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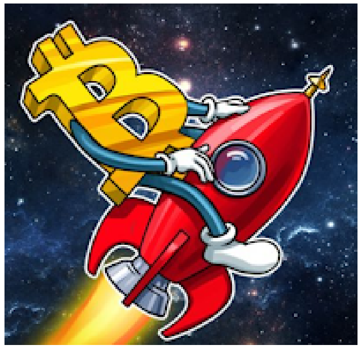
Less perks and more pitfalls of cryptocurrency



I was always wondering to invest or not to invest in cryptocurrency. I started looking all articles that exist on the internet. Majority of articles were reflecting the same in terms of advantages and disadvantages. However, after reviewing almost 50 different articles, what I have analyzed is there are more pitfalls with fewer perks.

So I gathered all pitfalls of bitcoin to cover them in the single article. Those are as follows. Thanks to the industry contributors.

Before moving forward I want to confess something, there will be bitcoin lovers who will criticize this article in all possible ways. Let me tell you all, I am not telling that bitcoin is completely fake and jerk. Only from my perspective, I see more pitfalls than perks that the reason I am writing this article. I truly understand and respect people and companies who work in cryptocurrency industry.

1. There is no solid base for this cryptocurrency currency. There is no intrinsic value for this currency.

2. There won't be government hold on this currency hence government will not able to gather tax directly through this currency. Later on, if they feel it wrong, they may ban this in future or ask every private bank to apply huge tax/fees to the users who are using banks to deal with withdrawal and deposit. If government force individuals to link their Aadhar card, few people who actually understand the potential of bitcoin, they will hesitate to link any kind of identity to use wallets. As we know that there is no central authority for cryptocurrency large number of users will be hurt if any individual or group of merchants decide to dump these bitcoins and leave the system. Due to this, there will be the immense amount of decrease in the valuation of it. Especially users who have invested a large amount of wealth in bitcoins will be instantly hurt.

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3. Talking about India, if the government cannot deal with its own liquid currency and had to perform demonetization due to corruption and black money, then how can they accept a currency (bitcoin) which is developed by an anonymous person on the planet and it is completely decentralized where there is no hold of any individual/organization. I mean to say the government will not or should not accept bitcoin as the commodity which is developed and managed by others.

4. Cryptocurrency is the home of the dark world. Contract killing, drugs all these things can happen with cryptocurrency. There won't be a hold of government if they allow this in India. Illegal and black-market activities can be funded. Those activities can be including importing, exporting of drugs, contract killing, money laundering etc. Individuals who operate black-market they are using bitcoins in order not to reveal their original identity. For money laundering intermediaries or we can say middleman will collect money from one source and transfer it to other source using the bitcoin technology.

5. Prices are completely dependent on demand and supply. No guarantee of getting profits every time in trading. Normal people do not buy bitcoins for buying stuff, they only buy it for trading. Even if a normal person buys bitcoin in few thousand dollars and after some amount of time, if the prices go low or high, it will indirectly force that guy to trade into bitcoin.

6. There is no buyer's protection. When a person buys good with bitcoin, nothing can be done to reverse the transaction if anything goes wrong. If you lose the wallet which had bitcoins stored in it, you have lost all of your bitcoins in that wallet. You cannot regain it and they are simply lost forever.

7. In case credit card/debit card stolen, we can call the merchant to cancel the card and request for a new one but in case of Bitcoins, as it is decentralized and no one has to control over it, we don’t have any person to call.

8. Technical flaws are always there in bitcoin and blockchain technology. Many exchanges were hacked in past due to which bitcoin bubble burst many times.

9. Since the total number of bitcoins is capped at 21 million, it will cause deflation. Each bitcoin will be worth more and more as the total number of Bitcoins maxes out. This system is designed to reward early adopters. Since each bitcoin will be valued higher with each passing day, the question of when to spend becomes important. This might cause spending surges which will cause the Bitcoin economy to fluctuate very rapidly, and unpredictable.

10. The degree of acceptance: Many countries have accepted it, many did not accept it due to having the number of demerits. There are few countries like Canada who initially accepted it and later on made if unofficial after reviewing it for a year. Bitcoins are still only accepted by a very small group of online merchants. This makes it unfeasible to completely rely on Bitcoins as a currency. There is also a possibility that governments might force merchants to not use Bitcoins to ensure that users’ transactions can be tracked.

11. Ongoing development - Bitcoin/blockchain technology is ongoing development. New tools, features, and services are being developed to make Bitcoin more secure and accessible to the masses. Some of these are still not ready for everyone. Most Bitcoin businesses are new and still, offer no insurance.

12. Deflationary -Bitcoins are limited in number and if the major chunk is held by speculators and investors, they will hold it for a longer period of time and won't release it in the market. When the supply of bitcoin will be short and demand continues to increase, it will increase the price of Bitcoins and then the investors can get a benefit.

13. Trustworthy exchanges - You should be careful of agents selling you crypto currencies on the promise of delivering high returns. Considering that there are so many exchanges, experts say one must deal only with those that have been registered on the bitcoin.org website.

14. Excessive volatility - Another one of the biggest disadvantages of bitcoin mining is the fact that the value of bitcoins can fluctuate. While it's true that all currencies fluctuate in value, bitcoins appear to be a lot more unstable compared to trusted currencies like the US Dollar or Euro. In fact, bitcoins can deflate in value whenever people seem to put less trust in it or if a technical glitch occurs in the system or bitcoin exchange markets. It can range anywhere from less than $5 per bitcoin to its current high value to far beyond. The value should stabilize if more people use the currency, but that trend is going very slow.

15. Potential to be replaced with superior cryptocurrency - Bitcoin spawned a host of successor cryptocurrencies. Though many are structurally quite similar to Bitcoin, others make notable improvements.

16. Some newer cryptocurrencies make it even harder to track money flows or identify users. Others use "smart contract" systems that hold service providers accountable for their promises. Some even have in-house exchanges that let users exchange cryptocurrency units directly for fiat currency units, eliminating third-party exchanges and reducing associated fraud risks. Over time, one or more of these alternatives could usurp Bitcoin as the world's dominant cryptocurrency. That could negatively impact Bitcoin's value, leaving committed, long-term users holding the bag.

17. Common modes of bitcoin theft – There are numerous ways from which bitcoin in your wallet can be stolen. Few of the major are described as follows:

<u>Stealing private keys</u> – Private keys stored in publicly accessible digital repositories, such as Bitcoin exchanges or personal cloud storage drives, are vulnerable to theft by hacking. The thieves use these private keys to access and transfer the corresponding Bitcoin holdings, relieving their rightful owners of their funds.

<u>Exploiting wallet vulnerabilities</u> - Some Bitcoin wallets have security flaws that render them vulnerable to attack. As a convenience, some service providers store private keys in the same virtual wallets as Bitcoin funds themselves, allowing hackers to steal the funds and keys in one fell swoop.

<u>Operating Fraudulent Exchanges</u> and Investment Funds. Some seemingly legitimate companies dealing in Bitcoin are actually fronts for financial crimes. For instance, a boutique "Bitcoin investment fund" called Bitcoin Savings & Trust made a name for itself in the early 2010s by providing outsize returns to early investors. However, Bitcoin Savings & Trust was actually a run-of-the-mill Ponzi scheme. When it went belly-up, it wiped out about $4.5 million (at then-current exchange rates) in investor value.

https://www.coindesk.com/bitcoin-ponzi-scheme-18-months-prison-bitcoin-savings-trust/

d. Attacking Legitimate Exchanges Directly. Since they attract thousands of users and store millions of dollars in Bitcoin, exchanges are attractive targets. Bitcoin can be stolen from exchanges' own Bitcoin wallets (which they use to store Bitcoin units taken as exchange fees), from users' wallets (as many users store Bitcoin balances with exchanges for convenience, similar to a brokerage account's cash balance), or during exchanges and transactions themselves.

18. Mining Bitcoins is a health hazard and energy sink. People run obsolete hardware just because the video cards can process random digits into raw Bitcoins. This is a kind of "mining" that's unlike the real-world mining I've studied for years, because it transforms nothing into an encrypted version of nothing. Nerds who run multiple machines overnight to mine Bitcoin risk heat stroke from the machines. f you don't believe me, do a Google search of "Bitcoin heat" and note all of the cooling problems Bitcoin miners discuss amongst themselves, with the real world watching them fry.

Out of so other advantages, only freedom or payment, low payment fees and user anonymity are the major advantages. However to solve many of the above issues few blockchain compliance companies came into the market. They set up their business with wallet companies in such a way that every wallet company majorly asks for user identification where the core importance of cryptocurrency (anonymity) is exploited.

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January 11, 2018 at 1:58 AM

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