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Crypto Trading and Investing

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TRADING CRYPTO

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To Trade or to Invest

The terms "investing" and "trading" are often used interchangeably to describe activities on the market. However, there is a fundamental difference between them that must be understood in order to properly form financial goals.

Investors are betting on the long-term potential of the crypto market. They rely on the fact that blockchain technology is still considered extremely new, which means that early investors have a chance to multiply their investment many times over. For that to happen however, the cryptocurrency assets in their portfolio must reach widespread adoption and that is not guaranteed for any existing coin. Moreover, if it does happen, no one can tell how much time it will take.

Traders, on the other hand, tend not to worry about the future that much. Their main objective is to turn the crypto market's high volatility into larger returns than they can get trading Forex. But since the volatility comes from the market being relatively new and lacking liquidity, it could also work against the trader. When a large player decides to come in, all the predictions made using technical analysis can become obsolete.

How to Trade Cryptocurrency

To become a crypto trader, first you have to pick a suitable platform. Generally, you can choose between a cryptocurrency exchange and a broker.

A crypto exchange is a platform dedicated to buying and selling cryptocurrency. There are many exchanges to choose from, each offering different cryptocurrencies, wallet options, and fees. If you're a beginner, be sure to look for a service that has a simple interface, good help centre, and fast customer support.

An alternative to crypto exchanges is traditional brokers. Not all of them support cryptocurrencies yet, but the number of those that do keeps growing. Brokerages usually don't offer as many currencies as crypto exchanges and they don't have certain account options such as staking. If, however, you're looking to trade different asset types, the convenience of having everything in one place prevails over the lack of crypto features.

When comparing different platforms, look at supported cryptocurrencies, transaction fees, deposit and withdrawal fees, storage options, security features, and whether the platform offers a mobile app.

How to Trade Cryptocurrency

After you've chosen an exchange or a brokerage, you will need to verify your account. Depending on the platform, you may need to upload a government-issued photo ID, a bank statement, and a proof of address. After your identity has been ensured, you will be able to fund your account and begin trading.

Usually you can make a deposit via a bank transfer or simply by using your credit or debit card. But be aware that even though cryptocurrencies are legal in most countries, some banks may question or even reject transfers to crypto-related services.

Once your account is funded, it's time to pick the cryptocurrencies you'll be trading. Many day traders tend to favour Bitcoin and Ethereum, considering them more predictable than smaller altcoins. Due to larger daily volumes, they are more susceptible to technical analysis.

How to Trade Cryptocurrency

When it comes to developing a trading strategy, you can choose from the same technical indicators you use on other markets. Traders tend to include multiple factors in their strategy and usually take into account the crypto market's high volatility.

As long as you're actively trading, you will have to keep your funds on the platform in order to have quick access to them. But once you've decided to put some money away, it's advised to move those funds to an outside wallet. While less flexible, they are usually a safer option.

Risks of Trading Crypto

The main risk of trading cryptocurrency is its high volatility. The crypto market is still very young and it is not uncommon for prices to experience wild swings in a short period of time. This can make trading difficult as you can't rely on technical analysis as much as you do in mature markets.

High volatility can occasionally cause gapping, also known as slippage. When prices move from one level to another too fast, they can skip the level in between. As a result, your stop loss order could be executed at a worse level than you requested, which would lead to a larger loss.

As the crypto market is very small compared to forex, stocks or commodities, it can be difficult to get out of a position at the moment you want to. This could become a problem for day traders which makes it a risk to account for.

Another issue to keep in mind is the safety of your trading account. While long-term investors can store most of their funds in an offline wallet, short-term traders have to keep a large portion of their holdings on an exchange or a trading platform. Most of them take security seriously, but the risk of an online attack still remains, so be sure to take all the necessary precautions like setting a strong password and enabling two-factor authentication.

INVESTING IN CRYPTO

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How to Invest in Cryptocurrency

If you've decided to become a long-term investor in crypto, the process is for the most part similar to opening a trading account. The first step is choosing a platform which can either be a cryptocurrency exchange or a brokerage.

A crypto exchange is a platform built exclusively for buying and selling cryptocurrency. There are many exchanges to choose from, each offering different cryptocurrencies, wallet options, and fees. If you're a novice crypto investor, look for a service that has a simple interface, good tutorials, and quick customer support.

An alternative to crypto exchanges are traditional brokers. They may not offer as many currencies as crypto exchanges and they don't have certain account features such as staking. But if you're looking to invest into different asset types, the convenience of having everything in one place overshadows the missing features.

When comparing different platforms, look at supported cryptocurrencies, transaction fees, deposit and withdrawal fees, storage options, and security features.

How to Invest in Cryptocurrency

After you've picked an exchange or a brokerage, you will need to verify your account. Depending on the platform, you may need to upload a government-issued photo ID, a bank statement, and a proof of address. After your identity has been ensured, you will be able to fund your account and begin investing.

Usually you can make a deposit via a bank transfer or simply by using your credit or debit card. Be aware, however, that even though cryptocurrencies are legal in most countries, some banks may question or even reject transfers to crypto-related services.

Once your account is funded, placing an order is usually a matter of selecting the asset, choosing the order type, and entering the amount you want to buy.

After you've purchased cryptocurrency, you need to decide whether to store it on the platform itself or move it to an outside wallet. Keeping the crypto on the platform is the easiest option but gives you less flexibility. Transferring it away from the platform to your own wallet requires knowledge on how software and hardware wallets work, but is considered a safer option, especially for long-term investors.

Risks of Investing in Crypto

Many traditional investors are still cautious about investing in cryptocurrency long-term. One of the primary reasons for that is the lack of intrinsic value in nearly all of the existing cryptocurrencies. Even though they have some cost of production that mostly comes from mining hardware and electricity bills, they're not backed by real-world products and services like stocks are, nor do they follow the value of a natural resource like commodities do. By investing in a digital currency, you essentially bet that someone else will be willing to pay more for it in the future.

Another major concern large investors have is that cryptocurrencies are essentially unregulated in most of the world. There are still significant inconsistencies among governments on whether to treat them as a virtual currency or a commodity. Regulators are also worried about cryptocurrencies being used for illegal activities, which could serve as a reason to apply restrictions on the crypto market in the future.

Risks of Investing in Crypto

Loss of your crypto wallet's private key is also a risk worth paying attention to. Occasionally, USB drives get misplaced, hard drives fail, and online accounts get hacked. If the private key is lost, the wallet becomes inaccessible and the funds are essentially lost along with it.

Another factor to keep in mind is malicious activity. According to analysts, more than a billion dollars in cryptocurrency is stolen each year from exchanges and trading platforms. Even though part of it gets returned by law enforcement and some platforms offer insurance against stolen funds, the risk is still real enough to take seriously.

ICO

Imagine a startup that has a brilliant idea and needs to secure funding to implement it. Traditionally, its primary options were to look for private investors or pitch to venture capital funds. But the invention of ICO, short for initial coin offering, allowed the people who believe in the startup's idea to fund it directly. Even though the majority of the ICOs were started by companies whose products revolve around blockchain, technically a company from any industry can do it as long as it finds something valuable to offer in return.

Once a company decides to hold an initial coin offering, the first step is to create a presentation that explains how much funds it plans to raise and what they will be used for.

The next step is to issue tokens that represent something valuable to the investor. Unlike shares, tokens typically don't provide an equity stake in a company. Instead, they tend to include some form of credits that could be used once the product is developed. For example, a food delivery startup that plans to charge $5 per order could sell tokens for that same service for only $2. This way ICO participants can purchase the right to use the product in advance at a lower price and support the startup along the way.

ICO

If all goes well and the company becomes successful, the tokens bought during an ICO might even be worth more later on. That is why some investors look at them solely as investment opportunities, not planning to actually use the product in the future.

An ICO is a new phenomenon in fundraising, so the approach to its regulation varies across different countries. While several governments have prohibited initial coin offerings altogether, some have prepared guidelines on how to conduct them and what qualifies as an ICO in the first place. The introduced regulation saw the number of scam ICOs drop significantly, however you still need to do due diligence should you decide to support a company through an initial coin offering.

NFT

NFTs, short for non-fungible tokens, are digital assets that represent anything digital, such as drawings, music, videos, and in-game items. Non-fungible means that the object is unique and can't be replaced with something else. For instance, a bitcoin is fungible — you can trade one for another and you'll end up with the same thing. The painting of Mona Lisa, however, is non-fungible.

While NFTs can be anything digital, its most popular use at the moment is selling art. For example, famous digital artist Mike Winklemann, known as Beeple, sold an NFT comprising 5000 of his daily drawings for $69 million.

An NFT essentially represents a file on a computer, so anyone can copy it as many times as they want. But NFTs are designed to give you something that can't be copied: a certificate of ownership with a blockchain entry to back it up. Additionally, buying an NFT lets you financially support artists you like.

Among the largest marketplaces where you can buy and sell NFTs are OpenSea, Rarible, and SuperRare.

STORING CRYPTOCURRENCY

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What's a Wallet?

In the same way that your usual wallet stores cash, a crypto wallet is used to keep your digital currency. But unlike a usual wallet, a crypto wallet doesn't technically store any cryptocurrency. Instead, it stores your public and private keys needed to prove ownership of your digital money that resides on the blockchain.

A public key is like your bank account number. It is essentially a longer version of your wallet address that you give to others so that they can send you money.

A private key on the other hand is more like your bank account password. You don't share it with anyone and make sure it's stored in a safe place, because if you lose your private key, you lose access to your money.

There are two types of wallets to choose from: a hot wallet or a cold wallet. A hot wallet is connected to the internet which means it could be vulnerable to online attacks, but it is easier to trade or spend crypto with. A cold wallet stores your keys on a device not connected to the internet, which makes it less convenient to use your crypto but is considered to be more secure.

Hot Wallet

A hot wallet, also known as software wallet, is a wallet that's connected to the internet. If you buy your coins through a crypto exchange, a software program installed on your computer, or a smartphone app, most likely you're using a hot wallet.

The main benefit of hot wallets is ease-of-use. If all your funds were kept in a cold wallet, you would need to find a device to plug your cold wallet into, then move the required amount to a hot wallet, and only then would you be able to make a purchase. But as hot wallets are almost always online, there's no need to transition between online and offline to make a transaction. This has helped the crypto market become more user-friendly and thus more mainstream.

The main drawback of software wallets is that they leave your public and private keys connected to the internet which means you face a higher risk of them being stolen in an online attack. That's why people who hold large amounts of cryptocurrency typically don't store significant sums in hot wallets. Instead, they transfer more crypto from their cold wallet to a hot wallet when the balance gets low.

Hot Wallet

Many exchanges tend to do the same. They store the majority of the customer funds offline in multiple cold wallets and only keep the amount necessary for withdrawals in hot wallets. This way you get to have both convenience and a certain level of security.

Among the most popular software wallets are Exodus and Trust Wallet. Both of them support major crypto assets and are suitable for beginners.

Cold Wallet

Cold wallets, also called hardware wallets, store your keys completely offline on a device that's not connected to the internet. Technically even a piece of paper with public and private keys written on it could be considered a cold wallet. But as that would be highly inconvenient to use, most people prefer to use electronic devices most of which resemble a USB drive. They are purposely engineered to keep your keys safe.

Crypto enthusiasts tend to see cold storage as superior to hot storage because an offline hardware wallet is designed to be immune to hacking. Even when the drive is connected to a computer which happens to have malware, your private keys remain inaccessible.

However, for that level of security you pay a price. While hot wallets are usually free, hardware wallets can cost from $50 to $200. They are also less convenient than software wallets because to make a transaction, a hardware wallet must be powered on and connected to a computer. And don't forget that the device can also be stolen, damaged or simply lost.

If you've decided that you have enough holdings in crypto to justify purchasing a hardware wallet, two of the most popular devices are Trezor and Ledger.

How to Choose the Right Wallet

Before choosing the right type of wallet for yourself, you need to decide whether you need a wallet at all. If you buy crypto on an exchange, you're not required to download a hot wallet program to your computer or keep your crypto in cold storage. Instead, most exchanges allow you to keep the purchased funds within the exchange itself.

While some object to that, others consider it acceptable for beginners that don't yet have a solid understanding of hot and cold storage. But pretty much everyone agrees that at some point it's best to move at least part of your holdings off the exchange. No matter how secure it may be, your account would always be at risk of being frozen by the exchange, along with all your funds.

What is the best storage for you depends on what you plan to do with your crypto. Long-term investors tend to use offline cold wallets. Since they don't move their money too often, they prefer security over convenience. Those more actively transacting with crypto may want the ease of access and speed that an online hot wallet offers. Of course, there's nothing stopping you from keeping part of your holdings in a hot wallet and moving the rest to a cold wallet.

How to Choose the Right Wallet

Whichever type of wallet you choose, make sure you take its security seriously. The basic guidelines are:

- Keep your wallet software up to date;
- Turn on two-factor authentication everywhere you can;
- Maintain strong passwords;
- Don't share your private key with anyone.

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