

Hot Wallets vs Cold Wallets: What's the Difference?

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The difference between hot and cold wallets, and the amount of security that they offer for your crypto assets, differs — find out which type of wallet is best for you.

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If you are new to crypto, it's imperative to learn the basics of securely storing your cryptocurrency.

In this guide, we will introduce you to hot wallets and cold wallets and explain the differences between them to help you choose a wallet that's right for you.

What Is a Crypto Wallet?

A [crypto wallet](#) allows you to store, send and receive cryptocurrency. It is essentially a digital bank account for your cryptocurrency.

More specifically, crypto wallets are software that store the public and private keys that enable you to manage your digital currency holdings and interact with blockchain networks.

There are two categories of wallets: **hot wallets** and **cold wallets**.

Within each of these two categories, wallets can be further categorized into:

Hot Wallets

- Desktop wallets, *like Electrum and Armory*;
- Mobile wallets, *like Edge and [Trust Wallet](#)*;
- Hybrid wallets, *like BTCPay and Blockchain*.

Cold Wallets

- Hardware wallets, *like Trezor and [SafePal](#)*;
- Paper wallets.

Hardware wallets and paper wallets are both **cold wallets**, while desktop, mobile and hybrid wallets are **hot wallets**.

Cold wallets are all *non-custodial wallets*, which means that only the wallet's owner holds the private keys that provide access to the funds held in the wallet. Conversely, hot wallets can be either *non-custodial* or *custodial*.

Custodial wallets hold the private keys on behalf of the wallet's owner, which makes them less secure as users need to trust the wallet provider.

The key difference between the hot wallet and cold wallets is that hot wallets are *connected to the internet*, while cold wallets are not. As a result, cold wallets are considered a more secure storage option for digital assets.

Now, let's look at the two types of wallets in more detail.

Hot Wallets

Hot wallets are the most common types of crypto wallets because they are simple to set up and easy to use.

When you create an account on an exchange, download a mobile wallet, or download a desktop wallet on your laptop, you are creating a hot wallet.

Hot wallets are meant for everyday cryptocurrency users.

If you regularly trade crypto on an exchange or spend crypto to make everyday purchases, you want to store your digital currency in a hot wallet.

As hot wallets are connected to the internet, you can seamlessly make crypto transactions with the clicks of a few buttons on your phone or computer.

Exchange wallets are typically hot wallets. However, several leading exchanges have opted to store the lion's share of their users' funds in cold storage to increase fund security. Standard web-based or mobile-based hot wallets do not offer this feature.

While hot wallets stand out for their ease-of-use, they have one major drawback: *security*.

Storing a large amount of digital assets in a hot wallet, such as a web wallet or a mobile wallet, is not advisable as it leaves your funds exposed to potential security threats, such as cyber theft.

Therefore, you should only hold a small amount of crypto in hot wallets and your long-term investment in so-called “cold storage” in a cold wallet.

Cold Wallets

Cold wallets are considered the more secure cryptocurrency storage solution as they are not connected to the internet. You only connect your cold wallet to the internet when you want to make a transaction.

Hardware wallets and paper wallets are both cold wallet options. However, hardware wallets are more popular as they are easier to use and come with customer support provided by the manufacturer.

Hardware wallets use a physical medium — typically in the shape of a USB stick — to store the wallet’s private keys, making them de facto unreachable to hackers or other malicious parties.

To store crypto in your hardware wallet, you send it from a hot wallet to your hardware wallet’s public address. Conversely, if you want to send crypto from your hardware wallet to a friend or an exchange address, you connect your

hardware wallet to the internet via the wallet's dedicated software and then sign the transaction with your private key.

Paper wallets function in a similar manner as hardware wallets. However, instead of a physical USB-like device, paper wallets are pieces of paper that contain a public wallet address and a private key. Therefore, they have to be kept securely in a safe or somewhere where they cannot be easily found to avoid theft of your [cryptocurrency](#).

To send coins from a paper wallet, the wallet has to be imported into a hot wallet via a scan of the private keys so the coins therein can be spent.

While cold wallets provide a superior storage solution in terms of security, the main drawback is that they are impractical for everyday crypto usage as it is more cumbersome to send crypto from a cold wallet.

Choosing a Wallet

[Choosing](#) which crypto wallet to use is entirely up to you and your needs as a user. If you plan to buy and "HODL" Bitcoin, for example, you are better off putting your digital currency into cold storage, i.e., into a cold wallet.

Conversely, if you are a regular crypto spender, you are probably better off holding some of your crypto on a mobile wallet.

However, whichever wallet you choose, make sure that it is a non-custodial wallet where only you hold the wallet's private keys. That way, you have complete control over your funds at all times.

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