How to Buy Cryptocurrency in Canada

Description

Cryptocurrency is notoriously difficult to understand. From hodling Bitcoin to buying and selling crypto on an exchange, crypto investing requires us to learn a lot of technical stuff fast.

Below, we'll break down every part of cryptocurrency—from blockchain to exchanges—to help you buy crypto in Canada.

How to buy cryptocurrency in Canada

1. Pick a cryptocurrency exchange.
2. Buy your cryptocurrency.
3. Keep your crypto safe.
4. Use your crypto to make purchases.

Let's break down each step.

1. Pick a cryptocurrency exchange

A crypto exchange is a digital marketplace where buyers and sellers can meet and trade different types of cryptocurrencies. Many exchanges will allow you to trade the Canadian dollar for crypto or one type of crypto for another. They will charge an administrative or trading fee. In exchange, you'll often get higher security measures (such as cold storage), access to performance charts, and 24/7 customer service.

In Canada, the top crypto exchanges include:

- Coincase
- Coinberry
- Newton
- Binance Canada

- Coinsmart
- Netcoins

The best crypto exchange for you will depend entirely on whether you want a *centralized exchange* or *decentralized* exchange. You could also choose a "hybrid" exchange, though these exchanges are far less developed than the other two.

Let's briefly break down these three types to help you choose.

Centralized exchanges (CEX)

Centralized exchanges (CEX) are platforms that allow buyers and sellers to store their crypto, trade it among themselves, and even exchange CAD for crypto. They're called "centralized" because the platform acts as an intermediary, or middleperson, bringing various crypto enthusiasts together.

You'll pay trading fees to the CEX, and you can often store your crypto directly on the platform itself. Centralized exchanges are the most popular form of trading cryptocurrency in Canada.

Pros of centralized exchanges

- **Easier to trade on demand.** Because CEXs account for most crypto trades, these exchanges tend to have greater liquidity.

- **More convenient**: Instead of looking for a buyer or seller, the crypto platform does the hard work for you.

Cons of centralized exchanges

- **You need to use a third party**: You'll use a middleperson to trade crypto. In the minds of crypto enthusiasts, that pretty much defeats the decentralized nature of cryptocurrency.

- **Security could be breached**: Because you give a third party private information, you can open yourself up to a potential cyberattack. Most of the biggest crypto hacks, in fact, have happened on centralized cryptocurrency exchanges.

Decentralized exchanges (DEX)

Decentralized cryptocurrency exchanges (DEX) have no middleman. It's a marketplace where buyers and sellers exchange crypto directly. On a DEX, you don't give private information to a third party, nor do you entrust them with your market orders: you find a buyer and seller for your crypto, which means you'll pay fewer fees and retain complete privacy.

Pros of decentralized exchanges

- **More control and less counterparty risk.** You don't have to depend on a third party to trade.

- **More crypto options.** There are usually no limits on which cryptos you can exchange. This can help you buy obscure or unknown cryptos.

- **More closely embodies the crypto philosophy.** The peer-to-peer nature of decentralized exchanges is more in line with crypto's revolutionary character, that of cutting out the middleperson.

Cons of decentralized exchanges

- **Could be hard to find a buyer.** Liquidizing your crypto quickly could become a problem, as you'll have to find a buyer on your own.
- **No third-party assistance if your data is breached.** Because there's no middleperson, you could essentially lock yourself out of your DEX account if you lose your private key.

Hybrid exchanges

Hybrid exchanges basically take the speed and efficiency of a CEX and combine them with the security and privacy of a DEX. On a hybrid exchange, investors have complete control of their assets (as they would on a DEX), but they can trade quickly, helping them take advantage of price movements.

Though hybrid exchanges are relatively new and fewer in number, many crypto enthusiasts see them as the future of crypto. Right now, the biggest hybrid exchange is Qurrex.

What about crypto brokers?

Crypto brokers are very similar to a traditional trading platform. You load CAD to your broker account, place an order for a certain crypto, and the trading platform finds a seller (or buyer) to match that order. For the extra convenience, brokers often charge higher fees than crypto exchanges, and they may not trade every kind of crypto. The largest crypto broker in Canada is WealthSimple Crypto.

How do you pick a crypto exchange?

As you're shopping for the best crypto exchange for you, here are some ways to narrow down your options.

- **Check for top-notch security and cryptography.** Pay attention to how many of its assets are kept offline in cold storage, how many times it's been hacked (if at all), and whether it has private insurance.
- **Look for low fees.** Investors may have to pay an administrative or annual fee, a transaction fee, or withdrawal fees. These fees are typically low (usually below 1%), but the higher the fees, the more they'll eat into investments.
- **Check the range of cryptocurrencies.** Though there are thousands of different cryptocurrencies, most exchanges will only allow investors to trade a select few.
- **Pay attention to customer service.** Look for a crypto exchange with 24/7 customer service and

an excellent reputation for answering questions. No one wants to be locked out of their account or stuck wondering where their crypto went.

2. Buy your cryptocurrency

After you've chosen an exchange, you'll create an account and verify your identity. If this is your first time buying crypto, then you'll need to deposit CAD before you can start trading. Most exchanges and brokers allow you to link your bank account directly for a bank transfer, or you can use a bank wire to deposit money.

You could also use your credit card to purchase crypto. But this isn't advisable: your credit card provider will likely treat the crypto purchase as a cash advance, which will have a higher APR than regular credit card purchases. There's also no grace period for cash advances, meaning you'll start paying interest the moment you complete the transaction.

3. Keep your crypto safe

Once you buy crypto, it becomes your responsibility to keep it safe. Because crypto isn't backed by the CDIC, you could very well lose your entire holding to cyberattacks, theft, or pure forgetfulness.

Many Canadians may overlook the financial protection they receive from the CDIC. When you store money in a bank — or purchase a GIC — the CDIC insures up to $100,000. That means, even if the bank fails, you'll still have access to at least $100,000 of your deposited funds.

But crypto isn't protected under this deposit insurance. Instead, it's up to you to store your crypto in a safe place. While most exchanges offer the option of storing your crypto with them, you might want to consider getting a crypto wallet for extra security, especially if you're holding large amounts of crypto.

Storing crypto in a crypto wallet

A crypto wallet is a digital wallet that safeguards your crypto, including all its encryptions, such as private and public keys. You can also send and receive coins directly from your wallet, as well as loan them out to earn interest.

But "wallet" can be misleading. Unlike a physical wallet, crypto wallets *don't* store cryptocurrencies themselves. Instead, they hold your *public* and *private* keys.

Your public key is like a bank account number. You can share it with other investors to trade cryptocurrencies. A private key, however, is like a PIN number. It's an ultra-secret number that you never want to share, unless you want to jeopardize your account. You can use your private key to unlock transactions and prove ownership of crypto coins.

When you own cryptocurrency, you're basically saying you have the private key to prove the crypto is yours. If a hacker or cyberattacker were to gain access to your private key, they could steal your cryptocurrency. That's why it's super important to store your private key in the safest place possible. And for many investors, that place is a crypto wallet.

But not all crypto wallets are created equal. Some are designed for long-term investors, while others are built for those who want to trade more frequently.

If you want to store your crypto in a wallet, here are four types of wallets you can choose from:

Mobile wallets

Perhaps the most popular option, mobile wallets are smartphone apps that help you access your crypto from any mobile device. These wallets are often instrumental in helping investors buy goods at retail stores where cryptocurrency is accepted.

Online wallets

These wallets store crypto in a cloud, which you can then access from your personal computer. Though online wallets are convenient to use, you will have to store your private key online, which makes them a little riskier.

Desktop wallets

Unlike online wallets, desktop wallets store crypto directly on a personal computer. It won't be accessible from anywhere (as it would be with a mobile or online wallet). But desktop wallets are typically more secure, especially if the desktop isn't connected to the internet.

Hardware wallets

Hardware wallets store a private key on an external drive, which can help an investor access their crypto from multiple devices. Because hardware wallets are completely offline, they can help you safeguard your wallet from cyberattacks. For large crypto amounts, you may want to consider getting a hardware wallet.

4. Use your crypto to make purchases

If you're using your cryptocurrency as an investment, then you can skip this step. But if you want to use your crypto to *buy* things, you can make purchases in a few ways:

Get a crypto card

These come in two types: a prepaid card or a debit card.

Prepaid cards are simply cards that can link to your crypto wallet. You first convert your crypto into

CAD, then load the cash onto your card. When everything on the card is spent, it can be loaded again.

Debit crypto cards take the “loading step” out of the process. The card is also linked to your crypto wallet, but it can also be used directly on point-of-sale devices. The exchange from crypto to CAD happens on the spot, allowing you to quickly make purchases.

Find a retailer who accepts crypto

A small (but growing) number of retailers will accept cryptocurrency (usually Bitcoin) as a form of payment. That means, investors can buy goods and services without exchanging crypto for CAD, which can save time and money in fees.

Find a payment processor that accepts crypto

Many point-of-sale companies are likewise beginning to accept crypto as a valid form of payment. Shopify, Square, and even Stripe are starting to integrate crypto into payment processors, which could open the door for crypto holders to buy goods at numerous small businesses and local retailers.

Do you pay taxes on crypto that you spend?

Yes, whenever you use crypto to make a purchase, you trigger a taxable event. The CRA will tax the difference between the cost basis of your crypto (the price at which you bought your coins) and the market value at the time of your purchase.

For example, let’s say you bought Bitcoin with $10,000 in 2017. Your Bitcoin grew to $60,000, and you decided to use it to buy a Tesla. In this case, the difference between the cost basis ($10,000) and market value ($60,000) is $50,000, and the CRA will tax the $50,000 at your marginal tax rate.

Please note, this information is provided for educational use only, and is not tax advice. For tax information that is personalized to your situation, please consult a tax advisor.

What are the risks involved in cryptocurrency investing?

As with any investment, crypto could potentially help investors build extraordinary wealth, though one big turn could mean losing an entire investment in a short period of time. But crypto has other risks, too: it’s still relatively new (circa 2009), and with governments still debating regulations, there’s no telling what will happen in the future.

So, before jumping on the crypto bandwagon, we generally recommend investors consider these risks (This is a short and incomplete list, please consider all associated risks in light of your own personal financial situation):

- **High volatility.** Because it’s so new, and because the technology’s potential hasn’t been fully realized, the crypto market is highly sensitive to changes in public perception. Accept erratic price movements and high volatility.
- **Security risks.** Crypto is digital currency. As such, you could get hacked or have bugs deplete

your holdings. Though many exchanges and wallets have become highly secure over the years, the threat of a security breach is still a possibility.

- **Illiquidity.** Illiquidity (or the inability to sell an investment quickly for a reasonable price) is still a problem for some cryptocurrencies. That said, the rapid development of exchanges, payment cards, and regulations have made cashing out or trading crypto increasingly easier.
- **Insolvency.** It’s hard to predict which cryptocurrencies will remain and which will eventually vanish.
- **Regulation**. Many countries have no idea what to do about cryptocurrency. Whenever a country tightens its regulation, crypto investors tend to panic.

Is cryptocurrency a good investment?

Here at The Motley Fool, we think investing in cryptocurrency can potentially present a world of opportunity. But it’s not without its risks. If investors treat crypto as a “get-rich-quick” strategy, they are likely not only to be disappointed when it doesn’t pay out but can also lose a lot of money.

When investors consider the risks involved and accept them, crypto can be a vital asset in a well-diversified investment portfolio, that is, an investment portfolio made up of stocks, bonds, real estate, commodities, and, yes, currencies.

As long as investors allocate the right proportion to currency — based on their risk tolerance — they could potentially profit highly from investing in crypto. At the very least, by diversifying in other assets, investors make it less likely that they will lose all of their money if the crypto market tanks.

Finally, for new investors to crypto, we generally recommend starting small. Seek to understand how crypto works, then invest a little over time.

Likewise, for those new to investing, we always recommend investors educate themselves on investing strategies first before jumping into a highly complicated investment such as cryptocurrency.

Investments in more established categories such as the stocks of companies you understand, or ETFs or mutual funds may offer more transparency, historical investment performance and disclosures of risk, unlike investments in cryptocurrencies.

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