There are tons of things and concepts in crypto industry, where staking term seems to be a complicated idea or slightly simple one based on the levels of understanding you are willing to unlock. Considering majority of traders/investors, understanding the term staking is a way to earn rewards for holding certain ratio of digital currencies is the key takeaway.
However, even if any investor is looking to earn some staking rewards, they need to understand at least a little bit of basic concepts on what, how and why staking assets works the way it does. Here’s a simple single statement for you-
Staking provides crypto holders/owners a way of putting their assets digitally to work and in return earn some passive income without any need to sell them. Isn’t the definition quite simple? Let’s get deeper into the working of stake.

How Does Staking Work?

If a cryptocurrency a person own permit staking like the current options -Tezos, Cosmos, Ethereum (new ETH2 upgrade), the holder can “stake” their holdings and in return earn a percentage-rate reward over time. This activity usually takes place using a “staking pool” which you can relateas an interest-bearing savings account.
There are limited cryptocurrencies that offer staking, where we should get started with some more technical stuff. Just for your information- Bitcoin doesn’t offer staking mechanism, to thoroughly understand the reason you need to dig in a little bit of background.

Cryptocurrencies are sort of decentralized where there’s no central authority on the stage. The reason behind a person crypto earning rewards while staked is due to the blockchain that puts it to work. Cryptocurrencies allowing staking method eventually uses a “consensus mechanism” named as a Proof of Stake. This method is a simple way to ensure every single transaction is verified and secured without any use of bank or payment processor as an intermediate.

Cryptocurrencies To Stake

As explained earlier, staking is only possible with virtual currencies linked to blockchains that can use the proof-of-stake consensus mechanism effectively.The most notable cryptos include:

- Ethereum (ETH)
- Solana (SOL)

- Luna (LUNA)
- Polkadot (DOT)

Ethereum offers both “mine” and “stake” thus stands in a peculiar situation right now. Being the second-largest cryptocurrency according to the official market capitalization Ether is currently transitioning from proof-of-work (PoW) to a proof-of-stake (PoS) blockchain system which means that these two types of validation processes are functioning concurrently. A Plus point!

What is Proof of Stake?

An updated consensus mechanism known as Proof of Stake that has recently been introduced with an idea to influence the speed and efficiency while reducing the fees. A major way PoS minimizes the costs by not requiring all present miners to churn through math problems, which seems as an energy-intensive process. Instead, the motive transactions are thoroughly validated by person who are literally invested in the blockchain through staking.

Staking presents the same function as mining, where the process by which a network participant gets preoccupied to add the latest batch of transactions right to the blockchain and in return earn some cryptocurrencies in exchange.

This explained implementations might vary from project to project, in terms of users put their tokens through the line for an opportunity to add a new block onto the blockchain in exchange for a reward. The user has staked tokens act as a guarantee of the legitimacy turning of any new transaction, they add to the blockchain.

Risks of Staking Cryptocurrency

Considering any type of investing specially in cryptocurrency you need to evaluate the associated risks:
- The nature of cryptocurrency is volatile. Fluctuations in price can easily outweigh the rewards a user earn. On the other hand, staking is optimal for the ones planning to hold their asset with respect to long term regardless of the price bars.
- Some assets need a minimum lock-up period where user will be unable to withdraw the secured assets from staking.
- If a user decides to withdraw the secured assets from a staking pool, they need to pass a specific waiting period with respect to each blockchain prior to getting the assets back.
- The user should ensure a counter party risk of the staking pool operator. In case the validator is careless in its job and gets penalized, the user might skip out rewards.

- At worst, the staking pools can be hacked which might resultin a total loss of staked funds. Since the cryptocurrencies are not protected by insurance, the user will be left with no hope of compensation.

Advantages of Staking

There are majority of long-term cryptocurrency holders that consider staking as a way to make user assets work by attaining rewards, instead of collecting dust in user crypto wallets. The mechanism of staking has some additional benefit of contributing to the security, prominence, and efficiency of the blockchain projects user support.

Right away by staking some user funds, a person can make the blockchain more resistant to attacks and tighten its ability to process mere transactions. At some cases, projects also award "governance tokens" with regards to staking participants, where holders get a say in future changes and upgrades to that protocol smoothly.

How Do I Start Staking?

Staking is fairly open to everyone willing to participate, that being said, to become a full validator a user need some substantial minimum investment. ETH2, for instance needs a minimum of 32 ETH, hence said technical knowledge is must, you can't go blindly in this current crypto industry without a clue.

The user also needs a dedicated computer system to perform validations anytime without downtime barrier. Remember, participating on such level always alarm security considerations with some serious obligation, as downtime might cause a validator's stake to become slashed.

Though, talking about the vast majority of participants,you have a simpler way to participate, you have atop suggested exchange to contribute an amount a person can afford to a staking pool. This reduces the barrier to enter the dream and permits any investors start earning rewards without operating user own validator hardware.

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