

# New Coinbase Bitcoin Exchange Is the Best One Yet

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With virtually no warning save a teaser tweet the day before, the [Coinbase Bitcoin Exchange](#) went live Monday.

This is a major step for Bitcoin. As the first licensed U.S.-based [Bitcoin exchange](#), it will help legitimize the digital currency in the eyes of the public as well as the broader financial community.

It was no coincidence that [Coinbase won \\$75 million in venture capital funding last week](#). Among the investors were the New York Stock Exchange, former Citigroup Inc. (NYSE: [C](#)) Chief Executive Officer Vikram Pandit, and Spanish banking giant Banco Bilbao Vizcaya Argentaria SA (NYSE: [BBVA](#)).

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"To have an organized exchange that has the backing of thoughtful venture capitalists and investors addresses one of the main problems with Bitcoin: its extreme volatility," Duke University finance professor and cryptocurrency expert Campbell R. Harvey told *The Wall Street Journal*. "Bitcoin has been sorely in need of something like this."

But just as importantly, the Coinbase Bitcoin Exchange finally will give U.S. investors a safe, secure, and seamless option for trading Bitcoin.

Well, at least for investors in 24 states. Financial regulations require Coinbase to win approval on a state-by-state basis.

Even so, the Coinbase Bitcoin Exchange is a major step forward. Until now, U.S. Bitcoin traders had to use exchanges based overseas. But the lack of regulation, inadequate security, and difficulty in getting U.S. dollars in and out of these exchanges has made them extremely risky.

Remember, it was just about this time last year that the [Japan-based Mt. Gox Bitcoin exchange started to unravel](#). Mt. Gox was by far the largest Bitcoin exchange in the world.

When it collapsed in February 2014, it lost 750,000 customer bitcoins and 100,000 of its own. The Mt. Gox disaster remains a black mark on the digital currency. It's a big reason many have continued to avoid Bitcoin.

Mt. Gox hasn't been the only Bitcoin operation with security issues. Many Bitcoin wallet services and exchanges have been hacked over the past few years.

It's still happening. Just a few weeks ago, BitStamp - a large Bitcoin exchange based in Slovenia - was hacked. BitStamp said it lost 19,000 bitcoins worth about \$5 million.

The lousy security at so many Bitcoin companies slowed mainstream adoption - and rightly so.

This is why the Coinbase Bitcoin Exchange will make a difference.

Early Bitcoin companies operated on the fringes of the financial world, unregulated and with little understanding of how to keep people's money safe. The Coinbase Exchange promises to change all that.

Just being regulated in the United States and by individual states makes the Coinbase Bitcoin Exchange much safer than overseas alternatives. Beyond being licensed and regulated, the Coinbase Exchange has

put extensive security measures in place...

## How the Coinbase Bitcoin Exchange Is Better

Coinbase went to great lengths to ensure the safety of customer money. Since Coinbase has already operated a wallet service, as well as an easy way to simply buy Bitcoin directly, it already has a robust security system.

For one thing, Coinbase has insurance. Few Bitcoin companies have bothered with insurance - so they had no way to cover losses.

Coinbase also keeps most of its bitcoins offline in "cold storage." That means the bitcoins are not linked to the Internet where hackers could get at them. In addition, the data is heavily encrypted and stored in multiple physical locations around the world.

To prevent internal theft, all Coinbase workers must pass a criminal background check. All employee hard drives are encrypted and use a two-step verification process.

Customers must use strong passwords. They are also subjected to the two-step verification process. That means when customers log-in to their Coinbase account, the company texts code to the customer's phone. They must type that code in to complete the log-in process. The code can't be re-used.

Not only that, but logging in from a different computer requires e-mail verification from that same computer.

I can vouch for the system's effectiveness. I just tried to log in to my Coinbase account from my work PC, but was blocked because I clicked on the e-mail verification that came from my iPad - a different device.

## Other Details About the Coinbase Bitcoin Exchange

So it's secure, but how does it work?

First, users must have a Coinbase account. To trade Bitcoins on the exchange, a user must fund that account with either Bitcoin or U.S. dollars. Since Coinbase already allows customers to link to their personal bank accounts, fund transfers are far easier than with most foreign Bitcoin exchanges.

Customers will be able place orders to buy or sell at set prices. Buyers will be charged a 0.25% fee, while sellers will pay no fee. Customers also pay no fees for moving funds between their Coinbase wallet and exchange accounts.

Of course, the long-term question is whether the Coinbase Bitcoin Exchange will succeed. Coinbase CEO Brian Armstrong boldly told *The Wall Street Journal* that "our goal is to become the world's largest exchange."

The Winklevoss twins, Cameron and Tyler, might have something to say about that. Last week they announced their own plan for a U.S.-based Bitcoin exchange called Gemini.

The Gemini Bitcoin exchange would partner with a New York-chartered bank. It's unclear if that means Gemini can bypass the state-by-state approval slowing Coinbase down. But it does mean Gemini is eligible for FDIC insurance.

In a Jan. 23 blog post, Cameron Winklevoss said that Gemini, too, will emphasize security.

"Your U.S. dollars on Gemini will be as safe and secure as they are in your bank account today," he wrote.

Having not one but two U.S.-based Bitcoin exchanges will do even more to speed Bitcoin adoption. So far, it

looks like 2015 will indeed be a crucial turning point for the digital currency.

**The Bottom Line** : The arrival of the Coinbase Bitcoin Exchange does more than give legitimacy to the digital currency. Because it's regulated, U.S.-based and focused on security, the Coinbase exchange will also help build confidence in Bitcoin. And that, in turn, will speed adoption.

**The New Year couldn't come soon enough for Bitcoin... But even as a lot of bad news grabbed the headlines, positive things were happening away from the spotlight. And those powerful trends have set the stage for some big leaps forward in 2015. Here's why this year will be pivotal for Bitcoin...**

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