

Cryptocurrencies

Cryptocurrencies are a relatively new investment concept and subject to significant misunderstanding and exaggeration. Some have claimed they are the future of commerce and will replace fiat currencies; others have claimed they are worthless and nothing more than a Ponzi scheme. Neither of these are entirely accurate.

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Firstly, cryptocurrencies are not currencies in the traditional sense. They are not backed by gold, the authority of a government, or a country's economy. They are far more like commodities – the Chicago Board of Trade has classified them as such, and the US Securities and Exchange Commission is treating them like securities.

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Secondly, cryptocurrencies are not all the same. The differences can be technical, but, as for metals or grains, they are critical from an investment standpoint. Thirdly, the important part of a cryptocurrency is not the currency itself, but the technology through which it works. Understanding the details is not necessary to make an investment decision, but a general appreciation of the mechanism is essential.

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Who has classified cryptocurrencies as a type of commodity?

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What are cryptocurrencies backed by?

Cryptocurrencies are all the same; is this true?