



Polkadot: Is This Crypto Legit?

Description

Polkadot is a relatively new cryptocurrency that has already delivered some impressive returns for early investors. Launched in 2017, it has since rallied impressively, achieving a \$23 billion market cap. Today, Polkadot trades for about \$23.86. It was offered for \$30. That looks like a decline, but Polkadot shares were multiplied by 100 shortly after their ICO. So, the “pre-split” price is about \$2,386 for a 7,853% return.

There have been pretty good results so far. The question is, is Polkadot a legitimate crypto project or just another meme coin? There are countless cryptocurrencies out there used as vehicles for speculation. Only a handful are “legitimate” in the sense of having real world monetary or technical use cases. In this article, I will explore Polkadot at length in order to determine if it is a genuinely worthy blockchain project.

What is Polkadot?

The DOT token is the cryptocurrency of the [Polkadot project](#). It has a number of characteristics typical of cryptocurrencies:

- Proof-of-stake consensus (as opposed to proof of work)
- Smart contracts

In addition to these features, it also offers the following:

- Interoperability (allowing the transfer of more than just tokens)
- Ability to connect to the **Bitcoin** and **Ethereum** networks
- Ability to be fixed without hard forks
- User-driven network governance, with each holder having a say

This is a pretty impressive set of features. With that said, other cryptocurrencies have many of them as well, so it's not immediately clear what Polkadot's big differentiator is.

Comparison to other cryptos

One cryptocurrency we can compare DOT to is ETH. DOT was once labelled a potential Ethereum killer, so this comparison is worth exploring. Compared to ETH, DOT

- Uses proof of stake instead of proof of work;
- Has much cheaper fees;
- Is far smaller; and
- Has [potentially faster transactions](#).

DOT's lower fees would seem to make it an attractive alternative to ETH. Apart from that it's a pretty typical cryptocurrency.

Foolish takeaway

Based on its history and community, Polkadot would appear to be a legitimate cryptocurrency. It was founded by ETH's co-founder, so it has an impressive pedigree. All in all, it probably isn't the worst cryptocurrency you can buy.

With that said, investors might want to keep one thing in mind about this coin: it can't be tax sheltered.

Many cryptocurrencies, such as Bitcoin, can be sheltered through ETFs like **Purpose Bitcoin ETF** ([TSX:BTCC.B](#)). The way this works is, instead of buying Bitcoin directly, you buy a fund like BTCC.B and hold it in a TFSA. The TFSA spares you all capital gains taxes on your investments. So, by holding Bitcoin through BTCC.B, you lower your tax bill.

The fund charges a 1% fee that eats into your returns. But if you cash out a 50% Bitcoin gain, you could pay up to 25% taxes on the portion of your position that is a gain. So, tax-sheltering crypto with ETFs like BTCC.B can be a money-saving choice. With Polkadot, that's not an option, so beware the tax bill if you decide to trade it.

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