Crypto Trading Guide

How to be a Successful Trader

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How We Got Here

Before you can understand what is happening in the cryptocurrency landscape today, you need to go back to the beginning to learn how we got here. While the market has been around for just over a decade, a lot has happened since its start. To understand the intricacies of crypto, you must gain a strong fundamental understanding of the broader market. This will be a recurring theme throughout your crypto journey, learn the basics first and build from there. Even if covering the history of Bitcoin and the basics of blockchains might make you feel like you're reading a textbook, this part is a crucial foundation before we can get into the practical aspects of navigating the markets and making money, which is what most of the book will be about.

With that in mind, let's dive right in. As you may or may not know, onn October 28th 2008, the group or individual known as Satoshi Nakamoto released a whitepaper for a peer-to-peer electronic payments system that did not require the use of a third-party financial institution. On January 3rd, 2009, the genesis block of that payment system was mined. Today, that system, known as Bitcoin, has become the largest and most recognizable digital asset in the cryptocurrency ecosystem.

Satoshi's reasons for the creation of Bitcoin were vast, with all of them stemming from a complete lack of trust in financial systems forged by governments and financial institutions. Can you blame him? After the financial collapse in 2008, the evidence of flaws in the financial system were apparent more than ever. If you are reading this book, chances are you were old enough to remember or have first-hand experience of the harm that was caused. Odds are you share the same lack of trust in governments as Satoshi regardless of your stance on cryptocurrencies. By combining blockchain technology with cryptography, Satoshi created a decentralized payment system that would be the first successful attempt to circumnavigate these very institutions that abused their trust. For years Bitcoin remained the sole leader in the cryptocurrency space but has since inspired a budding ecosystem with an expanding number of use cases.

Since the creation of Bitcoin in 2009, the cryptocurrency ecosystem has flourished. The overall market capitalization has expanded from nothing in 2009, to a high of nearly $3 Trillion at the end of 2021. While the increase in value is exponential, the journey of cryptocurrency has been anything but a smooth ride. If you are a seasoned cryptocurrency owner, you have most likely become numb to volatility. Along the way, there have been periods of extreme swings with not only price, but also in sentiment. In the beginning, cryptocurrency had a stigma as being the preferred currency for criminals using the dark web (anyone remember the "Silk Road" era?). Education on cryptocurrency was lacking, and compared to today, very few people understood why it was created and what it could become.

For most, their introduction to cryptocurrency came in late 2017 during the massive bull run. Whether we bought into Bitcoin or watched from the sideline, we couldn't go anywhere without hearing about it. Price went parabolic and buying Bitcoin became a trend. Shortly after, the market flipped to bear, and prices corrected by over 80%. For many, this was their first time getting involved with cryptocurrencies, and many fortunes were made and lost. Prices remained low for years, shaking the tree of first-time investors. Many sold at a loss and moved on. Others held on with hopes and a belief that things would turn around. During the down years, all of those invested in cryptocurrency were left wondering if 2017 was just a flash in the pan or the start of a revolution. Any convictions that investors had during the bull run were being tested as hard as they possibly could.

Bitcoin failed to crack new highs for years. The hysteria surrounding digital assets subsided, that is until 2020. With the arrival of Covid in 2020, governments around the world printed a record amount of money. The record level of money printing resulted in many becoming fearful of monetary policy and flocked towards Bitcoin to escape the world of fiat. Perhaps this is what brought you to the market today, anon. The fears of financial institutions wrecking the economy like they did in 2008 were now back in play. Combining these fears of excessive money printing with the scarcity of Bitcoin, the price went parabolic and started a new bull run. This bull run will have its unique characteristics, with it ultimately being remembered as the first cycle where digital assets started to become adopted by traditional markets.

The Basics of Blockchain

Blockchain and Bitcoin are two terms that are often used synonymously but are two different concepts. It is important that you understand how they are intertwined but also understand what makes the tech behind everything work. Blockchain is the digital infrastructure that Bitcoin is built on. Blockchain is the technology that creates confidence in the whole system. While people often discuss Bitcoin as the first cryptocurrency, you may be surprised to know there were prior crypto attempts as early as the 1990's. Satoshi even referenced these attempts in his blog posts, sharing his belief that the failure of those attempts stemmed from their centralization. Basically, Satoshi said they had the right idea but didn't know how to execute it.

Blockchain is the public record where anyone can view a transaction between two wallets and come to an agreement that previous transactions are correct. When it is referred to as a "trustless" system, it means you don't have to worry about trusting a 3rd party to be on their best behaviour. Transaction data is added to blocks, and when the blocks are full, they get added onto a continuous chain. Each previous block is confirmed to be accurate by the network of computers all around the world. The success of cryptocurrencies can largely be attributed to the decentralization that blockchain has to offer. They are decentralized because control of the blockchain would require a group or individual to own a majority of the mining power, which is practically impossible. This is the reason why the Bitcoin network has never been hacked.

While Bitcoin is its own blockchain, not all blockchains involve Bitcoin. Blockchain isn't even exclusive to cryptocurrencies, as they have been used in other areas such as healthcare, voting and aiding in supply chains. Blockchains are host to several different ecosystems such as Ethereum, Avalanche, Solana, and many other Layer 1 Blockchains. Each blockchain has their native currency, and when projects are built on top of these blockchains they can use native coins or develop a use case for their own tokens.

Proof of Work Vs. Proof of Stake

With each blockchain, there is a native coin which has its own tokenomic structure. Coins are brought into circulation through different means. Rather than being created all at once, coins are generated over time through Proof of Work (PoW), or Proof of Stake (PoS). The reason coins are created over time stems from security reasons. As blocks are created, rewards get paid to those creating them. By paying the computer network rewards in coins, these payment structures incentivize people to run these miners and nodes which provide security. In both PoW and PoS systems, network security comes from multiple computers coming to a consensus that transactions are accurate and truthful. When these computers verify everyone is acting truthfully, and get paid for it, everybody is happy.

Bitcoin is a PoW network, with high-tech miners set up around the world processing transactions. For a decentralized network to run, security is incredibly important. Generally speaking, PoW is considered to be more secure by many as ownership of the native asset is disconnected from control over producing blocks. In PoW blockchains, the miners use expensive equipment, and are typically run by companies or investors who have the financial means and time to set up shop. PoS networks involve running validator nodes and staking tokens, with a specific minimum amount necessary to stake in order for a validator to produce blocks (and these coins can then be "slashed," that is taken away if the validator acts maliciously). PoS coins are easier for most people, as you can earn rewards with a few mouse clicks by delegating your coins to a validator, without having to set up any infrastructure yourself. If you are someone who doesn't want the hassle of building a setup for miners, PoS coins are great for earning passive income with staking rewards. When deciding what coins you want to buy, ask yourself if you prefer security or passive rewards, and then understand how each coin functions.

Bitcoin Leads the Way

While Bitcoin has retained market dominance since its creation, the percent share has decreased over the years. From 2009 to 2016, the market cap of Bitcoin ranged from 95-99% of the overall market cap of the cryptocurrency ecosystem. As of 2022, the current Bitcoin market cap is around 40% of the overall crypto market. You should not view this as dwindling faith in Bitcoin, but rather an increase in the number of crypto projects that have drawn interest from enthusiasts. Faith has remained strong, which is evidenced by Bitcoin becoming one of the top 10 most valued assets in the world. If you're ever curious if Bitcoin is poised to take on the banks it was created to fight, know that it only took 12 years to become valued more than any bank out there.

When talking about projects other than Bitcoin, these will commonly be referred to as “altcoins”. Altcoins were ultimately developed not to be competitors to Bitcoin, but rather to try and join the fight against traditional finance and maximize the opportunities of blockchain technology. Bitcoin was developed to be a payment system, but it was quickly realized that Bitcoin was not capable of processing transactions at a rate that could replace traditional finance on its own. Once this flaw was realized, other projects set out to help create a system that could be used on a larger scale. Bitcoin became seen as a store of value, while other projects sought to not only circumnavigate banks, but replace them all together.

Projects like Ethereum aimed to have a blockchain that allowed for decentralized applications known as dApps. These applications opened the world to decentralized finance which is also known as DeFi. This was created to give every person a chance to become their own bank. Typically, when we put money in the bank, the bank can then loan that money out to another customer (or that’s at least a very simplified version of how it works). We then earn an incredibly small amount of interest on our money that can’t even keep up with inflation. When the bank loans it out, they collect interest at a rate much higher than what they pay to the depositor. The reason for this is a bank has a lot of staff, buildings to operate, and ultimately, they just have a lot of costs.

With dapps, users can now lend their crypto out and earn a much higher interest rate because dapps are lines of code and don’t require nearly as much money to run. Savings accounts offering 0.02% interest are getting dropped for stablecoin accounts offering 5-8% interest or more. This idea of borrowing and lending sparked a new use case for digital assets. With users flocking to these new platforms, networks ran into issues of congestion when processing transactions. This led to development of projects like Polygon as well as many Layer 2 solutions that help compress transactions to speed up the network and lower gas fees. As the market shows, new ideas lead to new projects which often come with their own sets of issues. The market has become very adaptable with many projects fixing these problems as they arise. This mechanism is what has led to the symbiotic growth of the whole crypto economy.

When it comes to understanding crypto markets, keeping an eye on Bitcoin is a must. Bitcoin is not only the most valuable asset, but it tends to reflect the state of the whole market. When it comes to crypto tax regulation, governments talk about Bitcoin. When it comes to institutions wanting to start gaining exposure to cryptocurrency, they are often referring to Bitcoin. When cryptocurrency is being discussed as a whole, it is usually in reference to Bitcoin.

Know Your Why

While many people buy cryptocurrency, the reason for the purchase will vary depending on who you ask. Before you decide on buying into cryptocurrency, you must reflect on why you truly want to own a digital asset. On some level, all those who buy in to cryptocurrency are hoping to increase their personal wealth. With the performance of crypto over the last decade, there has never been a wealth generating asset like it. There are countless rags to riches stories where people have obtained life-changing wealth. For many, crypto rescued them from a career with no potential for financial freedom. Who wouldn't want to get involved with new tech that is making people wealthier beyond their dreams?

While everyone wants to become wealthier, there is a subset of enthusiasts who get in for additional reasons. Many see the current financial system the same way Satoshi saw it and want less power in the hands of those who continue to abuse the system. Maybe you are one of these people. Centralized financial institutions have created a system to try and make the people dependent on them. Some enthusiasts buy cryptocurrency to send a message to those running the financial system, as well as taking back their own freedom. When getting involved in crypto, chances are that you will at some point be down in terms of investment value. Trading cryptocurrency is not an easy task, your convictions will be tested. Before you do anything in the market, it is important to ask yourself why you are doing it. That's the only way that you'll have the perseverance necessary to make it.

Rules To Follow When Investing

A wise man once said, "a goal without a plan is just a wish". When learning about investing in cryptocurrency, it is crucial to always have a plan. Unfortunately, this is much easier said than done. With the bull runs over the last few years, crypto has naturally garnered the attention of the masses. Everyday people hear stories of early investors making tremendous profits and want to learn more about the crypto space. However, it is not as simple as buying crypto and watching your net worth drastically increase. As you will learn in this book, trading is not only about analysis, but also about controlling emotion. Looking at the Bitcoin price chart, the price movement from $0 to $69k would make someone think crypto investing is easy money. However, in that time frame, people have lost their fortunes countless times due to a multitude of reasons. The goal of this book is to help you not only generate wealth, but also help you keep it. In many ways, that's the hard part.

When first buying crypto, you need to follow a series of basic principles. One of the more common rules you should follow is never invest more than what you can afford to lose. Assets can depreciate rather quickly and for periods of time. If you are too heavily invested, you can quickly find yourself in a financial hole. If money is needed to pay for the essentials and you must sell your assets at a loss to cover costs, you will get burned. Managing your risk will also help reduce the emotional aspect of trading, which will make it easier to make clear decisions.

Doing research on what to buy is often overlooked. People say "DYOR" (Do Your Own Research) all the time, but many are guilty of hitting the buy button before looking into a project. Bitcoin and Ethereum are two of the biggest names, and yet many involved in them do not fully understand their purpose. As you go down the list to smaller cryptocurrencies, the education on each project becomes minimal. Unfortunately, very few people take the time to research projects and buy after hearing recommendations from others. Sometimes, investors will look at top 10 or top 20 projects and think those projects are too big to fail, without realizing how the top 20 crypto projects are constantly changing year after year. If you don't know about what you buy, you won't have any reason to know why prices should go up or why they could go down. Are the tokenomics inflationary or deflationary? What is the goal of the project? Is there a use case for the token? Being bullish on crypto won't make you bullish on every project out there. Doing research will help you know what you own, and keep you from falling victim to the many scams and dead-end projects that lurk in the markets

When buying cryptocurrency, know the timeframe you plan on holding your assets for. When you learn about technical analysis, you will be developing strategies on when to enter a position and when to exit. If you are a long-term investor, the day-to-day price action should have a minimal effect on your strategy. Longer term investors will tend to dollar cost average and maybe add a little extra on dips. For day traders or swing traders, when to enter and exit a position will become much more crucial as you will learn in later chapters. When trading you will experience days where price action is shooting upwards and at a rapid pace. By having a strategy, it will reduce the risk of FOMO (fear of missing out), which often leads to buyer’s remorse. Likewise, when prices are falling, investors can panic sell at the bottom, leading to increased losses and pain while watching the price start to rise without owning the asset. Not all trades will be successful but finding a strategy will improve chances of successful returns over time.

Spot / Derivatives

Since their creation and growing rate of acceptance, there have been different ways to increase exposure to cryptocurrencies. The original and often preferred method of purchase by crypto enthusiasts is “spot” trading. If you have purchased cryptocurrency before, chances are you have done this. With spot trading, cryptocurrency can be bought or sold immediately, resulting in one party now having ownership of a coin or a token. This transaction is visible on the blockchain (if it was made on a decentralized exchange; otherwise it’s only visible on the centralized exchange that you’re using) and gives direct ownership of the crypto that was purchased. The owner can then trade the currency at a time of their choosing or put it in any wallet they choose. The advantages of trading on the spot market include buying and selling at a desired price, direct ownership of the asset, and the ability to get in and out of trades quickly.

With derivatives, buyers are getting exposure to an asset without owning the asset itself. These methods of trading are often used to hedge for protection against a price move you did not expect, or to speculate and help maximize gains on a price move you did expect. The derivative market has grown tremendously over the years as cryptocurrency has become respected as a legitimate asset class. Derivatives trading will likely be used by a more experienced individual who tends to have more funds to trade with. With derivatives trading involving futures contracts, traders will use margin to try and maximize profits. Leverage should only be used by a trader with experience, and never with amounts that would drain an account in case the trade goes the wrong way. Derivative trading has many benefits such as gaining exposure to an asset at a cheaper price, offering protection on price moves that weren’t anticipated, and maximizing winning trades. Derivatives and spot trading will be discussed in more detail in later chapters.

1.1 Market cycles, correlations between financial sectors, inflation

Predictor of Future Trends?

When studying cryptocurrency sentiment and price action, Bitcoin has been the leader of how the market will move. As referenced earlier, Bitcoin controls the largest market share of all cryptocurrencies. By studying the data of past cycles, we are trying to gain a competitive edge on understanding how the market will move. Typically, these cycles are analysed in 4-year increments due to the halving cycle schedule of Bitcoin. Even though crypto projects can be on different blockchains and have nothing to do with each other, they are typically correlated to Bitcoin. When looking at price charts you will often be able to find charts that look like “x”/BTC. These charts will show the price of a crypto project in relation to the price of Bitcoin. We use these charts as a measuring stick for a token to compare its strength or weakness relative to Bitcoin. Within each cycle, some projects will flourish, and others will fail. Not only is it important to compare other cryptocurrencies to Bitcoin, but it is important to see how Bitcoin is performing compared to other financial markets.

Not All Cycles Are Alike

When observing market cycles, it is important that we don’t only look at prices, but that we also study the outside factors that could be influencing the market. Keeping up to date with news is a must. Are countries banning crypto or making it legal tender? Are governments making changes to monetary policy? Are financial institutions adopting the use of crypto? When looking at the price chart of Bitcoin, it is hard to understand how the market landscape changed along the way. Back in 2009 it was incredibly difficult to buy crypto, there was minimal belief that crypto could revolutionize the financial market, and users were in constant fear of governments making attempts to significantly hinder the growth of digital assets. If you were involved in the early days, you remember the never-ending FUD storm.

In comparison, the landscape of today’s market has stark differences. Buying cryptocurrency is easier than ever, many are starting to see the change crypto can create, and the attempts by governments to provide regulatory guidelines show that governments believe digital assets are here to stay. Veterans of the game watch new investors come in each cycle like proud parents watching them go through the ups and downs of their first bull run. With each cycle, you need to understand all the outside factors that create fear or excitement in the markets. In future cycles, there will be a different set of issues that will need to be resolved, and cycles will continue to build off of previous ones.

Bitcoin Tokenomics

The tokenomic structure of Bitcoin has led to price movements that many traders try to use to predict future price movements. Generally, when cycles are talked about, they are referencing every 4 years (2012, 2016, 2020 etc.), because every four years Bitcoin has its “halving cycle”. This halving cycle means that block rewards to miners are cut in half, leading to increased scarcity as it becomes harder for miners to obtain coins and release them into the market. With Bitcoin being capped at a limit of 21 million coins, and 19 million coins already being in circulation, only 2 million coins are yet to be mined. With the halving rate kicking in every 4 years, it is estimated that the final coin won’t be mined for over 100 years. Additionally, millions of coins are estimated to be lost from the earlier days (by people that permanently lost access to their wallets).

With a hard cap on the asset, many view this as a hedge against inflation. After the arrival of Covid, banks printed a record amount of dollars, leading to record high inflation that is being seen in 2022. Central banks never cease to amaze us, do they? With a record watering down of fiat, many sought to find an asset that could not be manipulated. In smaller time frames, Bitcoin price can enter a bear market where losses in Bitcoin price led to more losses than an increase in inflation would. However, someday Bitcoin will stop increasing its supply, where the same cannot be said about traditional fiat. Bitcoin’s inflation will stop completely, while fiat is a runaway train in the opposite direction. This poses the question; would you risk a few months or years of negative returns for a chance at generational wealth? Or would you prefer to park your money in fiat and have it diluted - slowly but surely - for the rest of your life?

Digital Gold?

Bitcoin is commonly referred to as digital gold. Gold is a commodity that has previously been sought after as a haven in times of high inflation with the main reason being its scarcity. A finite supply of gold is tied to the money supply. When too many dollars enter the circulating supply and gold supply remains unchanged, the value of gold would rise. When Bitcoin was first introduced it was seen as an alternative payment system but has since garnered attention to some investors as a store of value. Bitcoin not only has scarcity, but it is much more transferable than gold. If you've ever owned gold, you probably wondered why it has value and what you can do with it. Very few people have been able to pay for anything with gold, and most involvement with gold stems from buying or selling jewellery. Sending gold from one place to another is inconvenient, as seen when governments need to move gold in and out of vaults.

When it comes to a price comparison over the last 10 years, Bitcoin has drastically outperformed gold in terms of price performance. At this point buying gold seems like an old strategy that hasn't evolved with the times. While gold returns have remained stagnant over the past decade, Bitcoin's price has increased over 400,000 %. One could argue that the larger market capitalization of gold made it more difficult to increase, but it remains clear that Bitcoin is gaining ground and at a very rapid pace. With Bitcoin sitting at a market cap that is about 10% of gold, many believe a fair price for Bitcoin is when its market cap is equal to that of gold.

With gold being an instrument used to combat inflation, many naturally assume that digital assets like Bitcoin can also be used to combat inflation. In a first-world country, inflation puts stress on consumers. In a third-world country, it can even go to the level of hyperinflation, which leads to much more significant strain. For someone in a country experiencing hyperinflation, any payment they receive in their country's fiat gets watered down to the point that it is practically worthless. With countries who have experienced this, many citizens have begun to use Bitcoin to try and dodge the exponential devaluing of their fiat. Chances are that no matter where you live, you have been on heightened alert at inflation becoming irreparable by central banks.

BTC Enemy of the Dollar?

As discussed earlier, digital assets can be seen as an actual currency rather than just an investment vehicle. In forex trading, two fiat pairs are traded against each other, and bets can be placed on which fiat will outperform the other. Maybe you come from a forex background and are familiar with this sort of trading. With BTC and other digital assets, it would be reasonable to think of these as currencies and how their strength or weakness compares to traditional fiat. If BTC is viewed as the enemy of the dollar, then one could assume that a strong dollar is bad for BTC, but a weak dollar is good for BTC (which reflects patterns in the traditional stock market).

When trading, we can use the dollar index (DXY), which will help us see the strength or weakness of the dollar. With the dollar being the world's reserve currency, the sentiment of it will tell us about the broader picture. In times of economic uncertainty, many flock to the dollar and this can be seen on the DXY chart with upwards movement. The strength will surge as people try to find safer areas to invest. With this behavior, one can conclude that we are in a risk-off environment during strength in the dollar, and vice versa. While Bitcoin has performed well and many see its potential, it is still considered a speculative, risk-on asset. Currently, during times of risk-off investing, digital assets struggle. When the DXY shows weakness, this can suggest the market is in a risk-on environment. This is the sweet spot for a crypto market bull run. During the recovery of markets after March 2020, many stocks experienced record growth. In that same time frame the DXY showed weakness. While the DXY and BTC may not be in a perfect inverse relationship in terms of price action, a correlation can be seen on a macro scale and a correlation in sentiment can also be observed.

Market Money Flow

Over the past few cryptocurrency cycles, certain trends have been observed in how money moves through the market. Understanding the money flow of the market will help you in timing your investments as well as understanding when to sell them. When a market turns bullish and buyers are rushing to buy digital assets, Bitcoin will be the first coin to move. Usually, this sort of movement is kickstarted by a Bitcoin halving event or a major event involving central banks. With new investors pouring into the markets, they are going to want to start with what is considered the biggest and safest name.

Bitcoin was most likely the first crypto you purchased and the one you know the most about. That sort of recognition garners the most buying pressure. When the market cycle kicks off, all eyes are focused on

Bitcoin which leads to a tremendous parabolic move. This move marks the start of a bull cycle. Sentiment of the market is generally euphoric as everyone is watching their net worth increase. During this parabolic move, other altcoins will typically rise as well, but not by a that much. However, once investors start locking in profits from their Bitcoin gains, they will be looking to invest money in altcoins that were lagging behind. A general rule of thumb is that the larger the market cap, the lower the return on investment - as well as the risk - since it takes more money for the price to move. As you go down the list into smaller market caps, there is a potential for larger returns.

Before Bitcoin made its parabolic move in late 2020, it was trading around 8-10k a coin. With its parabolic move, prices spiked to around 65k. A 5-7x return in only a matter of a few months is very impressive. Many saw this move as a validation in the crypto market. With this newfound confidence in the market, many looked for other coins to invest where gains could be even greater. This led to purchasing of altcoins, with the leading altcoin being Ethereum. Ethereum saw even greater gains around the 10x mark. As investors started to find success with big names, they put profits into smaller alt coins, where returns could be as high as 50-100x due to smaller market caps requiring less capital to move price. As the bull markets move, money flows from the biggest projects to the smallest ones, as investors try to maximize gains and become comfortable with more risk. In times of bear markets, Bitcoin moving to the downside can destroy an altcoin even if the project is doing very well fundamentally. With Bitcoin price falling or remaining stagnant, it hinders confidence in the markets and 5-10% losses for Bitcoin can lead to massive losses for alts. Understanding money flow will help you analyse the current state of the market, which will be a crucial factor in deciding on which trades you are going to make.