

What Is Crypto Trading?

Crypto Trading is the buying and selling of digital assets like Bitcoin (BTC) and Ethereum (ETH), has emerged as a dynamic and potentially lucrative endeavor. As cryptocurrencies continue to captivate global interest and more institutional investors join the sector, cryptocurrency trading is gaining increasing popularity.

Cryptocurrency trading often aims to capitalize on price fluctuations. Traders aim to buy these cryptocurrencies when prices are low and sell when prices surge, effectively profiting from the market's volatility. This fast-paced landscape presents both opportunities and challenges for beginners.

For those intrigued by the prospect of engaging in cryptocurrency trading, a comprehensive understanding of the market's intricacies is paramount. This guide aims to equip beginners with the foundational knowledge necessary to navigate this potentially rewarding landscape.

What Are Cryptocurrencies?

Cryptocurrencies have taken the financial world by storm, redefining how we perceive money and transactions. Cryptocurrencies, like Bitcoin and Ethereum, are digital currencies that employ an innovative technology known as blockchain to ensure their security and integrity.

Unlike regular money from banks,

cryptocurrencies aren't controlled by any one big company or government. Instead, cryptocurrencies are like public digital record books that anyone around the world can see and keep a copy of.

As a result, cryptocurrencies are global, secure, and transparent. You can generally send and receive these coins to anyone in the world, at a faster speed without extra fees or paperwork required by banks.

People often say that cryptocurrencies are decentralized, which is another way of saying that they are not controlled by a centralized entity. Essentially, you own your own digital wallet that gives you more freedom and control over your money.

How to Start Trading Cryptocurrency

Getting started with cryptocurrency trading requires a thoughtful approach and careful preparation.

Before diving into the world of cryptocurrency trading, it's crucial to invest time in learning. You can rely on Binance Academy's educational courses to understand the basic trading concepts and specific cryptocurrencies you're interested in trading.

Selecting a reliable cryptocurrency exchange is critical. A good guideline is to opt for an exchange with a proven long-term track record, an excellent reputation, strong security protocols, and responsive customer support.

For newcomers, beginning with a centralized exchange is recommended. As you gain more experience in cryptocurrency trading, you can explore

decentralized exchanges at a later stage." Once you've chosen an exchange, the next step is to create your account. This usually involves providing your email, setting a password, and agreeing to terms. Sometimes, exchanges require identity verification to comply with regulatory standards. You would need to submit a government-issued ID, proof of residence, and any other documents to complete setting up your account.

A Beginner's Guide to Cryptocurrency Trading

After you create an account, you can deposit fiat currency into your account. Most centralized exchanges allow users to deposit fiat via bank transfers, bank wires, or other common money transfer methods.

If you happen to own some crypto already, you can deposit it into your exchange account. Remember to always send your coins to the associated address: send Bitcoin to your Bitcoin address, ether to your Ethereum address, and so on. Sending crypto to the wrong addresses could result in losses.

Now you're set up for trading crypto, let's quickly go through a few essential trading concepts for beginners.

1. Trading pairs

There are two main types of trading pairs: crypto-to-crypto trading pairs and crypto-to-fiat trading pairs.

Crypto-to-crypto trading pairs involve two different cryptocurrencies, such as the

ETH/BTC trading pair. If the current value of one Ethereum (ETH) is 0.05 Bitcoin (BTC), this means you would need to exchange 0.05 BTC to acquire one ETH. The value of ETH is expressed in terms of BTC in this pairing.

Crypto-to-fiat trading pairs involve a cryptocurrency and a traditional fiat currency, such as the BTC/USD trading pair. If the current value of one Bitcoin (BTC) is \$40,000 in US dollars (USD), this indicates that one Bitcoin is equivalent to \$40,000.

2. Order books

An order book is a real-time, dynamic list of buy and sell orders placed by traders on a cryptocurrency exchange. It provides a snapshot of the supply and demand for a specific cryptocurrency at different price

levels.

An order book is split into two main sections: the buy orders (bids) and the sell orders (asks). Buy orders list the orders from traders who want to buy the cryptocurrency at a certain price, organized from the highest bid price to the lowest.

Sell orders display the orders from traders who want to sell the cryptocurrency at a particular price, organized from the lowest ask price to the highest.

3. Market orders

A market order is the simplest type of order, in which you buy or sell crypto immediately at the best available price in the market. Let's say the current highest bid, or buy order, for one bitcoin is 35,000

dollars, while the lowest ask, or sell order, is 35,010 dollars in the order book. If you place a market order to buy bitcoins, your order would be matched with the lowest ask, which is 35,010 dollars. If you place a market order to sell bitcoin, your order would be matched with the highest bid at 35,000 dollars.

4. Limit orders

A limit order is an order to buy or sell a crypto at a specific price or better. For example, if you want to buy one bitcoin for \$35,000 or less, you can set a buy limit order at \$35,000. If the price drops to \$35,000 or less, your limit order will be executed and you'll purchase bitcoin at that price. But if the price never drops to \$35,000, your order won't be executed.

Which Cryptocurrency You Should Buy?

As a beginner in the world of cryptocurrency trading, deciding which cryptocurrencies to buy can be daunting. Here are some tips.

Most people start with well-known and established cryptocurrencies like Bitcoin (BTC) and Ethereum (ETH). These have a proven track record and are less risky options for beginners.

If you're considering exploring lesser-known cryptocurrencies, it's crucial to fully comprehend the associated risks, including the possibility of losing your entire investment.

Keep in mind that in the world of investing, risks and potential returns often go hand in

hand. Taking on higher risks might lead to greater potential returns, although it also raises the likelihood of losing your invested capital.

Starting small is good for beginners, as this allows you to learn and gain experience without risking too much capital.

Lastly, a common mistake beginners should avoid is FOMO (Fear of Missing Out): Don't rush into buying a cryptocurrency just because it's surging in price.

Different Types of Cryptocurrency Trading

There are many crypto trading strategies that you can employ, each with its own set

of risks and rewards. Let's go through some of the most popular crypto trading approaches.

Day trading

Day trading is a strategy that involves entering and exiting positions within the same day. Because cryptocurrency markets are open 24/7, day trading in cryptocurrency tends to refer to a trading style where the trader enters and exits positions within 24 hours.

In day trading, you'll often rely on technical analysis to determine which assets to trade. Because profits in such a short period can be minimal, you may opt to trade across a wide range of assets to try and maximize your returns. That said, some might exclusively trade the same pair for years.

This style is a very active trading strategy. It can be highly profitable, but it carries with it a significant amount of risk.

Swing trading

In swing trading, you're still trying to profit off market trends, but the time horizon is longer – positions are typically held anywhere from a couple of days to a couple of months.

Your goal will be to identify an asset that looks undervalued and is likely to increase in value. You would purchase this asset, then sell it when the price rises to generate a profit. Or you can try to find overvalued assets that are likely to decrease in value. Then, you could sell some of them at a high price, hoping to buy them back for a lower price.

Swing trading tends to be a more beginner-

friendly strategy, mainly because it doesn't come with the stress of fast-paced day trading.

Position trading (trend trading)

Position trading is a long-term strategy. Traders purchase assets to hold for extended periods (generally measured in months). Their goal is to make a profit by selling those assets at a higher price in the future.

Position traders are concerned with trends that can be observed over extended periods – they'll try to profit from the overall market direction. Swing traders, on the other hand, typically seek to predict "swings" in the market that don't necessarily correlate with the broader trend.

Like swing trading, position trading is an

ideal strategy for beginners. Once again, the long time horizon gives them ample opportunity to deliberate on their decisions.

Scalping

Of all of the trading strategies discussed so far, scalping takes place across the smallest time frames. Scalpers attempt to game small fluctuations in price, often entering and exiting positions within minutes (or even seconds).

In most cases, they'll use technical analysis to try and predict price movements and exploit bid-ask spreads or other inefficiencies to make a profit. Due to the short time frames, scalping usually has thin profit margins. Scalpers generally trade large amounts of assets in order to achieve sizable profits.

Scalping is generally more suitable for

experienced traders. For beginner traders who know what they're doing, however, identifying the right patterns and taking advantage of short-term fluctuations can be highly profitable.

HODLing

Long-term investors, also known as "HODLers," aim to benefit from the overall growth of the cryptocurrency market. They buy and hold cryptocurrencies for an extended period, often months or years. HODLing is ideal for those who believe in the long-term potential of specific cryptocurrencies such as Bitcoin or Ethereum and are willing to weather short-term price fluctuations. While this strategy requires patience, it may provide substantial returns over time.

Technical Analysis and Chart

Reading in Cryptocurrency Trading

Technical analysis is the art of interpreting price charts, recognizing patterns, and harnessing indicators to anticipate potential price movements. They are useful analytical tools that can greatly enhance your ability to make well-informed trading decisions.

1. What is a candlestick chart?

A candlestick chart is a graphical representation of the price of an asset for a given timeframe. It's made up of candlesticks, each representing the same amount of time.

For example, a 1-hour chart shows candlesticks that each represent a period of one hour. A 1-day chart shows candlesticks that each represent a period

of one day, and so on.

Daily chart of Bitcoin. Each candlestick represents one day of trading.

A candlestick is made up of four data points: the Open, High, Low, and Close (also referred to as the OHLC values). The Open and Close are the first and last recorded price for the given timeframe, while the Low and High are the lowest and highest recorded price, respectively.

2. What is a candlestick chart pattern?

A candlestick chart pattern is a visual representation of price movements in the form of candlesticks. It provides insights into the open, close, high, and low prices of a cryptocurrency or financial asset over a specific time period.

A candlestick consists of two main parts: the body and the wicks (also known as shadows). The body represents the price range between the opening and closing prices of the trading session.

If the closing price is higher than the opening price, the body is typically filled or colored in, often with green or white, to indicate a bullish session. Conversely, if the opening price is higher than the closing price, the body is empty or colored in red or black, signaling a bearish session.

The wicks, which extend from the top and bottom of the body, represent the price range between the highest and lowest prices reached during the trading session. The upper wick extends from the top of the body and indicates the session's highest price, while the lower wick extends from the bottom of the body and signifies

the lowest price.

Candlestick charts offer valuable insights into market sentiment and price trends. Traders use patterns formed by multiple candlesticks to identify potential trend reversals or continuations. Common patterns include "Doji," "Hammer," "Shooting Star," and "Engulfing," each with its own implications for price movements.

3. What is a trend line?

Trend lines are a widely used tool by both traders and technical analysts. They are lines that connect certain data points on a chart.

The main idea behind drawing trend lines is to visualize certain aspects of the price action. This way, traders can identify the overall trend and market structure.

The price of Bitcoin touching a trend line multiple times, indicating an uptrend.

Some traders may only use trend lines to get a better understanding of the market structure. Others may use them to create actionable trade ideas based on how the trend lines interact with the price.

Trend lines can be applied to a chart showing virtually any time frame. However, as with any other market analysis tool, trend lines on higher time frames tend to be more reliable than trend lines on lower time frames.

Another aspect to consider here is the strength of a trend line. The conventional definition of a trend line defines that it has to touch the price at least two or three times to become valid. Typically, the more times the price has touched (tested) a

trend line, the more reliable it may be considered.

4. What are support and resistance?

Support means a level where the price finds a “floor.” In other words, a support level is an area of significant demand, where buyers step in and push the price up.

Resistance means a level where the price finds a “ceiling.” A resistance level is an area of significant supply, where sellers step in and push the price down.

Technical indicators, such as trend lines, moving averages, Bollinger Bands, Ichimoku Clouds, and Fibonacci Retracement can also suggest potential support and resistance levels.

Fundamental Analysis: Determining Intrinsic Value of Cryptocurrencies

Fundamental analysis involves a deep dive into the intrinsic value of a cryptocurrency project, examining its technology, team, adoption potential, and overall viability.

Generally, you should try to understand the underlying technology of a cryptocurrency project. Delve into its blockchain architecture, consensus mechanism, and scalability. A robust and innovative technology can indicate a project's ability to solve real-world problems and gain adoption.

You should also research the team behind the cryptocurrency project. Evaluate their

expertise, experience, and track record. A talented and experienced team increases the likelihood of successful project execution.

A cryptocurrency's tokenomics are of paramount importance, as they determine the cryptocurrency's total supply, distribution, and its incentive mechanisms. These are factors that often have a direct impact on the cryptocurrency's price movements.

Fundamental analysts also look into the project's adoption potential in the real world. Factors such as partnerships, use cases, community engagement, and market demand could also influence prices.

Fundamental analysis equips yourself with the tools to assess a cryptocurrency project's underlying value. This strategic

approach enables you to navigate the complex cryptocurrency landscape with a long-term perspective, making trading decisions that align with a project's viability and potential.

Risk Management in Cryptocurrency Trading

Effective risk management is essential for your crypto trading success.

Risk management refers to predicting and identifying the financial risks involved with your investments, and minimizing them by employing a set of strategies.

There are numerous risks in cryptocurrency trading, including regulatory risk, market risk, operational risk, liquidity risk, and security risk.

Fortunately, there are risk management strategies you can employ to help keep your risk exposure at a reasonable level. Let's look at a few popular strategies.

1. Diversification

Diversifying your portfolio is one of the most popular fundamental tools to reduce your overall investment risk. You can hold a variety of different coins and tokens, keep each position at an appropriate size and constantly rebalance the portfolio, so you won't be too heavily invested in any one asset. This can minimize the chance of oversized losses.

2. Hedging

You can also hedge your holdings, which means taking a position in a related asset that is expected to move in the opposite direction of the primary position. The purpose is to offset potential losses.

If you own \$10,000 worth of Bitcoin and want to hedge against a possible decrease in its price, you could buy a put option for a premium of \$500 that gives you the right to sell bitcoin at \$50,000 at a future date. If Bitcoin's price falls to \$40,000, you can exercise your option and sell your bitcoin for \$50,000, significantly reducing your losses.

3. Use advanced order types

You can utilize advanced order types to lock in profits or protect yourself from losses. For instance, stop-loss orders allow traders to limit losses when a trade goes wrong. Take-profit orders ensure that you lock in profits when a trade goes well.

4. Follow the 1% rule

Another strategy you can follow is the 1% rule, where you don't risk any amount more than 1% of your total capital on a single

position. For instance, if you have \$10,000 to invest and want to adhere to the 1% rule, you could buy \$10,000 of Bitcoin and set a stop-loss order to sell at \$9,900. This way, you would limit your losses to 1% of your total investment capital.

5. Have an exit strategy

It's always a good idea to plan for the worst. So having an exit strategy is an essential way to manage your risks. It's easy for us to get caught up in a bull market and its euphoria, but having a plan to exit your position can help lock in gains. One way is to use limit orders to take profit or place a floor on maximum loss that you can stand. As a general rule of thumb, once you have your exit plan, you should stick to it.

6. Do Your Own Research

(DYOR)

It's essential to emphasize the importance of "Do Your Own Research!" This principle is so vital within the crypto community that it's commonly referred to by its acronym, D-Y-O-R. Before investing in a token, coin, project, or other asset, you must do your due diligence. It's key that you assess essential information about an asset to fully understand its risks. If you want to invest in an ICO, ensure you read the white paper and understand the tokenomics, roadmap, and communities before you make the jump!

In summary, investing in crypto can be risky, but there are many ways you can manage those risks effectively.

Closing Thoughts

Congratulations on completing this comprehensive guide to cryptocurrency trading for beginners! You should be better prepared to begin your crypto trading journey, equipped with essential knowledge and tools to navigate this exciting landscape.

As you venture into the realm of cryptocurrency trading, remember that learning is an ongoing process. Markets can be unpredictable, and cryptocurrency markets are particularly volatile. With continued learning, however, you are well on your way to become a better crypto trader with each practical trading experience you gain.

Always prioritize research, education, and risk management in your trading journey. Stay informed about the latest developments in the crypto space,

continue refining your skills, and adapt your strategies as needed.

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