CRYPTOCURRENCY TRADING

Our definitive guide to cryptocurrency trading

COIN RIVET

Independent British blockchain and crypto news

CONTENTS

WHAT IS CRYPTOCURRENCY TRADING?

Interested in the world of cryptocurrency and want to begin trading? If you are unsure of what cryptocurrency trading is and how it works, then this guide is for you. Let's break down the basics to help get you started.

As a note to begin with, trading in any capacity, much more so with cryptocurrency, comes with a great deal of risk. Investments can be volatile at the best of times. Before making any move, ensure you have done your own research and are happy with the decisions you are going to make, and only invest åas much as you can afford to lose.

What do you need to begin with?

Before you can start trading, you will first need to make sure you have the following:

- A cryptocurrency wallet (you can choose from paper, mobile, software, or hardware wallets)
- Access to an exchange that allows you to buy, sell, or trade crypto

What you need to know about cryptocurrency trading

- **A cryptocurrency exchange is not part of a regular stock exchange.** Two popular cryptocurrency exchanges are **Coinbase** and **Coinbase Pro**, formerly GDAX, both of which function differently to Wall Street exchanges. Coinbase is designed for beginner to intermediate traders, whereas Coinbase Pro is aimed towards people who have a greater understanding of crypto trading. **Binance** is another leading exchange that is popular with many traders.
- **Cryptocurrency trading is a 24-hour market.** This is different to traditional stock markets which do not trade within a 24-hour window.
- **Beginners may prefer to trade cryptocurrency stocks.** One of the biggest Bitcoin (BTC) stocks is GBTC, which is a trust. Trading with stocks means users do not have to trade crypto directly, though this comes at a cost. Stock trading works through premiums. It is an avenue for beginners to help them get acquainted with trading.
- **The market is incredibly volatile.** The impact of volatility cannot be understated. Markets are not concrete. Much trading is done through speculation. Therefore, any "tips" you might see from traders carry substantial risk. Eventually, you may feel comfortable making your own speculations after spending a lot of time with the markets, but to begin with, do not go on a spree of trading anything you can. Make smart trades, and only ones you will feel comfortable with even in the event you lose money.

What are pairings?

When delving into the world of cryptocurrency trading, you will typically start by buying your first crypto with fiat currency. Fiat refers to a national currency such as the pound or the dollar. So, an example might be that you wish to trade your USD with Bitcoin (BTC).

However, once you have tested the waters, you might want to begin trading between two cryptocurrencies, such as Bitcoin and Ripple. In this case, they would be abbreviated as BTC (for Bitcoin) and XRP (for Ripple) on an exchange. For a newcomer, this can be slightly overwhelming as exchanges tend to list pairings in their abbreviated forms

How to choose the right trading platform

Choosing the correct platform is very important. There are differences across competing exchanges, and as such, it is useful to do some research to decide which is best for your needs. Below is a brief list of some of the key things to look out for:

- **Available currencies:** As mentioned above, Bitcoin to USD is common, but other trade pairings might be available on one platform and not another. Be sure that the crypto you want to trade with is supported.
- **Leverage:** This refers to the amount you are allowed to trade above your initial deposit and by how much you can multiply your gains. A higher leverage will suit risk takers who look for the high reward. A high leverage is not recommended for beginners, however. A common leverage is typically 20:1 with crypto. Again, though, this is dependent on your chosen platform.
- **Hedging:** Hedging is a risk reduction tactic that typically involves taking an offsetting position on your primary asset. This provides insurance and reduces the possibility for loss.
- **Minimum investment:** This refers to the minimum amount you can deposit and invest with. This is important as different platforms will require different minimum investments. Choose one that suits your budget.

How does trading with an exchange work?

- Users either transfer their existing crypto to their account on an exchange or use the exchange to buy crypto with fiat currency (note that not all exchanges provide the option to buy cryptocurrency with fiat currency)
- The exchange then holds on to the cryptocurrency
- The exchange finds a seller or buyer to match your trade

EXCHANGES AND WALLETS: WHAT YOU NEED TO KNOW

To get started with cryptocurrency, you need to decide on what sort of exchange and wallet you want to use. Below, we give you an overview of both so you can be best prepared for the world of trading.

A **cryptocurrency exchange**, or digital currency exchange (DCE), is an online platform that allows you to buy and trade cryptocurrency or digital currency, then sell it to convert it back to fiat money. These exchanges will either take a commission or simply charge usage fees for their service.

How an exchange works

Cryptocurrency exchanges don't work in exactly the same way as stock exchanges and foreign currency exchanges. However, having a grasp of general exchange fundamentals and procedures will allow you to more easily navigate cryptocurrency exchanges.

If you're familiar with placing buy and sell orders through stock brokers, you can safely assume cryptocurrency exchanges function in a similar, third-party manner to these brokers. Brokers take your desired **cryptocurrency price** and order quantity, wait for an order to be completed, and then typically collect a percent commission (plus an upfront fee) on your order.

Similarly, a cryptocurrency exchange is usually programmed to accept your digital buy and sell orders (along with price and quantity), waits in a similar manner for your order to be triggered (met by a buyer or seller on the other end), completes the trade, and then updates your on-exchange holdings, all without human brokers.

Another of the unique aspects of cryptocurrency exchanges is the ability to exchange one cryptocurrency directly with another. This is something you can't do with stocks, where you'd need to liquidate shares to fiat money before using those funds to buy new stock shares. Be aware though that you won't necessarily be able to trade one cryptocurrency with all other cryptocurrencies under the sun.

Types of exchanges

Outside of the heavily used cryptocurrency exchanges themselves, brokers and more discreet exchanges provide opportunities to move from one store of value to another. These can be more risky to you as an investor, but can also allow you to dodge the fees involved with trading on exchanges. Those fees add up, but only if you're a heavy trader. If not, it's probably in your best interest to stick with the easier-to-use, higher-volume, and more thoroughly developed exchanges.

Aside from choosing a reputable, trustworthy exchange, one last factor to consider would be the exchange type itself. If you're just getting into cryptocurrency investing and don't hold any coins or **tokens**, you should look for a fiat-to-cryptocurrency exchange that allows you to purchase BTC or ETH by linking your bank account or some other payment method.

Your initial BTC or ETH can then be traded into other altcoins on a cryptocurrency-to-cryptocurrency exchange. From there, your portfolio will probably have such a wide range of cryptocurrencies that you'll never look at investing the same way again. Have fun… and embrace the exchanges!

What is a cryptocurrency wallet?

A **cryptocurrency** wallet is a digital wallet for holding digital currency. Cryptocurrency wallets rely on cryptography for security.

Public and private keys

Public key cryptography (also referred to as asymmetrical cryptography), is any cryptographic system that uses pairs of "keys". A key is a piece of information that unlocks or decodes a cryptographic algorithm).

There are two types of keys – public keys which may be spread widely and known to many people and private keys which are only known to the key owner. The use of public and private keys accomplishes two functions – authentication and encryption. Authentication is where the public key verifies that the message was sent by the holder of the paired private key. Encryption is where the paired private key holder (and them alone) can decrypt a message encrypted with the public key.

Public and private keys in a cryptocurrency wallet

Now we completely understand public and private keys, let's think about how this works in a cryptocurrency wallet. Obviously, there is no cryptocurrency actually stored in the electronic wallet.

In the case of **Bitcoin** (and cryptocurrencies derived from it), the cryptocurrency is stored and maintained in a publicly available ledger. Every piece of cryptocurrency has a private key. With the private key, it is possible to write in the public ledger, effectively spending the associated cryptocurrency.

Your wallet stores your private and public keys. This facilitates the sending and receiving of coins. It also acts as a personal ledger of transactions.

Features, characteristics and types of cryptocurrency wallets

Wallets come in different formats with a range of features and benefits. Here are most of the main types with brief explanations.

Multi-currency cryptocurrency wallet

A wallet that supports different types of cryptocurrencies that can be "stored" at the same time.

Software cryptocurrency wallet

This is the main type of wallet as you might expect with a digital currency. It's worth briefly considering the different types of software wallets. They come in different forms like:

- An application installed locally on a computer or device (smartphone or tablet)
- Some web-based wallets use additional security – you may have come across two step verification like Google authenticator. The main benefit of this additional authentication eliminates the risk of a hacker using keystroke logging to try and gain access to the wallet.
- A cryptocurrency exchange (for example the Kraken exchange) links the user's wallet to the exchange's centrally managed wallet. Any trades are written in the exchanges ledger as an off-chain transaction. When a user enters their cryptocurrency into the exchange or takes it out of the exchange then the transaction is written into the blockchain.

Hardware cryptocurrency wallets

It’s interesting that a hardware wallet exists when you consider cryptocurrencies and the whole concept of a decentralised digital currency. A hardware wallet is a small digital device that can be plugged into a computer to be used to authenticate cryptocurrency transactions. The rationale is to provide added security. Some types of wallets require the user to physically press or touch the wallet in order to sign a transaction.

When the user of a wallet requests a payment, the wallet creates the transaction and provides a public key which is sent to the network. In effect, the signing keys never leave the wallet.

Watch-only cryptocurrency wallet

With a watch-only wallet someone can keep track of transactions but transactions can’t be initiated since there is no private key stored in the wallet. The private key can be kept safe in another location.

Multi-signature (multi-sig) cryptocurrency wallet

A wallet where multiple users have to sign a transaction using their private key.

Brain cryptocurrency wallet

A brain wallet requires the owner to remember the information required to regenerate the private and public key pair. This is often facilitated by the user memorising a mnemonic sentence the seed (or basis) of which is generated by software.

Hot cryptocurrency wallet

A wallet connected to the internet that will allow cryptocurrency to be spent at any time.

Cold cryptocurrency wallet

A wallet not connected to the internet. To use a cold wallet (one example being an unconnected hardware wallet) it has to be first connected to the internet.

Deep cold storage cryptocurrency wallet

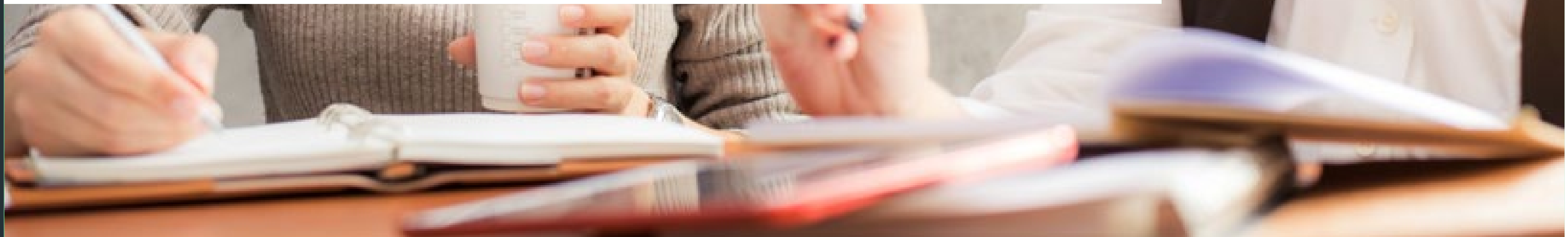
Storing cryptocurrencies in cold wallets that were never connected to the internet or any kind of network.

Deterministic cryptocurrency wallet

A single key (or “seed”) can be used to generate an entire “tree” of key pairs. The single key serves as the “root” of the tree. The advantage of this system is if a hard drive becomes corrupted and the wallet unrecoverable, a new wallet can be created using the same seed. All of the addresses and private keys from the old wallet will return.

Non-deterministic cryptocurrency wallet

Each key is randomly generated on its own accord. Any backups of the wallet must store each and every single private key used as an address, as well as future keys that may have already been given out as addresses but not received payments yet.



THE BENEFITS OF PEER-TO-PEER TRADING

Peer-to-peer trading adopts a decentralised approach to your cryptocurrency transactions, with only the trading parties involved.

One of the central philosophies behind the creation of Bitcoin, the original cryptocurrency, was to create a peer-to-peer electronic cash system. The intent was to allow people to have 'self-governance' over their finances. To enable peer-to-peer cryptocurrency trading, **a system must be decentralised.**

A system that is decentralised has no central sever, location, or single authority in charge. Instead, the network is distributed across multiple nodes across the globe. Instead, every person within the network has equal privileges and potency. In the context of trading with cryptocurrency, peer-to-peer refers to buyers and sellers completing transactions directly with each other – with no middle-man needed to facilitate the trade.

Here, we take a look at the benefits of peer-to-peer trading.

Peer-to-peer is private

Since buyers and sellers alike are actively searching for people to match their order, a third party is not needed in peer-to-peer cryptocurrency trading. This provides the benefit of privacy. Since no third party is involved, only the buyer and seller negotiate. Communication between both parties is kept private. Only when the order has been submitted and is ready to be added to the blockchain does it become public. Since the trade will appear on the blockchain, no identifying information is used.

A lot of exchanges usually require users to **complete a Know-Your-Customer test** (KYC). A KYC test can help exchanges ensure that legitimate traders are using their service. On the other hand, it's also a means to collect data on individuals. This could range from name, ID, phone numbers and so on. Peer-to-peer trading eliminates this data collection, adhering to anonymity.

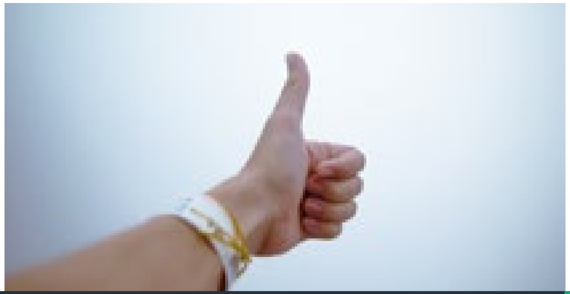
Peer-to-peer is fair

When using an exchange platform, the prices for cryptocurrencies will be relatively fixed to reflect the pricing on all other exchanges. By opting for peer-to-peer trading, however, you can look for comparable prices and even better prices. With peer-to-peer trading, orders at better prices are more likely to be filled since parties have already expressed their interest. This type of trading also reduces the amount of cancellations on an order book as levels of commitment between traders is arguably higher than between traders using an exchange.

Peer-to-peer marketplaces are often affordable and secure

One way of engaging in peer-to-peer trades is by using a peer-to-peer marketplace. These marketplaces allow traders to contact each other by signing up and verifying their accounts for free. In comparison, most exchanges may charge a fee to sign up and/or trade. Unlike exchanges, peer-to-peer networks don't hold any cryptocurrency. Deals are done directly and so the safety of your currency is always protected.

Most importantly, peer-to-peer trading offers a high resistance to transaction censorship. As there is no central authority in charge, or with access to transactional data, trading activity can't be corrupted and your funds can't be stolen.



THREE REASONS YOU NEED TO AVOID TRADING BOTS

For those who don't trade full time or don't have the time to keep up-to-date with the market, it can be tempting to use trading bots. We take a look at some of the risks of bots below.

Cryptocurrency trading bots are not for beginners

Using cryptocurrency trading bots requires a vast amount of experience. First of all, no matter how reliable your bot may be, you'll be missing out on the necessary experience of learning about the market and different styles of trading.

Moreover, the only way to ensure maximum returns when using cryptocurrency trading bots is by having a deep understanding of the markets. This is something hard to achieve in such a volatile space like cryptocurrency, even for those with more experience.

It's true that unlike people, bots never sleep. So, many traders may be attracted to the fact that they can set their bot to trade 24/7. When the markets move so suddenly and rapidly, this is certainly an advantage.

However, adhering to some kind of "set and forget" strategy is a really bad idea. Traders should always be careful about monitoring their positions. Even the most sophisticated bots can suffer glitches, be open to fraud or security issues, and experience downtime.

Backtesting – You need to finely tune the rules

One of the greatest risks of using cryptocurrency trading bots is that you need to put in some extensive manual work first. In what is known as backtesting, if the rules you set your bot to follow are not carefully refined, you could be in for a major problem.

An inexperienced cryptocurrency bot trader, for example, may set a rule that tells their cryptocurrency trading bot to never buy higher than your last selling price. This is perfectly logical, but the problem here is that this only prevents a buying transaction from occurring.

you also need to add an additional stop rule so that if the market bottoms out, you don't find yourself stuck with losing positions. In other words, you may have been able to sell before the dip if you had been trading manually.

Most cryptocurrency trading bots allow for setting rules through backtesting. Users can basically input them and then programme the bot to run the rules against historical data.

By doing this, your bot should perform how you expect it to before you set it loose on live trading.

Good cryptocurrency trading bots don't come cheap

It pays to remember that while there are some free or low-cost trading bots out there, you usually get what you pay for. Most automated bots have a monthly subscription or even an annual fee. This means you could get locked into trading payments long after you've decided to take a break from the market.

Also, remember that the cost of running your bot is going to take up a chunk of your profits. When you trade manually, this is not something that you will have to be concerned with.

Cryptocurrency trading bots don't create good traders. Bots have no market instincts and can't react to macro factors or announcements (such as rulings from the SEC) that tend to move the markets. You need a human trader for that. Your bot will just carry on executing the rules you have set for it.

Another drawback of cryptocurrency trading bots is that you can't always use any exchange with them. You'll have more flexibility over where you trade if you avoid bots and take the traditional manual path.

Take Haasbot or the **Cryptohopper software** for example. Cryptohopper works with just nine cryptocurrency exchanges. Haasbot is integrated with more, but it still may restrict your needs, depending on where you want to trade.

CONCLUSION

Trading cryptocurrency can be a great hobby and at its best, it can be a great investment.

There are a number of pitfalls you need to avoid, as outlined in this guide, so be sure to thoroughly research the space before you make any investment or trading decisions. To keep up-to-date with the latest trading tips, industry news and general updates, be sure to follow **Coin Rivet.**

Bringing you news, analysis, opinion and insight from the fast-moving blockchain world. Our team of journalists and contributors cover the likes of cryptocurrencies, wallets, exchanges and ICOs across a wide range of sectors including retail, fintech, banking and gaming. We go beyond the press releases and marketing hype to tackle all the industry topics that matter.

Featured in

FOX NEWS EXPRESS coingeek

coinrivet.com