Investing in Crypto? Here’s How to Reduce Risk

Description

Many investors who have been investing in crypto know it’s a long-term investment. Despite the industry rallying rapidly in the past, it’s going to take years for mass adoption and blockchain technology to reach its full potential.

However, as we’ve seen with so much turmoil throughout this year, just buying and holding cryptocurrencies may not be enough to guarantee you don’t lose all your money.

Typically, one of the biggest mistakes investors make is not having the discipline and holding or even buying more as prices fall.

But in recent months, much of the risk in the cryptocurrency industry has come from projects going bankrupt as prices continue to fall. So no matter how you’re looking to gain exposure or start investing in crypto, here are the main ways to reduce risk.

It’s crucial to do as much research as possible before you buy

As with any investment you make, it’s crucial to do a tonne of research beforehand to understand what you’re buying and what its risks are. But with crypto, there is so much to consider and so many moving pieces it’s even more important that investors know exactly what they’re investing in.

If you’re looking at buying specific cryptocurrencies, you need to know what it does, who its competitors are, and what, if any, tech needs to be improved.

If you’re looking at investing in a cryptocurrency company or stock, you need to research all of its operations, the cryptocurrencies or blockchain networks it uses, as well as any other potential risks that could impact the company.

For example, **Voyager Digital** (TSX:VOYG) was a highly popular cryptocurrency onboarding platform for Americans. However, because it also issued loans to other companies, the stock was severely at risk this year as many funds went bankrupt.

Even if you're looking at investing in crypto ETFs, you should ensure you research and understand how they work, even if it's as simple as a fund that simply holds the crypto for you.

It's crucial to ensure how the fund is buying and, more importantly, how they are holding the crypto for you, whether the company is using an offline wallet called cold storage or a hot wallet connected to the internet.

This way, you know exactly what you own and what risks, if any, you're exposed to. That way, you can better manage your investments going forward.

We all want to buy and hold for years, but before we do that, we need to make sure we pick investment vehicles that we can have confidence in owning for years.

If you want to reduce risk when investing in crypto, remember this phrase

One of the most popular phrases you'll learn investing in cryptocurrency, especially if you're just starting out, is, "not your keys, not your coins."

Keys refers to the key phrase you will get for any wallet you open, which acts as your fallback password. It's crucial that you never share these keywords with anyone, and in fact, many advise that you don't even keep these saved on a computer but rather on a piece of paper in a safe place.

However, more importantly, when you own cryptocurrency in an account for which you don't have the keys, technically, while it's your crypto, you don't actually possess it. Therefore, if you're storing crypto that you're investing in an account for which you don't have the key phrase, it's not actually your coin.

But why is this so important?

Often investors will make this mistake, believing it's their money and never think twice about it. As we saw, though, with Voyager Digital's bankruptcy, it wasn't just investors of the stock who lost money. Any crypto investor who had left their coins on the platform, rather than moving it to a wallet they own and for which they would have the keys, lost all of their holdings.

So make sure that once you buy your crypto from an onboarding platform, centralized or decentralized exchange, or anywhere else, you soon transfer it to a wallet you own to ensure that it's safe and only you have access to it.

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