From the New York Times best-selling author

Vince Stanzione

How to trade cryptocurrencies with Deriv



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1

INTRODUCTION

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What is cryptocurrency?

Cryptocurrency is a secure digital or virtual currency protected by cryptography, which prohibits users from counterfeiting or double-spending it. Decentralised networks such as bitcoin and many other cryptocurrencies are built on blockchain technology — a distributed ledger enforced by a large number of computers all around the world. Cryptocurrencies are identified by the fact that they are generally not issued by a central power, and for that reason, they are theoretically immune to government control or manipulation of their value. Central banks are able to print fiat currency that is based on faith and not backed by commodities, such as the US dollar, the euro, and the British pound, in unlimited quantities. Throughout history, all fiat currencies have eventually failed, as governments tend to overprint them. Since cryptocurrencies are not controlled by authorities, they do not suffer from this problem.



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TYPES OF CRYPTOCURRENCY

TYPES OF CRYPTOCURRENCY

Bitcoin

Bitcoin is the best-known cryptocurrency and the largest by market capitalisation (i.e. total equivalent value in USD). It was launched in 2009 by an individual or group known by the pseudonym Satoshi Nakamoto. The original Bitcoin white paper is available in open access.

Although it is not legal tender, Bitcoin is extremely popular and has sparked hundreds of other cryptocurrencies, collectively called altcoins. "BTC" is the symbol used for Bitcoin.

There have also been spinoffs or forks from the original Bitcoin, such as Bitcoin Cash. However, whilst the names are similar, they are priced very differently and should not be confused.

At the time of writing this book, Bitcoin is trading at over $40,000, making owning 1 Bitcoin unaffordable for many. Fortunately, Bitcoin is divisible into Satoshis, and you can buy as little as $5 worth of Satoshis with many online brokers.

What makes Bitcoin unique is that only 21 million Bitcoins will ever be available. Each Bitcoin is divisible into 100 million units, or Satoshis, and one Satoshi is worth $0.0004 as I am writing.

Bitcoin can be accessed using a private key which is a series of numbers and letters. If you lose this key, you lose access to that amount of Bitcoin.

Whilst still relatively new, Bitcoin is building up momentum with more and more financial institutions seeing the potential and a growing number of companies and respected investors announcing that they have large holdings in Bitcoin. Compared to other financial markets, the cryptocurrency market is still in its infancy, which opens up many opportunities. However, you will also notice that these markets can be very volatile.



Ether

Another popular cryptocurrency is based on the Ethereum blockchain system, a decentralised open-source ledger. It's worth noting that this digital coin is sometimes called Ethereum, but the correct name for the cryptocurrency is Ether; Ethereum is the name of the network. Ether is commonly abbreviated as ETH. At the moment, Ether is the second-largest cryptocurrency after Bitcoin. It was first described in a 2013 white paper by Vitalik Buterin.

The Ethereum platform, first described in a 2013 white paper by Vitalk, has been a launchpad for many other cryptocurrencies. It is currently working on ETH 2.0, which is aiming to make processing faster and less power-intensive. More information about ETH 2.0 is available in detail.



Altcoins

Cryptocurrencies other than Bitcoin are collectively called altcoins. Most of these digital coins use a technology called blockchain that allows secure peer-to-peer transactions. Altcoins can provide massive gains if you get the right project; however, they are also subject to high risk since many fail and become worthless. The smaller altcoins can also be quickly manipulated (similar to smaller cap companies or penny shares). Buyers push the price up to attract more buyers. Then, the initial buyers cash out at a profit, leaving the new investors holding worthless cryptocurrencies.

Deriv currently offers the more established cryptocurrency pairs, and they are all traded against the US Dollar. It is expected more digital currencies will be added to the trading platform in due course, including cryptocurrencies paired together, as explained in more detail in the next chapter.

Table 1 shows cryptocurrency pairs that are currently available for trading on the Deriv MT5 platform. MT5 can be downloaded free of charge from the Deriv website to a computer or as a mobile app and is accessible round the clock.

To study this subject in more details, visit Deriv Academy.

Symbol	Description
BNBUSD	Binance Coin vs US Dollar
BTCUSD	Bitcoin vs USD
DSHUSD	Dash vs US Dollar
EOSUSD	EOS vs US Dollar
ETHUSD	Ethereum vs US Dollar
LTCUSD	Litecoin vs US Dollar
XMRUSD	Monero vs US Dollar
BCHUSD	Bitcoin Cash vs USD
XRPUSD	Ripple vs US Dollar
BTCLTC	Bitcoin vs Litecoin
ZECUSD	Zcash vs US Dollar
IOTUSD	IOTA vs US Dollar
NEOUSD	Neo vs US Dollar
OMGUSD	OmiseGo vs US Dollar
TRXUSD	TRON vs US Dollar
XLMUSD	Stellar Lumens vs US Dollar
BTCETH	Bitcoin vs Ethereum

Figure 1 . Cryptocurrencies you can trade on Deriv MT5

3

THE BASICS OF TRADING CRYPTOCURRENCY

THE BASICS OF TRADING CRYPTOCURRENCY

Trading cryptocurrency with Deriv

This guide focuses on trading cryptocurrencies, which gives the clients the opportunity to profit from their price movement without buying and selling the actual digital coins. I will also explain how to use leverage to hold a larger position than just buying and holding outright.

With Deriv, you can trade a derivative known as a contract for difference (CFD), so the actual Bitcoin or any other cryptocurrency never changes hands (read more about CFDs in the next section). In other words, you trade on the price of the underlying cryptocurrency rather than owning it. Deriv plans to introduce cryptocurrency trades on its multipliers too, which are accessible on DTrader and the Deriv GO mobile app.

One of the major appeals of cryptocurrency trading is that it is available 24 hours a day, 7 days a week. The market is never closed, nor is Deriv. Regardless of your time zone, you can always trade. Major cryptocurrencies have deep liquidity, which means you can buy and, more importantly, sell them even in large volumes.

Like any regular currency trade, a cryptocurrency trade consists of a trading pair, where each part illustrates the relative worth of an asset.

The US dollar remains the world's reserve currency for trade settlements. Such assets as gold and oil, for example, are priced in USD. Deriv uses USD to price most cryptocurrencies too, e.g. BTC/USD shows the price of Bitcoin in USD. Of course, cryptocurrencies can be priced in other currencies, such as Euro or British pound, but the US dollar remains the main counterparty currency.

Deriv is also adding cryptocurrency trades that offer two digital currencies paired together, for example, ETH/BTC and LTC/BTC.

No wallet required

You might have heard about people who have invested in Bitcoin but lost their private keys or had their accounts hacked. Luckily, trading a CFD eliminates this threat as you don't own the coin. You are trading on the price difference of the cryptocurrency, and your trade will be settled (credited or debited) in US dollars.

What is a CFD?

As previously mentioned, when you trade cryptocurrencies with Deriv, you don't take ownership of an asset. Instead, you will use a CFD, which will track the price of the underlying cryptocurrency.

A CFD is an agreement between you and the counterparty, in this case, Deriv.

That's why it's important to choose an established and strong trading firm, as your CFD is only as good as the company that underwrites it.

Example of a CFD trade on cryptocurrency

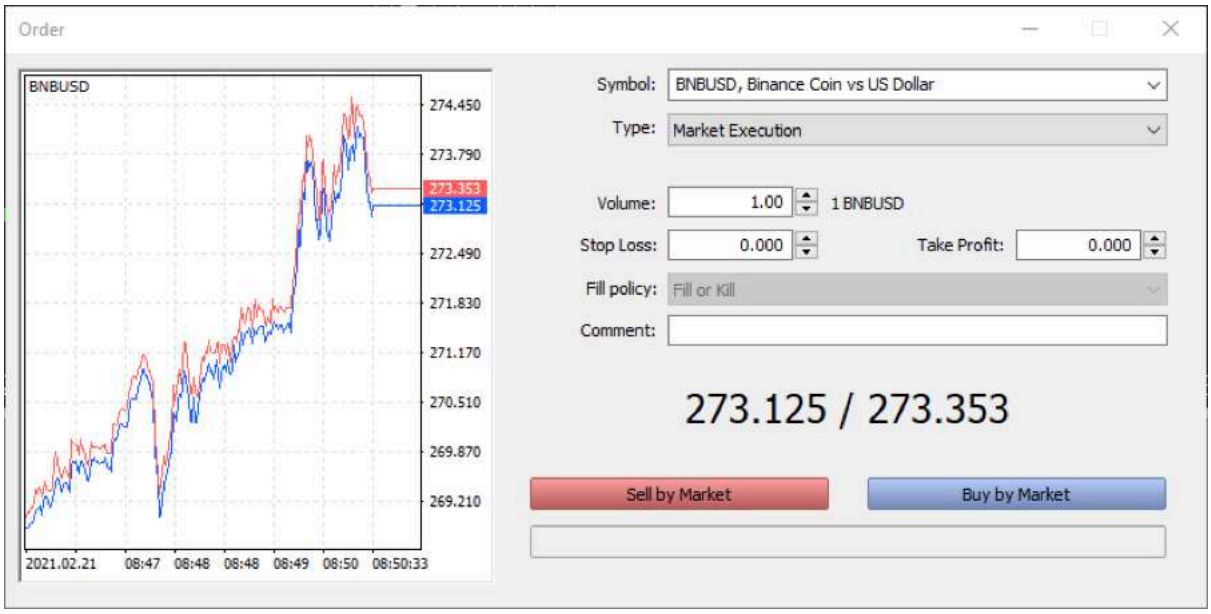


Figure 2 . Opening a CFD trade on cryptocurrency

Let's assume that after some research, I have decided that BNB is a good cryptocurrency to trade and I believe its price will go higher.

The quote I am given online is $273.125 (sell) and 273.353 ask (buy). As I want to buy BNB/USD, I will select the ask (buy) price, so I am buying at $273.35. If I were selling, I would be selling at the bid price of $273.12.

We are trading on the number second to the decimal, so it is .12 or .35 in this case.

The 23-cent difference is the spread or profit margin. Whenever we are trading, we are always looking for the tightest spread because it will be easier to break even, as the following example shows: if I buy at $273.35, I will need to sell the contract at least 23 cents higher to break even, i.e. at $273.58.

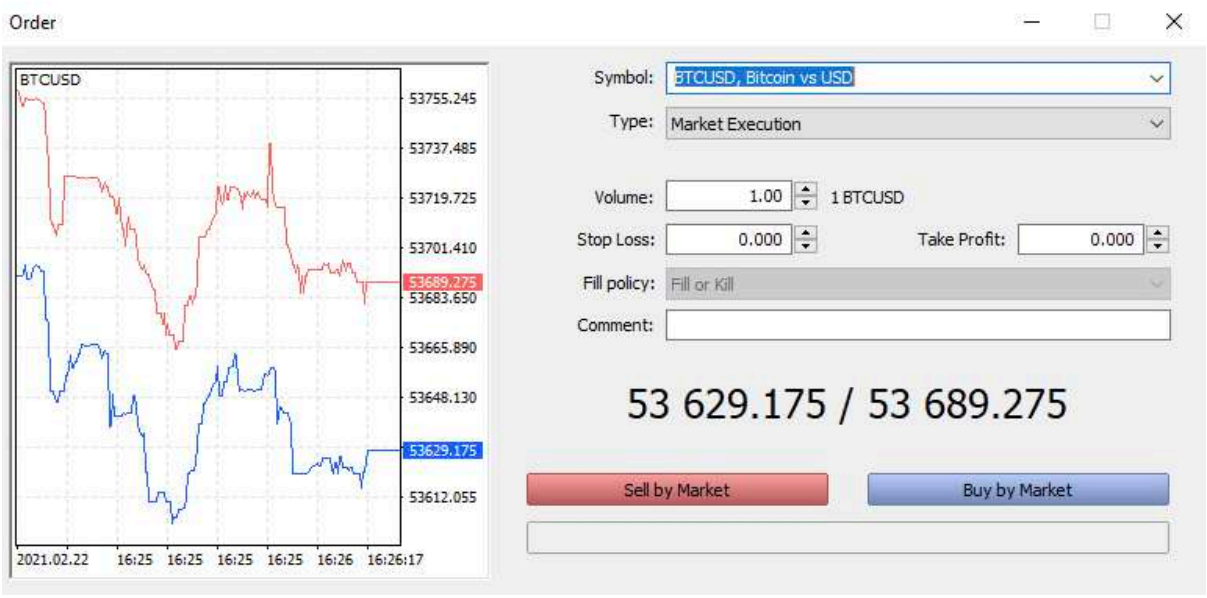


Figure 3 . Sell and buy prices of a cryptocurrency CFD (BTC/USD)

I decide to go long (buy) at $0.10 a point. It would be the same as owning 10 Binance coins or $2,735.80 worth of BNB. Deriv CFDs are leveraged, which means you will only need to put up a margin (deposit). Deriv will show you the margin requirement when you open the trade. It could be as little as 5%, so you would only need $136.79 (5% of $2,735.80).

A leveraged trade allows you to enter the market with a margin instead of the real worth of the asset. Therefore, your capital will go further than just a traditional buy and hold approach.

How to profit from falling cryptocurrency markets? Sell short

If you have ever followed the cryptocurrency market, you probably know that it is far from being smooth and doesn't always move upward; however, with Deriv, you can profit from falling markets as well.

A CFD also allows you to profit from downward movements, known as going short. It means if you believe Bitcoin or any other cryptocurrency is overvalued, you can sell first (even without owning it) and then buy it back. Of course, if the price goes higher, you will have to buy back at a higher price, covering your short position.

Using Bitcoin as an example, you can see that Deriv quotes a 2-way price, so you can always close out an existing trade or go short.

[2] *In trading , a point is 0.01, so in this case, $0.01 per point equals 1 Binance coin.*

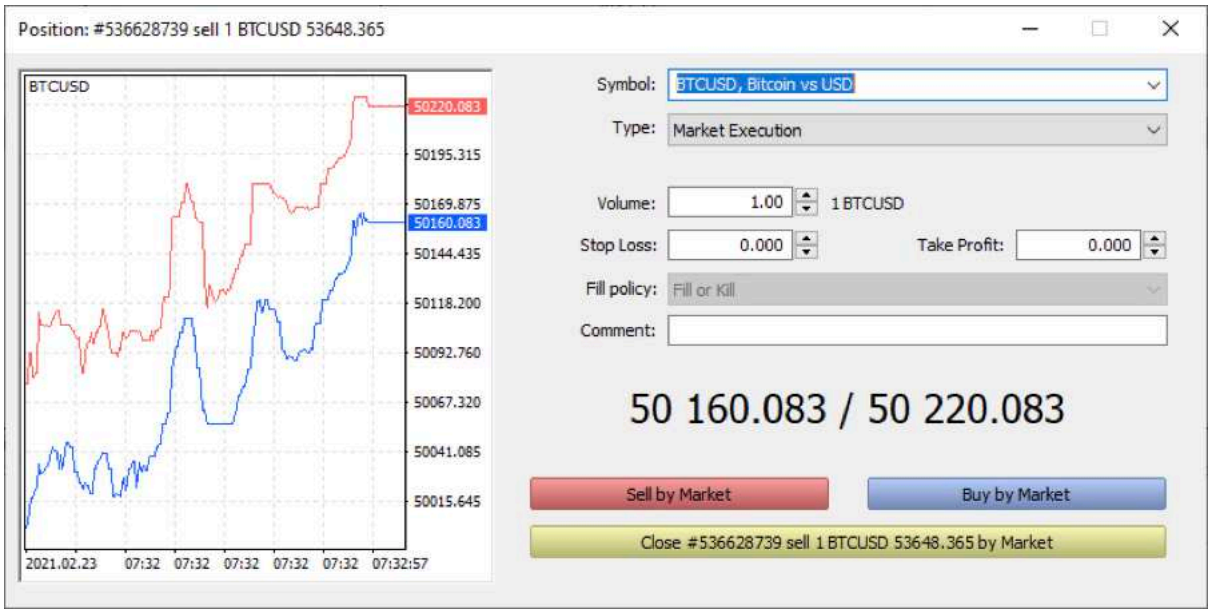


Figure 4 . Short trade on Bitcoin

I sold Bitcoin (went short) at $53,648.365. I need to buy it back to close the trade. The current price to buy it back is $50,220.083. If I close now, my profit would be $3,428. We can calculate it by taking the trade size, in this case, $1, and multiplying it by the number of points difference, in this case, 3,428, which equals $3,428.

If I go short, and the price moves up, I would have to pay more than what I sold at, and this would incur a loss.

Deriv's risk mitigation tools for CFDs

We can use the stop loss feature to limit our risks or the take profit feature to close a trade at the desired level. For example, if I want to close a trade at 50,000.00, I can place a take profit order, and I won't need to keep watching the market.

Let's say I'm willing to risk a maximum of $500 when I place the trade. I can place a stop loss 500 points away.

I can also lock in some of my profit and still keep the trade open. For example, if I set a stop loss at $51,220, $2,428 will be locked in.

It's also worth mentioning that Deriv offers negative balance protection. If a trade goes completely against you, you will not be asked for additional funds, and your account cannot end up having a negative balance. If you act on money management tips, trade mindfully, and use the tools that Deriv provides for risk mitigation, you will have a better chance at protecting your funds. However, please be aware that trading CFDs always comes with a high risk of losing money.

Swap charges

Whilst the cryptocurrency market is open for trading round the clock, a CFD will need an expiry time. Deriv's rollover time is 23:59 GMT. It means if you are going long on a CFD on Bitcoin, and you do not close it out before that time, it will roll over to the next day, and you will be charged a fee, namely, a swap charge, which will be deducted from the profit and loss.

CFD TRADING: ORDER TYPES

4

CFD TRADING: ORDER TYPES



Market orders

If your trade is a market order, it will go straight into the market. This is also known as “At Best”; in other words, you’re asking the broker to buy or sell on your behalf at the best rate currently available on the market. This is the most common type of CFD orders.
For this trade to be executed, the market needs to be open.



Pending orders

A pending order is the trader’s instruction to the broker to buy or sell a security in future, under predefined conditions, when the price reaches a specific level.



Limit orders

The most popular pending order is a limit order or “At Limit”, which means if price equals your limit, your trade becomes a market order.

Stop orders

A stop order is an instruction to buy or sell if the price reaches X. Most traders use a stop order as a safety net, especially if they are not monitoring the market closely. When this order is executed, the trade is completely closed. A stop order can be set for a limited period or for an indefinite time (a “good till cancelled” or GTC order). In either case, when the price of cryptocurrency reaches the stop price you’ve set, you can’t cancel or amend your stop order.

If you set a stop order, the broker will always try to fill your order at the price you’ve set, but if that price is unavailable, your order will be executed at the next available price. In other words, a trade with a stop order is always filled at either the price equal to the specified one or the next available price (slippage). But in any case, the execution of stop orders is guaranteed.

Where to put a stop?

It is always a trade-off between having a close stop, minimising losses, and giving a trade enough space to breathe at the risk of a larger loss.

A 20-day price channel can give you an idea for stop loss. Here we see Ethereum with a 20-day high/low chart. Say you were to go long on ETH. You would place your stop at the 20-day low price (red square line). As the price moves up, so does the 20-day low, and you are locking in profits. This strategy is also known as trailing your stop. Think of it as a safety net. As long as the value of cryptocurrency keeps going higher, you stay with the trade and keep moving the stop up. Of course, at some stage, the trend ends, and your stop will close you out. Remember, you can do the exact opposite for a short (down) trade, so your stop would be the 20-day high.

Further on, I will show you how you can use these price channels as a trading system.



Figure 5 . Ethereum’s 20-day price channel (Source: ShareScope)

5

HOW TO EVALUATE A CRYPTOCURRENCY

HOW TO EVALUATE A CRYPTOCURRENCY

Psychology of the cryptocurrency market

It's important to understand that in any market, including the cryptocurrency market, we need buyers that are willing to pay a higher price to keep the market going up. Markets will start to stall not because of sellers but because the lack of new buyers serves as fuel for the fire. If new buyers don't step in to bid the price up or maintain it, the next tick will be lower and so on until a price level is reached where buyers are willing to come in (support level).

Figure 6 shows an order book, also known as the depth of a market, in this case, of the BTC/USD pair.

The bid is a price you can sell at, and the offer is a price you can buy at. Bitcoin and other major cryptocurrencies are available for trading round the clock, so there is always a bid/offer. Of course, the price may not be the one you hoped for, but there will always be a buyer for any price. In March 2020, we saw Bitcoin briefly tumble to $3,800 as financial markets fell sharply due to the Covid-19 global pandemic. Many traders had to sell to raise money, and fewer buyers were willing to step up, but there were always buyers.



Figure 6 . BTC/USD order book

Like all financial markets, the cryptocurrency market is heavily influenced by human psychology. As emotions take over logic, fear and greed can push prices much higher or lower in the short term before returning to a more balanced state. Because cryptocurrencies are always available for trading, and there is no exchange that can intervene and no circuit breakers like the ones used in stock markets (NYSE, NASDAQ), very large percentage swings can happen in short periods of time. It can be both an opportunity and a risk, so make sure your trade size allows for these swings. I have found it's better to have a smaller position that can withstand large swings and avoid being stopped out because of a short-term move.

Cryptocurrency market analysis

Although the focus of this guide is on technical analysis, charting, and system trading rather than fundamentals and economic indicators, starting with an overview of fundamental analysis can make the matter clearer.

Fundamental analysis

Cryptocurrencies are affected by the news, such as a government ban or an issue with a major cryptocurrency exchange. They can also be affected by other financial markets. For example, a sharp downturn in the equity markets may force traders to raise capital and sell cryptocurrencies.

A major company starting to accept or buy cryptocurrency can also move the price up. This happened with Bitcoin when Tesla (TSLA) announced that they had bought Bitcoin.

The cryptocurrency market is global and open round the clock, so many world events can affect it. Below, you can read about a few sources for financial news in general or specifically for cryptocurrency news.

- ***Cointelegraph*** – a dedicated news site that covers everything about Ethereum, Bitcoin, and other cryptocurrencies
- ***Coinmarketcap*** – a good site that shows the charts and data of the leading cryptocurrencies by market capitalisation
- ***Dailyhodl*** – a good site, which is a little technical but also has a good beginners section
- ***100trillionusd*** – a website managed by a Dutch institutional investor and is definitely worth following. PlanB (the investor's famous Twitter nickname) has created the now widely-recognised Stock-to-flow (S2F) method of trading Bitcoin. This approach works for a variety of assets and is based on using scarcity to assess value.

- ***Bloomberg*** – a leading financial site that has good cryptocurrency updates. They also post regular updates on Twitter. (Figure 7)



Figure 7 . Bloomberg TV Twitter feed

- You can also follow my Twitter account (@vince_stanzione), where I post regular updates on financial markets, including cryptocurrencies.

Problems with fundamental analysis

A problem with fundamental analysis, or trading based on the news, is that in many cases, the data looks backward, so it only reflects upon what has already happened.

The other problem is that data can be interpreted in many different ways. For example, a higher unemployment number can be seen as negative. A greater percentage of people out of work implies more benefits being shelled out at the government's expense, fewer people paying tax and an overall weaker economy. However, on the positive side, it would also typically mean that wage inflation remains low – since current employees are less likely to ask for a pay rise if others are ready to swoop in and take their jobs.

It would also mean that central banks are less likely to raise interest rates. Major banks produce a vast amount of analysis on economies – much of which is freely available. However, it is questionable how useful this data is to the financial trader, especially in shorter-term trades. For most, technical trading will offer an easier way to follow the market and trade cryptocurrencies. Professional tools are now available to all.

On a side note: Deriv's unique synthetic indices are available for trade round the clock, every day of the week, even on holidays and weekends, and are not affected by the news. You can learn more about them in my new ebook ***How to Trade Synthetic Indices***.

Technical analysis

Technical analysis ignores news items and economic data, focusing purely on price trends and volume. It primarily involves studying chart patterns, showing the trading history and statistics for whatever currency pair is being analysed. You would start with a basic price chart, which would show the currencies' trading price in the past, and look for a trend or pattern that can help determine future pricing.

Whilst the cryptocurrency market is very new, around 10 years compared to 100s of years for stocks, currencies, and commodities, I have been able to adapt trading tools to cryptos with very good results.

Three states for cryptocurrency pairs

A currency pair can only be in three states regarding price movement:



Trend higher



Trend lower



Sideways range

Let's explore each of these states in detail.



Trend higher

The lows are becoming higher. The highs are also becoming higher.

In other words, whenever the market sells off, it rebounds at a higher price than the previous time. This is considered to be **positive** or **bullish** activity because market participants are willing to pay more than in the past.



Figure 8 . ETH/USD movement on a basic chart. Ether is gaining against the US dollar (Source: ShareScope.com)

Sideways range

This state is often overlooked, but a cryptocurrency can stay in a sideways range for weeks or even months, and with Deriv, you still have the chance to make a profit in this type of market.

For example, let's say every time the BTC/USD exchange reaches 7,000, we find support from buyers. This amount would be the lower range. Then every time we get up to 11,000, we find resistance from buyers. This amount would be the higher range.

Here we see Bitcoin staying in a range for over 18 months before finally breaking out to the upside. A buy and hold strategy would have made very little profit; however, trading the range would have given you many opportunities to profit from selling at the top of the range and buying back at the bottom.



Figure 9 . Bitcoin's sideways movement (BTC/USD)

Prices can bounce between the two levels for a long period of time. At some stage, the equilibrium is broken, and a new trend or range is established. This state is often overlooked, but a cryptocurrency can stay in a sideways range for weeks or even months. A sideways range is a case in which buyers and sellers are equally matched. In this case, price levels have been formed that attract buyers (or support) and sellers (or resistance).

Deriv gives you ways to potentially profit from the sideways price movement.

Psychology also plays a big part in trading, and round figures, such as 5,000 or 10,000, can often be support or resistance levels. In the case of Bitcoin, $20,000 was a major threshold, and when it was finally reached, we saw a move to $40,000 very quickly.

Support and resistance: how to make money from a sideways or dull market

Most traders are conditioned to look for moving markets or trends, i.e. times when a market is moving higher or lower, but of course, in the real world, we can have weeks and months of sideways movements.

Markets are made up of buyers and sellers. Simple economics tells us that supply and demand move the prices. But what happens when buyers and sellers are fairly evenly matched or are in equilibrium? How do we make money in this situation?

Well, with CFDs, we can profit from range trades, that is, trading sideways markets.

Support levels occur when the consensus is that the price will not move lower. It is the point at which buyers outnumber sellers. Support can be seen as a "floor" for the exchange rate.

Resistance levels occur when the consensus is that the price will not move higher. It is the point at which sellers outnumber buyers. Resistance can be seen as a "ceiling" for the exchange rate.

Figure 10 shows the Ripple coin against the US dollar (XRP/USD), which has settled into a range of 0.22 (bottom or range blue line) and 0.26 (top or range red line) over the last few months.



Figure 10 . A Ripple coin (XPR/USD) sideways trend

We can look to go short at the top of the range and buy back at the bottom. Of course, at some stage, the range breaks. You can use a stop order just above the range so you would be closed out when the price starts moving higher.



Trend lower

In this state, the lows are becoming lower, and the highs are also becoming lower.

In other words, whenever the currency sells off, it rebounds at a lower price than the previous time.

This is considered to be a negative or bearish activity because market participants are willing to pay less than in the past. The currency is losing strength.

The type of trade you would look to make with Deriv during these market conditions is short selling down trades on CFDs, and you would aim to sell high and buy back at a lower price.

A helpful analogy for this state is to think of cryptocurrency as if it were a boxer that gets knocked down gradually. With each knockout, he takes longer to get back up again. You can guess that eventually, he will be unable to recover, or the fight will end.



Figure 11 . EOS/USD bearish movement on a basic chart

Whilst we see many rallies, they fizzle out quickly, and the downtrend resumes as sellers keep coming and buyers are only willing to buy at lower levels.

Timeframes

Depending on which timeframe you use in a chart, the trends and patterns will look very different. Many traders examine multiple timeframes for the same currency pair – such as USD/JPY in one-minute,one-hour, and one-day charts.

Deriv offers comprehensive charts across different timeframes, ranging from very short-term (one minute) to one-day bars.

Figure 12 shows a one-hour short-term timeframe of BTC/USD, one of the most actively traded cryptocurrency pairs. Each candle represents one hour, and we see opportunities to profit from upward and downward movements.



Figure 12 . One-hour short-term timeframe chart of the BTC/USD pair

Chart formats

There are various types of charts that can be used to analyse cryptocurrencies. However, to keep things simple, we will look at the candlestick charts.

Candlestick charts are said to have been developed in the 18th century by the legendary Japanese rice trader Homma Munehisa. The charts gave Homma and others an overview of open, high, low, and close market prices over a certain period. This method of charting prices proved to be particularly interesting and helpful due to its uncanny ability to display five data points at a time, instead of just one. The method was picked up by Charles Dow circa 1900 and remains in common use by today's financial market traders.

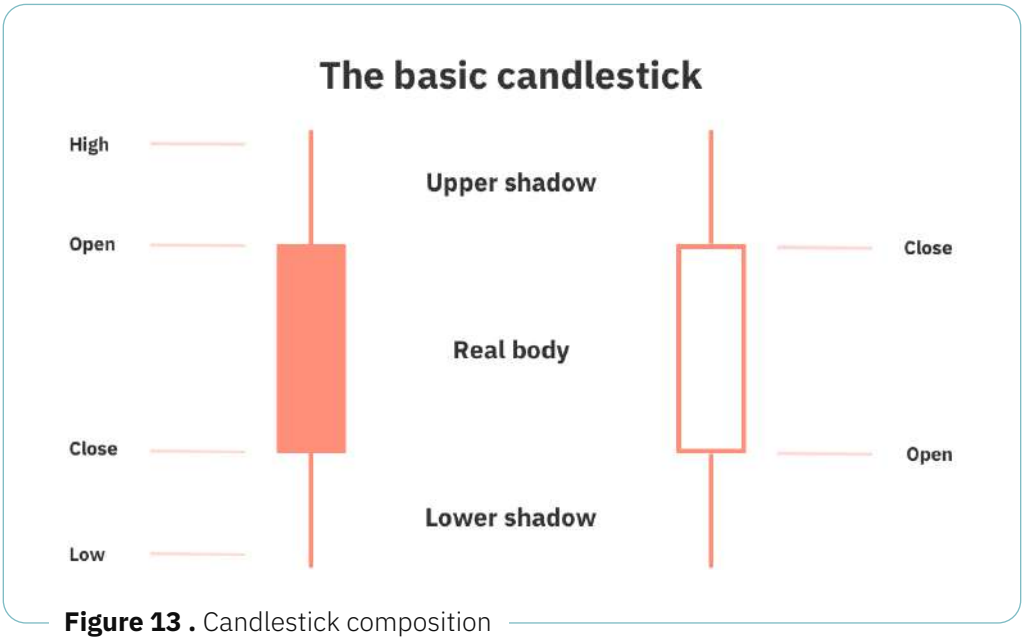


Figure 13 . Candlestick composition

Candlesticks are usually composed of the body, typically shaded in black or white illustrating the opening and closing trades, and the wick, consisting of an upper and lower shadow illustrating the highest and lowest traded prices during the time interval represented.

If the asset has closed higher than it opened, the body is white. The opening price is at the bottom of the body. The closing price is at the top. If the asset has closed lower than it opened, the body is black. The opening price is at the top. The closing price is at the bottom. A candlestick need not have either a body or a wick. In the examples throughout this book, we have used red for a down candle instead of black and green for an up candle instead of white.

Deriv offers cryptocurrency trading via the Deriv MT5 platform, offered free of charge with a massive choice of charts and indicators.

Power tools for cryptocurrency traders

This guide doesn't aim to go into the hundreds of possible technical trading tools, patterns, and indicators, but the following can give you an understanding of the main tools available. This brief overview is designed to help you get started in trading via CFDs or digital options so that you can begin to build up your knowledge. Deriv and MT5 offer access to excellent complementary charts and tools with over 30 technical indicators, but we will stick to three of the main ones here.

It's important to keep your trading system simple at the beginning. As you progress, you can add extra tools to refine your abilities further.

There are three main tools a trader can use: moving averages, Donchian channels, and relative strength index (RSI).

Moving averages

This tool has earned and saved me more money than any other.

It's hard to trace the precise origins of the moving average (MA), although this concept is often attributed to Richard Donchian. He was a great pioneer of systematic trading in the 1950s and '60s. The methodologies that he developed over 40 years ago still serve as the basis of many complex systems used by the world's best traders.

The dictionary defines an average as the quotient of any sum divided by the number of its terms.

Let's suppose that you need to work out a 10-day moving average of the following numbers: 10, 20, 30, 40, 50, 60, 70, 80, 90, 100.

You would add these figures and divide by 10 (i.e. the total number of items in the set), to arrive at an average of 55.

Now when tomorrow's price comes in – let's say 105 – you would remove the oldest number (10) and add 105 to the end of the series. The average of this set would now be 64.5.

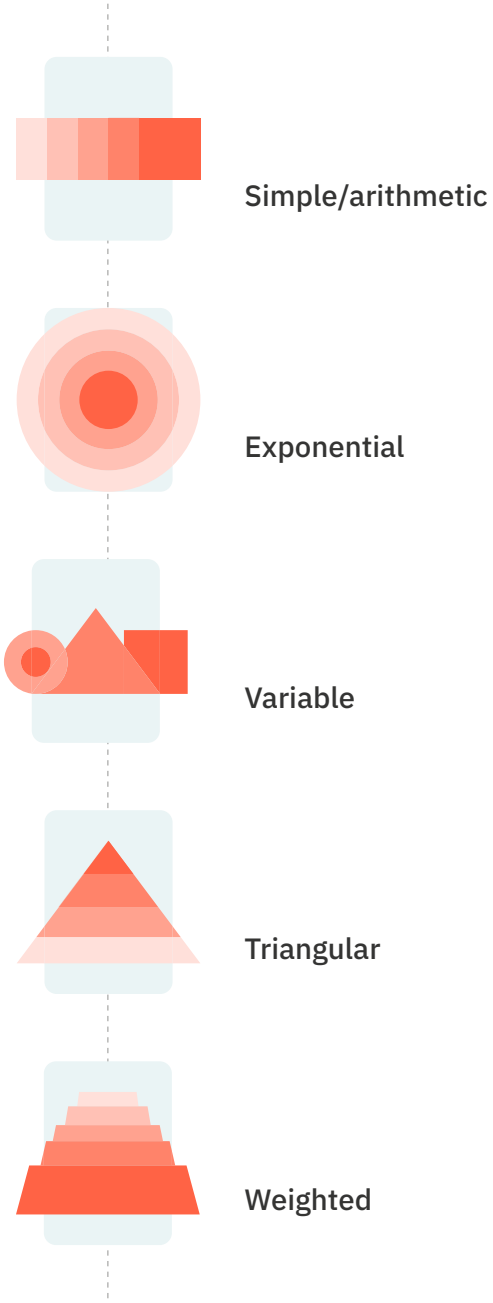
Every charting software package incorporates the moving average, as it is one of the most fundamental aspects of trading. You will also find it on the various charts featured on the internet. You don't need to worry about working it out manually on your own.

Deriv offers moving averages among its tools, and they are easy to add to any currency.

Types of moving averages

Moving averages can be calculated for any data series, including all sorts of different indicators associated with a particular currency (e.g. open, high, low, close, volume, etc.). To start, concentrate on the simple moving average. Whilst some have tried to be clever by deviating from this straightforward standard in various ways, it is best to stick with a simple approach, particularly as you first begin to trade. In software or on the internet, **simple moving average** is often abbreviated as SMA.

There are five popular types of moving averages:



Applying moving averages to currency pairs

Here's the basic rule of thumb with moving averages in the context of forex markets: when looking at the relationship between timeframes and moving averages, the choice of the period you select on the moving average indicator significantly impacts the results.

Figure 14 shows the ETH/USD pair with a 20-day simple moving average. The chart time period is daily. If I change the time period to 1 minute, it will become a 20-minute simple moving average.



Figure 14 . ETH/USD 20-day SMA

The advantage of a shorter-term moving average, e.g. 1 minute, is quicker results, with the moving average reacting quite sensitively to price movements. The disadvantage is that you receive more false signals with such a short timeframe, so it's a trade-off – but still worth examining.

Popular moving averages usually have durations of 20 days, 50 days, and 200 days for long-term trading. For the short-term, popular durations are 20 minutes, 60 minutes (1 hour), 4 hours, and 8 hours.

These time intervals can be easily set up in Deriv MT5. You can also have several moving averages on the same chart simultaneously.

Moving average crossover system

We can have one or more moving averages on a chart at once. I personally like 2 moving averages with a slower (long-term) MA and a quicker (short-term) one. A buy and sell signal is given when the two cross over.

We will use the Binance coin in the BNB/USD pair as an example. We will use 1-day charts and a 21-period and 6-period MA, so the durations would be 21 days and 6 days. I have used 20 hours, but you could have 20 minutes or even 20 days for a longer-term system.



Figure 15 . Cross-over between a 6-day and a 21-day moving average

Figure 15 shows daily candle charts with the 21-day (green line) and 6-day (purple line) moving averages. I have marked the cross-overs with green and red arrows showing the buy and sell points, respectively

Cryptocurrency price channels: Donchian channels

The Donchian channel is an indicator used in market trading, developed by Richard Donchian. It is formed by taking the highest high and the lowest low for a set period, such as 20 days. The area between the high and the low is the Donchian channel for the period chosen. This tool is available within Deriv charts, with adjustable settings for the period length. Twenty days is the conventional timeframe, which is why the Donchian channel is often referred to as the 20-day rule or the 4-week rule.

Figure 16 shows the daily chart (each bar is one trading day) for Litecoin against the US dollar (LTC/USD) using 20-minute Donchian channels.



Figure 16 . Litecoin daily chart with a 20-minute Donchian channel

The basic trading system could be:

- Enter long (buy) when the price hits 20–day high on the Donchian channel.
- Close by selling when the price hits 20–day low on the Donchian channel.

And then the reverse:

- Enter short (sell) when the price hits 20–day low on the Donchian channel
- Close by buying when the price hits 20–day high on the Donchian channel.

A simple system like this can be programmed into Deriv MT5 using the MQL5 language. You will find many videos on Youtube showing how to do this. The MT5 website also has many ready-made trading systems.

Please note that whilst the cryptocurrency market is relatively new, we can use the same trading techniques that have worked in forex, stocks, and commodities in the cryptocurrency market.

I have used the 20-day chart, but you could go with a 20-hour or 20-minute chart for a shorter-term system. There is also nothing to stop you from using a 10-minute chart. You can also run two or more systems to have one of them trading long-term moves and the other trading short-term ones.

Whilst basic, this system has some powerful advantages:

1. Winning trades are left to run.
2. You have an exact exit strategy (no guessing).
3. The system is rule-based.
4. Your risk is always defined.

Even with more losing trades than winning ones, there's a chance that you can still make money as long as the winning trades make more points than the losing ones. You can also profit from down moves as well as up.

We can also use 20/20 – a Donchian channel and a simple moving average of the same period of 20 days. The moving average will be reflected in the middle of the channel. Some traders may use this as a first warning sign of an impending trend change.



Figure 17 . A 20-day Donchian channel and a 20-day simple moving average

Relative strength index (RSI)

The relative strength index (RSI) indicator measures a cryptocurrency's performance against itself. It is often used to identify buying opportunities in market dips and selling opportunities in market rallies. The value of the RSI is always a number between 0 and 100. The indicator was developed and introduced into practice in 1978 by an American engineer J. Welles Wilder, a real estate developer and famous technical analyst. It is still widely in use.

Although RSI was designed way before cryptocurrency, established systems can be used remarkably well to analyse modern-day digital currency trades.

The chart below shows an example of Monero against the US dollar (XMR/USD). A low number (30 and below) indicates a more oversold market. A high value (70 and above) indicates a more overbought market. The higher and lower horizontal lines on the graph are at 30 and 70, i.e. the levels at which markets are often regarded as oversold or overbought.

When the RSI moves to 70, it's a good time to look at short (down) trades. When we see the RSI down at 30, it's a good time to look at long (higher) trades. In this example, we can see the RSI is at 50, which is fairly neutral (midway), so the RSI is not providing a clear buy or sell signal. Thus, in this case, it would be best to hold off from placing a trade until clearer signals appear.



Figure 18 . Using RSI to trade Monero (XMR/USD)

The 70/30 and a 14-day lookback period are the most common settings; however, I also use a 20-day lookback (as shown in the chart), which helps to offset false signals. There is also another variation worth looking at:

Steady approach – 80/20

This approach includes the lookback period of 20, oversold level 20%, and overbought level 80%. Risk-averse investors set up the indicator in a way that will make the RSI less sensitive and therefore minimise the number of incorrect signals. With all systems, it's always a trade-off between having too many signals, many of which will be false, or fewer, more accurate signals, but possibly delayed.

In MT5 and ShareScope charts, you can easily change the settings to any combination you wish.

To study this subject in more details, visit Deriv Academy.

FINAL NOTE

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FINAL NOTE

I hope you've found this short guide of use, and you'll refer back to it in due course. This book has shown how you can trade CFDs on cryptocurrency via the Deriv MetaTrader 5 (DMT5) platform.

Using Deriv services allows you to trade a great selection of markets. You will find additional resources, charts, and tools on the Deriv and MetaTrader5 websites.

Wishing you success,
Vince Stanzione

APPENDICES

APPENDICES

Appendix A

Why trade on Deriv

Any trade or contract is only as good as the “counterparty”. This is also known as “counterparty risk”. Deriv has been in business for over 20 years and is an award-winning online trading service provider which, whilst at the cutting edge, is conservatory managed with zero debt. The company is regulated and audited. You can see copies of Deriv licenses on its website.

Unlike some brokers that make it easy to deposit money yet hard to withdraw, Deriv enables you to withdraw easily and securely. Please note that whilst Deriv processes your withdrawal requests efficiently and quickly, the period it might take banks or other financial institutions to perform withdrawals can be longer. Deriv tries to give you an estimate of the total waiting time.

All your money is segregated and held in secure and licensed financial institutions. In this way, in the unlikely event of Deriv becoming insolvent, all your money will be returned to you because it is never merged with Deriv’s.

Deriv has over 1.8 million trading accounts opened with more than 8 billion US dollars of total trade turnover, so you’re in good hands.

Each trade, even if the trading capital is small, is given a unique reference ID number for the opening and closing. This means that each trade has a full audit trail that can be checked, so there is no way that the outcome can be manipulated either by Deriv or the trader.

On a side note, if you place a trade and then, for whatever reason, lose internet connection, your trade still continues as it’s placed with the Deriv servers. You can still check the outcome once your connection is re-established. I had this happen to me whilst travelling in Thailand.

Appendix B

Opening a real account

If you rehearse and rehearse, the curtain will never go up.

Having a demo account is a great way to practise, but for a chance to profit from markets, you will need a real account. Rules and regulations will apply depending on the country you are based in. Deriv aims to make the process as simple as possible. If you are requested for a copy of your ID, please provide it as soon as possible to avoid delays in setting up your account.

Once your real account is open, set yourself a trading goal or plan. Just keep in mind that trading should not be considered as a means to earn a living, to solve financial problems, or to make financial investments. Apart from cryptocurrencies, synthetic indices on Deriv are also available round the clock, so you can always come back to trade on Deriv in your leisure time.

You can make trades in USD, GBP,AUD, or EUR even if you are based in a country that has a different base currency. For example, if you're based in Indonesia, your home currency is IDR, but you can still trade in USD, which may be more stable than your home currency.

[5] *Trading on Australian dollar is not currently possible for Deriv clients residing in the European Union or the United Kingdom*

Appendix C

Seven top tips for trading on Deriv

1. Start small and build up.

Albert Einstein was once asked what mankind's greatest invention was. He replied: "Compound interest." There's even one claim that Einstein called compound interest the "eighth wonder of the world."

I have been in the trading business for over 35 years, and I started small. It was through the power of compounding that I could build up to where I am now. You need to understand compounding to perceive what a powerful tool it can be. Below is an excerpt from one of my favourite fables, which sums this up. The same principle can be used when trading with Deriv.

Excerpt from A Grain of Rice by Helena Pittman

The daughter of the Chinese emperor was ill, and he promised riches beyond compare to whoever could cure her. A young peasant named Pong Lo entered the palace. With his wit and bravery, he restored the princess's health and won her heart. As a reward, Pong Lo asked for her hand in marriage. The emperor refused and asked Pong Lo to think of anything else he would like.

After several moments of thought, Pong Lo said, "I would like a grain of rice."

"A grain of rice! That is nonsense! Ask me for fine silk, the grandest room in the palace, a stable full of wild stallions – they shall be yours!" exclaimed the emperor.

"A grain of rice will do," said Pong Lo, "but if His Majesty insists, he may double the amount every day for a hundred days."

So on the first day, a grain of rice was delivered to Pong Lo. On the second, two grains of rice were delivered; on the third day, four grains; on the fourth day, eight grains; on the fifth day, 16 grains; on the sixth day, 32 grains; on the seventh day, 64 grains; and on the eighth day, 128 grains. By the twelfth day, the grains of rice numbered 2,048.

By the twentieth day, 524,288 grains were delivered; and by the thirtieth day, 536,870,912, requiring 40 servants to carry them to Pong Lo. In desperation, the emperor did the only honourable thing he could do and consented to the marriage. Out of consideration for the emperor's feelings, no rice was served at the wedding banquet.

2. Manage your money wisely.

Risk too much, and a few bad trades will make you lose your trading bank. Risk too little, and it's going to be a long time before you see any decent profits. As previously explained, money management does not have to be very complicated, but a simple system will ensure that no single trade can wipe out your trading account. The mistake many new traders make is trying to grow their accounts too fast.

3. Don't let your emotions overwhelm you.

Trading with a demo account and trading with real money are not the same. As in most walks of life, when real money is at stake, irrational and instantaneous reactions might take over. Since trading can become addictive, it is important to know how to stay in control and remain reasonable, especially when trading with real money. Besides reading the following tips, please visit Secure and responsible trading for more information.

It may not be possible to trade logically all the time; after all, we are humans, with occasional impulsive decisions. But by using a system and steadily applying practical experience, you can train your reasoning powers to have a more permanent presence. Be careful about taking in too much news and over-monitoring your position. It is easy to overreact to a news story that may cause a short-term spike but is actually not that important in the long run.

Using mobile devices and apps can cause you to make snap decisions that you may later regret. The same sound judgment should be used with all trade purchase decisions, no matter how or where they're ultimately executed.

4. Profit potential exists in all markets.

Many still believe that in order to make money, the price of a share, market, currency, or commodity must go up. However, this is not true. As I have outlined in this guidebook, you can profit from up, down, and even sideways movements, so don't see falling markets as a negative.

5. When in doubt, sit it out.

If you watch financial news channels such as CNBC or Bloomberg, it seems that you should always be doing something since the channels are filled with "breaking news." Remember: these channels have to fill their airtime, and in many cases, the best trade is, in fact, no trade. If you are not sure or do not see an opportunity you are happy with, then do nothing and just wait for the next one. With the many markets offered by Deriv, you will likely find plenty of opportunities at any time of the day or night.

6. The higher the returns, the lower the chance of a payout.

Deriv offers a vast selection of trading opportunities ranging from lower-risk trades with returns of 5-10% to those with higher returns of 100% or more. Deriv prices trades based on mathematical probabilities. Of course, unexpected events do happen, but overall, if you are being offered returns of more than 200% for a trade lasting a day or less – just as an example – the reason for such generous returns is that the likelihood of a payout is fairly slim. Keep in mind that it's readily possible to "mix and match" your trades on Deriv.

7. Decide carefully on your approach to trading.

Some people trade casually, and that is perfectly fine. Some approach it with a more serious attitude. While I do not encourage you to view trading as a means to earn a living, to solve financial problems, or to make financial investments, and while I certainly don't deny the role of chance in trading, I do believe there are ways to trade more smartly, especially when it comes to financial indices. See the tips under "Keep your emotions in check and trade wisely". For instance, keep solid records of your winning and losing trades. A diary can help with this to complement the tracking tools you'll find on deriv.com, enabling you to keep tabs on your winnings. Also, stick to a trading system to help minimise emotional decision-making.

Appendix D

Money Management and keeping your emotions in check

Regardless of how big or small your account is, it is important to trade responsibly and stay in control of your emotions (visit Secure and responsible trading for more information). If you react impulsively to market movements when you're trading with real money, chances are that you'll suffer serious losses. It makes sense to slow down a little.

If you're going through a bad run, then take a step back, reduce the size of your trades, or maybe even go back to using a demo account for a while. Deriv does not place a time limit on demo accounts, and you can use your real and demo accounts side by side. In fact, since Deriv is committed to responsible trading, it encourages you to use all of the measures it offers to stay in control at all times.

There's a practical tip that might help you manage your risks while trading. Let's say you start with a $1,000 account. If you limit your risk on any one trade to 5% of the account, this practice will allow you to keep trading, even with a bad run. Let's observe this simple system in action.

The maximum stake on a single trade should never be more than 5% of your account total. So initially, 5% of your $1,000 account balance would be $50. If your balance goes down, then your trade size is proportionately reduced.

Let's say that – following a few losing trades – your account balance decreases to $900; 5% of this amount would now be $45. If you have had a good run, then your allowance per trade proportionately increases.

Suppose you've had a few winning trades in a row and your account balance has risen to $1,200; your 5% maximum per trade is now $60.

The key is that no one trade should ever blow your trading account.

If your account goes down 50%, how much do you need to put on the line to get back to even? Most will say 50% to make up for the previous losses, but here's the problem: You would need the account to move 100% to make this strategy work. As any trader will tell you, this is not a wise approach.

Big losses are hard to recoup

The maths of percentages shows that as losses get larger, the returns needed to recover to breakeven point increase at a much faster rate. A loss of 10% necessitates an 11% gain to recover. Increase that loss to 25%, and it takes a 33% gain to get back to breakeven. A 50% loss requires a 100% gain to recover. An 80% loss necessitates 500% in gains to get back to where the investment value started.

How do you prevent losses from spiralling out of control

Simply be smart in your approach: use the money-management principles described in this guide to keep everything within your manageable range at all times. You may not be able to control the price of the cryptocurrency, but you can control the amount of risk you place on any one trade, the amount of margin you use, and the total percentage of your account being invested at any time.

Watch that ego. Don't mistake a lucky run with skill. After a good run, many become overconfident and start taking stupid risks. After a poor run, many attempt to play catchup, trying to make their losses back fast. Both of these slippery slopes are easy ways to lose your trading capital.

Many books have been written on money management with complicated formulas. The key principle is quite simple: no single trade should ever cause you irrecoverable financial or emotional damage. However sure you are that XYZ is going to rocket, only a percentage of your trading bank should ever be risked.

Take care when trading on mobile devices

When real money is at stake, you need to be careful. Technology is wonderful; today, you can carry the power of a supercomputer in your pocket. It’s now possible to make trades on the move from a mobile device from anywhere but do take care. Some tend to trade very differently on mobile devices than they do when they are sitting at a laptop or desktop. Be sure to apply the same level of strict discipline to trades purchased on mobile devices as you would on your desktop. It’s all a matter of mindset.

Appendix E

Be a Deriv affiliate and earn an extra income

Deriv is expanding in many new territories, and it is on the lookout for talented and hardworking partners. You can promote Deriv to your friends and contacts or market Deriv's services. In return, Deriv shall pay you a generous commission. As well as earning commission from Deriv, you can look at developing trading systems and providing education to new traders.

Some of Deriv's best clients are also its best affiliates. To find out more, please visit Deriv's affiliate programme page.

Appendix H

FAQs

Opening an account

I'm new to trading. Where do I start?
The first step is to open an account. You can apply online in just a few minutes.

Do I need to send any documents?
Deriv works to a high compliance standard as required by its regulators. Know Your Client (KYC) is now required in many countries. Deriv works hard to make this as simple as possible and not cause unnecessary delays.

Do you offer demo accounts?
Deriv offers a demo account, so you can get the hang of trading before staking any actual currency of your own. There is no time limit on a demo account, and a real account and demo account can run concurrently.

Will I need to install any software?
Deriv is entirely web-based and requires no software installation. You can also use a tablet or other mobile device. MT5 does require an app to be downloaded, and this is available at Google Play Store and Apple App Store.

How soon can I start trading?
You can open a Deriv account, deposit funds, and begin trading within minutes.

Financial security

How safe is my money with Deriv?
Your money is always safe with Deriv and held in segregated accounts at all times.

How does Deriv make money?
Deriv has thousands of clients taking a variety of positions on financial markets at any time and earns a small margin on these trades. It does not charge clients any commission.

If I make too much money, will my account be closed, or will I be banned?
No. Deriv encourages successful clients and will not close or limit a winning account. Deriv can hedge trades into financial markets, which means they have no vested interest in the client's final result.

Depositing and withdrawing funds

Do I need to deposit any funds to open an account?
You don't need to deposit any money to open an account, but you need to deposit funds before you can start trading.

How do I fund my account?
Deriv offers a range of common deposit and withdrawal methods, from credit and debit cards to bank wires, e-cash, Bitcoin, and e-wallets.

Is it possible to deposit and withdraw the same funds through different payment methods?
Unfortunately, no. Funds initially deposited through one payment method must be withdrawn through the same system; funds cannot be transferred to an alternate system for withdrawal. However, Deriv offers a wide variety of payment methods to suit your specific needs and preferences.

GLOSSARY

8

GLOSSARY

All time high (ATH)
ATH refers to the highest price (or market cap) that an asset has reached since its listing or inception.

All time low (ATL)
ATL is the lowest point (in price, in market capitalisation) to which a cryptocurrency has dropped in history.

Altcoin
AN altcoin is any cryptocurrency that is not Bitcoin. As Bitcoin was the original cryptocurrency, any cryptocurrency that was created afterwards is treated as an “alternative”.

Bearish
This refers to a market in decline. Someone with a negative view on a market would be a Bear.

Bear market
A bear market is the condition of a market in which prices are falling or are expected to fall. It typically describes a condition in which the prices of securities fall 20% or more from recent highs.

Bid price
When trading a CFD, the bid price is the price you can sell. In the pair of quoted prices, the first price is the bid price; for example, 1.2810 (bid)/1.2811 (offer).

Bullish
This refers to a market that is rising. Someone with a positive view on a market would be a Bull.

Bull market
A bull market is the condition of a market in which prices are rising or are expected to rise. The term “bull market” is most often used to refer to the stock market. Unlike a bear market, there is no set definition in percentage terms.

Closing price
An asset’s closing price is the last price at which it was traded on any given day.

Contract for difference (CFD)
A contract for difference (CFD) is an agreement between an investor and a CFD broker to exchange the difference in the value of a financial product between the time the contract opens and closes. You can trade cryptocurrency CFDs as a Deriv’s client.

Contract period
The contract period is the timeframe of a trade. It is also called the duration. With Deriv CFDs, there is no expiration, and the contracts stay open.

Counterparty
The counterparty is the other party that participates in the trade with you. If you trade CFDs via Deriv, your counterparty will be Deriv.

Day trading
Day trading is the practice of frequently buying and selling assets in order to make a profit on intraday changes in their price.

Derivative
A derivative is a financial instrument whose value is determined by reference to an underlying market. Derivatives are commonly traded in the inter-bank market, and CFDs are a popular form of derivative. In trading derivatives, you do not purchase the underlying cryptocurrency.

Fundamental analysis
Fundamental analysis is a method of quantitative and qualitative analysis used by traders to determine the macroeconomic outlook of a country and its currency. Inflation, unemployment, and interest rates are just a few of the considerations in fundamental analysis.

GMT
GMT stands for "Greenwich Mean Time," the official time used in the UK during winter. In summer, the UK changes to British Summer Time, which is GMT+1 hour. All times on the Deriv site use GMT all year round.

Know Your Customer (KYC)
Know Your Customer (KYC) is an identity check that cryptocurrency exchanges and trading platforms must complete to verify their customers' identity. They may request a driving licence, passport or other ID before allowing them to trade.

Limit order
A limit order is an instruction to your broker to execute a trade at a particular level that is more favourable than the current market price.

Long
Being long with regard to a market or CFD means you expect the market to go higher, and you own that CFD. It indicates a bullish attitude.

Margin requirement – initial deposit
Deposit margin is the amount a trader needs to put up in order to open a leveraged trading position. It can also be known as the initial margin.

Offer price (ask price)
When trading a CFD, the offer price or ask price is the price you buy. In the pair of quoted prices, the second price is the offer price; for example, 1.2810 (bid)/1.2811 (offer).

Pair
In cryptocurrency trading, we can make 2 separate trades to back a scenario. We could be short on Bitcoin and long on Ethereum.

Point
In cryptocurrency trading, this is normally a cent, so if a digital currency is trading at $123.10 and

moves to $123.11, the price movement will be equal to 1 point.

Profit
The profit is the difference between the purchase price and the sale on a winning trade. In the case of a short trade, your sale price would be higher than your purchase price to make a profit.

Short
Short is the opposite position of long. If I am short with regard to a cryptocurrency, I expect its price to drop, so I enter the market with a Sell trade. I will, at some stage, have to buy back to cover my short. To profit, I want to be able to buy back lower than the level I sold at.

Spot price
This is the current price at which an underlying asset can be bought or sold at a particular time.

Spread
Spread is the difference between the Bid and the Offer. This is where the broker makes their profit. The tighter the spread, the better for the trader.

Technical analysis
Technical analysis is a system of analysis whereby historical data is examined to predict future trends in the prices of assets. Charts and indicators are often used.

Tick
A tick is the minimum upward or downward movement in the price of a market. A tick chart is the shortest possible chart timeframe.

Trading bots
A trading bot offers automated software without requiring coding knowledge. The bot can carry out tasks such as cryptocurrency trades following set rules without the need for intervention from the account holder. Deriv MT5 can be programmed to follow trading rules or use 3rd party bots.

Underlying
Each contract of difference is a prediction concerning the future movement of an underlying market, i.e. the specific type of asset involved in a given trade, for example, the Bitcoin.

About Deriv

Deriv is one of the world's largest online brokers, offering CFDs and other derivatives on forex, stocks & indices, cryptocurrencies, commodities, and derived indices to over 3 million registered users globally. For more than 25 years, the company has been committed to making online trading accessible to anyone, anywhere, at any time.

Deriv offers an expansive range of trade types across over 300 assets on award-winning, intuitive trading platforms. The company's dedication to innovation and client satisfaction has earned it recognition including Most Transparent Broker, Most Innovative Online Trading Platform, and Best Trading Conditions.