

# UNDERSTANDING CRYPTOCURRENCY AND HOW IT WORKS

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## **Introduction to Cryptocurrency**

Cryptocurrency is a digital or virtual currency that uses cryptography for security. Unlike traditional currencies issued by governments, cryptocurrencies operate on decentralized networks based on blockchain technology. Bitcoin, launched in 2009 by an anonymous entity known as Satoshi Nakamoto, was the first and remains the most popular cryptocurrency. Since then, thousands of cryptocurrencies have been created, each serving different purposes in the digital economy.

## **How Cryptocurrency Works**

Cryptocurrencies operate on a technology called blockchain, which is a distributed ledger enforced by a network of computers. Transactions made with cryptocurrencies are verified by miners or validators who solve complex mathematical problems to confirm the transactions and add them to the blockchain. This decentralized nature ensures security, transparency, and prevents double-spending.

## Key Features of Cryptocurrency

1. **Decentralization:** No central authority controls cryptocurrencies, making them independent of traditional banking systems.
2. **Security:** Transactions are secured using cryptographic techniques, making them tamper-proof.
3. **Anonymity:** Users can transact without revealing their identities, providing privacy.
4. **Borderless Transactions:** Cryptocurrencies enable global transactions without intermediaries.
5. **Limited Supply:** Most cryptocurrencies have a fixed supply, reducing the risk of inflation.

## Use Cases of Cryptocurrency

Cryptocurrencies are used in various ways, including:

- **Payments:** Businesses accept Bitcoin, Ethereum, and other cryptocurrencies as payment for goods and services.
- **Investments:** Many investors see cryptocurrencies as digital gold, using them as long-term assets.
- **Decentralized Finance (DeFi):** Users can lend, borrow, and earn interest on crypto without intermediaries.
- **Smart Contracts:** Platforms like Ethereum allow developers to create self-executing contracts.
- **NFTs & Gaming:** Digital assets and collectibles are traded on blockchain networks.

## Risks and Challenges

Despite its benefits, cryptocurrency has risks such as:

- **Price Volatility:** Cryptocurrencies can experience extreme price fluctuations.
- **Security Threats:** Hackers target exchanges and wallets.
- **Regulatory Uncertainty:** Governments worldwide are still defining crypto regulations.
- **Scams and Frauds:** The crypto space has seen Ponzi schemes and fraudulent ICOs.

## **The Future of Cryptocurrency**

The future of cryptocurrency is promising, with increased adoption by institutions, advancements in blockchain technology, and the rise of central bank digital currencies (CBDCs). Innovations like Layer 2 scaling solutions and Web3 applications are shaping the next phase of the crypto industry. Skyline Assets Management is committed to guiding investors through the evolving digital economy.

