Is Cryptocurrency Staking Better Than Investing in Dividend Stocks?

Description

Most people are always on the lookout for ways to create alternate revenue streams. Equity investors can do so by purchasing blue-chip dividend stocks that offer a tasty yield. Canada has several companies across sectors that provide investors with a robust dividend payout.

Dividends are part of a company's profits that are distributed to shareholders. So, dividend payments are not a guarantee and can be suspended at any time. For example, when oil prices plunged in May 2020, several companies part of the energy sector rolled back dividends to offset massive losses.

It's imperative for investors to analyze the company to understand its business model and ability to thrive across business cycles before buying its shares.

There is another way to create a passive-income stream. If you are a cryptocurrency investor, it's possible to stake your tokens and earn an attractive yield via this process called staking. Here, you commit your digital assets that support their underlying blockchain network to confirm transactions.

You can stake cryptocurrencies that validate transactions based on the proof-of-stake (PoS) consensus mechanism. The PoS mechanism is much more energy-efficient compared to the proof-of-work mechanism used by blockchain networks such as **Bitcoin**.

Earn passive income by cryptocurrency staking

Cryptocurrency investors should seriously consider staking their tokens to generate a stable and predictable income stream, especially if you are not going to sell these assets soon. Several cryptocurrencies offer high interest rates for staking.

Investors first need to pledge their digital assets to the cryptocurrency protocol. The protocol will then randomly choose validators to confirm transactions. The likelihood for you to be chosen as a validator directly depends on the number of coins you have pledged.

Each time a new block is added to a network, new tokens are minted, which are distributed as staking rewards to the validator. So, if you stake **Solana** (CRYPTO:SOL) and are selected to validate the next block of transactions, you will be rewarded in the form of SOL tokens.

While the cryptocurrency segment has attracted US$2.5 trillion in investments just 5% of it has been staked. We can see that cryptocurrency staking is largely unexplored, but this method can be used to derive an alternative income stream.

Benefits and risks of cryptocurrency staking

There are several benefits associated with crypto staking. It's an easy way to earn interest on your digital assets. You don't require any equipment to stake your tokens making it an asset-light process. You will also contribute to maintaining the efficiency and security of the blockchain network. The annual yields in some cases are as high as 20%.

Alternatively, cryptocurrency prices are extremely volatile and can plunge at a rapid pace. So, if you have staked your coins and the prices of these assets decline, the pullback would be much higher compared to the interest earned on them. You may also be required to lock up your coins for a certain amount of time, making them illiquid for that duration.

There are several crypto projects that attract investors with the possibility to generate a high yield. But if the token prices crash, you may lose all of your investment.

The Foolish takeaway

Whether you choose to invest in dividend stocks or cryptocurrencies, you need to spend enough time researching the underlying investments. For those with a high-risk profile, cryptocurrency staking provides an opportunity to benefit from inflation-beating returns.

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