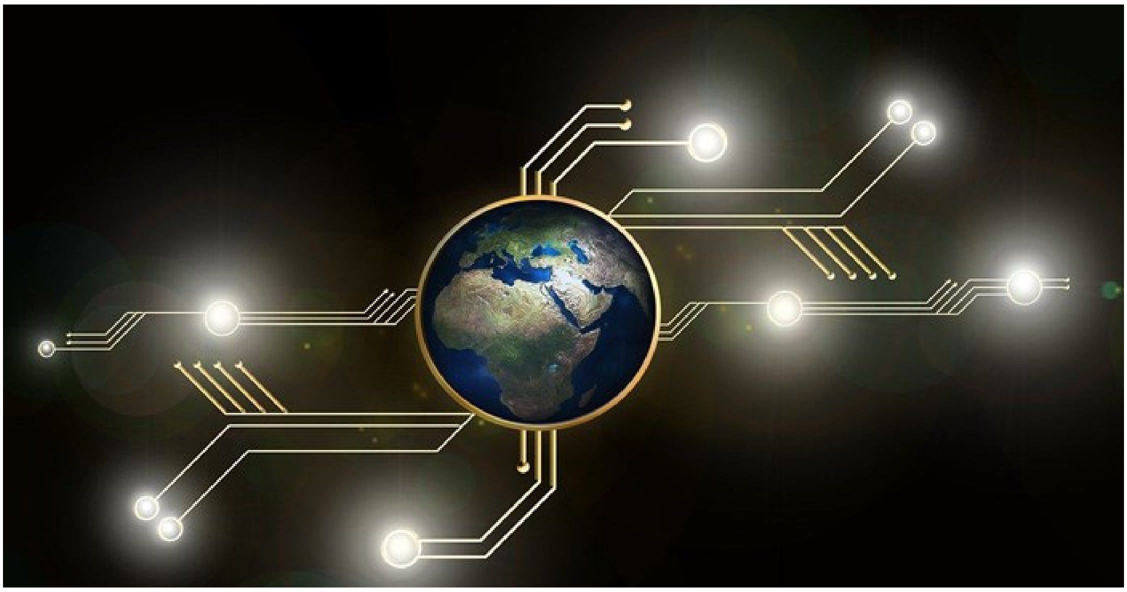
5 tips for first-time investors in cryptocurrency

Globally, there are now more than 15,000 cryptocurrencies available with a total market value of over R48 trillion.



Source: Pixabay

With the technology gaining increased adoption and new use cases being found, there's certainly no sign of this growth slowing down.

The fact that the most well-known cryptocurrency - Bitcoin - reached an all-time high market capitalisation of over R20.7 trillion in November 2021, shows how cryptocurrencies are increasingly a part of mainstream investor portfolios.

However, as with most things, there have been different waves of adoption. If you weren't an early adopter and are potentially regretting not getting in earlier, fear not, it's not too late.

Here are a handful of tips to guide you on making your first cryptocurrency investment.

It's never too late to get in.

Take the first step

The old Chinese proverb 'the journey of a thousand miles starts with one step,' rings true for investing in cryptocurrency.

Make that first investment, even if it's just R200. Giving yourself some, (even very small), exposure to the market will result in you starting to track the performance of the investment. There is no better way to develop your knowledge and understanding of an investment than to be in the market. Of course, no-one is going to become an expert overnight (and be skeptical of those who claim that), it requires time and continual learning, something you'll only start once you have made that first investment.

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Don't wait

Cryptocurrencies are far more volatile than standard investments - this is part of their appeal as it can contribute to higher returns for an investment portfolio - but it does mean that timing an investment is tricky, if not impossible. This is true of most markets. If you are worried that as you enter the market, the market will crash, then decide on how much you want to invest in total and then invest 10% of that amount every week, (or every month), until your allocation is invested. This strategy - known as dollar cost averaging - will certainly lower your risk if the market were to drop and give you more of a handle on the day-to-day intricacies of trading.

Don't put all your eggs in one basket

Due to their volatility, cryptocurrencies fall within the 'riskier investment' category of an investor's portfolio and, as a result, investors should understand that the risk profile is high, so allocation should be limited to a few percent. However, high risk, can translate to high reward (as with bitcoin over the years). By diversifying your cryptocurrency portfolio, you are in a position to benefit from the overall increased adoption of this new technology, without betting on a single cryptocurrency.

Do your research and see which coins you find have a compelling investment case, cryptocurrency doesn't end with bitcoin.

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Long-term hold

If you track all the graphs over the past five years, you will see that investors who have held their cryptocurrency investment for longer than, say, five years have all generated good, long-term returns. While the major cryptocurrencies may have been up or down 5% to 20% on a given day, in the long run, the trend has been upwards. This means that you should resist the urge to impulsively sell what you have, should the market drop. Holding your investment over a long period of time is a great remedy to the volatility.

Security

With the rise of online banking and banking apps, most people are far more particular about online security than they were, say, two years ago. When it comes to cryptocurrency trading, it is even more important. Make sure the trading apps and digital wallets you make use of have two or even three-factor authentication and do not duplicate passwords you've used before. If you do work through exchanges or fund managers, confirm through various sources that these are reputable.

You're more than halfway to taking that first step, to gain more insights about cryptocurrencies and digital investment, visit jaltech

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