

Banner Copy: Crypto Derivatives vs Structured Products

Meta Description: Crypto derivatives and structured products are popular trading strategies with high earning potential. Understand how they work in this comparison deep dive.

Crypto Derivatives vs Crypto Structured Products: A Comparative Analysis

Over the years, cryptocurrencies have emerged as a popular asset class among retail and institutional investors. In particular, crypto derivatives remain a popular choice, dominating the market with [more than 70% of the total crypto trading volume](#). The concept of cryptocurrency trading is simple: it involves buying digital assets at a low price and selling them when their value increases. However, as the market evolves, more sophisticated and innovative financial instruments are being introduced, namely crypto structured products. These products take crypto derivatives to the next level by offering pre-packaged investment strategies tailored to varying risk-return profiles.

In this article, we take a look at these crypto trading instruments and analyse their similarities and differences. Also, we explore their pros and cons while discussing trading strategies that you can apply to both tools. Let's dive in!

What are Crypto Derivatives

Crypto derivatives are financial contracts that derive their value from the underlying cryptocurrencies. This enables investors to gain exposure to the price movements of cryptocurrencies without directly owning them. The rise of crypto derivatives trading has largely been driven by the growing adoption of cryptocurrencies. Additionally, the notoriously volatile crypto market provides opportunities for traders to speculate on both upward and downward price movements, potentially earning large profits from price swings.

How does this work? When you trade crypto derivatives, you're not buying or selling the actual cryptocurrency. Instead, you're dealing with contracts based on those cryptocurrencies. This means you can benefit from price fluctuations without the need for a digital wallet or dealing with cryptographic keys. Moreover, derivatives allow traders to magnify small price movements and create substantial profits through leverage.

Types of Crypto Derivatives: Futures, Options, and Perpetual Contracts

There are hundreds of centralised and decentralised exchanges where you can trade crypto derivatives. Here are some common forms of crypto derivatives:

Futures: Futures are agreements to buy or sell an asset (in this case, a cryptocurrency) at a predetermined price at a specific time in the future. Crypto futures allow traders to speculate on the future price of a cryptocurrency, thus providing a mechanism to hedge against potential price swings.

Options: An options contract gives the buyer the right (but not the obligation) to buy or sell the underlying cryptocurrency at a predetermined price before a certain date. It essentially provides an opportunity to hedge against adverse price movements while also giving room for profit if the market moves in favour of the trader.

Perpetual Contracts: Unlike futures and options, perpetual contracts do not have an expiry date. Traders can keep these positions open for as long as they want, provided they pay holding fees, called the funding rate.

Each of these crypto derivatives has its unique features. For instance, features like stop-loss and take profit allow traders to set floor and ceiling prices for their trades, enabling automatic exits from the market under favourable conditions. Other features like partial close orders and auto deleveraging provide flexibility and risk management to traders.

What are Crypto Structured Products

Taking derivatives one level up are crypto structured products, which have been gaining traction in the crypto space. In traditional finance, structured products have been around for decades, particularly in wealth management. They are essentially managed investments or packaged financial products whose value is linked to an underlying asset or basket of assets such as market indices, stocks, bonds, or a mix of these.

In the context of crypto trading, structured products derive their underlying asset from cryptocurrencies such as Bitcoin and Ether. These financial instruments are specially designed to offer a unique blend of investment returns and risk management. They incorporate the use of derivatives and other complex financial tools, custom-fit to meet the precise investment objectives and risk tolerance of individual investors. In other words, they provide a personalised way of navigating the volatile world of cryptocurrency trading.

Purpose of Crypto Structured Products

Crypto structured products can be seen as a bridge between traditional finance and the innovative world of cryptocurrencies. These products allow investors to gain exposure to cryptocurrencies with different risk-return profiles, depending on their investment strategy and risk appetite.

The primary purpose of crypto structured products is to provide a way for investors to participate in the potential upside of cryptocurrency markets, while managing the inherent risks. As crypto adoption continues to grow, these products offer a flexible, customisable option for both retail and institutional investors seeking to hedge against tail risks or exploit price movements.

Types of Crypto Structured Products

Several types of crypto structured products are available on Darwinbit, each catering to different investor needs and market conditions.

One example is **Shark Fin**, a principal-protected product suitable for investors with a conservative profile. Should investors correctly express their view of the market, they can generate additional returns, on top of their guaranteed minimum return. This makes it a relatively low-risk product while still generating yield.

Another popular crypto structured product is **Dual Investment**. As a short-term investment product, it enables investors to earn a range of returns on their investments in either crypto (such as BTC) or stablecoins (such as USDT), depending on the settlement price upon maturity.

On the extreme end are crypto structure products designed to maximise returns with leverage. An example of this is **Future Plus**, a leveraged structured product designed for directional market speculation. One advantage of this product is that there are no liquidations of the position before maturity, with unlimited upside potential and capped downside risk to mitigate losses.

The Significance of Crypto Structured Products in Crypto Trading

Crypto structured products play a pivotal role in the broader landscape of crypto trading. As the crypto derivatives market expands, these products offer an alternative to spot trading, enabling more nuanced strategies beyond simply buying low and selling high. As such, they have become increasingly popular among family offices, wealth managers, and even traditional hedge funds seeking to take advantage of price movements more readily, especially during bullish markets.

In essence, crypto structured products offer a gateway to the potential rewards of cryptocurrency trading, tempered by carefully managed risks. Thus, understanding these products is a crucial step towards a more diversified and effective investment strategy for both new and veteran traders.

Comparing Crypto Derivatives and Crypto Structured Products

The landscape of cryptocurrency trading is constantly evolving, with a plethora of investment strategies and products, each with its unique benefits and risks. Both crypto derivatives and crypto structured products offer investors opportunities to maximize returns and mitigate risks. Yet, they differ in their structure, function, and potential rewards. In this section, we discuss the key differences between these two facets of crypto trading.

Key Similarities and Differences

At their core, both crypto derivatives and crypto structured products derive their value from underlying cryptocurrencies. However, the way they leverage this dependency differs significantly. Crypto derivatives, such as futures, options, and perpetual contracts, allow

investors to speculate on price movements without owning the underlying asset. On the other hand, crypto structured products are pre-packaged investment strategies that can be customised to meet specific investment goals, offering a range of return profiles based on the performance of the underlying cryptocurrencies.

Take for example, Darwinbit's **Protective Earn**. As a structured product, it offers periodic returns with flexible terms. Depending on traders' investment strategy, risk-rewards combinations can be tailored by customising key parameters such as maturity, take profit prices and downside protection prices. This allows traders to earn yields higher than the market rate while mitigating potential losses.

Potential Risks and Rewards

Every investment strategy comes with its share of risks and rewards. In the case of crypto derivatives, these instruments offer a cost-efficient way to gain exposure to cryptocurrencies. They provide an avenue for hedging against price movements and achieving leveraged exposure without significant capital investment. Conversely, there is the potential for substantial losses if the market moves against the investor's predictions.

On the other hand, crypto structured products, offer a more predictable risk-return profile. These products cater to a wide range of investor needs, from conservative to aggressive, by customizing the parameters of the product to align with the investor's risk appetite. Nonetheless, it's crucial to remember that the return on these products is dependent on the performance of the underlying assets, meaning they are not entirely risk-free.

In essence, both crypto structured products and crypto derivatives trading present opportunities for savvy investors to navigate the volatile crypto markets. However, the choice between these strategies depends largely on the investor's risk tolerance, investment goals, and expertise in the realm of cryptocurrency trading.

Top Indicators for Crypto Trading in 2023

In the ever-evolving world of cryptocurrency trading, staying ahead of the curve requires a deep understanding of market trends and patterns. This is where trading indicators come into play and can be applied in the crypto trading of derivatives and structured products. In essence, these are mathematical calculations used to forecast future price movements, and here are seven key indicators.

1. **The Relative Strength Index (RSI)** is a momentum oscillator that measures the speed and change of price movements. The RSI moves between zero and 100 and is considered overbought when above 70 and oversold when below 30. This helps traders identify potential points where the market could be overextended and due for a reversal.
2. **Moving Average Convergence Divergence (MACD)** is a trend-following momentum indicator that shows the relationship between two moving averages of a

security's price. It is calculated by subtracting the 26-day exponential moving average (EMA) from the 12-day EMA, which then produces the MACD line. A nine-day EMA of the MACD, called the "signal line," is then plotted on top of the MACD line, which can function as a trigger for buy and sell signals.

3. **The Aroon Indicator** identifies when trends are likely to change direction. It consists of two lines: "Aroon up," which measures the strength of the uptrend, and "Aroon down," which measures the strength of the downtrend. When the Aroon Up is above the Aroon Down, it indicates a bullish market condition, whereas the inverse suggests a bearish market condition.
4. **Fibonacci Retracements** are used by traders to identify potential levels of support and resistance. They are based on the key numbers identified by mathematician Leonardo Fibonacci in the 13th century and are often used in conjunction with other forms of technical analysis.
5. **On-Balance Volume (OBV)** measures buying and selling pressure as a cumulative indicator, adding volume on up days and subtracting volume on down days. OBV provides a running total of volume and shows if this volume is flowing in or out of a given security.
6. **The Ichimoku Cloud**, also known as Ichimoku Kinko Hyo, is a versatile indicator that defines support and resistance, identifies trend direction, gauges momentum, and provides trading signals. It consists of five lines: Tenkan-Sen, Kijun-Sen, Senkou Span A, Senkou Span B and Chikou Span, each providing unique insights into the market.
7. **The Stochastic Oscillator** compares a particular closing price of a security to a range of its prices over a certain period. The oscillator's sensitivity to market movements can be reduced by adjusting the time period or by taking a moving average of the result.

Applying the Indicators to Crypto Trading

These seven key indicators can help investors decide which crypto trading tool to use. For example, a trader might use the RSI and MACD to determine the overall trend of the market before using the Stochastic Oscillator to time their entry and exit points. The Aroon Indicator and Fibonacci Retracements could be used in conjunction to identify potential reversals in the market.

Similarly, a trader could use the OBV to measure the flow of volume in and out of a particular cryptocurrency, helping them identify periods of accumulation and distribution. Lastly, the

Ichimoku Cloud could provide a comprehensive look at the market's trend direction, momentum, and potential areas of support and resistance.

In the unpredictable world of cryptocurrency trading, these indicators can provide valuable insights into market trends and potential price reversals. By using these tools, traders can make more informed decisions about when to enter or exit a trade, thereby maximizing their profits and minimizing their losses.

The Baseline

As we wrap up this comparative analysis, it's safe to say that both crypto derivatives and crypto structured products offer unique opportunities in the world of cryptocurrency trading. However, understanding them thoroughly is crucial before diving headfirst into this exciting yet unpredictable market.

Structured products provide a customizable avenue to meet specific investment goals. They offer an array of variable risk-return profiles, which have been used for decades in traditional finance and wealth management. These products have now found their place in the complex landscape of cryptocurrency trading, providing investors with more flexibility and yield-generating options.

On the other hand, crypto derivatives are financial contracts that derive their value from underlying cryptocurrencies. They enable investors to speculate on price movements or hedge against potential risks without direct ownership of the assets. This can prove advantageous, especially in volatile markets with frequent price fluctuations.

The use of both structured products and derivatives has increased significantly as crypto adoption grows. The rise in trading volumes indicates a growing interest among retail and institutional investors in using these tools. Moreover, platforms like Darwinbit are making it easier for crypto platforms and TradFi institutions to onboard crypto structured products that cater to a range of risk appetites.

Learn more about Darwinbit's products.