



# Understanding Our Economy

## Making Sense Of Cryptocurrencies

(NAPSA)—Social and traditional media have been abuzz with articles and information about the rising phenomenon of digital currencies. But what does it all mean and should you buy in?

### What Is Cryptocurrency?

Cryptocurrency, or simply crypto, is one type of digital currency. Cryptocurrencies are distinct from “fiat currencies” such as the dollar, euro or yen. Unlike fiat currencies, crypto isn’t represented or organized by physical paper units or coins. Rather, each unit is a unique alphanumeric string of computer code.

Also, cryptocurrencies are not issued by a central bank. Instead, they are controlled by technology that determines how many units are produced and how transactions are recorded. While Bitcoin is one of the earliest and most recognized cryptocurrencies, more than 1,000 cryptocurrencies currently exist.

For U.S. federal tax purposes, cryptocurrency is treated as property, which means selling or exchanging it can have tax consequences.

### Cryptocurrencies and Risk

Buying, selling and using cryptocurrencies comes with numerous risks.

- In some cases, you can spend and trade crypto, but these products are not legal tender in the U.S. and most other jurisdictions. No law requires companies or individuals to accept crypto as a form of payment. If no one accepts a specific cryptocurrency, that crypto will become worthless.
- Platforms that buy and sell cryptocurrencies can be hacked, and some have failed. Consumers can—and have—lost money.
- Cryptocurrency payments are irreversible. Once you complete a transaction, it cannot be reversed.

### Cryptocurrencies and Investing

All investments come with some degree of risk, and cryptocurrencies are no exception. Only invest what you can afford to lose and be aware that you may lose some or all of your investment.

Investing in cryptocurrencies can take many forms, such as purchasing coins in the hope their value increases or buying shares in platforms or companies that facilitate blockchain technology and other aspects of the cryptocurrency revolution in the hope they succeed.

Another way to invest is through an Initial Coin Offering, or ICO. An ICO is a way for companies to raise money that involves the creation and sale of digital tokens. A certain number of these



**Cryptocurrency is a digital representation of a stored value secured through cryptography, a mathematically intensive encryption process designed to enhance data protection and authentication.**

tokens are sold to investors in exchange for other cryptocurrencies or fiat currencies like the dollar.

As with any new industry or concept, be alert for fraud, which has occurred in both ICO and direct currency purchases. Pump-and-dump scams are a potential risk with some crypto-related stocks, particularly those that do not list on a major exchange such as the NYSE or Nasdaq.

### Crypto Takeaways

Cryptocurrencies and the technologies that power them may hold great potential for legitimate innovations in capital raising and financial markets. But it can be a challenge for investors to verify information about these products to make informed decisions. There are also major questions about how these currencies are regulated both domestically and across the globe.

The markets for cryptocurrencies continue to display high levels of volatility, and involve speculative risk and the potential for fraud. Speculators have been drawn to cryptocurrencies as a way to make a quick profit. But like any speculative investment, you can lose money.

And even when legitimate companies flock to a hot, new sector, fraudsters almost always follow suit. Look out for guarantees, unregistered products, claims of overly consistent returns, complex strategies, missing documentation, account discrepancies and pushy salespeople. All are red flags of potential fraud. Use FINRA Broker-Check® to check the registration status of, and additional information about, the people and firms that tout these opportunities.

To learn more about how to protect your money, visit the FINRA Foundation’s website [www.SaveandInvest.org/LearnMore](http://www.SaveandInvest.org/LearnMore).