6 Biggest Mistakes Crypto Investors Make

Hi, this is Tim Picciott, The Liberty advisor and today we're going go over the **six biggest mistakes crypto investors make.**

Now if you've been in crypto for a while, this is hopefully all going to be old news to you, but if you're getting into Bitcoin or fairly new to Crypto; this list is going to be a great way to rapidly increase your Crypto IQ.

Number 1. Leaving your crypto on a hot wallet.

What do we mean by a hot wallet?. A Hot Wallet is a wallet where you don’t control your private keys and in most cases refers to leaving your Crypto on an exchange. If you've got your money on let's say: Coinbase, Binance, Kraken, Bittrex, Gemini or any one of the other numerous exchanges… you are not controlling your private keys. Although these companies are more than likely acting in good faith and are more than likely doing a very good job. You don't want to trust very good. You want to trust yourself and you want to hold your onto your own private keys. Whether it's having your crypto on a hardware wallet or having your private keys in a paper wallet. One thing that is for sure is that you want control of your funds and you want your funds to be in cold storage.

Pro Tip: Instead of using paper to back up your private keys. You can buy a metal engraver cheaply on amazon and engrave your keys into metal or crypto steel.

If everything I just said sounds foreign to you, you're going to want to talk to someone at our firm and you will certainly want to take our free two-week course.

Ultimately if you don't have the keys to your Crypto....it's not your crypto. With all the stories of recent hacks... how many more of these instances do we have to come across before people heed these warnings seriously?

Number 2. Comparing USD Price of an Alt to Bitcoin without taking into account Supply differences.

Moving on from HODLing your Private Keys. Another amateur move we commonly see, is people not taking into account the supply of a given crypto-currency.

Often times crypto newbies will say "Hey this crypto is trading at 37 cents and bitcoins over $10,000. Well if this Crypto's price gets to half of what bitcoin is trading at someday… and if I invest a little bit of money into it now to buy thousands and thousands of coins… then this is a sure-fire way to get rich."

First off, that line of thinking is a sure-fire way to lose a bunch of money.

Second, it is important to distinguish investing from speculating, as Crypto-currencies are pretty much the definition of a speculative instrument.

When it comes to evaluating the price of a coin, it's amazing how many people don't take supply into account. What people don't understand, is that some coins out there have a supplies of 100 Billion or more, whereas Bitcoin's supply is only 21 million. As of the middle of 2019 there has been around 17.8M Bitcoins mined and some people have estimated that around five million Bitcoin's have been lost.

As mentioned in mistake number 1, most of the lost Bitcoin can be attributed to people not taking their private key management seriously.

There's is also and infamous story of a man who threw away his hard drive with 7,500 Bitcoin on it!.

That is what you call a pretty expensive mistake!

Number 3. Not having a Plan for Your Crypto when you pass away!

Not having a plan for your crypto when you pass away, is a huge problem the crypto industry faces.

The first problem we mentioned was individuals leaving their crypto on an exchange for convenience. On the opposite end of the spectrum are individuals who have incredibly complex methods of splitting up their private keys.

This can also pose a major challenge as sometimes even YOU might not remember the method to your madness. Were the first 7 words written in reverse order… or was it words 8- 15 that were written in reverse. See what we mean when we talk about adding complexity to the equation.

So you've got some super secretive plan for breaking up your private key. If you pass away today, does anyone else know your plan? Will your crypto be gone forever?

Solutions:

There are many different multi signature solutions out there. Let's say you create a multi-sig with three people. In addition to multi-sig you can also create a time lock component to your planning.

But first, what's multi sig?

Many people are familiar with stories of nuclear launches requiring two keys being turned by two separate people to initiate a launch sequence.

This on Multi-Sig in much the same way. In order to access your Crypto you can add multiple signers along with customized rules surrounding your key management.

Maybe you have an organization with 5 C suite executives who are able to make major decisions with the companies crypto. Maybe the company feels comfortable if 3 of the 5 sign off. In this case the crypto can only move after 3 of the executives sign the transaction.

You can also add time locks to the equation.

If you have all three individuals sign, maybe your transaction is instantly approved. However, if you only have two people signing off, then it may take a little bit longer.

If you have one person signing off, maybe it takes a month. In the event there are only 3 signers and the other two signers pass away, maybe the one signer has to wait a month before the crypto is moved. While waiting one month might not be ideal… it is much better than having your crypto lost forever!

The time lock also prevents the case where you might have a falling out with one of the individuals. The time lock would essentially give the other signers 1 month to stop the malicious transaction in the event something nefarious were to occur.

Aside from doing a traditional multi-sig, you can also break your keys up into to multiple parts or have overlapping private keys whereby if the owner passes away… the other two individuals can come together to form the full private key.

There are many different to accomplish the same thing. However, planning AHEAD of time is critical. Time locks and multi-sig as of this writing are not super easy strategies to implement.

You will want to consult with a Crypto professional for best practices and in many cases, you will need hand-holding to help accomplish this for you. While there are some easier options to do this right now… I suspect this will be much easier to accomplish in the very near future.

If you are reading this after 2020, it may already be the case that establishing multi-sig and time locks are now what my good friend Ernest Hancock calls "Grandma just Button".

As the name implies, Grandma Just Button refers to an easy process even a Grandma can do.

Number 4. Getting emotionally attached to a Crypto-currency or project.

Another situation investors tend to find themselves in, is getting way too emotional over their particular asset.

Cryptocurrencies are still a very new technology and just because your particular project was the “best” at doing one thing one day, doesn’t mean it will be the “best” five minutes from now.

With so many speculators in this market and with the market cap of Bitcoin and cryptocurrencies still being very low relative to financial markets as a whole, getting married to anyone coin can be a big mistake.

Number 5. Falling for Get Rich Quick Schemes, Ponzi’s and Marketing Hype.

I can't tell you how many times I've seen people promoting schemes where if you contribute .01 bitcoin and they promise to give you a full bitcoin back either now or in the future.

Even though this wreaks of being an obvious fraud… you’d be surprised at what people fall for. Then again… people still fall for the Nigerian Prince emails.

Falling for hype is another major problem.

If the founders or a coin and community are overly trying to hype their project and are entirely focused on price, that is an immediate red flag to look for when evaluating a project.

A good founder is focused on how their project can add value to people’s lives and how they can improve the ecosystem. If the problem you are trying to solve is one people are willing to pay to have fixed… then the free market should take over and the side effect should be a higher price.

In 2017, too many founders were focused on how they can increase the price and often times this revolved around creating lofty promises, unrealistic expectations, promissory statements such as “Invest now because we guarantee you’ll make 1000% returns… easy” and all sorts of other fluff that has nothing to do with actually creating a product people want to use rather then speculate on.

One of the most infamous hype men and certainly the most infamous hype man in crypto is “The Bitconnect Guy”.

Believe me… if you want to see the anatomy of what not to go by when it comes to investing… this is it.

<iframe width="560" height="315" src="https://www.youtube.com/embed/kbR1SXIje1U" frameborder="0" allow="accelerometer; autoplay; encrypted-media; gyroscope; picture-in-picture" allowfullscreen></iframe>

The Crypto industry is rife with pump and dumps, whereby a group of individual’s create or buy a very low market cap coin. They then recruit a bunch of other people into that coin for the sole intent of offloading the coins they acquired at a price that is often times several hundred percent less than what later investors paid. Now making money and investing early is what we’re all trying to do. However some people are using nefarious and deceitful methods to trick others into buying something they have a large bag of. Large bag refers to owning a lot of that coin.

An honest person will tell you about a project they have a large bag of because they believe in the project. A scammer will tell you about a coin (pump it), for the sole intent of having enough temporary interest to cause the price to skyrocket for the sole purpose of unloading their bag.

This isn’t suggesting everything that rises in value is a scam. It is being cognizant that MANY of these pump and dumps exists. Some more than likely even exist within noteworthy projects but due to low market caps andlow volumes, it is relatively easy to manipulate these markets.

Number 6. Selling your Bitcoin for an Alt Coin, and only tracking performance relative to the US Dollar.

And finally what you want to look out for is when you sell your bitcoin for an altcoin. You want to make sure you track the price of that asset relative to bitcoin in addition to the U.S. dollar.

Let's say I trade Bitcoin for Ethereum.

If Ethereum then hypothetically rises 100 percent in USD terms. It is also important to know the opportunity cost of the Bitcoin you abandoned ship for.

If Ethereum lost 50% of its value relative to Bitcoin over that same time period, then that was not a good trade. Since we are all used to pricing assets in US Dollars, this is a very common trap investors find themselves in.

I hope you found this information to be helpful.

Conclusion:

Over the past decade there have been countless mistakes people have made. Hopefully, you can learn from a decade of others mistakes and you can get started in crypto “the right way”.

If you want to talk with an advisor about whether it makes sense to use a portion of your IRA or retirement funds to invest into a self-directed crypto IRA, we hope you will give The Liberty Advisor an opportunity to earn your trust.

Best of luck in your Crypto Journey.

Sincerely,

Tim Picciott CFP® CRPC®

The Liberty Adviser.