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How to Invest in Cryptocurrency

What you need to know about cryptocurrency investing

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What Is Cryptocurrency?

[Cryptocurrency](#) is digital money. This type of currency uses [blockchain](#) technology, which is considered secure because it is capable of establishing distributed consensus even among untrustworthy parties. Cryptocurrency blockchains resemble old-fashioned bookkeepers' ledgers, except that the ledger is electronic, and everyone with access to the ledger can also be the bookkeeper.

Investors worldwide have invested and are starting to invest in cryptocurrency. While [Bitcoin](#) is likely the best-known digital money, thousands of cryptocurrencies already exist. ^[1] Cryptocurrency can be considered as one of the newest and most exciting [asset classes](#) that is available to investors.

KEY TAKEAWAYS

- Cryptocurrency is digital money that is secured by blockchain technology.
- Cryptocurrency investing can take many forms, ranging from buying cryptocurrency directly to investing in crypto funds and companies.
- You can buy cryptocurrency using a crypto exchange or through certain broker

- Investing in cryptocurrency is risky, so it's important to not invest more money than you can afford to lose.

Understanding Cryptocurrency Investing

When you think of investing in cryptocurrency, you might think about buying and holding one or more crypto coins. Buying cryptocurrency directly is probably the most common way to add crypto exposure to your portfolio, but when it comes to investing in cryptocurrency, you have a few different options:

- **Buy cryptocurrency directly:** You can choose to directly purchase and store one or more cryptocurrencies. Your options range from the most established digital currencies like [Ethereum](#) and Bitcoin to virtually unknown coins that are newly released in an [initial coin offering](#) (ICO).
- **Invest in cryptocurrency companies:** You can invest in companies with a partial or total focus on cryptocurrency. Your options include cryptocurrency mining companies, mining hardware makers, companies like Robinhood Markets, Inc. ([HOOD](#)) and PayPal Holdings, Inc. ([PYPL](#)) that support cryptocurrency, and many others with varying levels of crypto exposure. You can also invest in companies like MicroStrategy Incorporated ([MSTR](#)) that hold large amounts of cryptocurrency on their [balance sheets](#).
- **Invest in cryptocurrency-focused funds:** If you don't want to choose among individual cryptocurrency companies, then you can decide to invest in a cryptocurrency-focused fund instead. You have a choice of exchange-traded funds (ETFs), such as index funds and futures funds, in addition to a range of cryptocurrency [investment trusts](#). Some crypto-focused funds invest in cryptocurrency directly, while others invest in crypto-focused companies or [derivative securities](#) like futures contracts.
- **Invest in a cryptocurrency IRA:** If you want to invest in cryptocurrency and at the same time garner the tax advantages afforded by an [individual retirement account](#) (IRA), then you can consider investing in a cryptocurrency IRA. Using the services of a crypto IRA provider can also facilitate more secure storage for your cryptocurrency holdings.
- **Become a crypto miner or validator:** Perhaps the most direct way to invest in cryptocurrency is to mine it or act as a validator in a crypto network. [Cryptocurrency miners](#) and validators earn rewards in crypto, which they can either hold as investments or exchange for another currency.

How Cryptocurrency Investing Works

If you want to invest in cryptocurrency directly, then you can use a [cryptocurrency exchange](#). Here's how to buy cryptocurrency through an exchange:

1. **Choose which cryptocurrency exchange you want to use.** Your best bet is a reputable, well-known [exchange](#) with a large selection of currencies.
2. **Establish an account with the cryptocurrency exchange.** You will need to provide your personal information and verify your identity to complete the registration process.
3. **Fund your account with fiat money.** Before you can buy any crypto, you need to fund your exchange account with another currency such as U.S. dollars.
4. **Decide which cryptocurrency you want to buy.** You can choose to invest in one or many cryptocurrencies. [Research your options](#) to help you decide.
5. **Place a buy order for your chosen cryptocurrency.** Follow the steps required by the exchange to submit and complete a buy order for one or more cryptocurrencies.
6. **Store your cryptocurrency in a digital wallet.** After your purchase is complete, the information that you need to access your cryptocurrency is held in a [digital wallet](#). That crypto wallet can be hosted either by the cryptocurrency exchange or an independent wallet provider.

Important: As an investor in cryptocurrency, you need to decide how much of your portfolio to allocate to digital assets.

A best practice among investors is to periodically review your entire portfolio to perhaps rebalance your holdings. That might mean increasing or scaling back your crypto exposure, depending on your investment goals and other financial needs.

What to Know Before Investing in Cryptocurrency

Investing in cryptocurrency is considered to be risky. The prices of cryptocurrencies, even the most established cryptocurrencies, are much more volatile than the prices of other assets like stocks. The prices of cryptocurrencies in the future could also be affected by regulatory changes, with the possibility that cryptocurrency becomes illegal and therefore worthless.

Many investors are nonetheless attracted to the potential upside of investing in crypto. If you *decide to invest in cryptocurrency, it's important to carefully research any digital coin before*

buying it. Pay attention to transaction fees when making crypto purchases, as these fees can vary widely among currencies.

The cryptocurrency space is evolving rapidly, so it's also important to pay attention to new developments that may affect your crypto holdings. Cryptocurrency investors need to understand the [tax consequences of using crypto](#), especially if they purchase something or sell their crypto investments. ^[2]

Given the riskiness of cryptocurrency as an asset class, it's especially important not to invest in crypto more money than you can afford to lose.

Frequently Asked Questions

Is cryptocurrency a good investment?

Investing in cryptocurrency is not for everyone. The prices of cryptocurrencies can be volatile, which makes investing in crypto likely a poor choice for [conservative investors](#). If you are interested in assuming greater risk as an investor, then investing in one or more cryptocurrencies may be right for you.

How can I invest in Bitcoin?

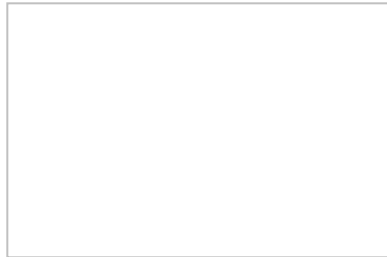
You can invest in Bitcoin directly by using one of the major cryptocurrency exchanges, such as Coinbase or Binance. Another way to gain investment exposure to Bitcoin is to buy shares in a company with significant Bitcoin exposure, such as a Bitcoin mining company. A third option is to invest in a Bitcoin-focused fund such as an [exchange-traded fund](#).

How much money do I need to buy cryptocurrency?

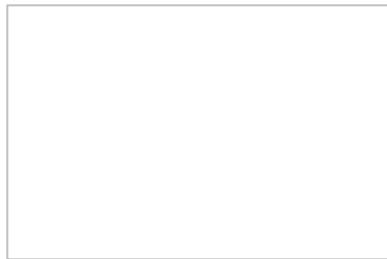
You can invest in [Bitcoin](#) or another cryptocurrency without a lot of money. Using Coinbase, for example, you can buy cryptocurrency with as little as \$2 in your local currency. ^[3]

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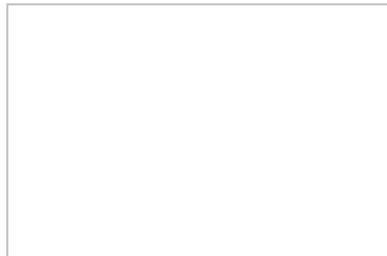
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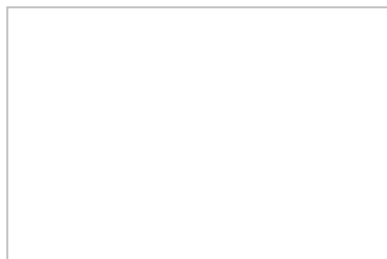
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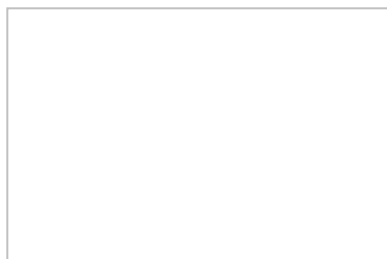
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Related Terms

What Is Cryptocurrency?

A cryptocurrency is a digital or virtual currency that uses cryptography and is difficult to counterfeit. [more](#)

payments. [more](#)

Coinbase Commerce

Coinbase Commerce allows merchants to accept multiple cryptocurrency payments from global customers. [more](#)

Life Insurance Guide to Policies and Companies

Life insurance is a contract in which an insurer, in exchange for a premium, guarantees payment to an insured's beneficiaries when the insured dies. [more](#)

What is Signum (SIGNA)?

Signum (SIGNA), formerly Burstcoin (BURST), is a cryptocurrency that supports smart contracts and digital assets and uses an energy-efficient proof-of-capacity mining algorithm. [more](#)

Initial Coin Offering (ICO)

An initial coin offering (ICO) is an unregulated means by which funds are raised for a new cryptocurrency venture. [more](#)



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