

BITCOIN & CRYPTOCURRENCIES TRADING

Blockchain, bitcoin, altcoins & trading des
crypto-monnaies, cela vous parle ?



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BITCOIN ORIGINS

- 1st globally-accepted, digital and fully decentralized money
- Non-sovereign, accessible, and global payment mechanism
- A culmination of various cypherpunk projects starting decades in the past:
 - eCash/Digicash, David Chaum, 1983, blind signatures
 - **B-money**, Wei Dai, 1998, distributed ledgers, public/private keys, proof-of-stake, smart contracts
 - Hashcash, Adam Back, 1997, proof-of-work
 - **Bit Gold**, Nick Szabo, 2005, proof-of-work, chain of hashes

THE PROTOCOL

- Satoshi Nakamoto is credited for designing a working protocol that allows unrelated participants to transact in a trustless manner
- **Blockchain** (or distributed ledger) is a database of transactions replicated and shared over a network of nodes (computers). This database has a complete record of all transactions (organized in **blocks**).
- Each block contains metadata of the preceding block which allows to detect and reject attempts to alter historical records (SHA-256 hashing algorithm).
- **Miners** confirm transactions in the process and are rewarded with newly minted bitcoin and transaction fees. Process of mining involves an expenditure of computing power to create valid proof-of-work.

THE PROTOCOL

- The bitcoin protocol decentralizes the transaction validation process to nodes dispersed across peers,
- enabling users to reliably access a trustless network without relying on a centralized third party,
- transact cheaply and securely.

KEY EVENTS

- 2008** launch of bitcoin
- 2010** launch of the first bitcoin exchange (BitcoinMarket)
- 2011** emergence of first cryptocurrencies (Namecoin Swiftcoin, Litecoin)
- 2012** 1st halving (block reward from 50 to 25 bitcoins)
- 2013** China bans its banks from handling bitcoin-related transactions
- 2016** 2nd halving (block reward from 25 to 12,5 bitcoins)
- 2017** CME Group launches futures trading (cash-settled)

KEY EVENTS

- 2018** 80% of total bitcoins mined (16M of total 21M)
- 2018** U. S. SEC Chairman declares bitcoin is not a security
- 2019** launch of Bakkt (first physically-settled futures trading)
- 2020** 3rd halving (block reward from 12,5 to 6,25 bitcoins)

TRADING (*)

(*) This presentation was written for educational purposes and does not constitute financial advice.

BITCOIN HISTORICAL CHART



BITCOIN: 2 ENVIRONMENTS

- **TRENDING**
 - Series of higher highs and higher lows (Bull market).
 - Trend is your friend (Fading the trend is contrarian play and is risky).
 - Volume must confirm the trend.
- **RANGING**
 - The market, just like an auction, is seeking to find a balance between buyers and sellers, and the fair value of goods and assets.
 - Sleeping asset is an asset that fills up with energy.

BITCOIN: 3 TYPES OF TRADERS

- Low timeframe participants: High frequency, scalpers (5', more interested in technical levels without much consideration to the big picture)
- Mid-timeframe participants: Intraday, Swing & Longer duration players (4h, with more consideration to the bigger picture)
- High timeframe players: Position traders, Investors, longer term swing traders (1D, might scale into the market over a large span of time, likely where whales fall into)

PILLARS OF A SUCCESSFUL TRADING SYSTEM

- **Risk management:** worst case loss you are willing to take for the trade (in general, 1% of portfolio)
- **Position sizing:** the most important, how to calculate the position you take

$$A/C \text{ risk} / \text{Trade risk} = 1\% / 2\% = 0,5 \text{ bitcoin}$$

- **Positive expectancy (average of R-Multiples):** the way we express trading results
 $R\text{-Multiple} = \text{Return} / \text{Risk} = 5\% / 2\% = 2,5$
Successful traders have Expectancy of min 2.

DOMINATION OF DERIVATIVES EXCHANGES

- Bitcoin is a micro-asset, non-efficient and illiquid Market
- Playground for institutional traders (heavy hands, smart money)
- BitMEX, OKEx, Huobi,.. (up to 100x leverage, absence of KYC, non regulated) lead the price
- Flagship product is a perpetual future contract with a funding mechanism (+ or -) to tether to spot price.

FOMO & BITCOIN NARRATIVE

- Fear-Of-Missing-Out: market generally punishes those who are late to the party
- FOMO investors finish the Momentum (at their expense)
- Traditional medias: when they talk about it, it's already late.
- Popular narratives: Bitcoin is safe-heaven, new digital gold, freedom from mainstream finance, Bitcoin at 250k USD, etc,

MEASURE BITCOIN SENTIMENT: SEARCH FOR EXTREME EMOTIONS

Identify how investors feel about future prices:

- Third party websites (Fear & Greed Index, Social Index)
- Crypto Twitter (pools, data script)
- Market generated information (futures trading at discount/premium, implied volatility, funding rate)

« You should be greedy when others are fearful. »

ALTCOINS: TOP ALTS BY MARKET CAPITALISATION

Ethereum

Tether

Ripple

Bitcoin Cash

Zcash



Litecoin

Binance Coin

EOS

Tezos

Chainlink



JPMORGAN AND INSTITUTIONAL PLAYERS

- The past few months saw the first real stress test for the cryptocurrency market
- Bitcoin rarely deviated from the cost of production, outperformed other more traditional asset classes on a volatility-adjusted basis
- Rather than a store of value, cryptocurrencies have traded more like risky assets like equities—a significant change relative to the prior couple of years
- That cryptocurrencies largely survived the stresses of March point to longevity as an asset class, but price action points to their continued use more as a vehicle for speculation than medium of exchange or store of value (~2- 5% of daily transaction volume of Bitcoin payments went to services)
- Renaissance Technologies involved in trading, Paul Tudor Jones (« hedge against inflation »)

EXAMPLE OF A TRADING SYSTEM: HAVING AN EDGE

- Market structure & Price action
- Footprint chart data (CVD Divergences)
- Volume profile
- Funding rate & Open Interest