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Stock Market Investing Tips, Techniques, and Resources



How Secure Is Bitcoin?

By: www.ProfitableInvestingTips.com

When bitcoin was invented the idea was to create a means of exchange and store of value that was anonymous, decentralized, and secure outside of normal financial systems and free from governmental oversight. These features attracted lots of people including folks who don't like the government breathing down their necks, folks who would just as soon not pay taxes, and those who wished to hide transactions and profits from illegally gained money. The rap against bitcoin and other cryptocurrencies has always been two-fold. Don't forget your password or you lose your bitcoins and remember that bitcoin has no intrinsic value to fall back on when market sentiment turns negative. Now there is another concern. How secure is bitcoin when the FBI can track transactions to recover ill-gotten gains? Who can track yours?

Colonial Pipeline Ransomware Attack

Colonial Pipeline operates the largest petroleum pipeline in the USA serving half of the East Coast of the USA. Much of their operation is automated or at least controlled via computerized connections. The company was hit with a ransomware attack by DarkSide, a criminal hacker collective physically located in Russia. Colonial paid millions of dollars in bitcoins to DarkSide in order to regain control of their operations, 75 bitcoins when the cryptocurrency was at a recent peak. The Justice Department recently announced that they recovered 63 of the bitcoins which are now valued lower as bitcoin has fallen again. The question that cryptocurrency enthusiasts need to consider is how secure is bitcoin?

Recovery of Bitcoins from Ransomware Attack

The tech subsection of *The New York Times* science section provides a bit of insight into [how bitcoins are traceable](#) and raises the question, how secure is bitcoin for anyone.

The F.B.I.'s recovery of Bitcoins paid in the Colonial Pipeline ransomware attack showed cryptocurrencies are not as hard to track as it might seem.

The same properties that make cryptocurrencies attractive to cybercriminals - the ability to transfer money instantaneously without a bank's permission - can be leveraged by law enforcement to track and seize criminals' funds at the speed of the internet.

The key to tracking and seizing illegally gotten bitcoins is the blockchain. While it may be difficult to find bitcoins that are stored in a computer database, every step on the blockchain that supports the cryptocurrency system is recorded and traceable in the permanent bitcoin ledger. Thus the feature of bitcoin that guarantees your ownership and allows transfer outside of the normal financial system is also what opens it up to investigation.

How Secure Is Bitcoin: Don't Forget Your Password

We have all heard about folks who were lucky enough to buy a few thousand bitcoin when one was worth a dollar or two and were so unlucky as to have misplaced their password. These folks are potentially out \$50 million or so. Compare this situation to forgetting your Chase, Wells Fargo, or Bank of America pin number or even your small local bank going under. Federal Deposit Insurance covers every single account up to \$100,000 and all you need to do about forgotten info is go to the bank, show your ID and re-establish your pin or whatever you forgot. The anonymity that goes with bitcoin and other cryptocurrencies precludes any of this. And, remember that if the Justice Department can track bitcoin transactions, so can the IRS.

How Secure Is Bitcoin: Taxes on Bitcoin Profits

Because so many believed that their bitcoin assets would never be available to the IRS, they never bothered to keep track of their purchases using bitcoin or sales in which they experienced impressive capital gains. Today [taxation of cryptocurrency profits](#) is real. Woe be it if you cashed out when bitcoin was at a peak, lost the money during the pandemic, and now don't have enough to pay when the IRS sends you a letter. But, we knew about this before. What is not apparent was the ability to track transactions.

How Secure Is Bitcoin?

So, you are not a cybercriminal, drug lord hiding profits, or terrorist using cryptocurrencies to finance your operations. You intend to pay taxes if and when you sell a few bitcoin for dollars in retirement. And, once you can figure out the rules, you will pay taxes related to any bitcoin transactions. What does all this mean for you? Our assumption is that the Justice Department and other law enforcement agencies can spend lots of money tracking down illegally-gotten bitcoins. They don't need to make a profit from their work. But, if the Feds can do this so can a hacker group. And, once the computer geeks get going they will learn to do the job faster and easier. So, today it may only be profitable to go after bitcoin assets in the range of \$10 million (a guess) but tomorrow it may be practical to spend \$40,000 to go after \$400,000. If so, the ten bitcoin that you thought were safe will be up for grabs.

If this is going to be a risk in the bitcoin world what can you do? Our first thought is to avoid putting all of your bitcoin "eggs" in one basket. Make separate purchases and transfer to separate bitcoin accounts. Only work with bitcoin exchanges that hold the bulk of their assets in air-gapped "cold storage" and insure those that online in "hot storage." And, remember that you only have a profit when you take a profit so after a big run up in bitcoin prices, take a little profit, pay your taxes, and put some money into US Treasuries, CDs, or an ETF that tracks the S&P 500.

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