

Bitcoin Starter Guide

Acquiring and
Using Bitcoins



Introduction

Bitcoin has a wide variety of real world uses, allowing individuals to initiate peer-to-peer payments, purchase goods and services and even make charitable and political donations. Bitcoin use also offers a number of inherent advantages over fiat currency ranging from lower transaction fees to privacy.

In this guide, we will discuss how to acquire bitcoins and common ways individuals and merchants around the world are using the digital currency.

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Acquiring Bitcoins

Four Popular Ways to Get Bitcoins

There are several ways that Bitcoin users can obtain new coins with varying degrees of difficulty and complexity. Bitcoin transactions, purchasing bitcoins on an exchange, bitcoin ATMs and bitcoin mining are the most popular methods to get coins.



Bitcoin Payments

Bitcoin payments are the easiest and most straightforward way to acquire bitcoins. In order to start receiving bitcoins as payment for goods and services, or in a peer-to-peer transfer, a wallet must first be set up. Bitcoin wallets are similar to physical wallets in that they store vital information about the currency that is held.

Wallets generate addresses so that users can receive payments. They also contain the public and private keys that allow users to access the coins that they own and keep a record of all transactions in which they have received or sent payments.



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How Individuals Receive Bitcoins

The process for individuals to receive payments in their wallet is straightforward. Simply generate a new address and provide this sequence of numbers and letters to the person who is sending the payment. The address provided to them will ensure that bitcoins are transferred to the correct account. For maximum security, new addresses should be generated for each payee, if not each new transaction.

How Merchants Receive Bitcoins

Merchants who wish to receive bitcoins can do so online or at the point of sale. Online retailers can choose from one of many bitcoin processor options which often provide an option for instant conversions of bitcoin into fiat currency.

Online merchants also have the option of pre-generating a large number of bitcoin addresses that they can send to individual customers for payment. Customers will simply direct funds to the specified address, and once payment is confirmed, goods can be transferred.

For point-of-sale transactions, merchants can use a Bitcoin QR code POS device. Customers simply scan the QR code from their bitcoin wallet in order to make a payment.



Four Benefits of Accepting Bitcoin for Payment

Widespread acceptance by merchants is a necessary step for the continued growth of Bitcoin as an accepted and widely-used currency. There are many benefits to accepting Bitcoin as a form of payment.



Lower Fees: Letting customers pay for goods via bitcoins allows merchants to pay lower fees than those associated with credit card processing, allowing them to retain a higher percentage of the revenue from each sale. Traditionally, credit card transaction fees can cost about two percent to three percent of each transaction total and can be higher for small merchants. Using bitcoin reduces these fees to less than one percent.



Reach New Audiences: Merchants who accept bitcoins as payment may also be able to reach a broader audience of customers. Including those who do not utilize traditional credit cards, the unbanked and those who have been hesitant about e-commerce due to the inherent safety concerns that arise with transferring sensitive payment data via more traditional forms of online payment.



Security: Bitcoin's blockchain also prevents loss of revenue via chargebacks, whereas a credit or debit card sale is reversible by an issuing bank. The blockchain makes payments irreversible and double-spending impossible, meaning that once a customer has transferred bitcoins, they are securely in the possession of the merchant and the transaction cannot be held up or recalled by another party such as a bank or customer.



Easy Currency Conversion: It is also important for merchants to remember that accepting bitcoins as payment doesn't mean that they must continue to hold sales revenues in the form of bitcoins, or go through the hassle of converting currency. Many bitcoin payment processors will automatically convert coins into the merchant's preferred currency automatically.

Merchant Adoption Outlook

A growing number of merchants are accepting payments via bitcoin. Early online adopters, like WordPress, OkCupid and Overstock have been joined by a more diverse group of retailers, technology companies, charitable organizations, sports franchises and more. The list is only growing over time.

Bitcoin Exchanges

Bitcoin exchanges, like itBit, operate similar to normal currency exchanges. In order to begin trading on an exchange, a buyer must open an account and fund the account using bitcoins or a fiat currency that is accepted by the exchange. Fiat currency can then be used to purchase bitcoins at the prevailing exchange rate and vice versa.



Bitcoin ATMs

Bitcoin ATMs are an increasingly popular solution for buying the digital currency because of their convenience and simplicity. Making a transaction at a bitcoin ATM is pretty straightforward. ATM users first verify their bitcoin wallet by scanning a QR code on their smartphone. They then insert cash into the ATM and submit to complete the transaction. The appropriate amount of bitcoins are then transferred to their wallet based on the current exchange rate.



Mining

Mining is the most complex method used to acquire bitcoins. The mining process involves the use of specialized software to solve advanced algorithms in order to facilitate bitcoin transactions in a decentralized manner. The process is competitive and the more miners there are, the more difficult the algorithms become.

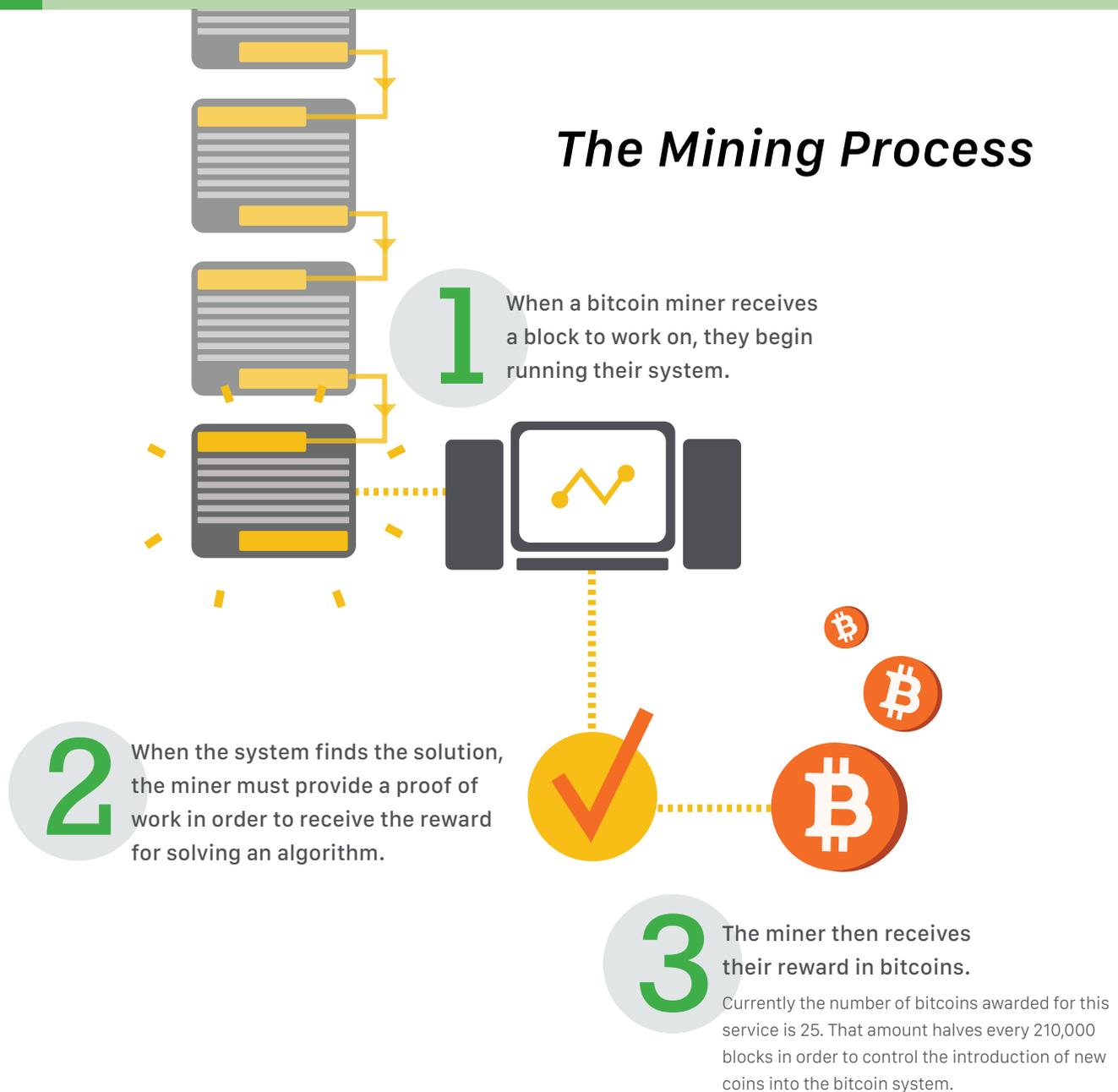


How Do You Become a Miner?

In order to participate in the mining process, would-be miners must first invest in specialized hardware. Early miners were able to use their CPUs to process algorithms, but as the system and its algorithms grew more difficult, more advanced hardware was needed. Nowadays, the bulk of miners utilize application-specific integrated circuit systems (ASIC), chips specifically designed to aid in the quick processing of bitcoin mining algorithms while using less power.

Once the appropriate hardware is obtained, a miner must then download bitcoin mining software such as BFGMiner or EasyMiner. The mining software will deliver work to be completed, connect the miner to the blockchain and allow completed work to be entered into the system. Mining software is typically available for a wide variety of systems including Windows, OSX and Linux.

The Mining Process



Mining Outlook

Miners are integral to the Bitcoin system and will always be in demand. However, as more miners enter the system, algorithms become more complex. This makes mining as an individual incredibly difficult and much less rewarding. To address this problem, many miners enter mining groups. The purpose of mining groups is to share both the work and the reward involved in the mining process. Miners within a pool receive shares of the reward when they can provide a proof that their mining work contributed to solving a block.

Bitcoin User Guide

Everyday Uses For Your Bitcoins

Bitcoins have a variety of practical uses, ranging from transactions and trading to charitable and political donations.

Transactions

As we discussed earlier, peer-to-peer transfers are the most practical way to acquire and use bitcoins.

To Send Bitcoins



To Receive Bitcoins



For safety purposes you may choose to move the bulk of your bitcoins to cold storage, which will ensure that the value of your coins remains safe in the event of a wallet hack or malfunction.

Trading and Investing

Trading

We reviewed the bitcoin trading process earlier. It is similar to traditional exchanges and thus should be familiar to most traders. Selecting the best Bitcoin exchange is largely dependant on an individual's trading style. For example, higher frequency traders will be more concerned about transaction speed and fee structure than those making only a few trades per month.



Investing

In addition to actively trading the digital currency, those who want to delve into the world of Bitcoin can also look into several investments created to provide exposure to Bitcoin currency. For example, the Bitcoin Investment Trust invests only in bitcoins, tying their performance directly to the performance of bitcoins. By purchasing a share of the trust, investors can gain direct exposure to the gains, or losses, of the currency without ever having to purchase an actual bitcoin.

A growing number of Bitcoin hedge funds are appealing to more sophisticated investors and more bitcoin investing options are in the works.

Charitable Giving

While bitcoins are immensely useful for peer-to-peer and merchant payments, the currency system can also be used for other types of transactions, like charitable donations. Users can donate directly to a family or a cause without the funds being processed through a third party, and donors often pay smaller fees when it comes to transaction and processing fees.

Bitcoin donations can be especially useful for those who want to give internationally. Limitations on international transfers and high transaction fees are eliminated with the use of the Bitcoin system. Lower fees aren't just good for donors, they also mean that, in many cases, charitable organizations are able to keep a higher percentage of donated funds without third-party processors or credit card companies taking a cut.



Political Donations

Similarly, bitcoin donations are starting to become more common within the political arena now that the Federal Elections Committee has approved digital currency donations to political action committees and campaigns.

Using bitcoins to make political donations allow donors to support political candidates and campaigns without divulging personal information. Donors can also be certain that a larger portion of their contribution is going directly to the candidate or party of their choice, rather than to transfer and transaction fees.

Bitcoin donations also have additional benefits for candidates, allowing them to reach a new group of potential donors and appeal to those who may be disillusioned with traditional banking systems.



Final Thoughts

The popularity of Bitcoin will continue to grow as the process of using and accepting the digital currency, both online and at point-of-sale, becomes easier. A number of practical use cases for bitcoin already exist encompassing simple P2P transfers to currency trading opportunities. The establishment of a recognized regulatory framework will help to add legitimacy to the currency and encourage greater bitcoin adoption and development within the system.



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Bitcoin Basics and Benefits

Bitcoin Starter Guide Vol. 1

Bitcoin Starter Guide
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