

Cryptocurrencies

Bitcoin

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Satoshi Nakamoto

Emerging from the world of cryptography in the mid-2000s, the mysterious Satoshi Nakamoto is credited as the mastermind creator behind bitcoin the currency, and Bitcoin the network. Is that his real name? Is he Japanese? American? Is he or she, in fact, a lot of people merged under one pseudonym? To this day, no one knows.

As a direct response to the financial crisis of 2008, Satoshi Nakamoto envisioned a new and decentralised digital currency system he called bitcoin. In October 2008, Nakamoto published a paper entitled “Bitcoin: A Peer-to-Peer Electronic Cash System” which detailed a payment system based on chains of data blocks (later to become known as blockchain) and the removal of third parties between transactions. It came at a perfect time, of course, because a lot of people had lost trust in traditional financial institutions due to the crisis.

Nakamoto’s proposal detailed how the new system would function without financial institutions, how a peer-to-peer network would resolve the issue of double spending and what this new system would mean for transactional privacy.

A few years after his proposal, Satoshi Nakamoto stopped being involved in the development of bitcoin and completely disappeared from all public forums.

Proof-of-work

Integral to the mechanics of Bitcoin, proof-of-work (or POW) is Satoshi Nakamoto's ingenious workaround for confirming the blocks of transactions. The trust that is traditionally extended to financial institutions is transferred to the decentralised nodes (or computers) on the P2P Bitcoin network.

These nodes validate and group transactions into blocks. In order to include the block in the ledger (blockchain), these nodes need to solve a "cryptographic puzzle". This is done by hashing the information in the block to satisfy specific conditions. For example, one such condition is that the resulting cryptographic hash has to be less than a specified number. Since this type of proof-of-work involves a lot of trial and error, the approach is called brute-force - meaning all possible solutions are exhausted until the correct one is found.

The idea behind POW first emerged in the early 90s. By 1999, the first appearance of the official term was documented, and while appearing in various forms, it became increasingly popular when Satoshi Nakamoto integrated it into Bitcoin, amending it to include the decentralised node verification system.



Trading bitcoin

A lot has been said about bitcoin lacking intrinsic value, hence not having any real value in the currency markets. However, taking the intrinsic value of an asset into consideration when trading is only one approach to the markets.

Another approach focuses more on the price chart, demand and supply, and the crowd's psychology in order to make informed decisions – usually by traders who prefer technical analysis over fundamental analysis while trading.

Price patterns and popular indicators may be used to deduce a lot of information from a price chart. Don't forget that it is not only the financial headlines that move the markets, but the traders' psychology as well. With the right indicators and tools, you will realise that traders' psychology is also present on the price charts. Therefore, CFDs on bitcoins and other cryptocurrencies (i.e. speculation on cryptocurrency price movements without owning the actual cryptocurrency) are usually traded against the US Dollar, and may be treated and traded just like any other financial instrument if you apply disciplined technical analysis to your trading.





About the Author

FXTM's Head of Education, Andreas Thalassinos, is a respected FX educator and Certified Technical Analyst. He is a recognised authority in the forex industry, and renowned for his expertise in algorithmic trading. After years of consulting with FXTM on a number of key projects, Andreas officially joined the company in June 2016 and is the principal driver and architect of FXTM's extensive educational programme. His department's international seminars and workshops provide clients across the world with on-location support, while his webinars, Ebooks, educational articles and videos form the cornerstone of FXTM's multilingual, open access training resources. The training is tailored to traders' needs by region and experience level.

Thalassinos has played a key role in the development of forex education within the industry, training tens of thousands of traders and forex professionals around the world. Traders of all levels value his seminars and workshops for both content and his passionate and lively presentations. As Head of Education, Thalassinos also plays a pivotal role in FXTM's research and development team. In this capacity, he led the development of the FXTM Trading Signals and FXTM Pivot Points Strategy tools, which are designed to help traders spot potential trading opportunities across various trading instruments.

Thalassinos has been awarded a number of international professional certificates including: MSTa by the Society of Technical Analysts (UK) and CFTe and MFTA by the International Federation of Technical Analysts (USA) – the highest qualifications in the technical analysis community. He also holds a BSc and MSc in Computer Science from University of Louisiana at Lafayette and Bowie State University, respectively.



NOTES TO EDITORS

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