# CRYPTO-CURRENCY CASH-OUT

How to earn from Bitcoin and the digital currency trend.

Somquest

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# Introduction

You've most likely seen mentions of Bitcoin increasing on news and technology sites in the last six months. Bitcoin, along with many others, is a virtual currency, designed to be independent of any individual country or government.

With the ongoing rise in ecommerce and electronic payment forms, it was perhaps inevitable that currency itself would turn digital.

The value of Bitcoin has skyrocketted since it began, which has led to many people getting excited about how they can cash-in on the trend.

This report aims to explain some of the core concepts behind cryptocurrencies, and dispell some of the myths too. We'll also, of course, look at how you can earn money, safely.

## What is Bitcoin

The full technical explanation of how Bitcoin works would take a degree to understand, so we'll stick to the basics that you need to know.

Bitcoin is a currency, which has no affiliation to a country or government. It is a global currency, with the aim of allowing transactions wordwide to be made quickly with minimal fees.

A block chain is used to record all transactions ever made with Bitcoin. Referring to this block chain allows anyone's current balance to be checked. It also ensures that any transactions that are being made are definitely authorized by the individual sending the bitcoins.

Cryptography is used to ensure the block chain cannot be interfered with or become corrupted. In addition, Private Keys (like very long randomly generated passwords) are used on every transaction to act as digital signature for the person spending the bitcoins. This ensures hackers cannot spend other people's money.

The whole system runs on a peer-to-peer network, relying on individuals personal PCs rather than a central data center. This huge collection of individual's computers all process the data needed to ensure the fast running of transactions. This processing is called mining. Highly randomized algorithms are used to ensure that any one person can never possibly predict or know whose transactions they might be processing. This further removes the possibility of abuse.

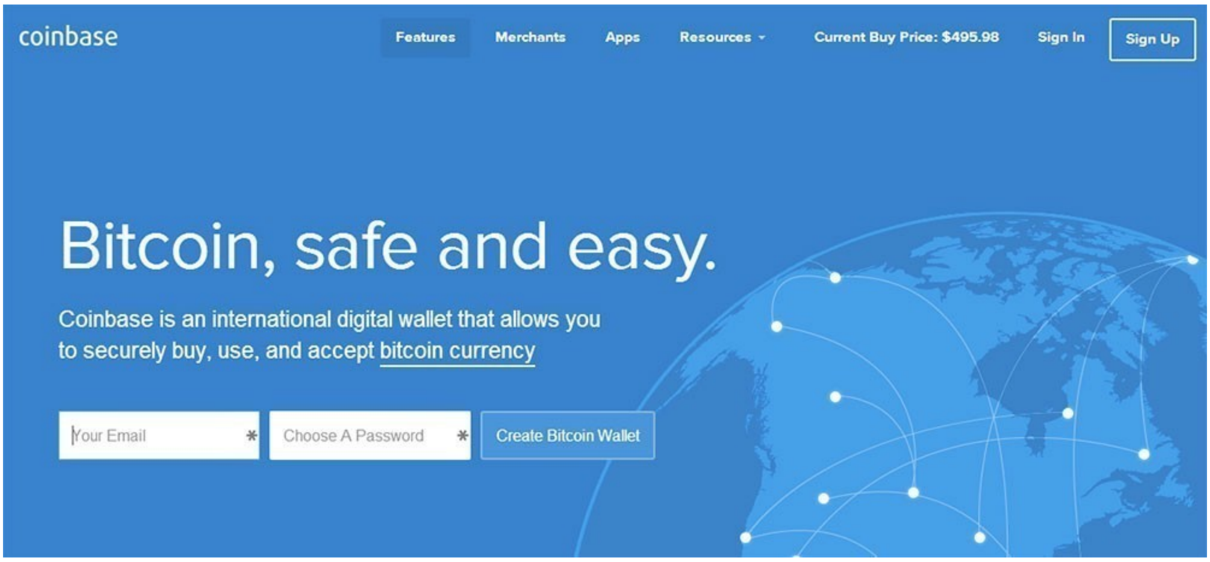
As an incentive to individuals to provide their hardware for performing these services, the mining process also periodically mints new Bitcoins, and rewards them to the owners of mining equipment.

Bitcoin has a defined maximum number of coins that will ever be produced. This keeps the scarcity and desirability in check.

## Acquiring and trading

In order to buy Bitcoins, you need to find yourself an exchange that is suitable for your country.

We've listed many of the most popular options in the Resource section at the end of this report.




You need to look for the following factors:

- Can you easily pay them for the coins from your account or do they require a bank deposit?
- Do they require any ID from you to create an account?
- What fees do they charge, if any?
- Do they include a secure wallet service?

## Tracking values

Bitcoin has its own currency code, which is XBT. Many currency conversion tools are beginning to add this to their functionality now that it has become so popular.

There are also many dedicated Bitcoin conversion websites and apps.

As well as checking the current value of Bitcoins, you may also want to see charts of how it has been performing up to now. There are several sites that provide this – and we've listed the main ones in our Resources section.

## Wallets and Cold Storage

In order to own bitcoins, you need to have a virtual wallet in which to store them. When you wish to recieve bitcoins (e.g. when you first buy them by exchanging another currency) then your wallet will create a new wallet address, which acts like an email address. You provide this address to your currency exchange, and they use it to send your bitcoins.

Wallets can be stored online in the cloud, or locally on your own computer. Just like a physical wallet, if your digital wallet is lost (and there is no backup) then the currency you had within it is also lost. There are pros and cons for each method.

**Cloud Wallet**

Some sites, such as CoinBase and CoinJar offer a combined exchange and wallet service, which can save you a lot of time.

Cloud-based wallets are marginally more vulnerable to attack by hackers. This is due to them being connected to the internet the whole time, and being well-known organisations (i.e. prime targets). However, most of them are fully aware of this, and employ strict back-up polices to protect from hacking and system failures.

**Local Wallet**

Storing a wallet on your local computer can protect you from hackers. However, if you still use the computer to connect to the internet, you are still vulnerable to attack. However, you are a much smaller target for hackers to consider.

Most desktop wallets require the bitcoin block-chain to be downloaded in order to function, which is a very large download when you initially install the software.

**Cold Storage**

This term was created to refer to when you isolate your wallet from any internet connection. You may place it onto a portable hard drive or USB stick, or another computer that is never connected to the internet.

This protects your funds from any kind of hacking or viral infection. However, it doesn’t protect it from hardware failure, physical theft, loss, accidental damage or natural disasters unless you take further steps, such as placing it in a fire-proof safe, etc.

It also means that your funds are not readily available to spend, until you return the wallet to your internet-connected computer.

## Emerging Usage

Whilst Bitcoin has made a lot of sense to many people since it was first launched. It has taken until recently to become mainstream enough to see real-world applications.

Initially, it was accepted by only very tech-savvy websites. Unfortunately, by nature some of these were less than reputable by nature.

An ever increasing number of online stores are starting to accept Bitcoins. This includes some of the major gift-card retailers, which means you can (in a sense) use Bitcoins to pay for items from any number of stores that don't directly take the currency.

About a dozen ATMs that will dispense local cash converted from Bitcoin accounts have also been unveiled. The first was placed in Canada in October in 2013, and more recently the first such ATM in Australia was placed in Sydney.


There are also a number of apps that allow websites to accept donations or tips in Bitcoin form.

## Bitcoin and the press

It’s fair to say that Bitcoin has suffered of late from damaging events regarding security and regulation. Some of the major concerns are surrounding:

- Successful Bitcoin thefts from wallets stored online
- Major Bitcoin exchanges becoming insolvent
- Countries moving to enforce bans or restrictions
- Regulation being introduced surrounding Bitcoin usage, tax and so on.

However, all of these factors have not caused a collapse of the currency, and it is still worth twice what it was six months ago.

## Alternatives to BitCoin

Whilst BitCoin certainly takes the limelight when it comes to the press, there are dozens of up-and-coming alternative digital currencies.

There are slight differences in how each one works – with unique features helping to justify their existence and explain why they might be the next big thing – they are essentially very similar to BitCoin in most respects.


Many traders favour these alternatives (often referred to as ***alts***) as they are younger, less saturated and less well-known.

The reason these attributes are appealing is because a lesser known currency's price is less likely to overreact to breaking news, and can therefore be traded with more predictability.

It also means the price per coin is low, and the scope for supersonic growth (as occurred with BitCoin) is still a possibility.

Most of these alternative currency prices will react in relation to the performance of BitCoin, at least to some degree. This is because BitCoin is seen as the flagship cryptocurrency, and faith in that equals faith in the concept in general.

However, some BitCoin drops are due to specific problems surrounding that currency (that don't apply to others) and this can actually cause a rise in alt prices.

## Making Money with Cryptocurrencies

### Investment

Given the exponential growth in the value of 1 Bitcoin in the year since it launched, many people have made money simply through investment.

If for example you purchased 1 Bitcoin in April 2013, it would have cost you in the region of $100. In April 2014 that 1 Bitcoin would be worth $500. You could sell it and walk away with around $400 in profit (minus any buy/sell fees and inflation loss on the original investment).

Going back further, if you'd bought that 1 Bitcoin in April 2012, it would have cost you in the region of $5. As you can see, being able to turn $5 into $500 in two years is an unprecendented opportunity.

As with any investment, there is always a risk. Some experts state that Bitcoin has survived enough damaging events to be considered safe from a total collapse. But as recent events have shown, hacking, data errors and government policies all have an impact on the trading value of Bitcoin. The right combination of significantly troubling events could still cause the value to bottom out and never recover.

Others believe that the biggest threat to Bitcoin is another crytocurrency surpassing it as the go-to digital currency of choice.

Regardless of all these what-ifs, the majority of people making money with Bitcoin are doing so by simple investments and the buying and selling of the currency.

## Playing the Exchanges

Another tactic that has been recently mentioned, is what we've called playing the exchanges.

Here you are simply buying and selling a single currency, but you are doing so very quickly and you are selling on one exchange and buying on another.

The idea here is that different exchanges, at any given moment, provide different buy/sell prices for a currency. This is because some exchanges set their own prices, and some take their prices from another authoratitive source. Also, different exchanges might update their prices at different intervals, so one might lag behind another.

Let’s say you hold Bitcoins on one exchange whose values tend to be higher, and whose prices react very fast. You’ve also singled out another exchange that is more conservative in their valuations, and are slower to react to big changes in price.

For our example, let’s say the price has been hovering around $490 per Bitcoin for a while on the first exchange. And the more conservative exchange has them at $480.

You wait until you see the price rising – and you sell your Bitcoins on the first exchange. Let’s say they’ve jumped up to be $495 each. You then move over to the second exchange, and buy the same amount of Bitcoins back – before their price has had a chance to start moving with the trend. Their price may still be at $480, which means you’ve gained $15 per Bitcoin, but still own the same number of Bitcoins.

With a normal currency, this method would rarely be considered, because there is *always* a gap between what an exchange will buy for, and what they will sell for. This is simply how currency exchanges work, and is how they earn their revenue.

However, with Bitcoin and other emerging cryptocurrencies, their values can change so fast and so significantly, that there is a much higher chance of you finding a buy/sell price combo that will leave you in profit. This is added to by the relative youth of the exchanges, and the fact that they don't all operate by the same internal rules.

However, there are still several flaws with this method.

- It's super high-risk. Windows of price difference can close very quickly – especially with such a fluctuating currency value. Plus you are putting into play a large amount, for only a small potential gain.
- Some exchanges also charge transaction fees, on top of the buy/sell divide. This could further reduce or nulify any profit margin.
- Transactions are not instant. Often transactions can take hours (or even days) to completely go through. Windows of opportunity are not likely to last that long.
- You may need additional capital. Because many exchanges use account balances – your initial sale of coin would go into your balance, which you then need to withdraw to your own coin wallet. You would then need to reverse the process to load the account of the second exchange where you wish to make the buy. It's entirely

likely that this would take too long, so you would need to have funds ready loaded in the second exchange.

- Your funds end up in the exchange that is more conservative, so if you ever try to move your holding back to the first exchange (e.g. to try it again) you are likely to reverse some of the gains made originally.
- At the end of it all, you are still only left holding virtual currency, and hence any profit remains virtual too. If the price drops shortly after the buy/sell operation, so will any profit margin you had.

## Playing the Currencies

As we've mentioned before, there are dozens of cryptocurrencies in existence besides Bitcoin. Many experts will hold portfolios of several different currencies at any given time.

By keeping a close eye on each one, they learn to know when a given currency is peaking (has risen, and is likely to fall soon) and when one is in a trough (has fallen, and is likely to rise soon).

Cryptocurrencies (at the present time) tend to behave more like stocks than traditional currencies. Therefore, they are subject to the peaks and trough patterns that stocks often follow. When the price of a stock rises, people are tempted to sell in order to cash in and profit from their holding. When enough people sell, the price turns and falls. Likewise, when it falls, people see an opportunity to buy at a cheap price. When enough people do this – the price rises. This pattern tends to continue until something major causes a significant leap or drop in the price.

Unlike stocks however, cryptocurrencies are not companies, and don't have products or customers. This removes some of the less predictable elements, and makes it somewhat easier to predict their rise and fall.

By swapping their holdings between currencies (buying when low, and selling when high) it is possible to quickly increase the overall value of your portfolio. However, it does require a lot of upfront research, and then constant surveillance of the prices. Plus, of course no single individual can ever predict the future with certainty, and there are still significant risks involved.

## Dividends

Some currencies you may come across, are in fact more stock than actual currency. Some exchanges or forums related to cryptocurrency might launch their own currency, and with it offer dividend payments. The cash raised by this inital sale is treated like an investment in the company and helps to keep them running. The dividends are a way of tempting new buyers.

Similar to stock dividends, these are payouts to all current holders of the currency. For example, one particular entity might set aside 30% of all profit to be assigned to dividends and returned to currency holders. This is done in proporiton to the value you own.

These dividends are payable to you as long as you hold the currency. But you are not obliged to retain it, and can sell at any time. As with stocks, the price can also rise and fall over time.

Unless you are investing significant amounts, it's unlikely that dividends alone will provide much of an income boost. However, they are a nice addition to any investment currency that offers them.

## Binary Options

With binary options, you never actually buy or sell the currency itself. What you are doing essentially is placing a bet on how that currency is going to perform.


Binary options have been around for some time, being executed on stocks, commodities and regular currencies. With the rise of Bitcoin, some of the more tech-savvy binary options brokers are adding Bitcoin to their offerings.

A typical example of a binary option trade might be as follows:

- You invest $100 on your trade.
- You choose to trade on the value of Bitcoin
- You choose an expiry time of 5 minutes
- The broker offers a 90% return.
- You then decide whether the value of Bitcoin is going to be higher or lower by the end of those 5 minutes.
- For our example, lets say we think it will be higher.

The moment you hit go, the value of Bitcoin is recorded, and five minutes later, your trade closes and the new value is checked. If the value of Bitcoin is higher, like you predicted, then you get a payout of $190 (your original $100, plus the 90% return promised by the broker).

If the value had actually gone down, your trade would have failed, and your $100 would be lost.

This might seem like a very tempting opportunity, given the high rate of return possible, and odds that appear to be around 1 in 2 of winning. However, if you dig deep into the graph of something like Bitcoin to see historically what it has done within any given 5 minute window, you might be surprised.

When you stand back, the Bitcoin charts seem to be mostly rises, with a few major drops dotted in. But in reality it is constantly rising and falling – it's just that the rises are ultimately bigger than the falls.

Some brokers offer practice accounts, where you can make dummy trades to see how you would have performed. These are invaluable go give you a sense of how things might go.

Experts say that Binary Options trading without informed advice is just like playing heads or tails. And that you should only make trades based on real signals. (For example, if you see a news article appear online mentioning another Bitcoin hacking disaster – you might want to hop on and place a trade on the price going down.)

Other trades might be available, some of which might be more long-term. Example: In one month's time the value of Bitcoin will be above $600. Yes or No? (At the time of writing, Bitcoin is trading at $492.)

Different brokers have different criteria in terms of minimum account balances and minimum trade values. All brokers tend to offer some kind of incentive or exclusive options in order to encourage you to sign up with them. Some might offer insurance on your first trade (i.e. you get your money back even if you lose) or they might offer bonus credit for your balance, etc.

So it is important to shop around for ones that might suit you. Take a look at the Resources section at the end of this report for some useful links to brokers.

## Mining

As we mentioned before, Bitcoin (and most other cryptocurrencies) can be mined by using your own hardware to assist the peer-to-peer processing of Bitcoin transactions.

Whilst it is technically possible to use a reasonably powered desktop computer to mine for coins, it is not recommended.

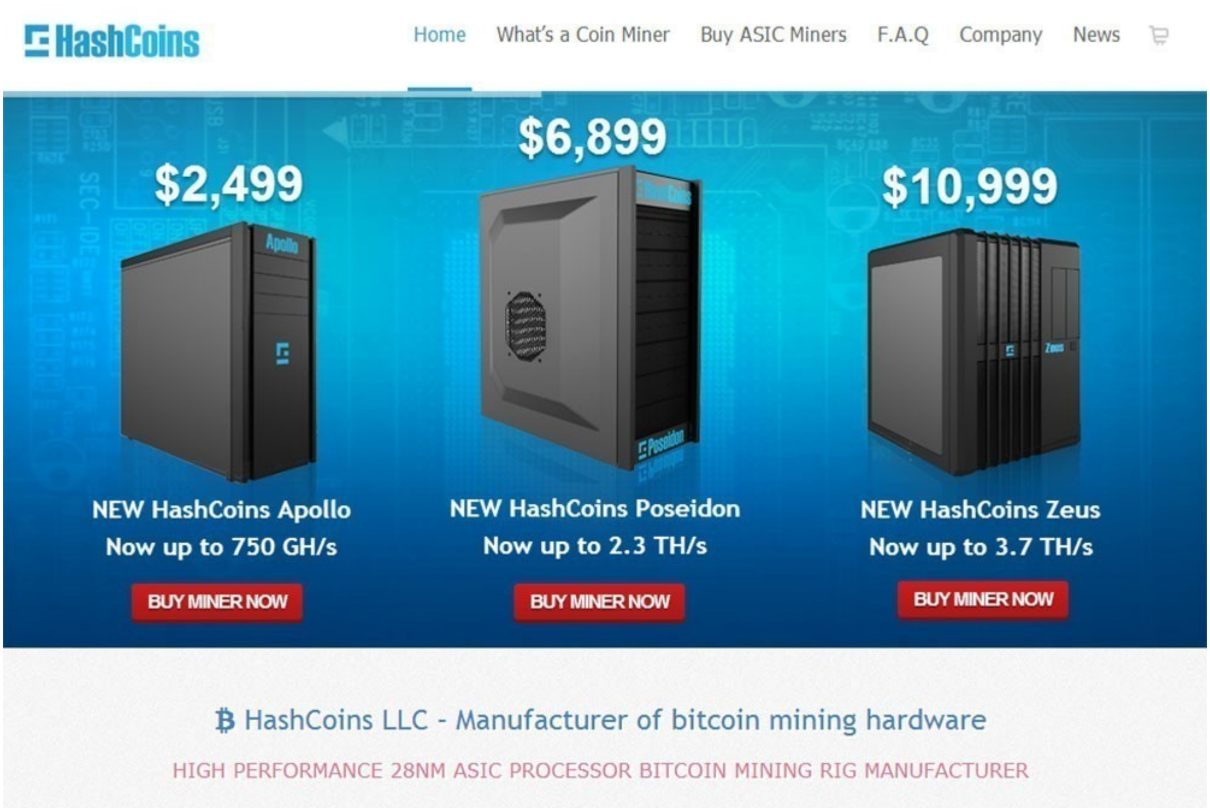
Mining involves running through extremely complex operations, the nature of which require graphical processors in order to complete them in anything approaching a reasonable timeframe.

Even with a decent gaming PC with above average specifications, your rate of mining (i.e. the number of coins you can expect to earn in a given time) will be far outweighed by the cost of you doing so (primarily in electricity costs, and secondarily by depreciation in your hardware).

Even if the value of the coins has recently jumped up to a new high – this won't improve matters, because the complexity of the operations tends to increase in-line with the value of the currency. The only way you can earn big from home mining, is to be out of pocket for the electricity costs now, in the hope that the few bitcoins you earn are worth signigicantly more in the future.

**Dedicated Mining Hardware**

For these reasons, mining is only really performed successfully by dedicated hardware that has been specifically designed for the task. These machines are optimized to perform mining as quickly and efficiently as possible – *and nothing else*. They are not regular computers that you can use as normal.




Serious mining professionals might run a farm of such devices, and the complexity of the setup is out of reach of most people.

**Hiring Mining Hardware**

Some companies allow you to hire mining hardware. The machines remain in their server center, but their output is dedicated to you. Again, the fees for this can be costly, and there is often a minimum-term contract involved.

The pros and cons of renting vs. buying are very similar to those of renting a regular appliance such as TV.

It will be cheaper to start with, and despite your total commitment (given the minimum contract length) it can still give you some form of a get-out clause before you've spent the same amount as you would have for owning hardware.

The flipside is that eventually, this model turns around. If you continue with renting indefinitely, you eventually will have paid *more* than if you had originally bought your own equipment. Although you will at least be guarded against hardware failure, and may even see your equipment upgraded over time.

We recommend that you perform rigourous research before making a decision to take up mining seriously.

With the raft of new cryptocurrencies emerging, there may be some that are young enough to mine with a regular PC. But you are banking on that currency later rising in value significantly in order to offset your costs.

## Conclusion

We hope that this report has increased your knowledge of cryptocurrencies and the potential they hold.

Whilst BitCoin has hit the headlines numerous times in recent months, it is still an emerging technology. As such there remains great potential for those willing to put in the research (and risk).

As with any high-risk investment, only commit funds that you can afford to lose. Remember that with most tactics mentioned here, the worst case scenario is not zero profit, but is the total loss of your original investment.