

How to Trade **Bitcoin**



AN INTRODUCTION TO CRYPTOCURRENCY TRADING
A FOREX.com educational guide

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Introduction

Since its inception in 2009, Bitcoin has become one of the most popular cryptocurrencies. It is a digitally-encrypted, decentralized currency with unique characteristics that make it an unorthodox market, causing a lot of volatility in its price. Traders look to that volatility to find short-term trading opportunities, speculating on possible spikes and falls.

In this guide, we'll introduce you to the world of Bitcoin trading. We will cover ways to:

- Keep you focused on your long-term trading objectives
- Play to the strengths of your trading type
- Aid you in your risk management
- Minimize emotional decisions
- Provide you with clear strategies
- Measure your success

After familiarizing yourself with Bitcoin, try trading it yourself risk free with a [FOREX.com demo account](#).



What is a Cryptocurrency?

A cryptocurrency is a **digitally-encrypted, decentralized currency that is not connected to nor controlled by any government or central bank**, unlike traditional currencies such as the US dollar (issued by the Federal Reserve), euro (European Central Bank), or Japanese yen (Bank of Japan), among many others.

Like these traditional currencies, cryptocurrencies generally fill two primary roles:

- Payment systems for goods and services
- Speculative instruments for trading and investing



POPULAR CRYPTOCURRENCIES:

BITCOIN

Since its inception in 2009, Bitcoin has grown rapidly in prominence as the world's first and most popular cryptocurrency.

LITECOIN

Launched in 2011, Litecoin is used primarily as a payment transaction cryptocurrency that has been called "silver to Bitcoin's gold."

ETHEREUM

Released in 2015, Ethereum has rapidly gained popularity on the heels of Bitcoin, and currently has a market capitalization second only to Bitcoin among cryptocurrencies.

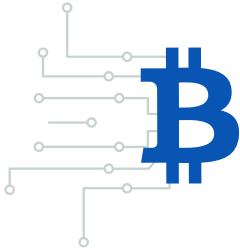
RIPPLE

Created in 2012, Ripple differs from Bitcoin in that it does not require mining to create the cryptocurrency.

DASH

Launched in 2014, Dash, or Digital Cash, was initially known as "Darkcoin," and is unique in that it is considered a highly anonymous and secretive cryptocurrency that specializes in virtually untraceable transactions.

How Bitcoin Works



As the world's first and most popular cryptocurrency, Bitcoin eclipses all others when it comes to public usage and recognition, market capitalization, and trading volume. The payment aspect of Bitcoin has continued to grow at a brisk pace since its 2009 inception, as both individuals and institutions have increasingly come to view the cryptocurrency as an accepted method for executing payment transactions.

BITCOIN PIONEERED THE CRYPTOCURRENCY SPACE, AND FOR NOW REMAINS THE STANDARD BY WHICH OTHERS ARE MEASURED.

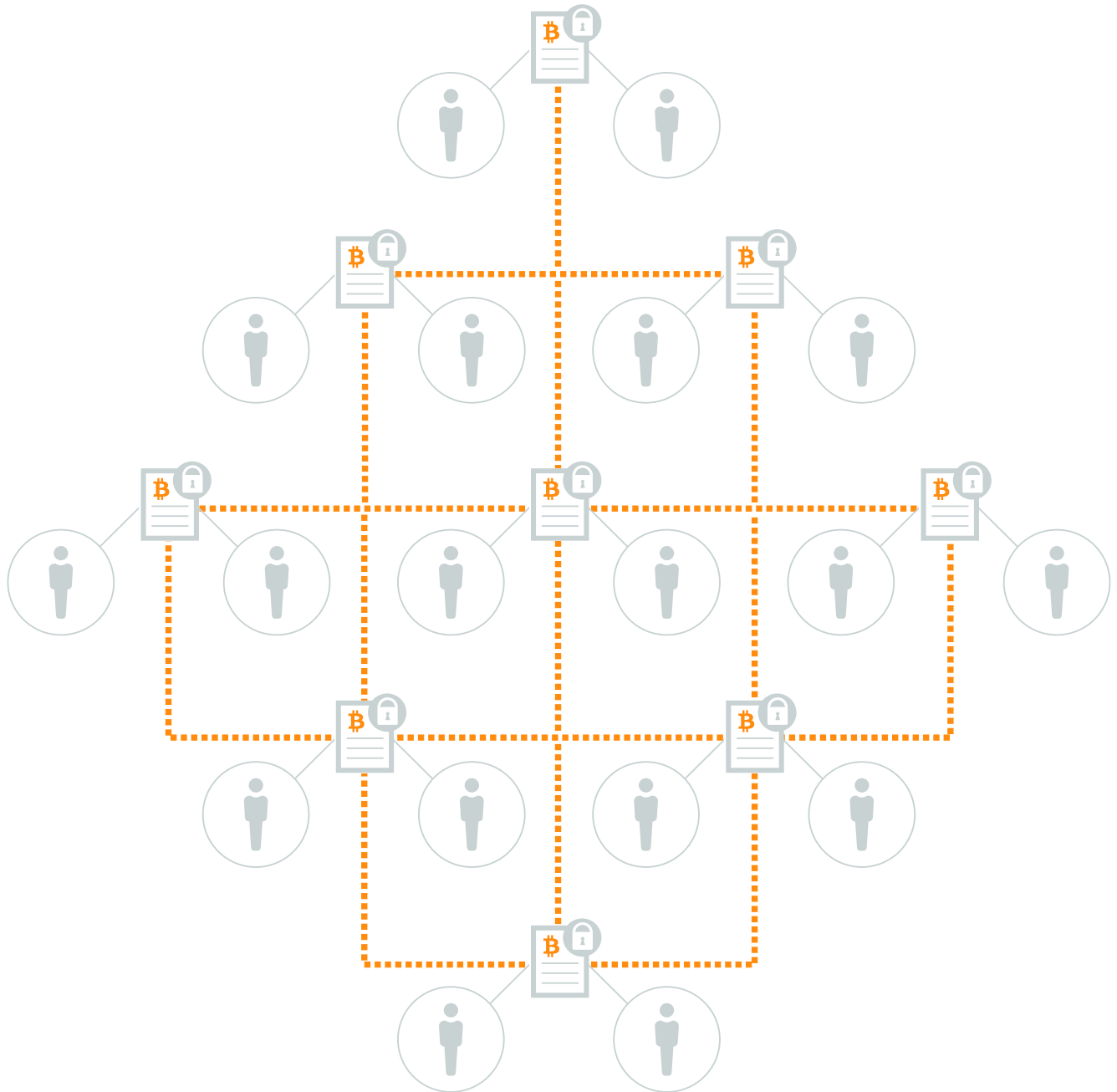
As a decentralized currency that is entirely digital and disconnected from any government or central bank, Bitcoin has several key characteristics:

Bitcoin utilizes a worldwide network of encrypted peer-to-peer transactions that are verified and securely recorded in a “blockchain,” which is a digital public transaction ledger devoid of any central authority. All confirmed and verified Bitcoin transactions are included in this blockchain.

Bitcoins are created through a process called “mining,” which uses computer processing capacity to form units of the cryptocurrency. In order to add new Bitcoins into the global network, miners must follow strict cryptographic rules specified by the system.

Digital “wallets” are used to store Bitcoin credentials for each user and enable users to store, transfer, and spend their currency, at which point these transactions are recorded in the blockchain. Bitcoin wallets use secured “private keys,” which are used to sign and provide proof of transactions.

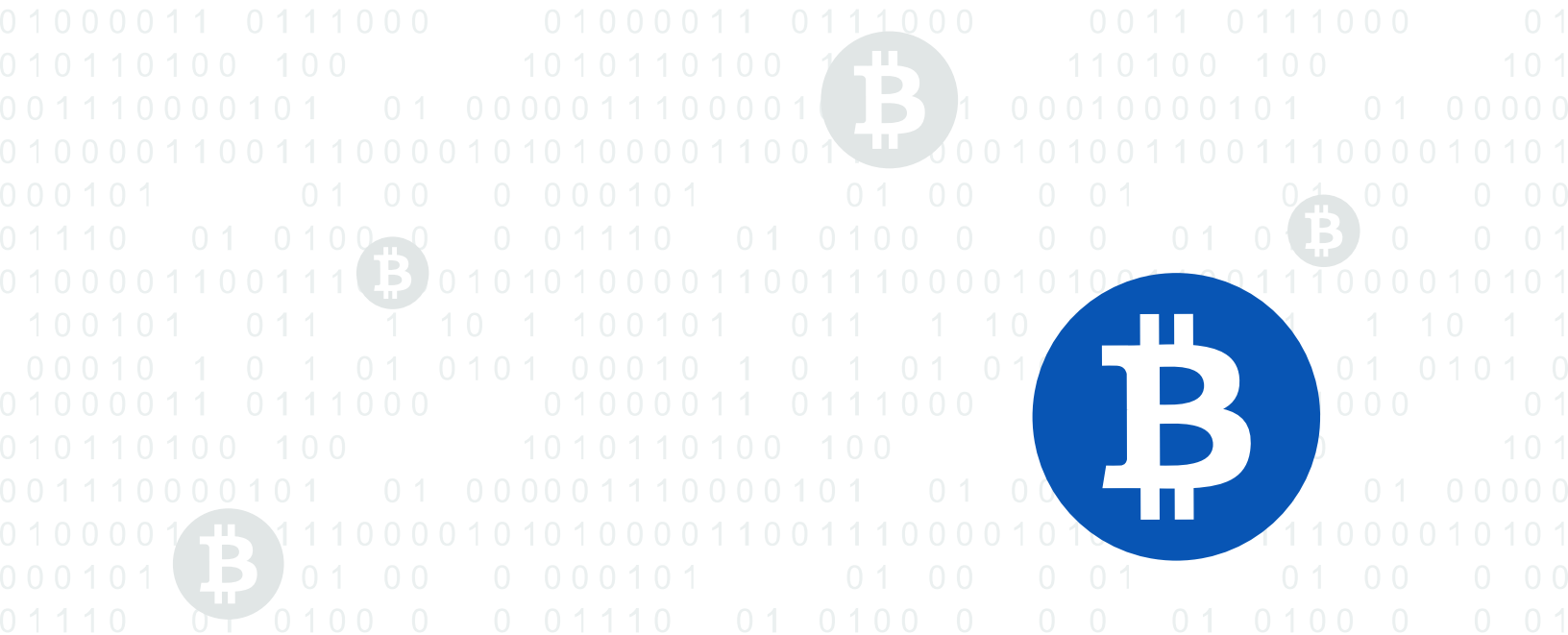
BITCOIN UTILIZES A WORLDWIDE NETWORK OF ENCRYPTED PEER-TO-PEER TRANSACTIONS THAT ARE VERIFIED AND SECURELY RECORDED IN A “BLOCKCHAIN,” WHICH IS A DIGITAL PUBLIC TRANSACTION LEDGER DEVOID OF ANY CENTRAL AUTHORITY.



But the most rapid growth for Bitcoin has developed in its use as a **globally traded financial asset**. Bitcoin's unprecedented appreciation in value over the relatively short period of its history, especially in recent months, has been responsible for generating profits for many early adopters of the cryptocurrency.

Trading of virtual currencies, including Bitcoin, involves a high level of risk and may not be suitable for all investors. [NFA Investor Advisory—Futures on Virtual Currencies Including Bitcoin](#)

FOREX.com UK customers can hold long or short positions on bitcoin with our advanced trading platform.



Trading vs. Owning Bitcoin

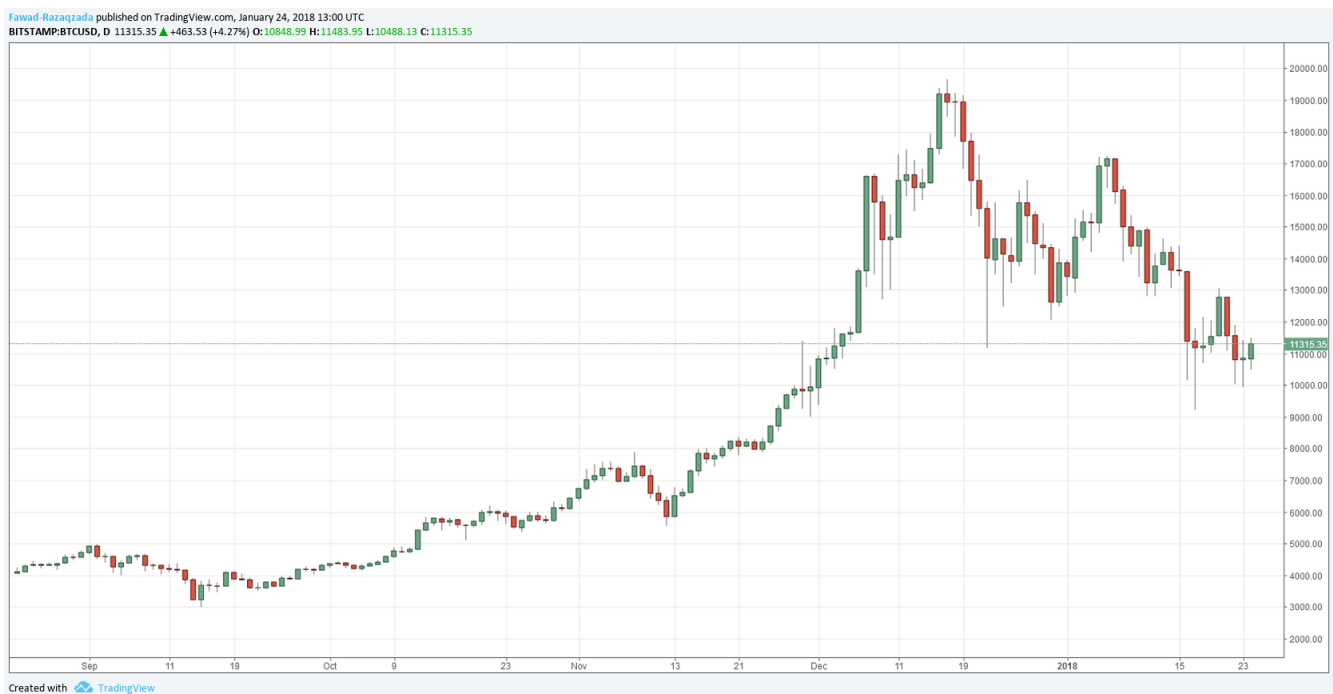
You may be interested to learn the key differences of trading versus owning Bitcoin.

Here are some of the key differences:

Trade Bitcoin	VS	Own Bitcoin
Speculate on Bitcoin's price movement without having to take ownership		Buy and own Bitcoins outright
Trade long or short		Long only
Nimbly trade volatile price swings in either direction		Buy, hold, or close long positions only
Use any short-term or long-term trading strategy.		Long-term buy-and-hold only
Utilize margin and leverage to make maximum use of account equity		Full value of Bitcoin purchase required up front
Employ entry orders, stop losses, profit-limit orders, and all risk management techniques		Manually buy or close long positions only

BITCOIN TRADING

Perhaps the most significant difference between trading Bitcoin and purchasing it is that when trading you can be either long or short at any given time depending on your outlook. If you buy Bitcoin outright, you obviously can only be long, and will usually just be compelled to hold through all of the volatile ups and downs in Bitcoin's price.



“ Traders will attempt to take advantage of all the potential opportunities of Bitcoin's volatility.

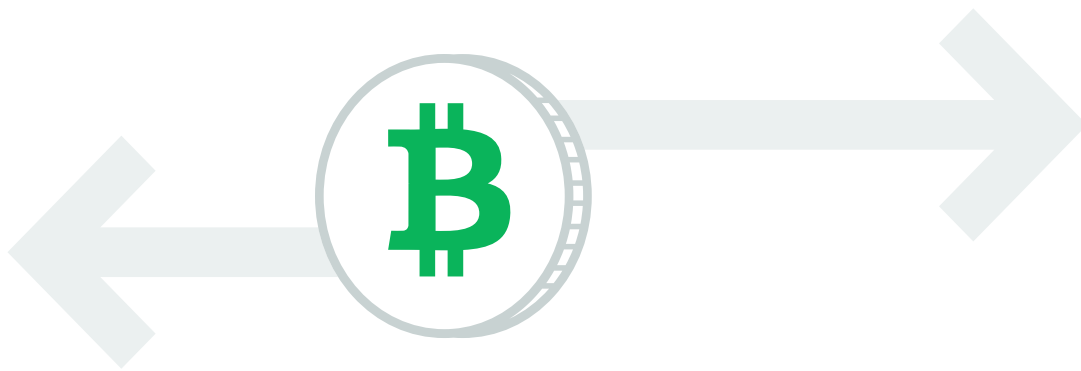
Bitcoin analysts are divided as to whether the cryptocurrency will continue to shoot up in value or if it will drop sharply instead. As a Bitcoin trader, you can nimbly position yourself in either direction and take directional trading opportunities as they arise.

Relatedly, when you trade Bitcoin you can trade the price swings on a short-term basis instead of purchasing Bitcoin at a certain price and holding long-term, hoping for further price appreciation.

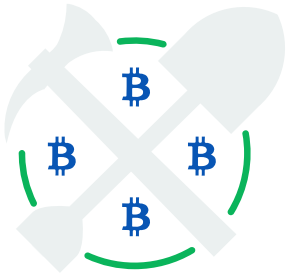
Margin and leverage are another way trading

Bitcoin can be more flexible than buying it outright. Depending on the price of each Bitcoin at any given time, owning just one Bitcoin could be prohibitively expensive. Trading Bitcoin with leverage allows you to take a position with less capital but remember, increased leverage increases your risk.

Finally, trading Bitcoin actively allows the use of entry orders, stop losses, profit-limit orders, and risk management techniques that are just not possible when simply purchasing Bitcoins.



Trading Bitcoin



The original purpose of Bitcoin was to serve as a digitally-encrypted currency that could be used as payment for goods and services without being under the scrutiny of any government or central bank.

But Bitcoin has gone well beyond its original purpose to where it can now be traded as a speculative financial instrument in as simple and straightforward a manner as trading any traditional currency.

The creator of Bitcoin designed the cryptocurrency to be capped at a total mined quantity of 21 million Bitcoins, in perpetuity. Currently, that hard limit has not yet been reached, but around 80% of the total Bitcoin capacity has already been mined as of late 2017.



One important aspect of Bitcoin that sets it apart from more traditional currencies is the fact that there is a limited supply.

BTC/USD (Bitcoin vs US dollar)

Weekly Chart (2015-2017)



Charts by TradingView

This characteristic and perception of scarcity have helped lead to Bitcoin's massive rise in value since inception, particularly within the past year, as traders and investors have rushed to take part in buying and selling the cryptocurrency.

While actual Bitcoins can certainly be bought and held, there are some major advantages to trading Bitcoin as a financial instrument rather than simply buying and owning the cryptocurrency. Some of these advantages include:

- Immediate exposure to Bitcoin price movements with the ability to trade long or short, without having to hold the underlying Bitcoins
- Easily execute both short-term and long-term trading strategies, or hedge any existing Bitcoin holdings
- Use margin and leverage to control Bitcoin positions, allowing efficient use of account equity
- Employ stop losses, profit limit orders, and other trade management techniques on Bitcoin positions that are just not possible when simply holding Bitcoins

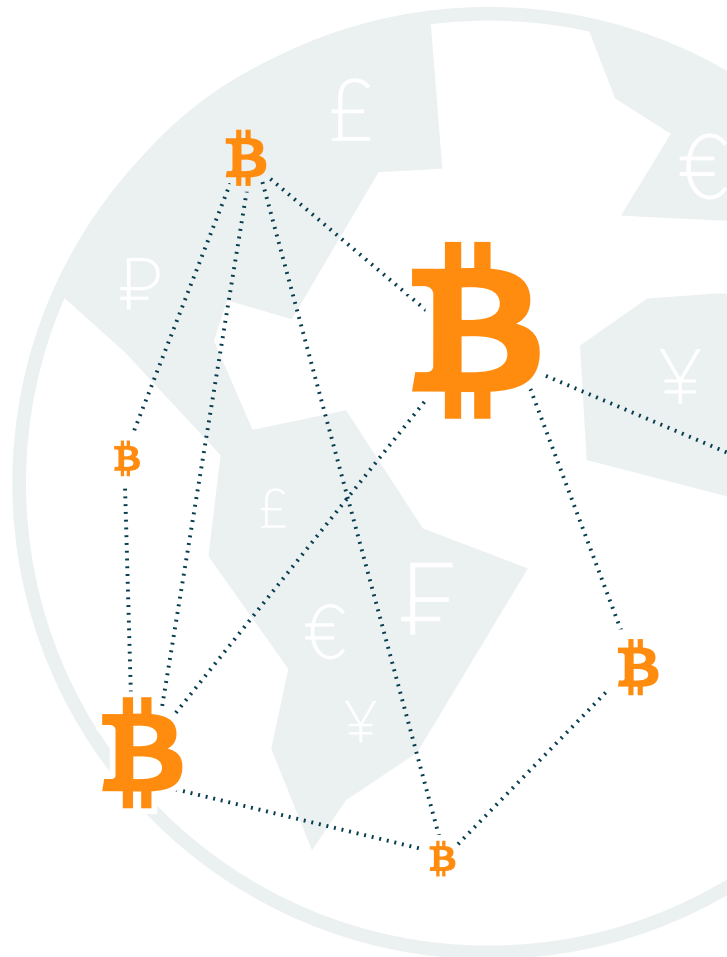
Bitcoin Correlations

Knowledge and experience are key elements in successfully trading any financial market. Part of having a solid base of trading knowledge lies in knowing how markets generally relate with and react against each other. Intermarket analysis is the study of price correlations among different markets and how market prices may or may not be impacted as a result.

When trading Bitcoin, traders have discovered that its fundamental correlations with other global financial assets have tended to shift over time and are usually not nearly as robust as other, more established correlations. Bitcoin provides a potential opportunity to diversify trading and investment strategy.

For example, the strong inverse relationship between the US dollar and gold is both well-documented and reliable. The same generally cannot be said of the current correlation between Bitcoin and gold, or that of Bitcoin and any traditional currency like the US dollar, euro, or yen.

But perhaps it is precisely Bitcoin's characteristic of low correlation with other markets that further boosts its appeal as a tradable asset. As most markets currently available for trading are correlated in some way or another with other markets, the emergence of a relatively uncorrelated asset like Bitcoin provides a potential opportunity to diversify trading and investment strategy.



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It's Your World. Trade It.

The trading of virtual currencies, including Bitcoin, involves a high level of risk and may not be suitable for all investors. Virtual currencies experience significant price volatility, and fluctuations in the underlying virtual currency's value between the time a trade is placed for a virtual currency futures contract and the time liquidation is attempted will affect the value of the futures contract and the potential profit and losses related to it. You are advised to be very cautious and closely monitor any investment you make. For more information, please visit the NFA's investor advisory 'Futures on Virtual Currencies Including Bitcoin'.

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