

CRYPTOCURRENCY: HOW SECURE IS YOUR WALLET?



The three major types of Cryptocurrency wallets are software wallets, hardware wallets, and paper wallets.

Once a Cryptocurrency wallet is stolen, the value of the wallet is eliminated as coins have been removed from the exchange.

In fact, approximately \$1.1 billion in cryptocurrency was lost to theft during the first half of 2018 alone. Digital currencies can easily be hacked or stolen by IT professionals, tech coders, and even unskilled criminals looking to make a quick buck. This can happen in various situations such as when:

- an account holder transfers coins from one exchange to another
- an account holder transfers coins to another user as a payment or for passing
- the entire exchange is affected with a virus, which leads to data clearance

Unfortunately, these scenarios can occur at any time and without any warning. The best way to reduce your overall risk of loss is to spread your cryptocurrency wealth across multiple wallets to prevent hackers from tracing your activity back to a common point.

The Technology Behind Cryptocurrency Transactions

A cryptocurrency wallet is a program that interacts with a blockchain to enable users to send and receive digital currency. Each transfer made into a wallet has a unique code which must be protected by the user, as it cannot be changed or replaced. Similar to an online banking username and password, this code grants access to login and transfer funds out of the account. However, this is done without having any trace or proof of withdrawal in the wallet itself. The true value of these digital currencies lies in their blockchain, the infrastructure upon which cryptocurrency is based. In this decentralized ledger of digital currencies, all activities related to every single coin can be recorded. This technology helps with easy accessibility, efficient tracking, and can help to prevent tax evasion.

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The Three Types of Wallets

The three major types of Cryptocurrency wallets are software wallets, hardware wallets, and paper wallets. Software wallets include desktop, online, and mobile versions.

Software Wallets

- The desktop wallet is based on your own personal laptop or PC and thus is an investor's safest choice. However, if the desktop is interrupted by a virus or hack, all of the data can be lost.
- Online wallets are known for their cloud data storage which can be easily accessible from any device that is connected to the internet.
- The mobile wallet is the most frequently used type of wallet, but it has weaker security features and only basic functionality due to limited space.

Hardware Wallets

- Hardware wallets store private keys on USB devices (enabling the benefit of offline storage) which need to be connected to the internet through another device, such as a computer, in order to perform transactions.

Paper Wallets

- Lastly, the paper wallet allows investors to print copies of their transactions and securely store a physical printed copy of their codes, making them immune to internet theft, but also requiring much more manual tracking.

Wallet Security

While each wallet option has pros and cons, the most important factor in keeping a digital wallet safe and secure is a combination of the user's private key and the recipient's public key. This information is required to process and complete every online transaction. Private keys are used or applied to send or transfer currencies from one wallet to another, and public keys are applied to receive coins. Both of these keys are generally provided in the form of QR codes so that the user can easily scan and process the transaction. Codes applied to these transactions are generally lengthy and complicated in an effort to hinder a criminal's efforts. In addition to keeping your private keys secure, other tips for safeguarding your cryptocurrency wallet include:

- Keeping your software up to date
- Adding additional security keys
- Backing up your wallet
- Avoiding public Wi-Fi, which gives hackers an easy opportunity and virtual gate to access your data
- Utilizing a VPN (Virtual Private Network)
- Double check URLs, as spoof sites are extremely common

In Summary

Despite the inherent risks of cryptocurrency exchange and the fact that the market remains unregulated, the digital currency movement continues to draw the interest of investors willing to take their chances. Unfortunately, if you fall victim to stolen cryptocurrency, the chance of coin recovery is slim, given how easy it is for thieves to quickly move digital coins across borders and cover their tracks. Crime agencies are simply not equipped with proper resources or the bandwidth to track down stolen wallets. The best thing for investors to do is proactively research the available options and be selective in choosing the best wallet for you, remain vigilant in tracking all activity, and consider the assistance of an accountant when it comes to taxes. If we can support you or answer any tax or accounting related questions regarding your cryptocurrency transactions, we are just a phone call or email away.

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