

# THE BASIC OF BITCOIN

ALL YOU NEED TO KNOW ABOUT BITCOIN



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## INTRODUCTION

With the shift in trend and advancement in eCommerce. Cryptocurrency has been making headlines and is increasingly being demanded. Bitcoins have played a crucial role in the growth of online wallets and cryptocurrency growth. The virtual currency holds many advantages over the local legal tenders especially in the fact that the currency is decentralized and anyone does not regulate its availability and circulation. This eBook introduces the basics of Bitcoin, how to obtain bitcoin, bitcoin wallets, current trends and the future of bitcoin among many other interesting topics.

If you have been looking to enter the pattern of cryptocurrency, this eBook will provide you with in-depth explanations in a manner that is clear and concise. The book also discusses the blockchain, valuation, and tips for earning bitcoin. With the potential and current growth trend in the market, Bitcoin is increasingly becoming hot stock and the fact that it is already widely accepted by some traders and merchant stores mean that the likelihood of a general adoption is growing.

## Chapter 1

# *BITCOIN AND BLOCKCHAIN*

Bitcoin is recognized worldwide as a cryptocurrency and digital payment system. It is often referred to as the first decentralized digital currency as the system works without a central repository or single administrator.

It was invented by an unknown programmer, or a group of programmers, under the name Satoshi Nakamoto and released as open-source software in 2009.

Bitcoin uses peer-to-peer technology to operate with no central authority or banks; managing transactions and the issuing of bitcoins is carried out collectively by the network.

Bitcoin is an open-source platform; its design is public, nobody owns or controls Bitcoin, and everyone can take part. Through many of its unique properties, Bitcoin allows exciting uses that could not be covered by any previous payment system

Asides being a reward for mining, it can also be exchanged for other currencies, services, and products, and as of August 2016, it has been accepted by several merchants and vendors as a means of payment. Bitcoins can also be kept as a form of investment and traded off the same way Forex works.

According to a Cambridge University Research in 2017, there are approximately 2.9 to 5.8 million unique users of the cryptocurrency wallet, and of all these, bitcoin is the most significant.

### **BLOCKCHAIN**

The blockchain is an irrefutably resourceful invention which is practically bringing about a revolution in the global business market. Its evolution has brought with it a greater good, not only for businesses but its

beneficiaries as well. Dating back to its revelation to the world, a vision of its operational activities is still unclear. The main question stick in everyone's mind is - What is Blockchain?

Simply put, Blockchain technology serves as a platform that allows the transit of digital information without the risk of being copied. It has, in a way, laid the foundation of a strong backbone of a new kind of internet space.

The concept was originally designed to deal with Bitcoin, but since the exploration of its algorithmic functions, the hash functions, and digital signature property, the technology buffs are finding other potential uses of this immaculate invention. The Blockchain is believed to hold a key that could pave the way to the onset of an entirely new business dealing process in the world.

Blockchain, to define in all respects, is a kind of algorithm and data distribution structure for the management of electronic cash without the intervention of any centralized administration, programmed to record all the financial transactions as well as everything that holds value.

Blockchains operate differently and uniquely because they are entirely decentralized. What this means is that there is no central clearing house like a bank, and there is no primary ledger held by one entity. Instead, the ledger is distributed across a vast network of computers, called nodes, each of which contains a copy of the entire ledger on their respective hard drives.

These nodes are linked to one another via a piece of software called a peer-to-peer (P2P) client, which synchronizes data across the network of

nodes and makes sure that everybody has the same version of the ledger at any given point in time.

## How Bitcoins works on a Blockchain

As a new user, you can get started with Bitcoin without understanding the technical details.

Once you have installed a Bitcoin wallet on your computer or mobile phone, it will generate your first Bitcoin address, and you can create more whenever you need one. You can disclose your addresses to your friends so that they can pay you or vice versa. In fact, this is pretty similar to how email works, except that Bitcoin addresses should only be used once.

The blockchain is a **shared public ledger** on which the entire Bitcoin network relies. All confirmed transactions are then stored in the blockchain.

This way, Bitcoin wallet users can calculate their spendable balance, and new transactions can be verified to be spending bitcoins that are owned by the spender. The integrity and the chronological order of the blockchain are strengthened with cryptography.

## Transactions – private keys

A transaction is a **transfer of value between Bitcoin wallets** that gets included in the blockchain. Bitcoin wallets keep a secret piece of data called a *private key* or seed, which is used to sign transactions, providing a mathematical proof that they have come from the owner of the wallet. The *signature* also prevents the transaction from being altered by anybody once it has been issued. All transactions are broadcast between

users and usually begin to be confirmed by the network in the following 10 minutes, through a process called *mining*.

## Processing – mining

Mining is a **distributed consensus system** that is used to *confirm* waiting transactions by including them in the blockchain. It enforces a chronological order in the blockchain, protects the neutrality of the network, and allows different computers to agree on the state of the system. To confirm transactions, they must be packed in a *block* that fits stringent cryptographic rules that will be verified by the network. These rules prevent previous blocks from being modified because doing so would invalidate all following blocks. Mining also creates the equivalent of a competitive lottery that prevents any individual from easily adding new blocks consecutively in the blockchain. This way, users cannot control what is in the blockchain or replace parts of the blockchain to roll back their spending.

## How to get Bitcoins

After a good understanding of what Bitcoin is and how bitcoin wallets work, the chances are that you're interested in getting some of the digital currency for yourself. The next question is: How can you get bitcoins?

Based on the understanding that bitcoins originally come from mining processes, you might think this is the best way to get some for yourself. Sadly this has become increasingly difficult as Bitcoin has grown in popularity. As more powerful mining-specific devices have been introduced, the number of minable Bitcoins has fallen. It is thus

becoming increasingly unrealistic for average individuals to participate in the Bitcoin cryptocurrency trade.

Another way to get bitcoins is to earn them like you would any other currency: by providing goods or services in exchange for the digital currency. There are websites that list offers for jobs that pay in bitcoins, rather than traditional currency. You can also ask your current employer to pay you in bitcoins, which can be a good choice for international freelancers in particular.

Irrespective of what you do, there is no shortage of options for buying bitcoins. Purchasing means include cash, the use of credit and debit cards through online services, bank wire transfers, the use of PayPal or other digital payment services, or the exchange of other digital currencies for Bitcoin. In some urban centers, it is possible to buy bitcoins from a Bitcoin ATM, or you can even opt for a face-to-face exchange to reduce your monetary footprint. Those interested in buying bitcoins should do some research on the best options available in their locale, as these services tend to differ from country to country.

Additionally, though not yet approved, the idea of investment trusts specifically designed to allow people to purchase shares in the digital currency without having to buy or store bitcoins themselves is emerging. While the Bitcoin Investment Trust is an option that's already up and running, Bitcoin Superfund and Winklevoss Bitcoin ETF are proposed alternatives awaiting approval as well.

Of course, the same best practices for safety and trust when sending money in exchange for anything also apply in the pursuit of bitcoins. Because Bitcoin services are not regulated in the same way as traditional

currencies, it is vital to find trustworthy vendors and recommended that you obtain their real-world identities and confirm sufficient trust is in place before providing any funds in exchange for bitcoins. While there are plenty of avenues available for procuring bitcoins, walking down them can be treacherous and more complicated than it might seem, and it will depend greatly on where in the world you live. However, as the digital currency gains mainstream popularity and more purchasing options are added to the current roster, the process will only become easier.

## What is ICO and its launch

**Initial coin offering (ICO)** Is an unregulated means of crowdfunding via the use of cryptocurrency. In an ICO a percentage of the newly issued cryptocurrency is sold to investors in exchange for legal tender or other cryptocurrencies such as Bitcoin. The term may be analogous with 'token sale' or crowd sale, which refers to a method of selling participation in an economy, giving investors access to the features of a particular project starting at a later date. ICOs may sell a right of ownership or royalties to a project. According to Amy Wan, a partner at Trowbridge Sidoti LLP practicing crowdfunding and syndication law, "The coin in an ICO is a symbol of ownership interest in an enterprise—a digital stock certificate if you will. In contrast to initial public offerings (IPOs), where investors gain shares in the ownership of the business, for ICOs the investors buy coins of the company, which can appreciate in value if the firm is successful.

Mastercoin held the first token sale (ICOMastercoin in July 2013). Ethereum raised money with a token sale in 2014. Another ICO was organized by Karmacoin in April 2014 for its Karma shares project, and

nowadays ICOs and token sales are now prevalent. As of May 2017, there were currently around 20 offerings a month, and a new web browser Brave's ICO generated about \$35 million in under 30 seconds. There are at least 18 websites that track ICOs. By the end of August 2017, ICO coin sales worth \$1.8 billion had been conducted during the year, more than ten times as much as in all of 2016. Ethereum is (as of 2017) the leading blockchain platform for ICOs with more than 50% market share. The Ethereum network ICOs have resulted in considerable phishing, Ponzi schemes, and other scams, accounting for about 10% of ICOs.

The U.S. Securities and Exchange Commission (SEC) indicated that it could have the authority to apply federal securities law to ICOs. The SEC did not state that all blockchain tokens (ICOs) would necessarily be considered securities, but that determination would be made on a case-by-case basis. The SEC action may encourage more mainstream investors to invest in ICOs, although ICOs typically prevent U.S. investor participation to remain out of the jurisdiction of the United States government.

On September 4, 2017, seven Chinese financial regulators officially banned all ICOs within the People's Republic of China, demanding that the proceeds from all past ICOs be refunded to investors or face being "severely punished according to the law." This action by Chinese regulators resulted in massive sell-offs for most cryptocurrencies. Before the Chinese ban, ICOs had raised nearly \$400 million from about 100,000 Chinese investors. A week later, however, a Chinese financial official stated on Chinese national television that the ban on ICOs is only temporary until ICO regulatory policies are in place.

Other jurisdictions, such as Canada and the Isle of Man, are working on regulating ICOs rather than prohibiting them.

## Chapter 2

# *OBTAINING BITCOINS*

**There is no easy way to earn bitcoins** just like there's no easy way to make dollars or any other valuable currency. That being said, you can achieve some impressive earnings if you are willing to put in the effort.

And believe me, there is nothing like free bitcoins, getting it will always cost you something, it doesn't necessarily have to be money, it might be your valuable time, taking surveys, viewing ads or anything else.

Let's go into the different ways by which you can start earning free Bitcoins today

- **Micro Earnings**

Micro earnings seem to be the easiest route to make bitcoin, though it consumes a lot of time. It also pays only a small amount of Bitcoins and usually takes a lot of time. Even when you are ready to give it your time, you still won't get too much income. Also, you need to stay safe and not click any links you don't trust as some of the websites that pay out micro earnings have built-in malware and viruses.

- **Paid to Click Websites**

As the name implies, these are websites that give out a few Bitcoins for visiting their pages and viewing ads. The most popular one is the ad4BTC site which offers a choice between 5 seconds ads, 10 seconds ads, and 20 seconds ads.

- **Bitcoin Faucets**

Bitcoin faucets are assumed to be a more profitable means to earn bitcoins. Faucets are websites, which will give you bitcoins for every few minutes spent. For instance, Milli (a bitcoin faucet) gives out 1000 Satoshis (0.000001BTC) every five minutes. So for 24 hours of work, you'd get around \$1.31, and at this rate, it is regarded as one of the highest paying faucets in the states.

- **Micro Jobs**

Bitcoins are also earnable by completing micro tasks. A good example of micro job Bitcoins site is Coinworker. Jobs can range from testing a web application to post retweeting.

- **Writing about Bitcoin**

This requires time, knowledge, and ability to write to write in the required language. Depending on where you choose to write, you can start making bitcoin.

- **BitcoinTalk Signature Campaigns**

Around 2014, BitcoinTalk began running signature campaigns which imply you get paid for every post you write when you use your bitcointalk signature to advertise a bitcoin product. Payment is according to your membership level. You'll need at least 120 posts to become a full member, which qualifies you to start earning 0.0005BTC on average per post.

- **Writing for Blog and News Site**

You can become a writer for a blog or news site when you believe you have the required knowledge to contribute about Bitcoin. Many sites are desperately looking for writers to fill in a lot of posts. A good example is 999Bitcoins. Payment depends on your written experience, and expertise.

- **Bitcoin Related Service**

This is a wider category that includes every possible service you can think of that could earn you Bitcoins. Below are some of the examples of services people are desperately looking for

- \* Blockchain developer
- \* Graphic design expert
- \* Mining expert
- \* Online marketer
- \* Website manager

- **Bitcoin Escrow Agent**

Becoming a Bitcoin escrow agent is one of the services you can provide and get paid in Bitcoin, but you need to gain some good reputation for yourself as a loyal and trustworthy person in the community before you can take advantage of such opportunities

- **Bitcoin Mining**

Bitcoin miners perform a function that is peculiar to gold mining but very different.

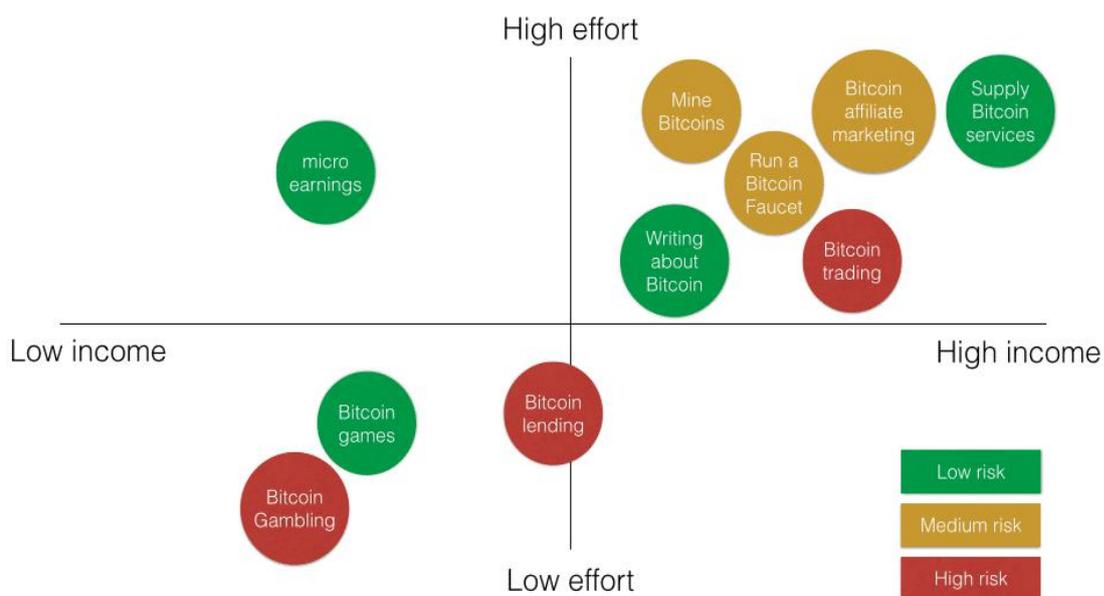
While gold miners mine rocks to obtain gold which has integrity and scarcity based on its internal characteristics such as atoms and chemical law

Bitcoin miners mine numbers which integrity and have scarcity based on internal characteristics based on cryptographic protocols and mathematical law.

Bitcoin mining entails how numbers and information of the Bitcoin network, is validated, secured, and verified.

Bitcoin mining is not an easy way to earn bitcoin as it is not fast or free. It requires a lot of time, money, and research you need to invest in mining equipment.

***There you go; this is the full array of possibilities to earn Bitcoins online today. As I stated in the beginning, there's no such thing as free Bitcoins – in each of these options it will either cost you time or money to generate more coins. To wrap things up, I made this chart showing where each of the options I've just listed is located to ease the efforts.***



## Chapter 3

# *THE FUTURE OF CRYPTOCURRENCY*

With any degree of certainty, no one knows for sure the future of Bitcoin, but most will agree that the future is bright.

Some experts believe that Bitcoin is the "people's currency," that is one day destined to replace national currencies. Others believe it is a "fraud" and a "tulip" bulk." What is the view of an average Americans and Bitcoin?

It may amaze you that some Americans have never even heard of Bitcoin, while some have heard of it, but either believe it is illegal or aren't sure of its Genuity. Furthermore, only a smaller fraction which includes the younger generations have ever owned the digital currency.

This stat is according to a just-concluded survey and shows Bitcoin currency has a long way to go before it crosses the "tipping point," from being an exotic product for "innovators and "early adopters" to a currency for the mass market.

Meanwhile, Bitcoin has been driving cryptocurrencies sharply higher over the last twenty-four hours higher, crossing the \$4,000 mark, again.

Here are five key findings:

1. 78.50% of Americans have heard of Bitcoin.

2. Of those who have heard of Bitcoin, **11%** of Americans answered that owning Bitcoin is illegal in the U.S., while another **48%** were unsure of Bitcoin's legality

3. Of those who have heard of Bitcoin, only **14%** have ever owned it, **40%** were open to the idea of using it in the future and another **34%** were undecided about buying Bitcoin in the future.

4. The survey further says that of those who have heard of Bitcoin, there were consistent age trends: In a near perfect correlation, as **Americans got older they were less likely** to have ever owned Bitcoin or be planning to invest in it in the future

5. These results are much better than those published back in December 2013, which showed that only 42 percent of Americans were aware of the digital currency.

This spells good news for the future of Bitcoin. "Not only was there a direct age correlation, where young American consumers were much more likely to say that have either owned Bitcoin or were open to using it for future transactions when compared to their older counterparts. But, across all ages, consumers showed more of a willingness to investing in Bitcoin for the future. For example, 85.37% of respondents said they have never owned Bitcoin, but only 54.58% said they were not planning on investing in the virtual currency in the future."

## **CAN GOVERNMENTS STOP BITCOIN?**

No government of any country can stop bitcoin; it can only be banned in their locality as any individual nor government do not control the bitcoin network.

The number of vendors accepting in Japan grows, it is incorporated by companies to their business in different ways. Info-Telecom and ATM manufacturer (Japan's Leading Printer(Oki Electric Industry Co Ltd, has ventured into the Bitcoin ATM business and they are to launch the first line of Bitcoin ATMs this month.

Bitcoin has been officially accepted and recognized as a legal means of payment since April 2017 even before the tax reform bill came into effect.

The Japanese Liberal Democratic Party and Komeito Party, first proposed the draft law in December last year as 2017 tax reform revision, the bill excluded Japanese Cryptocurrency holders from the payment of 8% consumption tax and was passed in March this year by the Japanese National Diet on the 193rd ordinary session.

The Japanese government has been centering its efforts in balancing out the cryptocurrency environment for Bitcoin merchants, clients, and organizations since perceiving Bitcoin as an official payment currency. Passing the tax reform bill is viewed as a noteworthy piece of the administration's drive to make digital currency exchange frictionless in the nation. With this strong move, the government is expecting a massive turnaround in Bitcoin and digital money exchange activities within Japan cryptocurrency exchange market.

The Japanese government additionally guaranteed that the nation's Bitcoin trade showcase is very much directed by putting Know Your Customer (KYC) and Anti-Money Laundering (AML) frameworks set up. AML strategies were particularly strict not simply in Japan but rather different nations like South Korea. These arrangements fix the country's

cash exchange security and enable nearby swapping stages to screen brokers and keep them from utilizing Bitcoin to move suspicious measures of money to and from Japan.

### Integration of Bitcoin Into Japanese Marketplace: No Bitcoin Tax

The Lifestyle's vision of coordinating Bitcoin into AirRegi came into reality last Monday when the organization declared that their POS framework is ready to acknowledge Bitcoin payments. The declaration came two days after the administration formally evacuated the utilization charge for cryptographic money holders.

It was reported last April that Recruit Lifestyle Co., Ltd., has partnered with a leading Japanese Bitcoin exchange company known as Coincheck by Bitcoin.com for its point of sales (AirRegi) to acknowledge Bitcoin payments.

AirRegi is a tablet-based point-of-sale app in Japan and is widely used. Right now, around 260,000 foundations, stores, and business offices make use of this exclusive application in acknowledging payments from their clients.

Another Japanese Chain of 334 eyeglasses store that uses AirRegi known as Megane Super already confirmed that starting from July 10th, they would accept Bitcoin payments. They expect an expansion in their user base especially from Europe and U.S with the belief in the convenience offered by cryptocurrency.

## Why Bitcoin is so popular and why has it overtaken other coins in the market?

Bitcoin has a proven usage case as a store of value. It's instructive that most coins try to carve out some differentiation based on much smaller use cases, such as prediction markets, buying things completely anonymously or adding a decentralized name server.

Bitcoin has a significant lead as a store of value over every altcoin in having existed eight years without failure. The security of Bitcoin has been proven far more than its much younger counterparts with usage by almost every metric exceeding that of altcoins.

Further, Bitcoin is more accessible, with more exchanges, more merchants, more software and more hardware that support it. Bitcoin is far more liquid, with much larger volumes than every altcoin. Bitcoin has the largest developer ecosystem with more software and more implementations than any altcoin. Bitcoin has the most entrepreneurs creating companies around it with a lot of intellect, dedication, and creativity going toward making it more useful.

When you compete with Bitcoin, not only are you competing with its much larger user base, development team, and mining operation, but you're also competing against the extensive ecosystem of startups, open source projects, and entrepreneurs.

For other coins to become more popular than bitcoin, they would have to show more present and not future utility first and also be able to grow itself to compete with Bitcoin's network before the ecosystem of Bitcoin has the chance to add the same feature

## Bitcoin exclusives

The next is to take a look at the differences of a bitcoin to the traditional currencies. These differences no doubt make Bitcoin a great possibility. The main differences between Bitcoin and traditional currencies lie in its decentralization. The Bitcoin network is not controlled by one person, government or corporation. It isn't the only difference, so, let's take time to elucidate the facts that make Bitcoin exclusives.

### **Conventional Currencies versus Bitcoin**

#### 1. Bitcoin is decentralized

Bitcoin is decentralized, and it is unlike the traditional currency, which is controlled by a central authority usually an arm of the government. Since it operates with a peer-to-peer technology, all transactions and verification of the operations are done by various people in the network.

#### 2. Bitcoin is Virtual Currency

One other thing that gives Bitcoin a class apart from traditional currency is the fact that it's virtual, i.e., paper money and coins are not produced to connote the same value. Instead, all bitcoins exist in virtual space. This means you can't go to an ATM and withdraw physical cash. Some people have created unofficial physical representations of bitcoins, but first and foremost, Bitcoin is virtual.

#### 3. Bitcoin has Scarcity

Unlike traditional currency that can be printed anytime the government sees the need to, only 21 million bitcoins will be created, and as such, Bitcoins has scarcity. To control the availability and creation of bitcoins,

the number that is created by "mining" will reduce by half every four years. What this means is that until the year 2140, people will still be able to create bitcoins, but at that time, no new bitcoins will be created and existing ones will enjoy the benefit of scarcity, thereby becoming more valuable

#### 4. Bitcoin transactions cannot be reversed

Unlike the traditional currencies whose transactions can be reversed, Bitcoin transactions are irreversible, to preserve the blockchain of all transactions. Additionally, unlike the traditional currencies which can be confirmed in a matter of seconds, a Bitcoin transaction can take more than ten minutes to confirm

#### 5. Bitcoin is not ubiquitous

There is nowhere you go in the world that you won't run into local currencies. Traditional currencies are accepted virtually almost everywhere and in every aspect. And in most places, you're able to trade your country's currency to the bill of the country you are visiting. Bitcoin hasn't been embraced yet by the world as a whole. Changes may occur in years to come as more businesses begin to accept Bitcoin for payment, but for now, it's a difference that matters to a lot of people.

## Bitcoin: Pros and Cons

From the points above, one can be poised to believe that Bitcoin has a lot of positives and negatives attached to it currently. Because it's decentralized and has low fees for transactions, many people are starting to take notice and get excited about this and other cryptocurrencies.

Another thing to note is that some people worry about who controls the Bitcoin network. No one person, government or corporation can own the Bitcoin network since it uses peer-to-peer technology. To some people, this seems scary while to some it's exciting and revolutionary.

The need for all versions of Bitcoin software to be compatible and be able to communicate with each other is paramount to Bitcoin's success. Luckily, most people who are involved realize this and have worked together to improve the Bitcoin software and network considerably in just a few short years.

The fact that Bitcoin is different than anything else that was around when it first came out is both good and bad, but at the end of the day, it makes Bitcoin unique and extraordinary. And this just might be what's able to help Bitcoin grow even more quickly around the world. This may turn out to be the financial system that brings the world together.

## How does Bitcoin work?

Let's start by looking at the different things you need to get a cryptocurrency working. We'll start with the basics and then move into more specifics about what you'll need to get started.

- **Transaction** - When you think about a virtual currency, the first thing that came to your mind is the transaction which is the actual exchange of value from one person to another. This may sound simple, but in many ways, it can be easy to forge a transaction to try to cheat the system. With physical currency, dealings are controlled by banking institutions which verify that they're not forged and are unique.

- **A Serial Number** - To avoid people trying to manipulate transactions or reuse them with virtual currency, you need a way to tie a unique serial number to every individual and each transaction as well. Bitcoin does this by using a private and public encrypted key.

These hashes are used to make sure transactions aren't duplicated in the network and there's no way to cheat the system.

- **Goodbye Banks** -- Currently, banks are in place to facilitate a financial transaction between two people. When Bitcoin was set-up, it was realized that banks could be taken out of the picture entirely if a peer-to-peer network was created to verify the transactions between two entities. This decentralization of financial transactions is one of the biggest reasons, so many smart people are getting excited about Bitcoin.
- **Bitcoin Mining** -- Another piece is needed to make Bitcoin work. If it's too easy for transactions to be validated, people could program bots to flood the network with verification, making it difficult to verify the operation. In a bid to guarantee integrity, the idea was to make it computationally difficult to check the transaction. This helps fight against the bad guys while at the same time offering a way to reward people who give up computing power to verify the operation. The computational puzzle has to be difficult enough to make it impossible to hack while easy enough to still allow people to solve in a reasonable amount of time.

So, when you set-up a Bitcoin Wallet -- aka a Bitcoin client -- you will generate a public and private key that is unique to you. This is used to

move bitcoins to you as well as allow you to transfer bitcoins to other people in the network.

After your Bitcoin Wallet is installed and running, you can create a Bitcoin Address if you want to receive BTC from someone else on the network. At the same time, you can use another Bitcoin address generated to pay for goods or services.

The next step is a transaction that is generated when the actual swapping of BTC occurs between a buyer and seller. This is added to the blockchain where others will verify the operation (by solving the math problem) and then publish details of the transaction publicly.

## Chapter 4

# *HOW TO OBTAIN BITCOIN*

Understanding how Bitcoin works may be interesting to some, but you probably want to know how you can acquire some bitcoins of your own. There are a few ways you can legally get bitcoins -- no matter where you live in the world. As long as you have an Internet connection and the Bitcoin software installed, you're going to be able to begin using this virtual currency. The best news is that it's relatively easy to start to build up your Bitcoin Wallet if you have a little spare time.

First, it should be noted that it's challenging to purchase bitcoins with a credit card or PayPal account. This may seem odd at first, but if you think about it, this makes sense. Issuing a chargeback on a credit card is straightforward; if someone buys BTC with a credit card and then reverses the charge, it's tough to prove to the credit card companies that the exchange happened. Because of this, most major Bitcoin Exchanges do not allow you to purchase BTC with a credit card or PayPal account.

Okay, with that aside, let's dive in and look at the exact steps you're going to need to take to start amassing BTC of your own. It's important to remember that the value of one BTC is very volatile right now, so you probably don't want to invest everything you have in this virtual currency. At the same time, the popularity of Bitcoin is growing throughout the world, and some people are already getting rich by building up large piles of bitcoins virtually via means and method we'll describe below.

### **Step One: Get a Bitcoin Wallet**

The very first thing you're going to need is a Bitcoin Wallet -- aka a Bitcoin client. No matter what type of computer you're running, there's going to be an installer program to get you up and running in no time at all. Most people find it takes around 5 to 10 minutes to get a Bitcoin client installed and connected to the network.

Be sure you take your time to find a client you're comfortable with using. Most are very similar, but some have some extra bells and whistles that might make it easier for you to get started. The most attractive option for Windows, Mac, and Linux is currently MultiBit. Bitcoin Wallet for Android OS is also available.

Another option is to use a web-based Bitcoin Wallet, but this idea isn't recommended. While you may be able to find a service that offers a high level of security, it's not the same degree you'd have if you install the software on your computer where you have complete control. Coinbase is one of the more popular online Bitcoin wallets currently.

Whichever you choose, once it's installed the next step is easy. You'll generate a public and private key. This is your Bitcoin address that will allow people to send BTC to your account. After you have your Bitcoin Wallet setup, you have a few different options on how to accrue BTC in your wallet. We're going to go over these -one-by-one.

## Bitcoin Exchanges

Bitcoin exchanges weren't around when Bitcoin first came out, but they're now an integral part of how the whole Bitcoin ecosystem works. Some exchanges include Bitcoin among other virtual currencies online as well as marketplaces that deal exclusively with BTC transactions.

It's interesting to note that some of these marketplaces will hold a balance for you - outside of your Bitcoin Wallet to make it easier to conduct trades. Choosing the right Bitcoin Exchange is important if you want to stay safe and not risk losing your BTC balance due to a scam or technical problems.

Here's a look at the major factors you need to consider before choosing a Bitcoin Exchange.

- Security – The most important aspect you want to think about is safety. If a Bitcoin Exchange is new to the Internet and is missing contact information, this is a good sign that they probably don't care too much about the security of your personal information. It's important to do your homework so that you can determine which Bitcoin Exchange website has the best track record when it comes to security. Luckily, if you spend any amount of time on the many Bitcoin forums and communities online, you'll see which exchanges have problems and which exchanges are recommended.
- Geography -- While Bitcoin is a decentralized network that spreads around the globe, you still need to think about your physical location. For example, some Bitcoin Exchanges will not allow you to withdraw funds to a US bank account. It's a good idea to make sure whatever exchange you're thinking about using has a way for you to convert your BTC to your local currency quickly and safely. In 2013, some people began complaining about the amount of time it took MtGox to transfer funds to the US, so it's a good idea to hit the forums once again and try to gauge public opinion about any exchange you're thinking of using.

Next, let's take a quick look at some of the major Bitcoin Exchanges currently operating. New ones are appearing all the time, but it's a safer bet working with one that has been around for a while and has managed to build up a track record of being reputable and honest.

- **CoinBase** – This is one of the most popular Bitcoin Exchanges at the moment. They offer the ability to transfer funds to US bank accounts. Having said that, if you live elsewhere in the world, you may not be happy about not being able to move funds to your local bank account.
- **MtGox** – At one time, MtGox was responsible for the majority of Bitcoin transactions in the world. This has recently changed as they've run into some legal problems in different countries around the world although they're still a very popular Bitcoin Exchange that many people use on a daily basis.
- **BTC--E** – This website is based in an unknown city in Bulgaria, so you might be cautious about keeping any BTC here. The prices per BTC are a lot lower here, but this is because it takes a ridiculous amount of time to confirm a transaction. Still, it's an option you might look at depending on where you live currently.
- **Bitstamp** – This exchange is similar to Coin base in a lot of ways. The main difference is that they do routinely work with people in countries other than the United States, making it easy to transfer BTC to foreign currencies. If you're looking for a truly global Bitcoin Exchange, this is a good place to start.
- **Cryptsy** – This isn't a pure Bitcoin Exchange. By that, we mean that you can trade other cryptocurrencies as well. For example, you can exchange your BTC for LTC (LiteCoins) and vice versa.

If your virtual currency investments go beyond Bitcoin, you'll want to check out Cryptsy.

- **BTer** – With slow transaction speeds and limits on the size of operations, this isn't recommended, but we thought they deserved a spot on the list because they do serve the needs of some people who use Bitcoin.
- **BTC--China** – One of the fastest growing Bitcoin exchanges – according to Wired magazine – is BTC--China, which has ramped up their efforts recently. By some accounts, they've overtaken MtGox as the place where most Bitcoin transactions take place on a daily basis.

## Face to Face / Over the Counter Trades

Even though it's virtual currency, you can still arrange to meet someone in person and conduct a transaction with them. Finding such people might be difficult. This is where the LocalBitcoins.com website comes into the picture.

Local bitcoin is the main website people use to find people who want to meet face to face to exchange bitcoins for cash or vice versa. The website even allows them to negotiate prices beforehand. Add in an escrow service, and it's one of the easiest and safest places to find someone to exchange bitcoins with locally.

No matter the value of the money being exchanged, it's important for you to stay safe. To do this, it's a good idea always to arrange to meet in a public place surrounded by a lot of people. Never agree to go to someone's home, apartment, or a field on the outside of town! In all

seriousness, use your common sense when setting up a face to face Bitcoin transaction.

Even though you're meeting in the real world, you're still going to need access to your Bitcoin Wallet. Once you have the cash, use the other person's Bitcoin Address to send them the predetermined amount of bitcoins. The good news is that you can use a laptop, tablet or even your smartphone to do this wherever you are as long as you have a WiFi connection.

In addition to one on one meetings, many people around the world also have Bitcoin groups that meet in public places in order to exchange Bitcoin for cash and vice versa. Websites like Meetup.com routinely have Bitcoin groups that meet in real life. In some big cities, you may find multiple groups meeting on different days of the month. Additionally, you may find so-called "Satoshi Squares" or Bitcoin markets set--up in public places.

It should be noted that in most cases you're going to pay a transaction fee of 5% to 10% (or more) to the seller in exchange for the privacy and immediacy. This is too much for some people, but for others, it's just a cost of doing business. Just be sure the local police don't think you're exchanging money for illicit substances!

## **BITCOIN MINING**

In the very early days of Bitcoin, this was a reasonable way for an average, everyday person with a little computer knowledge to generate income. However, as more people began to use Bitcoin and realized the potential for making money, large groups of people (including some corporations) were set--up, effectively locking out individuals who want to mine for bitcoins using a home computer.

Here's a look at what you need to get started with Bitcoin Mining.

- **Bitcoin Mining Software** -- While early Bitcoin Clients included the ability to mine for bitcoins, this stopped as dedicated software for Bitcoin Mining was created and released. You'll still need a Bitcoin Wallet to store the bitcoins you collect via mining, but the actual mining software will be separate from the main Bitcoin Client.
- **Bitcoin Mining Hardware** -- As Bitcoin became more popular, people realized that graphics cards in computers were great for doing the complex math needed for Bitcoin mining. Soon, dedicated hardware was created just for mining bitcoins. The software is still needed to run them, but these devices -- known as ASICs after the type of processor they use -- are almost a necessity to have enough computing power to be able to successfully mine. Other thing to think about is joining a pool or what's known as a Bitcoin Guild. This is a group of people who pool their computing power together to solve blocks more quickly. This makes it easier for smaller players (individuals) to be able to compete. Once a block is solved, the bounty is split up between members of the group based on the amount of processing power they contributed to mining the bitcoins.

Additionally, some enterprising individuals have set--up companies with entire data centers set up with multiple computers to mine bitcoins on a very large scale. The pure computing power available to them makes it difficult for individuals to compete these days. This is one reason Bitcoin Guilds are becoming so popular. Lone Bitcoin miners are rarely able to compete with the large companies unless they band together.

### **Bitcoin investment trust**

Another option for generating bitcoins for yourself is to go with Bitcoin Investment Trust, which invests in bitcoins only. Using a special protocol to store the bitcoins safely for shareholders, you can make BTC much like you would make money by investing in a hedge fund. The advantage to this is that you don't have to hold onto a lot of bitcoins by yourself. The BIT takes care of all the security and other details. You won't get as much hands--on interaction with Bitcoin this way, but this is fine for some people as long as they're making money.

### **Bitcoin ATMs**

A Bitcoin ATM is different than a normal bank's ATM. You are performing a one--to--one transaction, but you're doing it with a machine rather than a person. After depositing your cash into the machine, a slip of paper is printed with everything you need to load the bitcoins into your Bitcoin Wallet. These are very rare currently, but as Bitcoin gains more prominence and begins to be used more, there's a very good chance more of them are going to be seen all over the world. Perhaps someday they may even dispense other currencies using your BTC balance.

### **Acquiring Bitcoins Not Super Easy**

While obtaining bitcoins is not super simple -- press a button and make money -- this is part of what makes the cryptocurrency so valuable. Bitcoin is still relatively new, the number of options for getting bitcoins is increasing all the time. Plenty of incentives exist for enterprising people to come up with new and convenient ways for people to use Bitcoin.

Some ideas floating around on the Internet include Bitcoin gift cards which would work like traditional gift cards but be filled with BTC

instead of other currencies. Other ideas include physical bitcoins and many others. One of the great things about Bitcoin is that it's constantly evolving and becoming better thanks to the community of people around the world.

## How to mine Bitcoins

Next, we're going to take a more in-depth look at how to mine bitcoins, including some technical information. As you know, Bitcoin mining refers to confirming existing Bitcoin transactions (blocks) by figuring out complex math problems. Once confirmed, they become a permanent part of what's known as the blockchain -- a record of every single Bitcoin transaction since it began.

Because all the transactions are public -- and in chronological order -- it's easier to protect the neutrality of the network. At all times, different computers in the network have to agree on the state of the overall system. Doing it this way also makes sure that previous blocks can't be modified. If they were, blocks connected to them would also be invalidated. Other rules exist -- coded into the software -- to make sure that everything works as it should.

Bitcoin mining is like a lottery in that it prevents any single person from adding consecutive blocks or from replacing sections of the blockchain to "roll back" their transactions for one reason or another. It's this competitive side of Bitcoin which makes it so addictive for some people as they try to gobble up all the new bitcoins as they are created when people conduct transactions.

If you ask most people, Bitcoin Mining is one of the more challenging aspects of Bitcoin for people to understand, and yet it's crucial to the whole system because it is the only way that new bitcoins are created.

Knowing how a currency is created -- and understanding the process -- is critical in helping people trust Bitcoin as a valid currency. To help with this, we're going to go over some of the central concepts of Bitcoin Mining that you should know.

## **Hash**

The hash is hard to understand, but at its core, it's the result of a complex math problem. While it's relatively easy to reproduce, it's impossible to reverse once completed. It's also difficult to predict the answer.

## **Block**

A block is a series of transactions placed together. Every Bitcoin Block is linked with the one before it in the chain as well as the one that will come after it. The further back a block is in the chain, the more difficult it is for a hacker to corrupt or change the data. Blocks connect with each other to form what is known as the Block Chain -- the backbone of the Bitcoin system.

## **Difficulty**

When trying to mine bitcoins, you're going to get a difficulty factor. This number tells you how hard it will be to find a winning hash and collect your bounty of bitcoins. On average, around six blocks should be solved every hour. Adding a random difficulty factor to this ensures that most blocks take around ten minutes to solve.

Because new people are joining the network and others are leaving all the time, the difficulty factor is used to ensure that each block takes approximately ten minutes to solve -- no matter how many people are connected to the Bitcoin network at the time. So, the more nodes in the Bitcoin network, the harder it is going to be to compute the hash and clear

the block. Still, it comes down to luck as to which node in the network finds the winning solution first.

### **Bitcoin Rewards**

Another interesting aspect of the Bitcoin network is that the reward for solving a block is controlled very carefully. Every so often, the reward is halved so that fewer bitcoins are put into circulation. While the number started high in the early days of Bitcoin, it currently stands at 25 BTC per block in early 2014.

In the year 2140, the halving will stop with bitcoin rewards being at zero finally. Exactly 21 million bitcoins will be in circulation at that time. At this point, the reward for solving the hash and clearing the block will be a part of the transaction fee -- which will be a lot less than the current bounty of 25 BTC.

In the very early days of Bitcoin, people were able to use their personal computers to mine for bitcoins without any problems. However, as more people started getting involved and they began throwing more and more computing power at the problem, Bitcoin Mining has become more of a team sport, with lone wolves unable to compete with all the others mining bitcoins.

Today, application specific integrated circuit (ASIC) processors are custom built just for Bitcoin mining. The other main cost, of course, is electricity to keep the computer running. Most of the electricity is usually spent maintaining the hardware of the equipment cooling as it crunches the numbers trying to solve hashes.

In the beginning, a single person could compete if they had a speedy computer with lots of RAM and an excellent graphics card, but those days are long gone. As large companies have formed and set-up

dedicated server farms to mine bitcoins, the individual has very little chance of being able to compete.

This is why Bitcoin groups pooling resources have become so popular. Different computers are pooled together to work on solving a block. If someone in the group comes up with the answer, the reward is split among everyone in the group depending on how much processing power they supplied.

## Chapter 5

### *Bitcoin Value*

Let's take a look at the actual value of bitcoins. For a currency to hold value, it is essential that people trust it and makes use of it and this one of the major reasons why bitcoins now have value. It has been accepted as being valuable by a large group of people, both buyers, and merchants. A lot of individuals around the world now accept Bitcoin as a means of payment.

Additionally, the fact that Bitcoin has spawned so many startup companies around the world is a testament to bitcoins having value. Bitcoin is like any other currency. That is to say that their value is measured in part by what people believe they're worth. The single biggest thing to remember is that if they weren't accepted as payment, they would have no intrinsic value.

In the past, many currencies were backed by physical assets -- typically gold and other precious metals. Because they're rare around the heavier elements, have value. This value was passed on to bits of paper and metal coins to make it easier to transfer wealth from one person to another. Over time, a lot of governments switched to fiat currency, which is NOT backed by precious metals. This is why countries can just print money to stimulate the income. However, doing so causes inflation, and the money ends up being worthless.

Because Bitcoin is not backed by physical assets and its creation is decentralized, its value relies on the confidence people have in the virtual

cryptocurrency. At first, bitcoins had no value at all. Then, gradually, as more people became involved and began to give them value, their overall value increased. It's important to note that the value of a Bitcoin will vary from exchange to exchange, showing that the value is what people are willing to spend on it.

If you know anything about the history of finance, you've probably heard the story of the Dutch Tulip Market. In the country, tulip bulbs were rare and had value. Over time, they became more and more valuable as the market was worked into a frenzy. The price skyrocketed until people started getting scared and sold all of their tulips. As this happened, the prices plummeted until they were back to "normal" for the most part.

Unfortunately, the same thing could conceivably happen with the value of a Bitcoin. During 2012 and 2013, the value of 1 BTC rose quite a bit, with each Bitcoin being worth several hundred dollars. The value drops occasionally, but it's still trending upward, becoming more and more valuable as time passes and the 21 million Bitcoin limit nears.

Let's take a look at some of the main reasons that the value of a Bitcoin has been increasing and will likely continue to increase in value in the years ahead.

1. Major Investors -- One of the main things that has helped the value of bitcoins to improve so much recently is the fact that a lot of "deep pocket" investors have begun to take notice of Bitcoin and its potential for making a profit. Some companies have made substantial purchases of bitcoins, betting that they're going to increase in value. This only leads to Bitcoin becoming even more popular and valuable, of course.

2. BTC China -- Another thing to look at is the birth and rise of BTC China -- now the largest Bitcoin Exchange in the world. As many Chinese people try to find ways to invest their money safely, Bitcoin has become a way to get around regulations in that country. This surge in popularity led to BTC China being set up. After launching, it quickly became responsible for most of the Bitcoin transactions worldwide. With a population well over 1 billion people, the acceptance of Bitcoin in this market is a good sign that it's going to continue increasing in value.
3. Startups -- Also, the fact that a lot of startups are being created to fulfill needs in the Bitcoin market is further proof that not only are bitcoins going to be around, but a lot of smart people are also betting that they're going to increase in value. While tens of millions of dollars have been invested in Bitcoin startups over the last couple years, this number is expected to increase as even more people try to monetize the growing Bitcoin market.
4. New Exchanges -- When you look at the number of Bitcoin Exchanges that are starting up around the world, it's yet another sign that Bitcoin is here to stay. Some websites count the current total of Bitcoin Marketplaces online to around fifty currently in early 2014, with new ones popping up all the time. This growth shows that many people are betting that Bitcoin is going to be around for years to come.
5. Mining Difficulty -- With so much competition and computing power going into Bitcoin mining these days, it's become nearly impossible for a single individual to mine enough bitcoins to break even, let alone make a profit. This, of course, drives the value of

bitcoins up even more because it is so difficult to create new bitcoins by solving blocks and adding them to the blockchain.

6. Limited Government Involvement -- This is likely to change in the coming years, but for now the lack of government regulations have allowed Bitcoin to flourish and grow in many parts of the world. This is already changing as governments begin to take Bitcoin seriously. The fact that they're starting to do this also shows that Bitcoin has broken some barrier and become a reality that will be around for years to come, increasing in value all the time.
7. Payment Acceptance -- As more and more businesses -- some major ones even -- begin to accept BTC as payment for goods and service, this is only going to help cement the cryptocurrency and increase its value over time.
8. Media Attention -- Whether it's the local newspaper, a national TV network or on the radio, the mainstream media is currently fascinated with everything Bitcoin. They may think of it as "Magic Internet Money," but as more join the Bitcoin community, the coverage is going to change. Someday you might find television shows (and entire networks) dedicated to Bitcoin prices and markets.
9. The Internet -- Additionally, beyond the mainstream media, the Internet, and the world wide web have made it possible for knowledge about Bitcoin to spread far and wide quickly. This has also led to the virtual currency to become a more valuable form than physical currencies in some cases. From bloggers to forums dedicated to Bitcoin popping up, the Internet is abuzz with talk of

Bitcoin, which helps bring more people into the network, driving the value of a Bitcoin up even more.

Looking at the list above, it's easy to see why there's been such an increase in the value of bitcoins in the last couple years. What's amazing is that Bitcoin is still in the very early stages of its life as a worldwide currency. This means there are sure to be a lot of changes -- some probably dramatic -- in the months and years ahead as Bitcoin matures and gains more acceptance around the world.

## Supply, Demand, and Bitcoin

As you know, the value of a Bitcoin is subject to change quite frequently -- both up and down. It's important to note that there is always a fixed number of bitcoins available on the market. As long as new bitcoins are being added to the network via Bitcoin Mining, this number will change, but at some point, BTC 21 million will be reached, and there will be no more new bitcoins produced via mining.

However, Bitcoin is a very speculative market. That is, there's no easy way to predict whether prices are going to rise or fall at any one moment. Because they're produced at a steady rate, it's not possible to suddenly start producing more as the value rises, slowing the growth of the value. This doesn't happen much though because bitcoins are created at a steady rate -- with one block being solved every ten minutes.

What currently happens a lot of the time is that as the perceived value of 1 BTC rises, people become more interested in purchasing them, which drives the value up even more. As seen with the tulip market in the past, this can't go on forever unchecked, but Bitcoin is a bit different than tulips

in that there is a finite and knowable amount of them that will be in circulation -- 21 million to be exact.

## The Growth of Bitcoin

We looked at the growth of virtual currencies in general in the last section, so let's take a specific look at how Bitcoin may grow and evolve over the next few years -- and decades. In many ways, the future of Bitcoin looks bright because it's now growing in popularity at such a fast rate. There are a lot of reasons for this exceptional growth.

For one thing, Bitcoin is loved by people who try the decentralized currency because they see it as a way to make the world a better place -- especially for the disenfranchised people who are too often ignored by current financial systems in place. In fact, some would say that the current economy does a lot to keep poor people poor while making the rich even richer. This ever-widening gap between the haves and have-nots is dangerous.

If you look at Google Trends, it's easy to see that the topic of Bitcoin has been experiencing a lot of growth and is on track to continue in this direction for the foreseeable future. This shows interest in the cryptocurrency, which is an important indicator of whether or not people are going to use Bitcoin. The fact that its exponential growth is another good sign that things are just starting to pick up when it comes to Bitcoin being used by people around the world instead of traditional currency.

Another way to look at the growth of Bitcoin is by looking at the number of Bitcoin transactions as well as how the value of 1 BTC has risen dramatically over the last couple of years. Both of these signs point to Bitcoin becoming more popular until it reaches a tipping point and

becomes mainstream. At that time, the growth of Bitcoin may slow, but it may be so entrenched in modern society that it's impossible for it to fail unless something drastic happens.

What's interesting is that Bitcoin has no intrinsic value -- it's not backed by gold or precious metals -- and yet it's been able to experience all this growth because it's useful and scarce. Not everyone agrees that Bitcoin is "real money" at this point, but the number of people who are accepting it is growing all the time. Well, except for traditional economists who rely on established financial systems.

Because Bitcoin lacks a central authority, it scares a lot of people, especially those who are used to the powers that be deciding when to print money and how much to print. One sign that it is like a real currency is that it has experienced bubbles -- going up and up in value and then "bursting" and losing value. This up and down movement of the value of Bitcoin is a good sign that it's going to be accepted by at least some economists eventually, especially when you consider that Bitcoin is virtually invulnerable to inflation.

Other factors that have been contributing to the growth of Bitcoin include the ability to bypass government restrictions (especially in China) as well as it being able to transfer money almost--anonymously anywhere in the world almost instantaneously no matter the distance. Other virtual currencies offer these to an extent, but Bitcoin was the first to use a peer--to--peer network instead of a central authority in control of the coin. When you add in advanced encryption and anonymity, it's easy to see why Bitcoin is multiplying all over the world -- and will likely continue to experience growth for the next decade at least.

As forced cutbacks and problems with existing financial systems occur around the world -- like in Greece, for example, with austerity measures put in place -- Bitcoin is going to become more useful for billions of people. Because Bitcoin is not tied to the current financial institutions -- like banks and governments -- the people are more likely to latch onto it and use it because of their hatred for what's been done to the world economy.

At the same time, if Bitcoin is to continue growing, it's going to have to come to terms with governments and financial institutions around the world. Because if not many people accept Bitcoin as a form of currency, it's still necessary to transfer bitcoins to your currency of choice before you can use it. This is why it's going to be necessary for Bitcoin to "grow up" eventually and learn to interact with current financial systems a little better. As this happens, Bitcoin is going to become even more popular around the world and experience a huge growth spurt.

## Chapter 6

# *ADVICE AND TIPS FOR BITCOIN*

- **Become Involved**

One of the very best ways you can learn more about Bitcoin is to become involved yourself. To do this, you just need to create a Bitcoin Wallet by installing the Bitcoin Client. Once you do this, you're going to be part of the network. You can use one of the methods mentioned earlier in the ebook to start to collect your bitcoins and watch them increase or decrease in value over time.

- **Be Wary**

At the same time, you want to be cautious about your participation with Bitcoin. There's always a chance that the value will drop considerably at a moment's notice. As with other investment opportunities, you want to make sure you don't keep all your eggs in a single basket. Still, Bitcoin seems to be a perfect way to invest in a growing market. Just make sure you don't go "all in" and dump all your resources into what's still a very volatile market.

- **Research**

While this book about the basics of Bitcoin is a perfect place to start, there's a wealth of other information online -- both positive and adverse. Just make sure you don't simply read the right aspects of Bitcoin and ignore the potential problems. For Bitcoin to become a more stable form of currency, it's important for smart people to look at both the good and bad so that problems can be avoided before they happen.

- **Spread the Word**

Another thing you can do to help Bitcoin spread is to tell your friends and family about the cryptocurrency that's gaining prominence online. There's a good chance that most people in your life don't even know about Bitcoin, let alone understand the way it works. This gives you an opportunity to help Bitcoin grow by educating people around you.

- **Join the Community**

You can also help Bitcoin become more successful by participating on one of the many forums that have popped up online since Bitcoin was first introduced. Whether it's on the official [Bitcoin.org](https://bitcoin.org) website or one of the other main communities, register for an account and join the conversation about Bitcoin. You never know if your idea will be one that's accepted by the community and used to make Bitcoin even better.