco Cola was first (as is Bitcoin) but because there are different people and therefore different tastes Pepsi Cola was born and has become a very strong secondary soft drink. And then there are several others because people have preferences for whatever reasons – (i.e. 7Up, Mountain Dew, etc.). Ultimately it will likely be no different in the Bitcoin world. There is Bitcoin, now Ethereum, Litecoin and others.

Nevertheless, as the reality and strength of cryptocurrencies emerge and continue to grow, competition will keep them active, strong and profitable.

Like any other financial vehicle there will be wins and losses in Bitcoin and other alternative cryptocurrency coins. The prudent trader/investor will pick and choose when to get in and get out.

Only time will tell what the future holds for Bitcoin. The only certainty right now is that the price will remain volatile in the future but at the time of writing this EBook, Bitcoin is booming and looks like the future is bright.

Conclusion

As can be seen, Bitcoin is a revolutionary currency concept that is changing the way personal, business and commercial transactions are taking place. It is decentralized so that government entities have less control and people have more control of how they transact contracts, trade between each other and how value is controlled. With the mining concept of Bitcoins and other cryptocurrencies there is no control over the amount of currency that might be available except the demand of the market.

The technology upon which Bitcoin is based is also a game changer because of its concepts for security, fluidity and flexibility. This technology is already being adopted by the global financial community.

Bitcoin and the technology upon which it is built and maintained is very likely the next biggest application bestowed upon mankind since the advent of the World Wide Web (The Internet).

Keep up with the latest on Bitcoin and cryptocurrency at www.bitcoinnewsreporter.com .

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