Philanthrop3 Collective

Different Crypto Wallets and Uses

There are a lot of different options for storing and securing your crypto assets. You may have heard the terms 'hot' and 'cold' wallets. This resource aims to explain these terms and their levels of security and accessibility, to allow you to make the best choice on whether you need one.

Cryptocurrency Wallets

At its simplest, cryptocurrency wallets are applications or devices that store your cryptocurrency and crypto assets (e.g. your NFTs). Technically speaking, they don’t hold your assets, as they are stored live on the blockchain. Wallets store your pair of public and private keys which allow you to send and retrieve assets and sign sign transactions. Certain wallets also have additional features such as allowing you to buy, sell, stake or trade cryptocurrency. **Crypto wallets are similar to a bank account;** the main difference is only you have control of its contents, there is no central authority like a bank with access. The important part to note is anyone who holds your private key has access to take control of your balance in your wallet.

Types of Wallets

1. Exchange or Hosted Wallets

When you buy cryptocurrency directly from an exchange (i.e. Crypto.com, Binance, Coinbase) your crypto is typically held in a hosted wallet. This is set up by the exchange and doesn’t come with a seed phrase. This is because your private key is held by the exchange. As this private information is online, it is potentially vulnerable to hacking. However, you don’t have to worry about forgetting your password, as the exchange can help you retrieve this data. This type of wallet is the most similar to a bank account. You are trusting the exchange to act like a bank to protect and store your data.

These types of wallets are used to buy and sell cryptocurrency. You may also stake on an exchange.

It's important to know that if the exchange goes out of business, your money is not always retrievable. It is best practice to transfer out of this wallet to a wallet you own, if you do not plan on actively trading on the exchange.

2. Hot (Non-Custodial)

A ‘Hot’ Wallet refers to a wallet that is connected to the internet. This means your information is stored online. The type of hot wallet you have will depend on the blockchain: Phantom wallets on the Solana blockchain and MetaMask wallets on the Ethereum blockchain are popular examples.

A non-custodial hot wallet offers more protection than an exchange hosted wallet as only you have the private key, however it is still vulnerable to hacks and scams on the internet as it is online.

Hot wallets are often used for ‘day-to-day’ use, including minting NFTs, staking cryptocurrency and signing transactions.

3. Cold (Hardware Wallets)

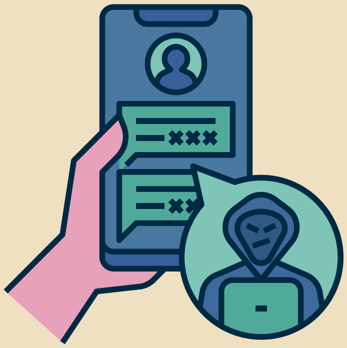
Cold wallets are not connected to the internet. Your private key information is stored on physical hardware and is physically controlled by you. Popular cold wallets include Ledger and Trezor.

This is the safest wallet and often used for long term storage of your valuable crypto assets. It comes as a USB shaped item and should be stored in a shape place.

Safety

When you first set up a wallet (except on an exchange) you will be given a seed phrase or secret recovery phrase. This is a series of words that should be kept private. You will only ever need this for setting up your wallet on a new device. You should never give out this information and you should store it offline, not on your computer , phone or device connected to the cloud. Some people store this information in a safe.

Your wallet address is public and can be shared online and in community channels. Your public wallet address is the hash of numbers and letters (an Ethereum wallet starts with 0x.......). You use your wallet address to mint NFTs, or get airdrops, or provide it to others to send cryptocurrency. It is like an email address.



General Tips

- Never store your seed phrase on a digital device
- Be careful what sites you connect your wallet to
- Always disconnect from sites after minting
- Revoke access to sites you no longer need to be connected to or if a risk is identified. (Etherscan can help with this on the Ethereum Blockchain)
- If your wallet is kept on your phone, be careful connecting to public wifi

How many wallets should you have?

How many wallets you need depends on how much cryptocurrency you have, your acceptable level of risk, and your daily crypto activity, but we are here to give you a guide so you can decide what works best for you.

As a guide, you should consider having a minimum of three wallets (2 x Hot Wallets and 1 x Cold Wallet). Of course, you can have more!

Hot Wallet Number One - A Minting and Burner Wallet *(For people making purchases with crypto, eg. buying NFTs)*

This wallet is the one you would use to submit to allow lists for NFT drops and the one you connect to minting sites. You should only hold as much cryptocurrency in this wallet as you need for these activities.

You should transfer your NFTs from this wallet after minting. This is your most insecure wallet, so you should try to avoid storing valuable assets here.

Hot Wallet Number Two – Your Frequent Use Storage

This wallet is where you store NFTs you are using frequently (such as to verify on discord channels) or connect to secondary markets for sales.

As this is a hot wallet you should be careful and minimise which sites you connect to. Only store NFTs and cryptocurrency on this wallet which you use daily.

This wallet can also be a cold wallet. At the time of writing, cold wallets such as Ledger have most of the functions to be able to connect to sites and verify for discord communities – but there are a few issues still to work out to get the same functionality.

Cold Wallet – Long term secure storage

This wallet should be where you keep your most valuable assets and cryptocurrency holdings for storage. You should not use it to connect to sites or sign transactions, this ensures it remains safe and disconnected. This wallet should be limited to sending and receiving your own assets.

Handy Hint: Always buy these assets directly from the manufacturer, rather than a reseller.