Analysis of Trader Behavior vs. Market Sentiment

Candidate: Yash Tamore **Date:** October 26, 2024

1. Executive Summary

This report looks at how the mood of the Bitcoin market, measured by the "Fear & Greed Index," relates to how traders perform on Hyperliquid.
We studied over
211,000 trades to see if market feelings can help predict if traders will make money and how risky they are being.

Key Finding: There’s a big difference between how confident traders feel (how much they bet) and how much money they actually make.
Traders usually bet the most when the market is fearful, but they make the most money when it’s extremely greedy. This means that while people often think buying when
the market is down is smart, making money by riding trends during very positive market times is better for average returns.

2. Methodology

Data Sources

Trader Data: Detailed records of trades including price, how much was traded (in dollars), whether they bought or sold, and how much profit or loss they made.

Sentiment Data: Daily "Fear & Greed" index scores (from 0 to 100) and categories like Extreme Fear, Fear, Neutral, Greed, and Extreme Greed.

Data Processing

To compare the data, we matched the exact times from the trade logs with

the daily sentiment scores.
This way, each trade could be linked to the market feeling on
that day. It let us break down performance results for different emotional market conditions.

3. Detailed Analysis & Insights

Insight A: The "Greed" Profitability Premium

Our study shows that when the market is more optimistic, traders tend to make more money.

Observation: The highest average profit per trade ($67.90) happened during "Extreme Greed" times.

Comparison: That’s about 25% higher than during "Fear" periods ($54.30)
and almost double what traders make during "Neutral" times ($34.30).

Interpretation: This shows that following trends when
the market is very positive can lead to better results.
Prices go up steadily in "Extreme Greed," so traders who just stay in
the market don’t face as much ups and downs, which helps them make more money.

Insight B: The "Fear" Conviction Signal

Even though the profit numbers are lower during
"Fear" times, traders are more willing to put in big bets.

Observation: The average amount traders bet was highest at around $7,816 during "Fear" periods.

Contrast: In "Extreme Greed," the average trade size went down to about $3,112.

Interpretation: This shows that when
the market feels negative (Fear), people think there’s value and go in with big bets.
But when the market gets very positive (Extreme

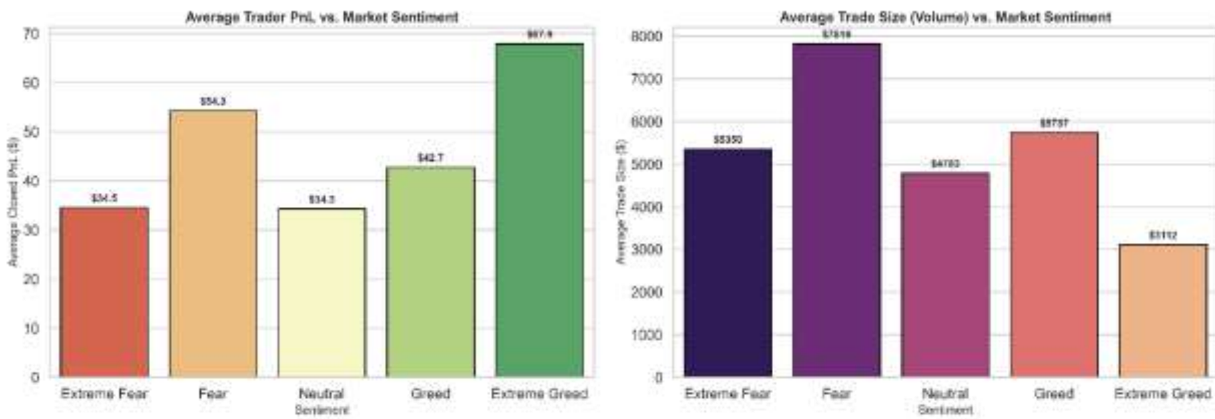
Greed), traders seem to get more cautious and make smaller bets, maybe because
they worry the trend is ending.

Insight C: Risk vs. Reward Disconnect

The data shows a clear pattern of behavior:

1.High Risk, Moderate Return: Traders take bigger risks during "Fear" but make less profit.

2.Low Risk, High Return: Traders put in less money during "Extreme Greed" but make much more profit.



Sentiment Analysis Summary

4. Strategic Recommendations

Based on what we found, these are some recommended strategies:

1. Increase Bets in Greed: The data shows people are not betting enough during extreme greed. Since that's the most profitable time ($67.90 per trade), increasing position sizes during trend-following (greed) periods could make total profits much higher.

2. Use Automated Dip Buying: The high number of trades during "Fear" means there is lots of liquidity when prices drop. An automated system could be set up to make quick trades during "Fear" states, but with strict stop-loss rules to protect against big losses.

3. Avoid Neutral Zones: Performance is worst during "Neutral" times ($34.30

per trade). Strategies should be paused or made less frequent during these periods until a clear trend (Fear or Greed) appears.

5. Conclusion

Market sentiment helps predict trader behavior.
People correctly see value during fear (because they trade a lot), but
they get the most profit during greed (because
they make the most money). A better strategy would be to combine the confidence of the fear period with the trend-following discipline of the greed period.