



Bitcoin: What Are the Risks of Buying Cryptocurrency?

Description

Bitcoin and the entire cryptocurrency industry have gained a tonne of popularity over the last year. The industry has gone through this before. However, this time around, there seems to be a real revolution with blockchain technology and the entire industry.

Investors are encouraged by the incredible potential across the entire sector. Plus, a lot of things have gone right for cryptocurrencies over the last year, including a significant tailwind as a result of the pandemic.

With the technology continuously going through major innovation, it seems like the opportunities are endless. Just like any asset, though, the higher the potential reward, the higher the inherent risk. So, while Bitcoin and several other cryptocurrencies have a tonne of growth potential, they're also highly volatile.

Because of this, it's not uncommon to see Bitcoin rally or even fall by more than 10% in a single day.

What are the risks of Bitcoin and other cryptocurrencies?

Depending on which cryptocurrencies you are buying, selling, or using, there are several different risks to be aware of. That's why no matter what, it's crucial to do your research ahead of time.

Even with all the research in the world, though, certain risks are highly prevalent in the cryptocurrency industry.

First off, it's relatively easy and quite common to send the cryptocurrency to the wrong address, and, in a lot of cases, unlike with traditional banking, it's not recoverable.

It can also be extremely expensive to send cryptocurrencies. Not only that, with Bitcoin, for example, sometimes it can take hours.

The fees can also be extremely high, making it difficult to buy and sell on exchanges or send the

cryptocurrencies to wallets. And, of course, with little regulation in the industry, there is always a heightened risk of fraud.

How to reduce the risk of cryptocurrency investments

This may all sound like a lot of reasons to avoid cryptocurrencies and Bitcoin. However, as I said before, there are ways to considerably reduce the investment risks, starting with doing a tonne of research.

It's paramount you know what you're buying. It's crucial to consider factors such as how much transaction costs are and how long they take. You'll also want to consider how new coins are distributed and the currency's inflation rate. Knowing all the facts is crucial to evaluating the potential of an investment.

Another way to reduce risk is to make a long-term commitment to the industry. With these coins being so volatile, it's challenging to trade them short term. If you've done a tonne of research, though, and have confidence in one or more coins, then taking a long-term position is considerably less risky.

Another way to reduce risk, like investing in stocks, is to stick to larger, more well-known cryptocurrencies. Smaller, lesser-known coins are much likelier to be complete gambles. The best coins with the best underlying technology and use case will be the coins with the highest market caps. And remember, diversification is an easy way to lower the risk of any portfolio.

Lastly, one of the toughest parts of buying Bitcoin and many other cryptocurrencies is the liquidity factor, the time and costs it takes to buy or sell. However, if you buy [cryptocurrency stocks](#), you can avoid that. Plus, if you buy in a registered account like a TFSA, you can have exposure to these high [growth stocks](#) tax-free.

The top stocks to buy today

One of the top stocks to consider in the industry is **HIVE Blockchain Technologies**. The stock is a cryptocurrency miner offering some of the best growth potential. However, it's also considerably more diversified, while many of its peers mine only Bitcoin.

Buying a miner, though, is riskier than owning the currency, because, in addition to the price of the coin, you're also exposed to the company's operations.

If you really want to reduce risk, the best way is to buy the cryptocurrency outright. The **Purpose Bitcoin ETF**, for example, is a top way to gain exposure. You have a custodian to hold the Bitcoin, plus you can buy and sell it cheaply and instantly.

So, whether you buy an [ETF](#) or high-potential growth stock like HIVE, it's paramount you do what you can to mitigate the risks.

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