

Best Practices for Buying Bitcoin: Exchanges and Brokerages

Education Committee of the Bitcoin Foundation

Audience This guide is intended for those who are familiar with Bitcoin basics and are interested in learning how to buy bitcoins.

Two services used to buy bitcoins are a “brokerage” or “exchange”. In both cases however the idea is to “fund” your account on the service, then purchase some bitcoins, and finally be able to withdraw money from that service back into your native currency. Each of these actions are distinct steps in the process, sometimes occurring instantly and sometimes taking a several days.

Typically, you need to create an account on a brokerage or exchange service and then, in some cases, link a bank account to the service. These services usually offer several mechanisms to fund the account, via direct linkage to bank account, a wire transfer or other third party fund transfers. After your account is funded you then perform the actual bitcoin purchase (or exchange from another currency). This sometimes occurs nearly instantaneously and sometimes takes a few days, it all depends on the specifics of the service.

After you’ve acquired your bitcoins and want to trade in for some type of local currency, you must sell the bitcoin and have those funds deposited in your bank account. This also usually takes some number of days as the transaction must go through the traditional banking system. It would be a good practice to undertake the entire funding, purchase and withdraw process with a small amount of currency to test the process before you use a large sum of money.

It may also be wise to send a series of purchase requests, instead of one large one. At each step verify that the bitcoins were purchased by moving them out of the exchange into your private wallet. Only when they are verified in your private wallet, initiate the next purchase with the exchange.

The most expedient and authentic way to purchase bitcoins is through peer to peer transaction. Satoshi’s Square, a meeting format where Bitcoin users transact person to person without an exchange or brokerage, allows Bitcoin users to receive coins on the spot. LocalBitcoins, Craigslist, and Bitcoin IRC are also great options. If you would rather work through a brokerage or exchange, you have multiple options.

1. Brokerage vs Exchange



1. Brokerages, such as Coinbase.com in the United States, are a fast and convenient way to buy and sell bitcoins. Brokerages act as a middleman, buying bitcoin in bulk and selling them to customers. Brokerages charge a fee for this service
2. Exchanges, such as BitStamp, Mt.Gox, and BTC-E, offer direct buying and selling between currencies. Once funded, exchanges allow for quick buying and selling within the platform. Trading fees may be low, but converting funds to and from bank accounts may be expensive and take considerable time.

2. Funding

1. Brokerages

1. Automated Clearing House (ACH) is the most common funding system for brokerages in the United States.
 1. Bitcoin brokerage accounts are linked to local currency checking account, and funds can be deposited and withdrawn.
 2. Transactions typically take 2-5 business days to complete.
 3. A small ACH fee may be included with each transaction.
2. Credit Card: Credit cards can be used as an additional verification method, allowing for same day Bitcoin purchases while using ACH.

2. Exchanges

1. Money Orders: Money orders can be mailed to Exchanges.
2. Web-based services: Services, such as PerfectMoney, Interkassa.com, Payeer.com, may be used to fund an account.
3. Codes or referrals: In some exchanges, users can transfer funds to other users. Referral links can be distributed to potential new users.

3. Withdrawals

1. Brokerages

1. ACH: This is the most common withdrawal system for brokerages.
 1. ACH withdrawal process may take 2-5 business days.
 2. A small ACH fee may be included with each transaction.

2. Exchanges

1. ACH: Some Exchanges make ACH available for withdrawal for a fee.
2. USPS Money Order: Money orders may be issued for a hefty fee.



3. Domestic and International Wire Transfer: Wire transfer may be initiated for a hefty fee.
4. Exchanges allow bitcoins to be sent to other digital wallet addresses, and exchanged for other digital currencies.

4. Security

1. Ensure 2-Factor Authentication is a feature offered by the chosen brokerage or exchange.
2. Consider Risk Capital, Crypto Risk Capital, and Capital Gains implications.

