



Crypto isn't dead:

The basics of Bitcoin and cryptocurrency investment

In recent months there has been a “crypto winter” of sorts, with prices in a cool-down phase after a large bull run in 2021. But in the background, blockchain and cryptocurrency innovation has continued. There is even talk of a Bitcoin Exchange Traded Fund (ETF) being approved in the United States, which could see significant institutional investment. Luno, a leading South African cryptocurrency investment platform, believes the large-scale adoption of applications for cryptocurrencies will be driven mostly by developing economies, and South Africa is one of the largest markets in this regard. Let's unpack what you need to know about cryptocurrency and how to get started in a few simple steps.

What is cryptocurrency?

The simplest explanation is that cryptocurrency is a digital asset (something that has economic value and only exists digitally). Cryptocurrency is used as a way to invest in applications for the technology on which crypto is based – whether as digital currency, smart contract platforms or apps built on top of smart contract platforms. With cryptocurrency, you only need an internet connection and a computer or smartphone to be able to send or receive money from anyone around the world, so it's really the world's first globally accessible type of money.

Cryptocurrencies allow us to imagine and implement things in a completely different way; a true paradigm shift. It is enabling us to reimagine the financial system, to upgrade the world to something better: money that can be moved around cheaper, faster and safer, cutting out unnecessary intermediaries and ensuring that consumers benefit instead.

Bitcoin is a relatively new technology that is unlike anything we have seen before, so a better way to think of it is as a combination of a few different things we are

familiar with. Because it allows you to move money so easily, Bitcoin functions as a payment system, similar to bank transfers or credit cards. Bitcoin is similar to gold in a sense – it can be considered as using gold for money, except it is much easier to move. Finally, Bitcoin is like the internet in that no single person or entity controls it, so people can use it as they wish, and this gives it some very unique characteristics. Bitcoin is a mix of a credit card, a piece of gold and a hint of the internet.



A chart showing the Bitcoin price movement (in US dollars) over the last few years.

Is cryptocurrency for the fringe?

Since Luno launched in 2013, we've seen many price spikes and we've seen many drops. At Luno, we do not take a position on the price of Bitcoin and instead focus on being the trusted platform to safely buy, sell and learn about cryptocurrencies. We recognise the value of crypto as part of a sensible, long-term investment approach and see the potential it has to upgrade our current financial system.

Many declare Bitcoin dead (or dying), simply based on the latest changes in the price. Bitcoin should become less volatile as there is increased liquidity and market acceptance, and Bitcoin will continue to play a dominant role in the cryptocurrency industry.

We encourage responsible investing which includes never investing in something you don't understand and never spending more on speculative technologies like Bitcoin than you can afford to lose.

Although there are many cryptocurrencies, several do not have solid fundamentals. For this reason, we limit the cryptocurrencies available on Luno to those which have been carefully reviewed using a thorough and rigorous process.

We also encourage regulation of cryptocurrency and have worked with the South African Reserve Bank on appropriate regulation of the industry. The Financial Services Conduct Authority (FSCA) classifies crypto assets as financial products, and consequently, crypto asset service providers are required to apply for a licence before 30 November 2023.

How is the price of Bitcoin calculated?

The price of Bitcoin works in the same way as it would with other currencies or objects. It's based on supply and demand, the price a buyer and seller agree upon.

Other currencies also work like this. While you observe your currency as stable, its value actually continuously changes. When you want to exchange it for another currency at a currency desk, the price fluctuates. Bitcoin works in the same way.

A key differentiator of Bitcoin is that there is a finite supply. Once the 21 million in existence are in circulation, Bitcoin cannot be reproduced, nor can more currency be printed as with hard currency.

How much should I buy?

The same intuitive rules that apply to traditional money also apply to Bitcoin: don't invest more than you can afford to lose and don't put all your eggs in one basket.

Start small – you don't need to buy a whole Bitcoin, currently valued at about R650 000, you can make an investment from as little as R20.

With more than 10 000 cryptocurrencies in existence, you need to use credible exchanges that offer only cryptocurrencies they have carefully evaluated, similar to how you would buy shares online.

Cryptocurrencies are still relatively new and therefore very volatile. The first step is to learn more about cryptocurrencies by visiting resources like Luno's free learning portal.

Cryptocurrencies continue to attract interest from investors, and many draw comparisons with traditional markets. It is important to do your own research, to understand the asset you want to invest in, and to use your own judgement. Be wary of any scheme that promises a guaranteed return on investment.

Article written by Christo de Wit, South Africa's country manager for Luno, a leading local cryptocurrency exchange.



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2023-12-14

Quest Volume 19 Number 4

de Wit, Christo

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