

A Bitcoin Buyer's Guide



A beginner's guide to purchasing Bitcoins safely & cheaply

Autoimmune Therapies

Jasper Lawrence

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Overview

Skip this if you don't care what Bitcoins are or how they work.

Bitcoins are a kind of currency, just like dollars or dirhams or pounds or euros they were created to act as a medium of exchange.

They share many features with the currencies listed above, which are called Fiat Currencies where Fiat means "decree".

Their value exists only because we all agree that they have value, and they are all created by decree. A government says this is the currency we are all going to use, this is what it is worth, and off we go.

Unlike gold for instance which was the world's primary medium of exchange or currency for centuries, no modern currency has any value in and of itself except that which everyone agrees it has.

In that respect Bitcoins are exactly the same as any other currency, and like dollars and pounds most exist only as numbers in databases.

To see the extent to which that is true of dollars, pounds or any other fiat currency where private banks create most of the money in circulation read about the bank [multiplier effect here](#).

What is different about crypto currencies in general, of which Bitcoin was the first, is that they are not issued by a central bank or authority.

Bitcoins are "mined", a progressively more challenging process by which computers are used to solve mathematical puzzles or hashes inherent in the blockchain to "mine" new Bitcoins.

But Bitcoins have one other big difference with fiat currencies, the total number of Bitcoins that can ever be mined was capped by its original developer or developers at 27 million.

No matter what the number of Bitcoins can never rise above that number, a central bank can never do something like Quantitative Easing, essentially printing money that reduces the value of the money already in circulation.

Unlike bank deposits, and to an extent paper money, Bitcoins can also be lost, destroyed and stolen. If you store your Bitcoins in a wallet on your phone and you do not back it up somewhere, which can be done by printing it out on paper, and you lose or destroy your phone your Bitcoins are gone forever.

But apart from the chosen characteristics you can think of them as you would any other exchange traded security or currency or synthetic like Collateralised Debt Obligations, Futures Contracts, etc.

A Bitcoin is an exchange traded security and to buy them requires that you open an account with an exchange that trades in them or that facilitates trading in them. Mining them requires you purchase specialised computers, powerful ones, they even make specialised integrated circuits for this purpose now. It is no longer possible to mine Bitcoins with even the most powerful desktop PC.

Opening accounts like this in this day and age requires you prove your identity because of money laundering rules. So setting up an account takes some effort and time, and the first trades feel scary.

But once you have everything set up and are used to it, it is very easy. And you can store thousands or millions, if you have them, on a thumb drive.

Just don't lose it.

Choosing a place to buy Bitcoins

Bitcoin exchanges will typically charge you ten percent or more to buy Bitcoins on your behalf, I encountered one that wanted 20% once, come on! Which makes them very expensive to buy, just like stocks and bonds.

Of all the options out there [LocalBitcoins.com](https://localbitcoins.com) is by far the cheapest in the cost of buying and selling Bitcoins, it is marketplace for traders in Bitcoin a lot like eBay.

So it is [LocalBitcoins.com](https://localbitcoins.com) that I will be concentrating on for this guide.

What LocalBitcoins.com is and is not

LocalBitcoins.com is a trading platform, they are not an exchange and are not involved in the trading of Bitcoin except for facilitating trades between their clients by providing their users a way to offer Bitcoins for sale or to register their desire to buy them.

Think of them as the eBay of Bitcoins without the absurd commissions or relationship with PayPal. Like eBay they charge those who post the ads a commission on each trade, you pay nothing to LocalBitcoins if you respond to an ad.

It provides an ID verification system as they have to comply with various financial regulations which because they vary by jurisdiction may mean some of the details I describe below may vary where you are.

They provide a reputation management and evaluation service for traders.

A communications and messaging tools for traders.

A secure trading platform with Multi-Factor Authentication (MFA).

A dispute resolution mechanism.

They also provide an escrow service in which the Bitcoin are held until the seller confirms receipt of the money and releases them to you, the buyer.

The latter combined with reputation management are important because it protects users against theft and fraud on the part of vendors and buyers.

Ways to pay for Bitcoins

With LocalBitcoins you can buy Bitcoins with an online bank transfer, a cash deposit at a local bank (this may not be available in your jurisdiction, paying cash into a third-party bank account), via a non-bank financial institution like Western Union, or by meeting the seller in person. I strongly recommend against meeting anyone in person. The

prices for cash transactions are much better in both directions, but think about why someone would want to deal in cash. Bank transfers have always worked very well for me.

Payments for Bitcoin purchases can also be via Credit Card if you are trading with professional traders or companies, or PayPal, but those routes for payment are becoming less popular as banks and credit card companies begin to recognise the threat that Bitcoin represents to their business.

For instance when paying by bank transfer you cannot put “Bitcoin”, “BTC”, “LocalBTC” or “LocalBitcoins” or any variant thereof in the message associated with the bank transfer, as in the UK at least this will result in your bank transfer being rejected by yours or their bank.

Protecting yourself against idiots

The most important thing to bear in mind when trading with someone is that the only risk on this platform lies with those buying Bitcoins, slight as that risk is.

So reputation, as described below, should be your primary guide in choosing someone to trade with.

If someone has a 100% positive feedback rating and has over 100, or over 500 or 1,000 transactions to their name they are unlikely in the extreme to destroy that hard won status for a few hundred dollars. Having spoken to a few of these guys, and they seem invariably to be guys, many trade in Bitcoins for a living.

You will be required to prove you are who you say you are to LocalBitcoins as they are regulated, so anti-money-laundering rules are in effect on their site. If you have ever set up an account with someone like Western Union or ETrade, or some other non-bank financial institution, a stockbroker for instance, the process and requirements will be familiar to you.

Until you have a few trades under your belt to establish a reputation and history it is likely that most traders will also require some proof of your identity, too. They can be ripped off as well it would seem based on some of the requirements I have seen. Perhaps by people asserting fraud after the fact with regards to a bank transfer or CC transaction. So you will often see they require you to write out a message saying you want to make the trade, and you are not being coerced, and take a photo of yourself with that message and holding your ID up.

Yes, I preferred being able to accept credit cards, too. But obtaining a credit card involves a lot of BS, too. As does being able to process them, BS I am unable given my relationship with the US government to get past. Familiarity doesn't mean it is any less shady, witness the crises that have dotted our financial lives as in 2007. At least in this case one is aware of the potential for getting shafted... think of it as the Wikipedia of money.

But once you have this setup it is really straightforward.

Notes on Passwords & Security

LocalBitcoins does not store or ask you for any bank account information, they do not handle your money. So unless you plan on leaving Bitcoins in your LocalBitcoins wallet you don't need to get carried away with security.

But if you do plan on buying more Bitcoins than required to pay me and on holding them in a wallet anywhere, what follows is for you. Everyone else can skip ahead.

I deal with a lot of computer systems and am entrusted with people's medical information.

Even were I not a sensible person, in this one respect at least, the law requires me to adhere to certain standards for protecting that information. In the process of learning about such things I have developed what I believe is a healthy level of paranoia about online security.

What follows is not Bitcoin specific, but represents current best practices for passwords as I understand them.

Good passwords are long, as in twenty or more characters, preferably fifty or more. A site that only accepts passwords of sixteen or of twenty characters is one with other security flaws and should be avoided.

An ideal password is a randomly generated string of at least 50 characters including a mix of upper and lower case letters, numbers, and special characters or punctuation marks.

In other words an ideal password is impossible to use without a password manager.

If you do not already use one I recommend getting a password manager. I deal with hundreds of passwords, I never repeat them from site to site. I used to rely on two or three trusty variations including special characters, numbers and capital and lowercase letters. I did, until I read a good article on computer security.

I also change them regularly. Before password managers I used an encrypted spreadsheet, it was a nightmare.

If you are not using randomly generated passwords of fifty characters, including upper case, lower case, punctuation marks and special characters, your password is likely very vulnerable to a variety of attacks, unless you follow my advice below.

Often when a big company gets hacked the passwords are all stolen, too. These are traded online in what are called Rainbow or Lookup tables, essentially a dictionary of passwords. So however clever your password may appear, it likely isn't.

Fortunately I was taught an easy way to make a good password that you can remember and type without buying 1Password or similar, by one of my very first Clients, thank you TT.

You string a series of words or pseudo words together separated by full stops/periods or by hyphens. As in "th1s-1Smy-JAsper-P@22word" It reads as "This is my Jasper Password" and so is easy to remember, it

contains a nice mix of numbers, capital and lowercase letters, and special characters, and would be very hard to crack. The special characters translate easily phonetically or symbolically so I at least find them easy to remember, and it is long and has lots of different characters in it. It is also very unlikely to have been used by someone as clever as you and I, too, so it likely is not for sale in a Rainbow table. You could as well do one using the format “<Child’s name>-<Your name>-<first six digits of your SS#>-<Birthday month and day> substituting special characters or letters for numbers, @ = “a”, l = 1 or !, etc. Alone any are weak, together they are much more difficult, unless you reuse it everywhere and one of the sites you use it on gets hacked.

Buying Bitcoins and using them to pay for things

Step One: Preparing for opening a LocalBitcoins account:

Obtain a scan, or photograph free of bright spots, no “specular highlights” is the technical term, of your passport or driver’s license, or some other form of Government issued photo identification like a drivers licence or ID Card.

Step Two: Open a free account on LocalBitcoins.com

1. Go to <https://localbitcoins.com/> and click on the big green ‘Sign up free’ button.
2. Enter your details and click on ‘Register’
3. Confirm your account by going to the email account you provided and following the link in the registration email they send you.
4. Verify your identity using your Passport, Driver’s License or Government ID. This process can be a pain on some browsers and it requires Flash. I could never get the webcam option to work for me, but uploading a scan of my passport worked. If you don’t have a scanner a camera phone works fine, just be sure the photo doesn’t have any specular highlights. Approval can take a day or two as I recall. I am not sure this step is required to buy Bitcoins, but doing it ups your status on the site, and makes it

easier to trade with more people. Once you have made a few purchases it gets easier, as people can see you have a reputation, and good reviews.

5. Once approved you will have an online Wallet to hold Bitcoins in. As with all online financial services the security is only as good as your password.
6. To transact you will also have to verify your phone number. To do this, click on the person icon on the right hand side of the top toolbar and scroll down to 'Edit profile'. Then go to "verification", etc.
7. Added security. Two-factor authentication is available, and I recommend you use it if you plan on holding Bitcoin in your online wallet for any length of time. Two-factor authentication on this site can be via an App on your smartphone, like Google Authenticator or OTP Auth. Or, you can choose the "Paper" option, where you are given a set of codes to use each time you log in. The Paper part is based on the assumption you will be sensible and print them. You can also save them to a text file on your computer or as a screen capture on your smartphone (Power + Home button on an iPhone saves the screen to your camera roll). You can set it to trust your browser when using Two-factor authentication for up to a month, so that using it is not required every time you login from that browser on that device.
8. Once you have your wallet, and have verified your email address, and verified your identity with the LocalBitcoin platform, the wallet enables you to buy and sell Bitcoins (you need somewhere to store them), as well as to send them to other wallets such as BitcoinQ that run natively on your pc or phone, or to other online wallets you may have or want on other online trading platforms, and use them to purchase products by sending them to someone else's wallet using an address they provide. You can see how many Bitcoins you have in your wallet next to the Bitcoin '**B**' at the right hand side of top toolbar on the home page. Unless you

plan on using Bitcoin for other purposes or buying more than you need now there is no need to set up a wallet elsewhere. Nor is there strictly speaking even if you do, if you are happy to use it you can leave any extra Bitcoins you buy in the LocalBitcoins.com wallet.

9. Click on the Bitcoin “currency” symbol in orange and it will take you to a page that lets you send bitcoins and tells you your unique bitcoin address for receiving them, which changes once used (only use an address once) which consists of a long list of numbers and letters in the fashion:

jWk38GzMSTYHJKHUJym5r5ZU47X9W5cY6OTHj6hNBja
(This is not a real address)

Step Three: Buy your Bitcoins

1. Bitcoin payments involve conversion from USD, GBP, EUROS, AUD, etc., to Bitcoin, a currency conversion. Given the price volatility and that I do not have the technical chops to display a price ticker for Bitcoin we need an agreed reference to set the exchange rate with. The exchange rate used will be that displayed at <http://www.cryptocoincharts.info/pair/btc/usd/okcoin/10-days> or at <http://xe.com/currencycharts/?from=XBT&to=USD&view=1W>, your choice, for 11 pm the day before you pay me or are due to make your payment according to your payment plan. Bitcoin is very volatile in terms of price, the intention is to reduce both yours and mine exposure to that price volatility, and to have a verifiable source of price information for the exchange of Bitcoins priced in Dollars. This is now the price of your payment in Bitcoins. Remember that to send Bitcoins to someone requires a small payment of Bitcoins, LocalBitcoins charges something. Don't panic about it when you get to that point and see that, that cost is borne by us, just be aware it is coming.
2. Log in to your LocalBitcoins.com account.

3. Click on 'Buy Bitcoins' on the left hand side of the tool bar at the top of the page.
4. You will see a list of sellers in your local area with the following information:
5. **SELLER**– this gives you the name of the seller and their stats: (100+, 100%) indicates that they have made over 100 trades and have a 100% positive rating. I recommend using a seller with these kinds of stats. If there is a green spot next to their name they are online and active, a brown spot is inactive and a grey spot is offline.
6. **DESCRIPTION** – this tells you the seller's preferred payment method.
7. **PRICE/BTC** – this tells you the seller's price per bitcoin in your local currency.
8. **LIMITS** – this tells you the lowest and highest amount they will sell.
9. **PAYMENT METHOD** – the sellers payment method options.
10. Choose a seller who has a good rating and stats, the right limits in terms of how many Bitcoins they will trade for, their minimum trade size for you, your preferred payment method and who is online and active (green spot), and click '**Buy**' next to their info (don't worry you are under no obligation to buy at this point).
11. The next page will give you an introduction and description of the sellers terms on the right hand side. You will probably find that for a first time sale they will require you to scan and send some form of ID to prove that your name corresponds with your bank account (drivers license/passport/bank card with numbers covered or something similar), so make sure you have that available before you move forward with the trade.
12. Type the amount of bitcoin you require into the **blue BTC box** and the amount you will pay in your local currency will appear in

the blue box on the left. See above for how to determine the amount of Bitcoin required to make any size payment on any day.

13. Add a comment to introduce yourself and ask any questions (ie: “Hi this is my first bitcoin trade”), and click on ‘**Send trade request**’.
14. The next page will allow you to chat in real time to the seller, provide your ID, and follow their instructions to transfer funds to them. You will be messaging a real person now, so they can advise you if you are uncertain about anything. Everyone I have dealt with except the one noted elsewhere has been more than pleasant to deal with. LocalBitcoins has also recently added an option for buyers to cancel the contract prior to them sending any money. If you want to back out for any reason communicate with the seller, explain yourself or notify them to protect your reputation, apologise, and click Cancel. This is a recently added feature.

Step Four: Send me the Bitcoins from your online wallet to the address I provided to you

1. Once you’ve bought your bitcoins go to the “**B**” currency symbol or icon on the right hand side of the top toolbar.
2. Copy and paste the Bitcoin address I previously provided you into the “**Receiving bitcoin address**” box. I can send you a Bitcoin address ahead of time or you can request one after you have bought the Bitcoins but it may be some time before I can supply it given time differences. You can reuse the same one for multiple transactions, or they can be unique for each transaction if you wish. In which case I can send you a block of addresses or you can request one for each transaction. If you reuse the same one it is possible for those with the skill, other information they would have to obtain from other sources, and the time to pierce the anonymity of the Blockchain, but it isn’t easy and someone would have to be highly motivated.

3. Enter the amount of Bitcoins you bought into the, that's right, the **"Amount in bitcoins"** box, enter your password and press **"send from wallet"**.
4. If you have enabled two-factor authentication you will be taken to another page, there you will have to enter a code generated with Google Authenticator on your smartphone or using 1Password or similar, or from those you printed out when you set up your account.
5. Once that is done you will be presented with a success page, and the amount of Bitcoin remaining in your online wallet should reflect the debit sent to me.
6. Print copies of each confirmation or save them to disk as either screen shots or as pdf files for your records.
7. Contact me to let me know that you have sent payment and I will update your records and send you a statement or amended invoice showing the credit amount.

My worst experience on [LocalBitcoins.com](https://localbitcoins.com) (it wasn't bad at all)

I have used the platform many times to trade in BTC and the only bad experience I had was early one morning with a professional trader, whose reputation I dinged as a result, who had left an offer open over night and who did not want to honour it.

I think because the price had moved while he slept and it was not what he had in mind. You can read in detail about a trader's reputation, besides the scoring component people are able to write comments by clicking on their name in the list of contracts on offer under Buy Bitcoins, over on the left. If someone has over a thousand trades and a reputation of 99% read the negative comment or comments, it may not be their fault. No one can make everyone out of a thousand happy every time.

Prices are set dynamically, when a registered user puts up an ad to sell Bitcoins they set the price as a multiple of a quoted rate, the quoted rate information is pulled in dynamically and then multiplied by whatever factor (0.95, or 1.02 for instance) of the market price the seller or buyer posting the contract wants to pay or to receive.

So you will see the offer price for the same ad change over time as the market rate changes.

Which is why he did not want to honour his offer I would guess. I lost nothing in the transaction except an hour while I waited for the contract to expire (this was before the ability to cancel a transaction by buyers), and my temper. My Bitcoins were returned to me by the escrow service to my LocalBitcoins wallet.

So their system works.

I could have avoided this had I messaged him first, so that is a lesson. His advertisement said something like "I am online 24 hours a day", and his status was Green, showing him as online. He was but he had only just gotten in to work and logged in.

So always message the seller first, whatever their online status says. Many traders favour WhatsApp over text messaging, so you may want to install that first. It is simply an encrypted version of iMessage or Messages on iOS, of text messages. It relies on your phone number and unlike iMessage/Messages it is cross-platform, so free text messaging between iOS and Android.