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10 Rules

TO BE A SUCCESSFUL CRYPTO TRADER

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TO BE A SUCCESSFUL CRYPTO TRADER

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About The Author

Ryan has over 17 years experience trading equities, futures and options. He was introduced to cryptocurrency in 2013 by a programmer friend and began mining and trading shortly thereafter. Though he read Prechter's Elliott Wave Principle in the early 2000's, he didn't make practical use of the theory until joining EWT in 2015. Today he melds his deep knowledge of the cryptocurrency market with Elliott Wave theory and Fibonacci Pinball.

To go beyond this eBook, you can join my live Cryptocurrency Trading room at Crypto.ElliottWaveTrader.net 100% free, no credit card required.

Introduction

I began my crypto trading career in 2012 after roughly 12 years in the normal markets. When I discovered the crypto market through the words of a programmer friend, it was hard to make sense of it. The sudden spikes and deep retraces seemed dangerous to trade. I chose crypto mining versus trading in the beginning and lost money doing that due to the cost of equipment and energy.

It wasn't until I learned how to do Elliott Wave Analysis with some proficiency, as a member of Elliott Wave Trader, that I developed the means of knowing where to enter and exit this wild asset class.

Now I'm the lead analyst of the cryptocurrency trading service at Elliott Wave Trader and I've left my workday corporate life to trade and analyze cryptos. After leading the service for a year, and trading cryptocurrency for over six years, now is a good time to share with my top ideas for trading this market.

10 Rules
TO BE A SUCCESSFUL CRYPTO TRADER

#1 Consider the crypto market to be just like any market....sort of.

I am often asked whether cryptos behave like other markets and whether one can trade them using the same techniques. Sometimes I find myself on the other end of emphatic disbelief that they behave normally. Questions include:

No one can time the crypto market, it is too unpredictable.

Does Elliott Wave really work on cryptos?

Cryptos don't have enough history for us to determine where they are going!

The biggest mistake new crypto traders and investors make when putting their hand to the crypto market is believing it somehow behaves uniquely from other markets. With the exception of its unique volatility as a class, this is a myth.

This means that technical trading systems and approaches to money management that are used in other markets apply in the crypto market as well. Of course, its volatility characteristics may force some adjustments to classic methods, but all methods need adjustment when applied to unfamiliar markets. And, because it is a sentiment-driven market like most exchange-based assets, I use the Elliott Wave Theory to structure all my trading in cryptos.

This means that if you are already a successful trader through the use of technical analysis, you can be successful here in this market. For reasons I describe later, fundamental analysis is a different animal for the cryptocurrency market, but technical trading methods apply.

If you have yet to develop knowledge in technical analysis, this is where you need to start. While I interweave what the Elliott Wave Theory offers the crypto trader, it behooves anyone trading in this space to dive deep in the work of technical analysis, from patterns to cycles, from indicators to price action.

If you are new to trading altogether, I suggest you start very small in cryptos. You might start with $500 or less, or however much money keeps you sleeping at night. You might also consider getting some trading experience in other markets given that crypto markets are uniquely volatile.

I know from my work as an analyst with subscribers that cryptos have pulled many into the market to trade with no experience, particularly millenials. This is a hard market to start trading without basic experience. If you are in this group, start small and learn basic skills before trading much money. Paper trading is always a good idea.

Also, if you are new this space, I offer a few documents for beginners on starting up, setting up accounts and security. They can be found on this **page** with the presentations for beginners on the right hand side.

#2 Embrace the unique volatility of cryptos.

By every measure, cryptocurrency is the most volatile exchange-based asset on the planet. Normally bitcoin exhibits 5 times the yearly volatility* of the most volatile asset among a list that includes the S&P 500, bonds, gold, oil and real estate. And, bitcoin is most often the least-volatile cryptocurrency.

Volatility is a gift to most traders. This volatility should preclude putting cryptos into a retirement account or a long-term account that focuses on dollar cost averaging and holding through thick and thin. Still, cryptocurrencies are great for short-term trading. If you are trading for the long-term as well, you need a method for when to pair for the inevitable deep corrections, or you need to keep positioning small until a deep correction where more can be added.

Some questions for you: Do you trade with futures and find managing margin difficult? Do you trade options or leveraged ETFs and struggle with decay? Did you know you can see similar price volatility with cryptos without margin or decay? This is something to consider.

Embracing volatility is more than just accepting and swimming willingly in such a volatile trade. Embracing volatility also means are you using best practices. Below, I talk about the importance of having a trade plan. Knowing where to enter, stop, and take profit are essential when you have an asset that can correct 70%-90% in value regularly over a few months, sometimes 10%-20% in a few days.

Embracing volatility means keeping your exposure minimal during times of euphoric sentiment. And, being ready to add to your holdings during times of very bearish sentiment as we talk about later.

If you are interested in trading cryptos but find you don't have the stomach for high volatility, I suggest you keep your allocation in cryptos small at all times, and expect you'll see 50% drops regularly as part of holding the asset long-term.

During my talks at the MoneyShow I have discovered that many long-term investors believe that somehow further adoption of this asset class will tame its wild ways. While that may be true someday, It is not likely true in the foreseeable future.

One year volatility of Bitcoin compared to various asset classes

Source: Woobull.com

#3 Understand the long-term potential.

Let's talk about the long-term by recapping how far bitcoin has come in a U.S. dollar basis. Prior to March 2010 it had no value. It was an experiment, a virtual asset with no dollar trade but was being sent by developers to each other.

In March 2010, the first exchanged opened, called BitcoinMarket.com and bitcoin began trading with a value of $0.003. The first physical purchase was for two pizzas on May 22, 2010 at 10,000BTC, a price of less than $.01.

But by February 2011, it had reached parity with the U.S. dollar. Speculative fervor began to take hold that year and it spiked to over $30 in July, and then crashed back to $2 by December, its first 90%+ correction. Yet bitcoin saw a price over $1200 by late 2013 before an 18-month correction brought it back to the $100s.

Through interpretation of circumstantial evidence via word on the Street, 2016-2017 were the years large banks began to enter bitcoin from their trading desks.

Even as Jamie Dimon was berating bitcoin in 2017, reports surfaced that Chase's European trading desks were accumulating. Businesses like Cumberland Mining also grew to serve institutions in the cryptocurrency trade because bitcoin retail crypto exchanges do not have the liquidity needed for larger institutions.

The year 2017 culminated with the start of bitcoin futures trading on the CME. While circumstantial, the reason futures exist is to help institutions hedge their position as needed. Those contracts are tradable by retailers, but not designed for them.

This trend seems to be continuing into 2018. Coinbase, an easy-to-use portal between the banking system and cryptos, has added Coinbase Custody, a service for larger institutions to hold crypto positions safely. And, the San Juan Mercantile Exchange will open in 2018, a crypto exchange designed for high-speed, high-frequency traders with $1M minimum account size.

Does this mean we should see price explosion in 2018?

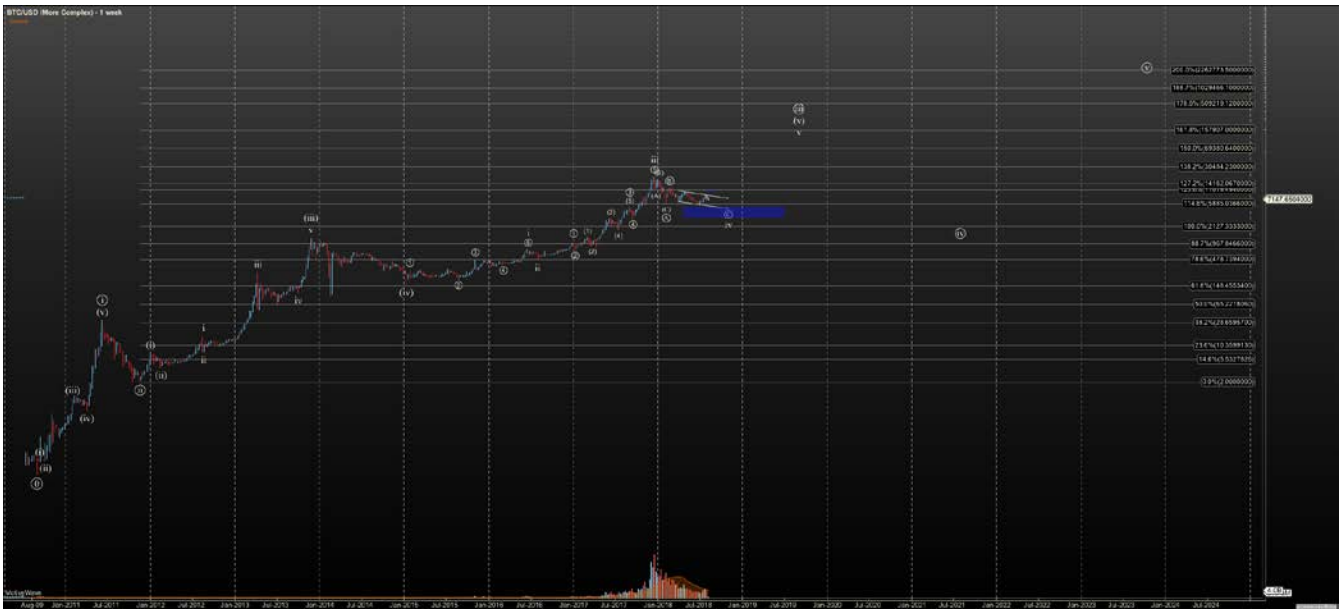
It would be expected that all of this buying by institutions should propel crypto prices higher. Actually, we have been mired in correction for over six months in 2018 and have seen bitcoin lose more than 75% of its value from peak to trough.

Through the lens of the Elliott Wave Theory I view markets as following a structure. While saying markets are predictable is a strong statement, the theory does tell us where markets are likely to turn, and how to adjust if the market doesn't follow our thesis.

Cryptocurrencies also follow the Elliott Wave pattern where trends or impulses are subdivided in three forward-moving impulsive waves: waves one, three and five. And, waves two and four are corrective of the trend.

Elliott Wave also teaches us that these waves have typical ratios to each other. For example, wave 3 is typically 1.618 of wave 1 in log.

If we apply Fibonacci ratios to bitcoin, we can learn a few things. As you can see below, the incredible return of bitcoin and other cryptos sets the tone for expected return in the future. Wave 1 in bitcoin had a low at .003 to $30.19 on some exchanges and wave 2 dropped to $2.19. If we project this out to the future, we see the potential that one day bitcoin can reach a price of $2.2M.



Currently we are simply stuck at one of the many corrections we can expect along the way through the long-term trend. And, the 75% draw down was also expected. As stated in my recorded talk in February at the TradersExpo New York, $3000 is long-term support before I have to adjust current projections

This zone is key according to Elliott Wave theory as we were above the 1.236 and 1.386 extension off the 2011 wave 2 bottom. We should expect to see $3000 hold in this correction and see a march toward $65000+ when the market is ready to bottom.

#4 Hold a core and trade around it.

Each trader and investor has a different skill level and bandwidth. How nimble a trader is, how much time she has to focus on trading, and how experienced are all factors that guide a person's trading success. This is no different for crypto traders.

Given that the number of successful day traders and scalpers is small, I suggest that most crypto investors think long-term. The challenge as a long-term investor is you naturally accept financial pressure during deep corrections. And, given that cryptocurrencies can drop 75%-90% within its long-term bull market, long-term crypto investors accept unique pressure.

Being purposeful about how much of your holdings will be in a long-term position, called your core, is important. A core holding prevents the less nimble from losing out on the long-term bull market while trying to trade more short-term. How much you dedicate to such a position should be shaped by the expectation of 75%-90% corrections.

Trading long-term also prevents a trader from being chopped up by the faster undulations that happen on a short-term chart but are made insignificant by the longer-term moves.

Trading around the core means you make selective short-term trades to reduce risk in the long-term portfolio. You could go as far as learning to trade short in an account where you are not holding your long-term position to hedge without putting your long-term position at risk. Trading around that core means that you would naturally reduce the position during euphoric rises in the market, and add during the intense drops.

You might also consider learning how to swing trade. Typically, we use the 1H and 2H charts to discern solid multi-week entries, both short and long. I don't suggest looking at a timeframe smaller than 1H unless you are a master short-term trader.

I have made several videos covering my approach to different timeframes. **Here** is one in particular that you can access on Elliott Wave Trader.

#5. Decide what to trade.

There are thousands of coins on the cryptocurrency market and hundreds are born each year. This makes the market very difficult to navigate. I can say from interacting with traders that there is a speculative fervor when this market is hot that chases new coins from projects trying to solve interesting technology problems. But most of those new projects prove more volatile.

///I suggest that new cryptotraders build a base portfolio in the 10-15 largest coins, ignoring Tether which is a dollar-backed coin. You can reference the top 10

After building a solid core portfolio in these coins, you can build a smaller, more speculative portfolio in the smaller coins that prove promising technically. My portfolio is roughly 75% large-cap and 25% small-cap with positions filtered according to the Elliott Wave Theory.

#6 View the fundamental picture as murky.

It is my belief that blockchain technology will continue to advance the internet as we know it, opening new use cases and new ways of transacting, enabled by the security and transaction layer offered by blockchain.

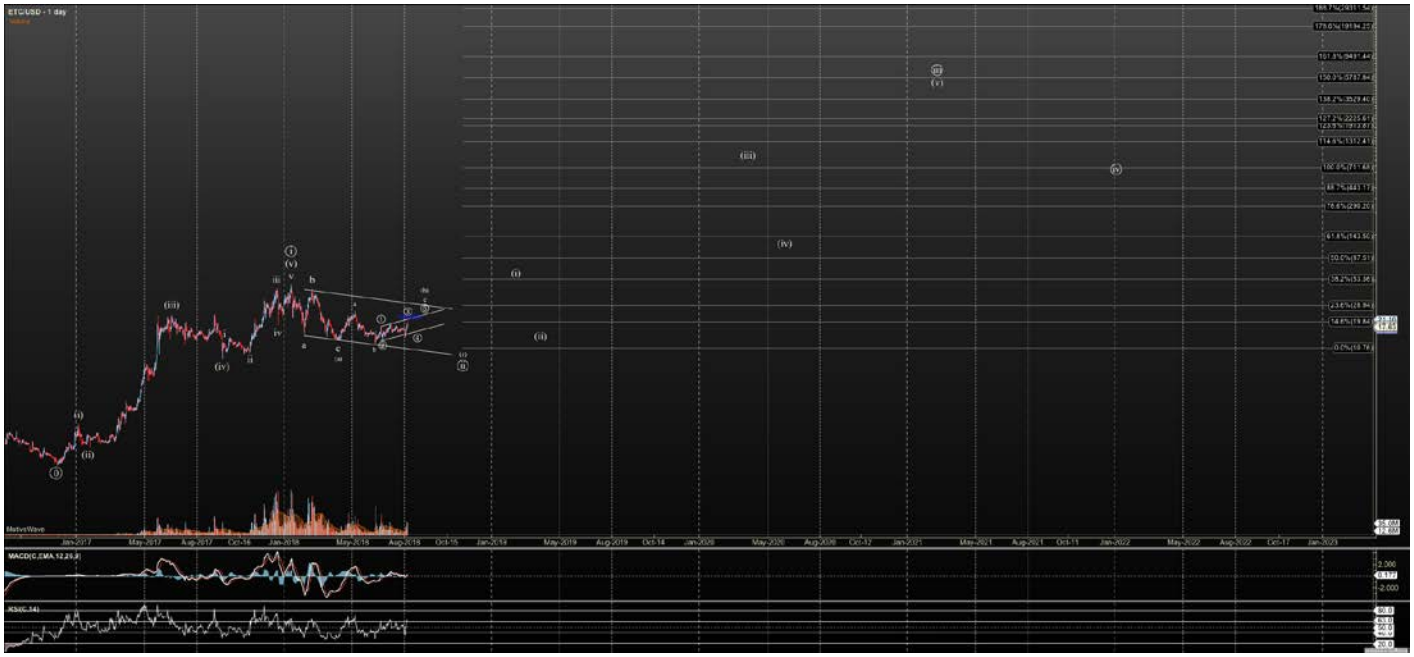
But this space is probably changing and advancing faster than e-commerce did in the early 2000s. Further, the core development of blockchain is not being done by companies with income statements and cash flow, but rather by communities of open source developers whose reward is an increase in the value of the coin itself.

All this makes blockchain important and lasting, but not easy to pin down if you evaluate your investments based on fundamentals. This is one reason of many why I rely solely on the charts to choose what to trade. Seeking a long view of the projections you invest in is not wrong, of course, but I suggest at least accompanying that view with a technical view of the charts.

Further, all coins are open source software, meaning they are created by groups of developers who often have loose relationships to each other. I have seen coins left for dead, only to be picked up by a new team of developers.

Ethereum Classic was one such coin. The Dao hack resulted in $50 million in Ethereum being stolen from those who participated in the Dao token. Ethereum was forced to roll back the blockchain and give back those funds.

But a new coin, Ethereum Classic resulted which has the hacked chain intact. Ethereum Classic languished in the $3 region for some time. I told some of my co-members at the time, it was developing a bullish projection and I went long. Eventually it topped around $49. But it wasn't until the $17-$20 region that it was apparent a new team had taken over and was developing it. That shows one example of how bullish technicals and specifically Elliott Wave suggested a bullish outcome before the fundamentals were clear



Because I can't track all the comings and goings of the blockchain development community, I rely heavily on charts. Often improving price action in a chart can offer the suggestion that something is happening. I simply move support up which price while any trades are active and let the trade run as long as the chart is bullish.

#7 Be mindful of the changing regulatory environment.

Trading in the stock market is trading in a stable and mature regulatory and exchange environment. This is not true in cryptocurrency. The U.S. has been very fair to crypto traders, choosing to roll out regulation slowly, and focus on fraud and coins that have been deemed unregistered securities. Regulation is still developing. And, we don't know exactly how it will change in the future.

Currently, as measured in bitcoin, Bitflyer, based in Japan, is the largest volume exchange.

Binance, based in Malta, is the largest exchange for small-cap coins. But these are new leaders that didn't exist a few years ago. We can expect the hot exchange to be a different player in the future and this tends to occur much faster than stock brokerage account exchange market leadership.

The strongest regulatory thrust in the U.S. has been from the SEC watching for unregulated securities. Whether a coin is deemed a security or a so-called utility token which remains unregulated, depends on interpretation of investment law dating to the 1930s and 1940s.

Bitcoin and Ethereum are deemed commodities or utility coins by the SEC. But some ICOs (Initial Coin Offerings) running on the Ethereum blockchain were deemed securities which resulted in legal action against the selling organizations. And some ICOs have prevented purchase by Americans to avoid regulatory involvement.

Expect the regulatory environment to continue to evolve. So far, I see no threat of banning cryptocurrency trading in the U.S. In fact, with the adding of bitcoin futures at the CBOE and CME, overall the U.S. regulatory environment seems to further cryptocurrency as a tradable asset that needs fair regulation.

One technology to watch evolve is the decentralized exchange. This is one where the trader trades directly from his own wallet, keeping custody of all funds. This means that while the user can be compromised, a hack will not result in the loss of funds because the private keys are in the control of the trader.

Currently active decentralized exchanges are EtherDelta, BitShares, IDEX, to name a few. I have traded on all of these. Liquidity is still too low to consider one the main trading venue, but I expect that to grow.

#8 Plan your trade. Mark support and internalize your risk.

Before entering any trade, you should have a plan. You should have a point where you plan to take profit, and a point where you are going to stop out. Working without such a plan is a plan to lose money. Given the extreme volatility of cryptocurrency internalizing risk involved in each trade or investment, can you stomach that risk before taking the trade? Can you absorb that risk financially? Don't take it if you can't.

When planning where to take profit, you should have a decent risk to reward in the trade. My preference is to have roughly 3 to 1 R:R in my crypto trades. For example, I may risk 30% to gain 100% on a long-term trade, with cash to add to the position, or I may risk 5% to gain 15% on a short-term trade.

The analysts on Elliott Wave Trader and I use Elliott Wave based supports and projected targets to plan our trades and teach members how to do so. The theory combined with Fibonacci Pinball that Avi Gilburt developed gives us very accurate levels to stop out and take profit. But you could also use any myriad of technical systems to plan a trade such as trendlines and averages.

Given the volatile nature of crypto currency this is a must. I've seen many traders use conditional stops and targets in their trading. An example might be, when bearish divergence shows in the MACD I will take profit. Or, when RSI becomes oversold, I'll take profit.

The issue I have with these ways of decision making is they don't offer a predefined price-based risk and reward for a trade and are subjective to interpretation while under pressure. Hard price levels are objective.

Making a calculation of risk to reward in trading can give you a big edge over time. For example, if trades you take have three times the risk to reward you can rarely be correct directionally, even stopping out at a loss on most of your trades, and still make a return over time. Few traders internalize that fact.

Learn a system the provides objective price levels from which to plan your trade and you'll manage the volatility in cryptos well. Over time such a practice will keep you out of trades that have small gain. Of course, I am proposing Elliott Wave as such a method but there are others, based on pivots or chart patterns.

#9 Save cash for extreme sentiment.

This pointer is not unique to crypto trading but bears emphasis. Bottoms in markets are marked with extreme bearish sentiment and bad news. This causes the unaware to jump from the market to save further pain, while smart money smells such sentiment like a shark smells blood. Be a shark, not its prey.

In order to participate in such sentiment, I suggest having an outlay of cash that you consider untouchable until sentiment is extreme. Even when sentiment seems bad it is a good idea to deploy such cash slowly. Often sentiment goes south on a rolling basis and slowly crescendos. With the volatility we see in cryptos, sometimes we see another 30-50% drop after the first signs of bearish sentiment.

Twitter is a good tool for assessing sentiment in cryptocurrency trading. Many traders use Twitter to get a read on cryptos, sometimes following crypto pump schemes. Inevitably when sentiment is very sour it comes out among the crypto traders on Twitter.

Elliott Wave allows us to pinpoint areas where we expect sentiment to be extreme. So far, we've seen a cycle of such extreme roughly over six months. Currently we've seeing the longest correction since 2014. We have pinpointed the $3000-$4700 region as key for the long-term and expect a bearish crescendo to happen in that area, before the next rally commences.

Recently we saw a quote put out by Goldman Sachs Investment Strategy Group which said that cryptocurrency prices will never come back to previous levels. While this in of itself is not the sign of the bottom, this is the sort of news releases one sees at or near bottoms, whether the ultimate end of a correction, or a tradable bottom.

Do you dedicate your investment dollars to the whim of the crowd, or do you use sentiment to counterplay it?

Having an outlay of cash available to make use of those times is an essential part of any trader's arsenal in my opinion.

#10 Save yourself a headache during tax time.

I hope that this e-book helps you along the way to a profitable journey in crypto trading and investing. However, if true, you'll owe the tax collector his share.

Many would-be and current crypto traders have suggested to me that crypto is a tax shelter because the Feds cannot see the trades. I suggest that you not let this thought cross your mind. The IRS has systematically gained access to banking and exchange records to ensure they know who is making money in cryptos.

I find the biggest headache I have as a crypto trader is dealing with taxes. The cause of this headache is that exchanges have not yet matured to the point where they offer accurate profit and loss statements in a U.S. dollar basis. So, the crypto traders have some options currently:

1.Track every trade.

Of course, if you track every trade you make, say in a spreadsheet, you solve the problem. The challenge in this is you need to track it in U.S. dollar basis even if the trade is not a USD pair. For example, if you sell verge for bitcoin (XVG/BTC pair) you'll need the USD cost of those pairs for the entry and exit transaction.

2. Use online software.

There are online software solutions to solve this problem. Here are a few links to consider, but new sites are cropping up regularly:

https://www.cryptotrader.tax/

https://cointracking.info/

https://bitcoin.tax/

For 2017 I used Cointracking.info. But these solutions are not without problems. First, you need to be techy. The easiest way to get your information to these software sites is through API. These involves giving the site access to your account. You can lock it out of trading and withdrawals for security, limiting access to transaction reads only. Inevitably I ran into some transactions that were not reading so I had to load CSVs into the sites.

3. Liquidate yearly.

One solution is to close your entire portfolio December 31 to US dollars. Honestly, the reward of crypto trading is high enough and tax season enough of a pain for me to consider this option in 2018.

4. Elect Mark to Market.

I am not a tax advisor but this may be an easy way to track taxable gains by recording the value at year-end. But I know there are very particular requirements to report Mark to Market so please consult your tax advisor regarding this option.

Also, I personally keep few banking channels. In general, it seems that keeping limited banking channels, those channels where you exchange fiat to crypto is smart to keep record keeping simple. I have my channels limited to two.

Conclusion

In conclusion, crypto trading is very rewarding financially. Those with basic skills in trading can be quite successful. I came into the crypto market with more than a decade of trading experience before trading it heavily. If you are coming in without those skills, building those skills is where to start. You can paper trade cryptos, trade other markets, or just start very small so you don't lose much while learning.

If you're coming into this market as an experienced trader, I've laid out the particular concerns with this market: the unique volatility, the tax concerns, shifting regulation, and difficulty in discerning fundamentals. If you can navigate those issues you should do quite well.

Epilogue: Security and Exchanges

In the e-book I wrote in the beginning of the year for MoneyShow, I provided much detail about the exchange environment and security. I wanted to give a few updates as we close. While none of this should be construed as endorsement, these are reflections on my trading experience.

First, of note is that Coinbase is greatly expanding its services and its banking license. It's one the easiest to use exchanges for those new to cryptocurrency. They are now expanding their services and platforms to contain more assets.

Binance, now based in Malta, has grown into one of the most widely used alt exchanges in the space. Alt coins is the nickname for coins that are not bitcoin. They have a wide range of assets to trade and have proven themselves in the space. You can send coins from Coinbase to Binance easily.

Bittrex, an exchange I use, is now adding U.S. Dollar fiat and banking access for customers in some states. This makes it easier and faster to exit the crypto market when the market becomes difficult.

All of these companies/sites should be explored as exchanges if you are interested in trading cryptos.

And, as you grow more advanced, I suggest exploring decentralized exchanges or DEX. These are exchanges where you keep custody of your funds through holding your private keys. While complicated for those who are new, this is generally the safest way to keep away from security breaches.

Bitshares.org is a decentralized exchange. And Coinbase plans to set one up. Videos on how to Bitshares are readily available online.

Regarding security, most hacks today are the result of user compromise. The security on most exchanges has stepped up quite a bit. In fact, so far, the Binance team has shown themselves to be one of the most aggressive on security, recently trapping a group of hackers in the act, and trapping their funds on the exchange.

Still, a user can still be the source of compromise.

10 Rules
TO BE A SUCCESSFUL CRYPTO TRADER

Here are some quick rules:

1. Keep your computer clean of virus, avoiding certain sites which may infect your computer.
2. Always use a non-public email for your trading account access to avoid phishing.
3. Never click a link to an exchange from an email. Always bookmark the site so you don't search or Google it.
4. New: Download the Metacert extension for the Chrome browser which provides a green shield in the upper right corner of Chrome when a crypto site is legitimate.
5. Always use two-factor authentication on your accounts.

Note that phishing and scams have grown exponentially. Go to the tweets of any crypto celebrity and you'll find fake accounts in the replies offering free Ether. These are scams to be avoided meant to separate you from your funds.

Act secure and your funds will stay safe.

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