3 Types and Strategies of Trading

3.1 Types of Trading

The two most common types of trading in crypto is Spot Trading and Derivatives Trading. Both methods are widely used by both experienced and inexperienced traders. Spot trading is the method of buying a crypto currency that has immediate delivery of that specific currency. Spot trading can also be referred to as physical trading because the money used to execute an order is automatically settled for the coin.

Derivatives trading is slightly different on the other hand, this is because contracts are traded rather than the physical coins itself. The derivatives market runs from contracts traded rather than the actual coin. It is simply a financial contract between a buyer and a seller where the value is derived from the underlying asset. They also serve as leveraged instruments; this greatly increases the potential risk, as well as the reward.

The following is a list of advantages and disadvantages of spot trading compared to derivatives trading.

Advantages:

- Lower Risk Compared to Derivatives
- Hold the Physical Coin and not a contract
- Limited downside, no liquidations
- High liquidity, easy to liquidate the Coin

Disadvantages:

- No leverage, smaller gains in comparison
- Fees, can differ compared to platforms
- Not as intense as Derivatives Trading
- No hedging ability (i.e going short)

3.2 Trading Strategies

3.2.1 Investing

Investing is the form of allocating a portion of a trader's capital in an asset to generate an income or a return in the future. Investing can have a long time horizon; this can be months or even years. The main goal is to achieve appreciation of the asset/coin invested in. This means that the value of the asset/coin has to increase over time, yielding a positive return. Investing requires a level of due diligence and an outlay of capital in the hopes of a greater pay-off in the future. This type of trading is suited for a hands-off approach, therefore patience for returns is needed.

Some of the key characteristics of investing are the following:

- Allocating capital today for future returns
- Investment can be short-term and long-term
- More of a hands-off approach, patience is required

3.2.2 Positional Trading

Positional Trading mainly focuses on a long-term approach that primes traders to hold a specific position for an extended period. Traders condition themselves to avoid the short-term movements of the asset/coin, as they believe in the longer fundamental aspect of the trade. Positional traders' main technical approach is trend-following that is in alignment with their fundamental thesis.

The purpose of this type of trading is to achieve either long or short exposure based on the market conditions. It also allows traders to hedge and cover their downside if they are overexposed to the market. Positional trading is highly effective in balancing exposure when key pivots in the market occur.

Some of the key characteristics of Positional Trading is the following:

- Trend Following Approach
- Focus more on the fundamental trends in the asset/coin
- Entries and Exits are timed on trend peaks and bottoms

3.2.3 Swing Trading

Swing Trading is a very common strategy used by traders around the globe. The main goal of this strategy is to try and profit from market swings whether that be a long and or a short position. Swing Traders can hold onto a position for one day to even several weeks, depending on the trade. This type of method can be very profitable if deployed successfully, that is with the use of a proper stop/loss placement.

Fundamental analysis can be intertwined with technical analysis when trying to achieve successful swing trading. The technical analysis helps traders determine key market points where reversals are probable. With this data, entries can be scaled into to catch this swing in the opposite direction.

Some of the key characteristics of Swing Trading is the following:

- Fundamental and Technical Analysis intertwined
- Swing trading can last from one day to several weeks
- Swing Trading focuses on catching key market pivots

3.2.4 Scalp Trading

Scalping is a trading strategy that heavily focuses on smaller movement in an asset/coin. Scalpers can range for a few traders per day to a few hundred trades, this is done for the hopes to end the day green. The method is fast paced and requires a high level of precision and focus.

The main goal for scalping is to produce cash flow, this can only be achieved with a high win rate. Scalpers have a high level of discipline backed with a well-defined strategy. Strict risk management procedures are also in place to avoid any unnecessary losses.

Some of the key characteristics of Scalp Trading is the following:

- Focuses on smaller movement in price action
- High volume of traders per day
- Need strict risk management and execution procedures

3.2.5 Day Trading

Day Trading is one of the more common strategies used by traders, the aim is to drive a profit from an asset/coin within the same day. Positions can be held for a few seconds to up to hours; however, they are rarely held overnight. Traders are highly active in the market by using intraday strategies to execute and manage positions. This method can be very lucrative if performed well, that is with a properly devised trading plan.

There are many different methods involved in day trading, this can range from simple support and resistance to advanced order flow. Whichever method is used, an edge needs to be present to profit successfully. Day trading uses a combination of technical analysis with a high degree of self-discipline.

Some of the key characteristics of Day Trading is the following:

- Different methods of execution, i.e. support and resistance to order flow
- Positions are opened and closed within the day
- Required high levels of discipline