

Cryptocurrencies – An Overview of the 10 Most Important Ones

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A cryptocurrency is a digital currency that does not exist in form of coins or bills, only as book money. Cryptocurrencies differ in their characteristics and by the projects behind them. Since this year at the very latest, they are experiencing a breakthrough in the financial

world. By now, even professional investors are active in this sector because of its high growth rates and yield opportunities.

However, it can be difficult for private investors who want to participate in the boom to get an overview of the world of cryptocurrencies. After all, more than 1,300 cryptocurrencies are being traded publically. Backing them are many very interesting projects; unfortunately, however, several of them are frauds. Therefore, it is worthwhile for investors wishing to invest part of their capital in this highly speculative and volatile segment to look at the most important cryptocurrencies.

Bitcoin

Bitcoin is the pioneer of cryptocurrencies. The digital currency was launched in 2008. The inventor goes by the pseudonym Satoshi Nakamoto. To this day, it is unclear who exactly laid the groundwork for Bitcoin. Bitcoin is a peer-to-peer (P2P) network based on blockchain technology.

All transactions with Bitcoin occur completely digital, encrypted, and without third parties. Every transaction is recorded in the blockchain to be tracked this way. The blockchain is a distributed ledger, meaning that it is a form of digital cash ledger used as proof that a transaction took place.

Bitcoin (BTC) is traded publically since 2009 and has achieved an unrivaled price development. For a long time, the price fluctuated around the USD 100 mark until it had a breakthrough in November of 2013 and BTC rose to more than USD 800. Though it went back downhill, 1 Bitcoin never fell below the USD 200 mark again. It wasn't until January of 2017 that Bitcoin breached the USD 1,000 threshold.

Since then, Bitcoin has been running an amazing race: within less than a year, the price increased eight-fold to nearly USD 8,200 per BTC today – with a rising trend. By now, Bitcoin has a market capitalization of more than USD 136 billion and is thus responsible for more than half of the total volume of around 257 billion. During peak times, Bitcoin reaches a trading volume of up to 5 billion dollars a day.

Ethereum

This year, initial coin offerings (ICOs) were all the rage. It's a new form of startup financing, especially for startups whose business model is based on cryptocurrencies or blockchain. In June and July of 2017 alone, ICOs raised more venture capital for startups in early phases than classic VC funds, according to the investment bank Goldman Sachs.

This is where Ethereum comes into play: Most ICOs are run via the Ethereum blockchain. Ethereum is a distributed ledger, which makes it possible to install, manage, and conduct so-called decentralized applications (dApps) in one's own ledger.

Ethereum uses the cryptocurrency Ether (ETH) as a form of payment to process transactions. Ethereum also popularized the principle of "smart contracts." These are automated contracts that fulfill themselves once pre-defined conditions are met. Usually, this is a pre-determined amount of Ether that needs to be paid for the contract to be fulfilled.

Ethereum co-founder Vitalik Buterin is something like the poster child of the crypto-scene. With Ethereum, the young Russian-Canadian programmer and his team of developers want to improve upon the weaknesses of the Bitcoin blockchain. Today, Ethereum processes around 500,000 transactions a day – more than all other cryptocurrencies combined.

After spending a lot of time around USD 1, the price for Ethereum shot up in early 2016. Since then, Ether is noted around USD 418 per ETH. At nearly USD 40 million, Ethereum has the second greatest market capitalization of all digital currencies. On busy trading days, up to USD 2 billion worth of Ether change hands.

Ripple

Ripple (XRP) is a decentralized blockchain network for global payment transactions. It is a public database with a register of account balances. Every Ripple user can view the register, which contains not only account balances but also offers to buy and sell goods and currencies, in real time. The Ripple network can handle about 1,000 transactions per second. The network supports any fiat currency (dollar, euro, yen) as well as cryptocurrencies such as Bitcoin.

Ripple is a favorite for many large banks. In April of 2017, the company announced that 75 banks were already using the payment network, including industry giants like Bank of America, the major Swiss bank UBS, and the Spanish institute BBVA. Ripple was able to win over banks for two main reasons: international payments can be processed faster via the blockchain and transaction costs are significantly lower than before.

The Ripple network's internal cryptocurrency is called Ripples (XRP). At USD 0.24 per XRP, the price is comparatively low, which is due primarily to the high supply, around 38.6 billion Ripples, in circulation. Ripple is the fourth largest cryptocurrency with a market capitalization of about USD 9.3 billion and an average trading volume of about USD 270 million.

New Economy Movement (NEM) is a blockchain-based peer-to-peer network that launched in March 2015. It combines the characteristics of a payment system and a smart contract system. NEM's goal is to provide a sustainable economic order. The maximum amount of NEM coins is set at 9 billion.

The predominantly Japanese team of developers created a model that intends for users to utilize the currency, and not just to hold it for speculation. A consensus mechanism called "Proof of Importance (POI)" calculates an "importance value" for each account. It takes into consideration the account balance, the account activity, and the importance value of the accounts it interacted with.

The greater the importance value of the account, the greater the likelihood to pay transaction costs. Therefore, having a high account balance does not automatically translate into advantages. This should provide motivation for people to actually use the currency instead of holding on to it, thus increasing the currency's circulation speed. NEM is currently the 9th largest cryptocurrency with a market capitalization of around USD 1.8 billion and an average trade volume of around USD 7.5 million. NEM is currently priced at around USD 0.20.