



Guide to Crypto Trading Strategies

Learn all about day trading, swing trading, scalping, position trading, and arbitrage.



There are numerous strategies for trading cryptocurrencies, each featuring different characteristics, with their own upsides and downsides. No matter what a trader's preference is—holding for the long run for a larger payoff, exiting a position after just minutes for smaller but more immediate profits, or anywhere in between—there is a strategy that matches their trading goals.

This article covers a range of trading strategies, including moves that can reap profits even in bear markets.



Day Trading

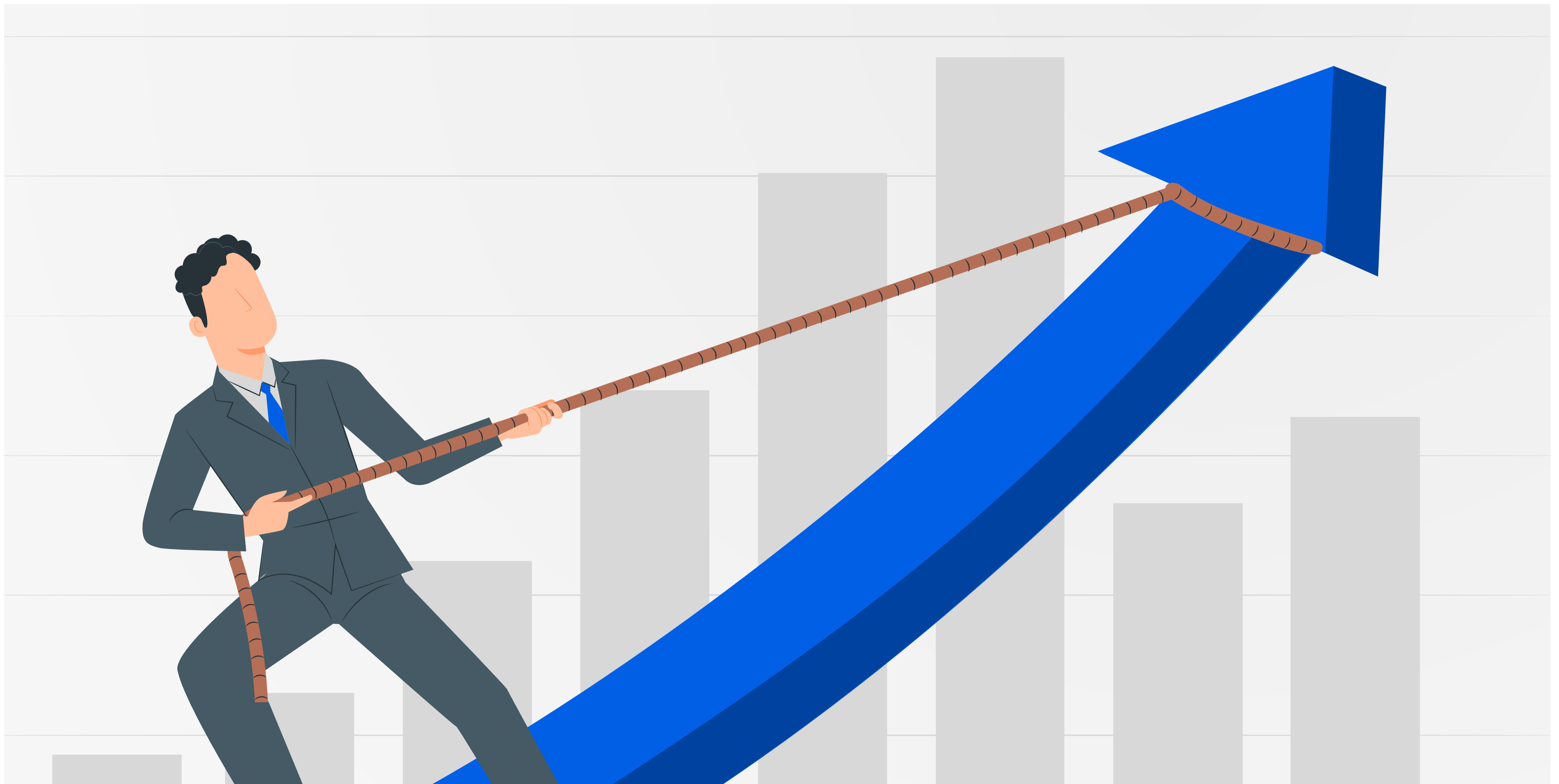


Investors who employ technical analysis on indicators such as volume and chart patterns often gravitate toward day trading, which involves entering and exiting positions on the same day. Day traders' goal is to profit from small movements in market volatility.

In crypto, day trading has the potential to be more profitable than in traditional finance, since crypto markets are live 24/7. Additionally, prices of crypto assets can fluctuate massively within a single day, allowing for the potential of fast returns on investments, whereas many stock exchanges have circuit-breakers that limit the extent to which a stock can rise or fall.

The 24/7 nature of crypto markets means day trading is a risky and often stressful venture. It demands a high degree of self-discipline, whether in terms of putting limits on asset allocation for day trading or keeping screen time at a manageable level.

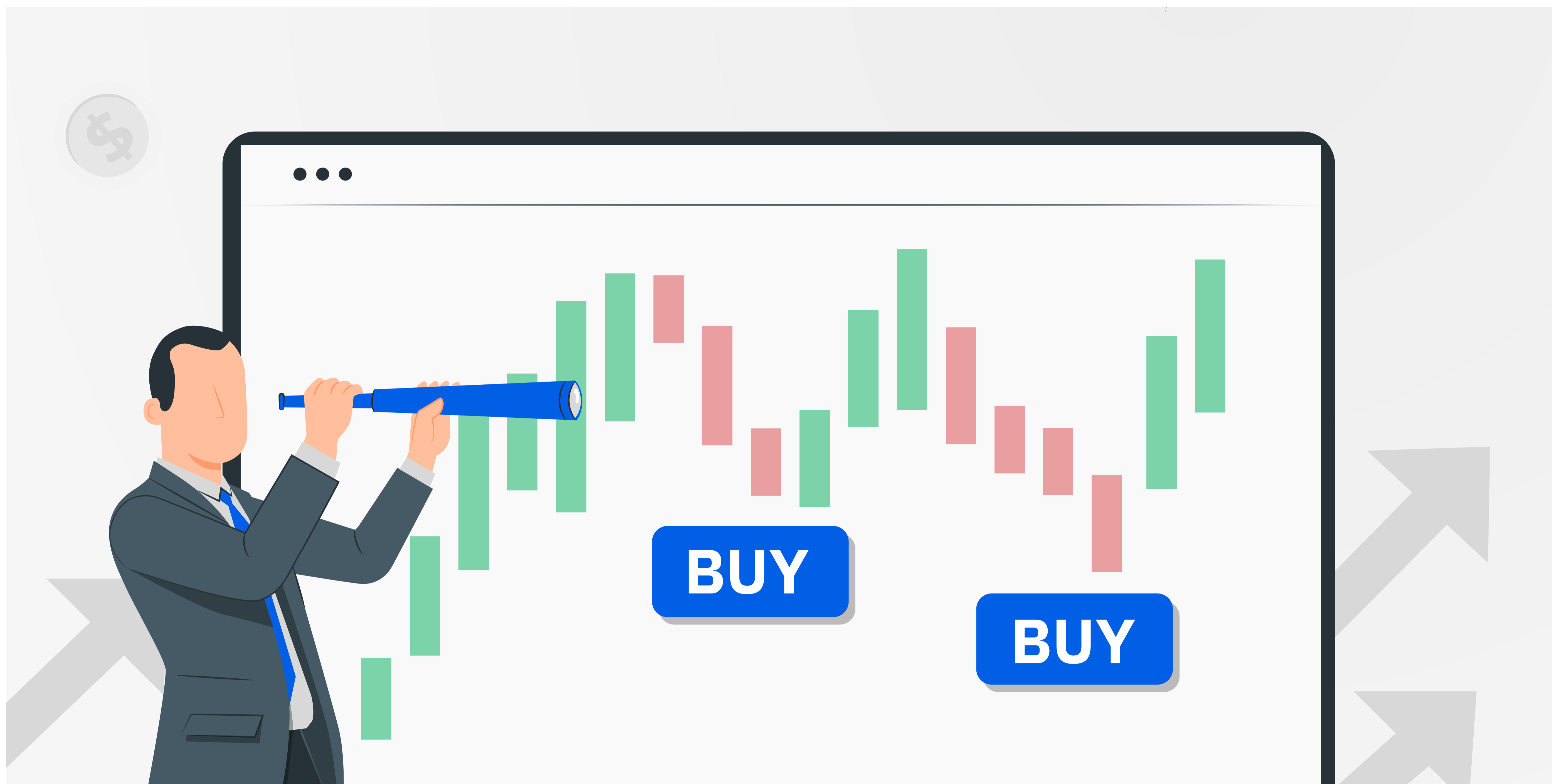
Swing Trading



With a slightly longer time horizon than day traders, swing traders hold an asset for a period spanning a few days to several weeks. Since this strategy has a longer term view than day trading, the trader is only required to follow the price movements of several assets rather than dozens or even hundreds as is the case for day traders. This would ideally lead to better control over market risks.

One major advantage of swing trading is that it does not demand constant attention from the trader. As long as the trader has performed sufficient research and technical analysis before investing in an asset, swing trading may only demand a few hours of work per week. Additionally, successful swing traders have the potential to benefit from better short-term profit, and aim to generate an income from trading, provided that the right assets are among their holdings. With that said, assets held by a swing trader could be subject to unforeseen market risks, with prices moving drastically during periods when a trader is not actively monitoring prices, such as overnight or during weekends. Swing trading may also limit the long-term gains that a trader could earn if they hold an asset for a lengthier period of time.

Scalping



The prices of cryptocurrencies are constantly moving up or down. These movements can be miniscule, and scalping is a strategy that can potentially lead to quick profits from those small price movements.

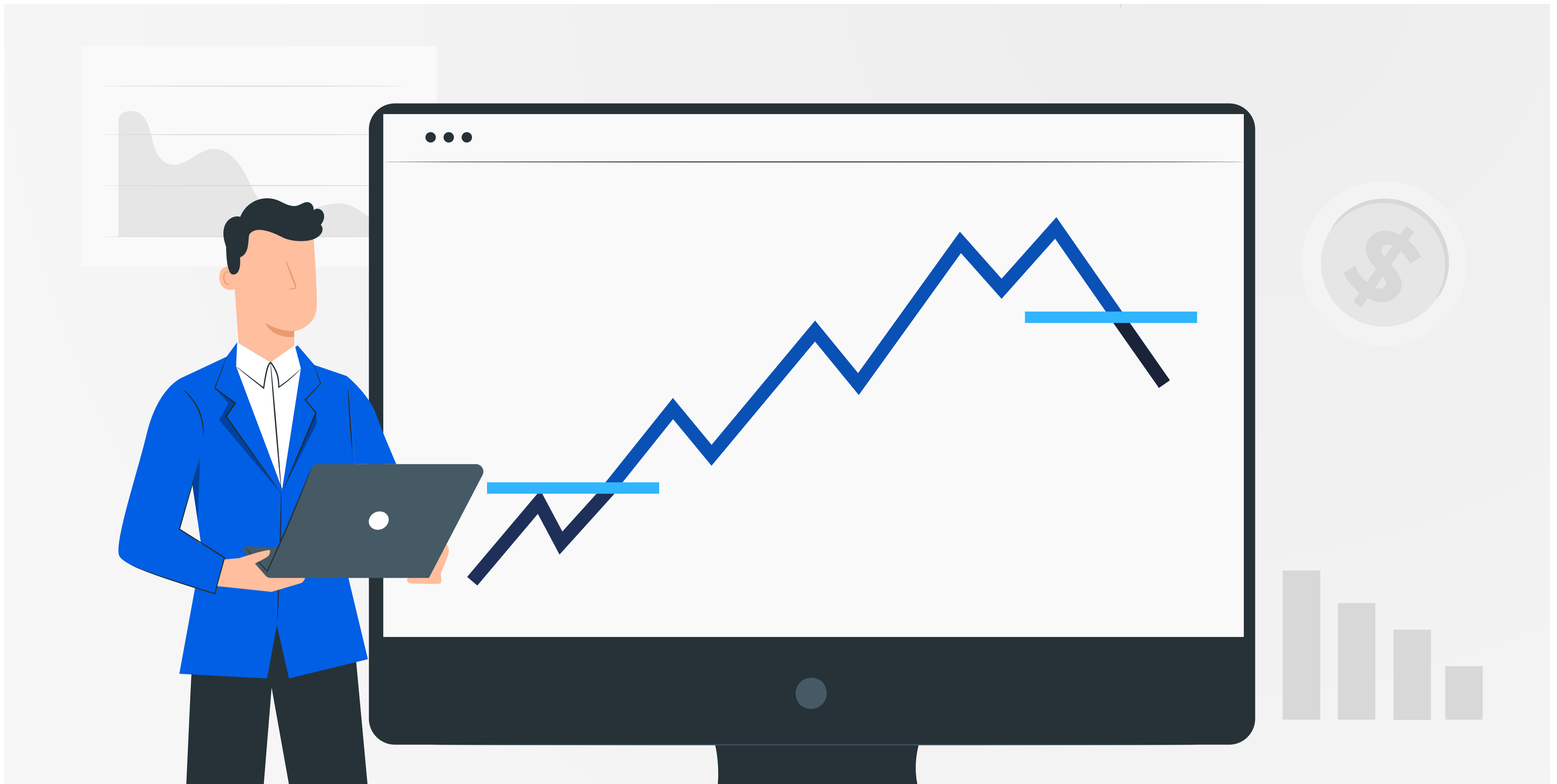
Scalping does not demand a digital asset to have strong fundamentals. Rather, it simply needs to have high volume and good liquidity, leading to exits in mere minutes or seconds. This means factors such as coverage in the news are key to the success of scalping.

Examples of tokens that fall into this category are DOGE and XRP. Both tokens receive frequent news coverage—the former often tied to Elon Musk, and the latter because its developer Ripple Labs is involved in a legal case in the United States that is viewed as a bellwether for the broader crypto sector.

Scalping leads to brief periods of exposure to market conditions, so the possibility of significant losses is reduced, except in cases where the price of an asset tanks quickly. The framework for scalping is straightforward, and can be executed using bots, minimizing the impact of emotional attachments on trading decisions.

However, a scalper needs to win often for their profits to be substantial. This requires scalpers to trade frequently in short spans of time to achieve meaningful profits, meaning trading fees can stack up quickly and become costly. Additionally, scalping is an aggressive strategy that demands constant monitoring of price charts and substantial starting capital.

Position Trading



There are traders who hold their assets for an extended period, potentially years. This is known as position trading. Since this form of trading does not demand constant monitoring of cryptocurrency prices, it is more suited for individuals who view investments in digital assets as side income. Position trading is also utilized by institutional investors that are willing to acquire assets and wait for potentially larger profits to be generated over time.

One major boon of position trading is that traders can play the long game, so minor downturns in an asset's price do not lead to hasty decisions or impact the trader's overall strategy. It also means that the trader is not constantly glued to their screen, and instead opts for a patient approach to wait for their expected movement before exiting their position.

Yet another advantage that is specific to crypto is that position trading enables holders of an asset to stake their tokens for even more income. Staking enables traders and investors to earn additional tokens by locking them. In fact, BTSE's own Earn product enables staking durations of 7 to 90 days, providing flexibility based on a trader's goals.

A downside of position trading is that it locks up capital, meaning there is generally less equity available for other opportunities that may become available. It also requires an in-depth knowledge of the crypto market, involving both technical analysis (predicting the future price) and fundamental analysis (determining the intrinsic value) of tokens.

Arbitrage Trading



Arbitrage is the purchase and sale of the same asset performed in quick succession in different markets to generate a profit. This is accomplished if and when there are differences in the asset's listed price across multiple markets due to market inefficiencies.

Here's an example: If the spot price of ETH is US\$999.99 on Market A and US\$1,000.00 on Market B, then a trader can gain US\$0.01 profit per ETH that is bought on Market A and simultaneously sold on Market B.

Arbitrage is important not only because it is a potential way for traders to glean profits, but also because it increases the efficiency of markets. The buying and selling of assets to exploit price differences narrows those differences. Additionally, these actions add liquidity to the market, enhancing the overall health of the crypto space.

For traders, one major advantage of arbitrage is that it is potentially lower risk when executed correctly, as it does not require any gauging of an asset's future performance.

However, there are drawbacks. The opportunities for arbitrage are often fleeting, with windows lasting for mere seconds in some cases. This leads to the possibility of executing a trade that is not profitable, especially if the buying and selling of an asset cannot be performed simultaneously. It's also important to take into account the platform fees that exchanges may charge, as they could quickly eat into the profits generated from minute differences in an asset's price across locations.

Conclusion



The methods outlined in this article serve as a starting point for active cryptocurrency traders. They can be mixed and matched for a more balanced overall strategy, with more aggressive and capital-intensive actions paired with conservative alternatives.

There is no “one size fits all” trading strategy. When making any kind of investment or exchange with digital assets, it is deeply important to develop a deep understanding of the market and the strategies you wish to employ - no investment is risk-free, always keep in mind that trading cryptocurrency is a risky endeavor, and that each trader is responsible for their own investment choices and the security of their assets.

