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Bitcoin: All You Need to Know as Virtual Money Gets Real

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Source: Thinkstock

Maybe you dismissed [digital currency](#) after all the strange headlines. Perhaps from the start Bitcoin seemed too complex and you skimmed past the topic. But as congressmen [use](#) bitcoin ATMs on Capitol Hill, retailers like [Overstock.com](#) ([NASDAQ:OSTK](#)) begin [accepting](#) bitcoins for payment and venture capital investments in cryptocurrency soar, it's clear digital currency isn't fading out just yet. Here are some basic questions, answered, that can help get you up to speed.

What Exactly Is Bitcoin? Bitcoin is the name of a [digital currency](#) system that is also referred to as cryptocurrency as it relies on cryptography for creation and transfer. Bitcoin with a lower case "b" doubles as a generalized term for digital currency. Bitcoins can be obtained by purchase through an [exchange](#) or via transfer into a user's digital [wallet](#).



Source: Thinkstock

Bitcoin is the first and most well-known digital currency, created in 2009 by a person or group using the pseudonym [Satoshi Nakamoto](#). The peer-to-peer [payment system](#) mostly flew under the radar until about six months ago. In October 2013, the FBI [shut down](#) online black market Silk Road that allowed users to anonymously purchase illegal items using bitcoins, seizing \$3.6 million worth of the virtual currency in the process. Soon after came headlines that leading Bitcoin exchange, Mt. Gox, had lost \$600 million but shortly after the owner "[found](#)" some of the missing funds in an

old digital wallet.

If Bitcoin Doesn't Use Banks, How Is It Permitted? Laws surrounding digital currencies vary by country, as [summarized](#) on *Forbes.com*. The U.S., who has a history of allowing [alternate currencies](#) as long as proper taxes are levied, is considered Bitcoin friendly. Last month, the IRS [concluded](#) that for tax purposes, digital currencies would be classified as property, similar to stocks. While not questioning their legality, Attorney General Eric Holder [testified](#) to the House Judiciary Committee this week that the Justice Department would be carefully monitoring digital currencies for signs of money laundering and other criminal behavior.

How Often Is Bitcoin Actually Used for (Legal) Purchases? Overstock is the only well-known retailer who currently accepts bitcoins, along with a handful of other sites such as OKCupid and Foodler. [EBay](#) ([NASDAQ:EBAY](#)) introduced a [Virtual Currency](#) category, allowing users to buy bitcoins via their auction platform but do not accept them as a form of payment. [Two](#) Las Vegas hotels recognize bitcoins as currency and a Florida car dealer [allowed](#) their use to pay for a [Tesla](#) ([NASDAQ:TSLA](#)). Virgin Galactic [does](#), too — if you can nab a spot on the waiting list and afford the \$250,000 price tag. In February, [Apple](#) ([NASDAQ:AAPL](#)) withdrew an app from its store allowing iPhone users to trade bitcoins, but as *CoinDesk* reports, a beta app is [testing](#) that may work within Apple's guidelines. At a conference this week in New York City, the first [bitcoin to cash](#) ATM card was introduced.



Source: Thinkstock

How Has the Market Reacted to Bitcoin? It's been a bumpy but heavily invested ride so far. SecondMarket, a trading firm specializing in private market securities, already operates a bitcoin hedge fund for their wealthy investors and is seeking regulatory approval for their investment trust. Other heavyweights entering the bitcoin hedge fund market [are](#) Benchmark Capital, Fortress Investment Group, and Ribbit Capital.

Be warned that investing in bitcoins is not for the faint of heart. As Barry Silber, founder and CEO of SecondMarket, recently [remarked](#), "It is pretty much the highest-risk, highest-return investment that you can possibly make."

What Is the Future of Bitcoin? It's difficult to speculate about the long-term future of Bitcoin, if it will be replaced by another digital currency or how it will fare facing increased regulatory oversight, given the speed and volatility of the market.

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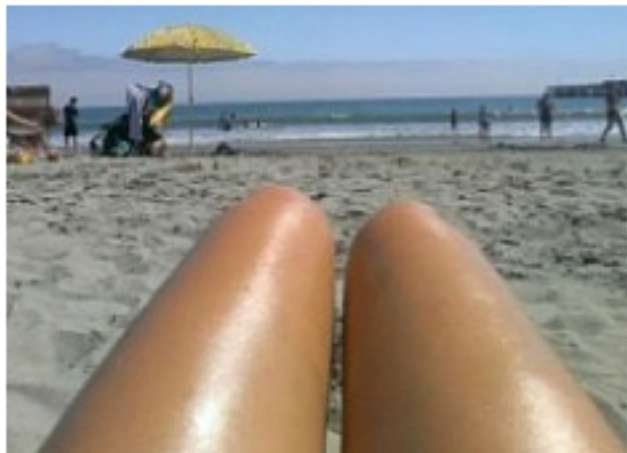
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