CRYPTOCURRENCY TRADING

By Hermes Research Labs

2025. Second Edition

As the world of cryptocurrency continues to evolve at a rapid pace, the potential for profit is immense. In this guide, we aim to equip you with the essential knowledge and strategies to navigate this exciting yet volatile market.

One of the key principles we emphasize is that the **quality of information** you gather about trading is far more important than the sheer quantity. In a landscape flooded with data, discerning valuable insights from noise is crucial for making informed decisions.

This guide is designed to provide you with high-quality, actionable information that can help you develop a successful trading strategy.

Moreover, we understand that the crypto market is dynamic, which is why this guide will be **continuously updated**. As new trends emerge and regulations change, we will add relevant information and remove outdated content to ensure you always have access to the most current insights.

Your journey in crypto trading will be supported by a resource that evolves alongside the market.

Lastly, we cannot stress enough the importance of **doing your own research**. While this guide serves as a valuable starting point, the responsibility of making informed trading decisions ultimately lies with you.

Learning how to effectively use search engines and other resources will empower you to deepen your understanding and stay ahead in the crypto trading game.

Get ready to dive into the world of cryptocurrency trading, armed with the knowledge and tools you need to succeed!

The Cryptocurrency Market

The unprecedented mainstream acceptance of cryptocurrencies has led to a burgeoning cryptocurrency trading market with various participants.

The most dominant ones are crypto traders and investors. Although both traders and investors employ different crypto trading strategies, their endgame is the same – profit from the cryptocurrency market.

Navigating the world of cryptos can be very daunting due to vast usage of computing jargon and technical concepts that will almost certainly confuse you.

Add to that the relative infancy of the technology, it can be hard finding structured resources to assist you in your journey.

If It Works So Well, Why Share It?

You may ask why we’re teaching these profitable trading secrets to other crypto traders?

We are publishing this simple trading guide because we approach cryptocurrency trading from a different angle than anyone else in the game.

There is plenty of abundance for all of us. Your success does not limit ours - in fact, just the opposite is true. The more people we help, the more we benefit.

Importance of Performing Your Own Analysis

For traditional investments such as stocks, fundamental analysis entails evaluating the financial health and viability of a company according to its financial statements.

If the numbers look good, we can be confident that the company has good fundamentals and we can therefore invest in it.

Performing fundamental analysis for cryptocurrencies however, is radically different since there are no financial statements. Why?

Because:

1) Cryptocurrencies are not corporations, but rather representations of value or assets within a network. Its viability is not based on generating a revenue, but rather directly depends on the participation of the community (users, miners and developers). Each cryptocurrency is a manifestation of the different applications of Blockchain technology, and are usually decentralized;

2) The crypto space is in its infancy stages, and almost all of the cryptocurrencies are in development stages. Which means that there are limited uses cases in the real world currently and therefore, a lack of track record to show for. Thus, fundamental analysis on cryptos must be performed with a different methodology. Given the complex nature of cryptos and their underlying technology, it is even more important for us to engage in research to assess the viability and potential of the coins.

This ensures that we make better investment decisions and are kept in the loop of things. But more importantly, a good understanding of a coin’s fundamentals allows you to form your own opinions and have your own stand, which is rare in the crypto world due to its complexity.

However, do not worry if it all seems too complicated! We’ve created a comprehensive and easy-to-understand guide to help you. Let’s begin!

After engaging in your due diligence, it’s time for you to finally purchase the coins that you’re confident has the right fundamentals. In order to buy coins, you have to open exchange accounts.

However, it can be tricky to find the right exchange since there are many things to look out for. Therefore, we’ve made it easier for you to choose which exchange is best for you!

Opening an Exchange Account

If you’re new to cryptocurrencies, your first step would be to find an exchange that allows you to deposit money.

Due to regulations, all exchanges require you to verify your account before depositing your funds, through the submission of your identity proof and any other personal information.

Hence, you should find an exchange in your domestic country first to convert money from your bank account into Bitcoin.

It is important to note that not all crypto exchanges accept fiat money; some exchanges only allow you to deposit coins (most commonly Bitcoin) to purchase other alternative coins.

Bitcoin is the most popular crypto that is offered on almost all crypto exchanges, and represents the gateway to purchasing other coins. In other words, if you want buy any other coins, you must do the following:

Step 1: Open a domestic cryptocurrency exchange in your country and verify your account (submit identity proof)

Step 2: Deposit funds from your bank account to your crypto exchange account and start buying Bitcoin

Step 3: Open a crypto exchange account that offers a variety of other coin. Usually these exchanges do not accept fiat deposits and only allows coin deposits.

Step 4: After verifying your account, transfer the Bitcoin that you’ve bought from your local exchange to your new crypto exchange and you can start buying other coins with your Bitcoin.

Finding The Best Times To Buy and Sell

Hindsight is 20:20 when trading bitcoin - in other words, after prices have risen - it is easy to look back and find the perfect time to buy, before the price went up.

This book will teach you how to make money trading bitcoin and cryptocurrencies by looking at the price charts to find a powerful chart formation that often occurs when prices are low, so you can buy before prices rise.

Unlike a time-intensive day-trading approach, this book is focused on making profits in just minutes each day, by investing over a long period of time.

Some people may protest that we are releasing this report that makes it so simple to learn how to trade cryptocurrencies.

But our mission is to share and teach our successful technical analysis strategies - especially to make them easy and accessible for the complete beginner.

What is the Cryptocurrency Market

In a sentence, the cryptocurrency market is an online exchange where you can buy and sell digital currencies and their derivatives.

Crypto markets have played a significant role in popularising cryptocurrencies. They've achieved this by making the process of price discovery more efficient and increasing transparency in crypto trading.

It is thanks to crypto markets that crypto derivatives surpassed spot trading. As of July 2021, crypto derivatives account for over 56% of all transactions in the crypto market.

The simplest definition of a cryptocurrency market is an online platform where users can buy cryptocurrencies using fiat currencies or market one crypto for another.

Most of the crypto markets allow leveraged crypto trading by allowing users to bet on price movement. Apart from trading in the spot market, you can also trade crypto CFDs.

The crypto market comprises centralized crypto exchanges, decentralized exchanges, peer-to-peer (p2p) crypto exchanges, crypto brokers, and crypto funds.

Centralized Crypto markets: These are the traditional crypto exchanges modeled after centralized stock exchanges. This means that the exchange is a third party responsible for ensuring that transactions between buyers and sellers go smoothly. Since the exchange matches buyers and sellers, it charges a transaction fee for every transaction.

Decentralized Crypto markets: These are online crypto exchanges based on blockchain technology. It means that no single entity controls the exchange since it is autonomous and independent. Typically, there are no KYC or AML policies required when using the DEXs. They only serve to route and match the purchase and sale orders in the network.

Peer-to-Peer (P2P) Crypto markets: These are also called direct crypto exchanges because they are designed to facilitate crypto exchange between individuals. In such crypto exchanges, there is no consensus market price for particular crypto.

Rather, buyers and sellers quote their preferred price and find suitable matches willing to transact with them. Users are free to negotiate among themselves for the best possible terms.

Crypto brokers: They are similar to centralized crypto exchanges. However, crypto brokers set the prices at which a user can buy. Typically, this is often the market price plus a premium that enables the broker to profit. This model is similar to exchanging forex at your local bank. Note that transaction in this type of crypto exchange exclusively occurs between the crypto broker and the user.

Crypto funds: These are structured like traditional investment funds. They are professionally managed funds that allow users to purchase and invest in cryptocurrencies through the funds. Apart from offering professionally managed and diverse crypto portfolios, crypto funds help users avoid the hassle of purchasing and storing cryptocurrencies. However, crypto funds are purely for investment purposes since one cannot use them for transactional purposes.

How to Start Trading Cryptos

Beginning crypto trading may seem daunting at first. However, thanks to the crypto market evolution, you can now trade cryptos in the spot or derivatives market. One of the first steps in crypto trading is finding the best crypto broker or exchange.

There are several regulated brokers online, and you can choose them depending on your trading style. But always make sure to sign up with a regulated broker. The tradable assets are in the form of trading pairs.

For example, BTC/USD. The price of a cryptocurrency pair shows how much of the quote currency is needed to buy one unit of the base currency. Let's say that the price of BTC/USD is $1000. This means that you will need 1000 USD to buy 1 BTC.

Trading in the spot market involves buying the actual crypto. This means you take ownership of the coins and store them in your crypto wallet. Another option is to trade in the derivatives market.

This involves buying and selling CFDs. With CFDs, you do not own the underlying crypto but instead are speculating on the price fluctuation of the underlying crypto. CFDs are crypto derivatives that help you speculate on a crypto price without owning the underlying crypto.

That means you can go long (buy) if you believe that the crypto will appreciate and short (sell) when you believe that the price will drop. CFDs also enable crypto traders to use leverage. Another major advantage for trading with CFDs in the crypto market is the use of leverage.

Leverage, also called margin, is a credit facility extended to you by your broker, which helps you increase your exposure to a particular asset. For example, if you take leverage of 100x, you will open a position that is 100x the size of your account deposit. Say you have a $1000 deposit in your account.

With the leverage of 100x, you can open a position worth $100,000. Note that leverage can only be used when trading derivatives. It significantly increases your potential profits but also makes the downside huge.

A trading strategy is a technique that crypto traders use to enter and exit positions. These strategies determine if a trader should go long or short and at what point to close that specific trade. These trading strategies determine the type of crypto trader you are.

Day Trading Cryptocurrency Strategy

Day traders try to profit from price fluctuations of cryptocurrencies throughout the day. By the end of the day, all crypto trades are usually closed. No trade is held overnight.

Day trading heavily relies on current market trends and news events in the market. Day trading is often contrasted with crypto HODLing, where you buy crypto, ignore daily volatility, and stick with it for months or years.

Here's a summary of day trading:
• Day trading is for the crypto market, which is open 24/7.
• Involves exploiting the current trends in the market.
• Traders react quickly to changing market sentiment, regulatory environment, and political goodwill.
• Positions with higher capital and leverage.
• Within one day, the trading positions are closed.

Swing Trading

Swing trading is an investment strategy in which investors try to take advantage of short-term fluctuations in the context of a larger price movement.

Swing traders focus on realizing profits in a period of only a few days and limiting any losses as quickly as possible.

The basis of swing trading is the assumption that prices rarely move in a straight line but usually consist of short-term fluctuations (the so-called "swings").

These swings open up profit opportunities by allowing investors to buy or sell securities that take a new price direction with the help of short-term chart signals.

Here are some facts about swing trading:
• A swing is a market movement without much correction.

• Swing trading is carried out in higher time units.
• Swing trading implies longer-term trading – positions can be held for several days or even months.

Crypto swing traders incorporate both sentimental and technical analyses to inform their trade decisions. Swing traders can either go long or short. When they go short, they enter into a position when the market sentiment is at its highest and is bound to wane.

Since cryptos are demand-driven, their price tends to be susceptible to public sentiment.

Conversely, when swing traders go long, they enter when the public sentiment is beginning to rise.

Note that swing trading involves a lot of market analysis and monitoring trades. Essentially, swing trading is based on two basic strategies: trend trading and breakout trading.

Scalping

To some extent, scalping works the same way as day trading. The only distinguishing feature is that scalpers open and close trades in very short intervals.

A day trader may have 1 or 2 trades per day, while a scalper may have hundreds. Scalping is only suitable for very experienced traders with above-average knowledge of the financial markets and the traded products.

Scalpers are aimed exclusively at short-term profits, which the smallest ticks can realize in the price movements. Liquidity and volatility are important prerequisites for this type of trading, as scalpers are keen to take profits from the smallest price movements.

The framework conditions for this type of trading consist of fixed, concise time intervals combined with fast profit-taking and limited risk. If the set profit target is achieved, the risk is immediately withdrawn from the market.

The scalping trading strategy relies heavily on the order book, which provides information about the tradable positions. With this information, scalpers try to anticipate price changes of just a few ticks and adapt their strategy accordingly to these price movements.

To make it pay off to take advantage of the smallest price changes, scalpers use correspondingly high leverage and place high volumes on the market to maximize the normally low profits per trade. The holding time per position is usually only a few to 60 seconds, a maximum of a few minutes, which is rare.

Position Trading

Crypto position trading is primarily crypto HODLing – this is crypto investing. Position traders are convinced that the cryptocurrency will appreciate in the long term.

Short-term price fluctuations usually play no role, only the development in the long term. Therefore, the most striking difference is the time or holding period (when investing is usually over 1 year), and personal conviction plays a major role in crypto investment. Position trading strategies are similar to day trading strategies but on a longer timeframe.

That means traders use support and resistance levels on weekly charts and longer-term MA, usually 200-period MA, to identify the optimal entry levels. This allows them to jump early on a trend and profit in the longer term.

In the crypto market, position trading also involves a huge amount of fundamental analysis. Traders are often encouraged to conduct thorough due diligence on the cryptos they intend to invest in.

That's because, in the long run, the value of crypto will almost entirely depend on its utility. This is done to determine the viability and sustainability of the crypto project before investing since they will be holding that crypto for the long term.

Trend Trading

Trend trading is one of the simplest and common trading strategies. The rationale behind trend trading is simple – identify a developing market trend, whether bullish or bearish, and rise it until its momentum dissipates.

The key to profiting from trend trading is to identify the trend while it's starting. That means trend and momentum indicators are heavily relied upon here. The trend indicators will help you determine whether the trend is starting or has already developed.

The momentum indicators, on the other hand, are used to determine the strength of a trend. This usually comes in handy, especially in determining when to exit a trade – typically, this is when the trend's strength is weakening.

It's also worth paying attention to bitcoin when trend trading in the crypto market. It is no secret that most of the market is oriented towards Bitcoin, which also applies to pure crypto trading.

If you look at a minute chart of any cryptocurrency, you will notice that even these prices coincide almost 1:1 with the course of Bitcoin.

However, there is a difference: Usually, the reaction of crypto traders is more violent with smaller coins than with Bitcoin, and thus higher percentage fluctuations are the order of the day.

What Charts Should I Use To Trade Bitcoin & Cryptocurrencies?

One of the best things about cryptocurrencies becoming so popular is that the good charting platforms have all jumped on board and so have the best and biggest brokers.

Without these good brokers on board it would be extremely hard to trade with price action trading strategies and create a profitable strategy. The bigger brokers
bring far cheaper trading conditions with dependable charts that can be relied upon.

Best Brokers and What Leverage?

When you are thinking about charts, brokers and starting to make trades in markets like cryptocurrencies, you need to think also about risk and leverage. Brokers at the moment are mostly offering 1:10 to 1:20 leverage on cryptocurrency trading.

On Forex and other products it is common to see leverage offered up to as high as 500:1. With time there is no doubt brokers will start relaxing their strings especially as they become more experienced and comfortable with the markets they are offering.

You need to use leverage to your advantage and not blow your foot off with it. Whilst it can enhance your trade it can also lead to far bigger losses. The other thing to take into account is that you can practice trading cryptocurrencies with a demo account and virtual money.

This gives you the same market conditions, but the trades you are placing are with virtual money and not real cash. You don’t need to blow real live money to work out and test things.

For example: You can be testing and working on things like how much you need to open trades, how much each move higher and lower is going to really cost you.

You want to practice getting the entries right, where your stops should go, how to take profit, and manage trades. DON’T get into a live trade and go... “Oh No... I am really not sure what I am doing here!!”

HUGE TIP: Make sure you open a demo account with the amount you intend to trade a real live account with. Don’t open a demo account with $100,000 if you only have $5,000 to trade with. Open a $5,000 account and practice with it as if it is real.

The ‘Simple Trading Plan’

This trading plan is based on the chart pattern known as the 1-2-3 Bottom Formation. This trading pattern is actually very simple - and very well known. In fact, real world stock and commodities traders have been using this very same trading pattern for at least 100 years!

Perhaps you are thinking the same questions we had:
"If this trading pattern is so simple, and it has been well known for 100 years - then how come everyone isn't using it?"

and

"If everyone knows about it, and everyone is using this pattern to trade - wouldn't that ruin the trading pattern so it would not work any more?"

Lets review these questions and learn what prevents people from profiting from such a powerful trading signal.

Two Problems With This Plan

There are two problems that prevent people from making huge profits by trading this pattern:

The first problem is: incomplete information - 'a little knowledge is dangerous'.
The second problem is: greed and fear. Also known as impatience and self-doubt.

We thought that the 1-2-3 bottom formation was an obvious trading plan because we could see this pattern in historical price charts all over the place!

This discovery was very exciting! But, as we started trying to make money by trading this pattern, we were not doing very well. Sometimes we lost money, sometimes we made money - but overall, our cash stack was not growing a great deal.

Even though we knew about the 1-2-3 bottom formation, we were still suffering from these two problems - we didn't have enough knowledge, and fear and greed were working in us the very opposite way they needed to be if we were going to get really rich by trading this pattern in cryptos.

Eventually, we learned how to fix these two problems, and we used this easy, long term method of trading, and without much effort.

Three Parts To The Simple Trading Plan

The ‘Simple Trading Plan’ has been distilled down from hundreds of hours of backtesting and years of forward testing in the cryptocurrency markets.

There are three components to identifying a trade entry point:

1. the first requirement is that the downtrend line must be broken,
2. the second requirement is that the 1-2-3 formation must be breached,
3. the third requirement for a trading signal is the exponential moving average must cross over

The Trendline

Drawing a trend line is not difficult. We connect a straight line along consecutive higher prices or consecutive lower prices.

As the price is declining in a downtrend we draw the trend line along the tops, as the price is rising in an uptrend we draw the trend line along the bottoms.

Trend lines can be drawn where any two price plates stand out, but they always have more strength when they touch more price points along the chart.

Breach of the 1-2-3 Formation

The 1-2-3 formation takes a little explaining, but once you get this picture you will see this pattern in every chart that you look at!

If you are familiar with Elliott waves, you will know that the 1-2-3 formation occurs at the end of almost every trend, and it is an important component of a head-and-shoulders formation.

This formation is so common that it comes by many names, some people call it the ‘W Formation’: it is simply a failed retest of a recent high or low.

This strategy seeks a market whose prices are presently coming down to historically low prices.

We start off with the thinking that - if the item is at the lowest prices it has been at in a very long time, then the risks of it going even lower are small… and because the price is very low already, we will not lose that much money if it keeps going

As our crypto market price actually hits the lowest in recent history, and we call this lowest price - the #1 point. When the prices rise a bit off the #1 point, and then reverse to start coming back down, we can label that reversal price as the #2 point.

If the prices go down lower than our #1 point - then we start again, watching for the new lowest price and we would label that lowest price as our new #1 point. In other words, the prices are still trending downwards, and we just keep watching - because we are looking for the time when this down trend finds a bottom, hits it's lowest prices - and then the trend changes or reverses… before we buy in.

Once we have a #1 point, and we have a #2 point, and prices do not keep falling below our #1 point - we are getting ready to buy when prices rise again past the #2 point. When prices prove that they are going higher than our #2 point, that is our buying signal - and after this happens, we label our charts with the #3 point… the time when prices broke above the #2 point.

This may sound confusing if you are only reading the explanation without looking at price charts to get a picture in your mind.

When 1-2-3 Bottom Formations Go Wrong
The trading method in this book teaches how to make money with these kind of patterns. However, the 1-2-3 bottom does not happen all the time. There are two different 'bad things' price can do to cause frustration and loss of money.

False 1-2-3 Bottoms
Sometimes the price of a coin will be trending downwards, it will come to a historical low, and the price chart will show a nice 1-2-3 bottom is shaping up - prices may even break above the #2 point, creating the #3 point and giving us a trading signal... only to reverse again, drop lower than our #1 point and continue the downtrend lower and lower.

It Really Is That Simple

That is the most basic brief of The ‘Simple Trading Plan’. It should take you no more than 10 minutes a day to manage once you get the hang of it. This trading plan will work on any time frame and it will work in any different market, not just cryptocurrencies and Bitcoin.

You can trade the 1 2 3 pattern in any chart, it doesn't matter if you are trading avocados, or if you are trading cryptocurrencies... You could be trading coffee you could be trading Lumber you could be trading silver and gold, and all of the charts will have 1-2-3 patterns in them, it is a common part of every trend change and price direction change!

Two Ways To Learn Trading Lessons

Through experience.
Through education.

If you stick with trading long enough you will eventually learn to plan out your trades - so that you can identify your successes and failures. You will eventually learn to exit losing trades quickly, only holding the positions that prove you correct, and though hard experience, you will likely develop the skill of putting your stop loss above your entry as soon as you can.

The market will teach you these lessons.

The reason is the market will teach these lessons to you because every time you did these wrong, the market takes money from you. If you stick with trading long enough you will eventually figure out these basic strategies.

But Stage 4 will never teach itself to you, you may never know that you are missing out on the best rewards of trading because there is nothing that punishes you for missing these benefits. If your winning trade are the same size as your losing trades - making money in trading is much more difficult.

The profound power of adding on to the successful trade is not immediately obvious. Without someone pointing out these benefits - and without considering it carefully, you may not appreciate the significance of this common habit of successful traders.

Lastly

Regardless of the crypto trading strategy you choose, it's important to pick a trading style that is more in tune with your own personality.

You can practice different trading strategies in a risk-free environment by opening a demo account with your favorite broker or crypto exchange.

Being a profitable trader depends more on your mindset than on what trading strategy you use. In this regard, you must stick to your favorite strategy through ups and downs.

Regardless of your crypto trading strategy, always observe the crypto market sentiment. It is one of the most important cornerstones in crypto trading.

Appendix

Risk Disclaimer

There is considerable risk in bitcoin, altcoin or world market trading, and may not be suitable for all investors. Any trading involves risks including, but not limited to, the potential for changing political and/or economic conditions that may substantially affect the price or liquidity of any financial market. Speculative investments may also be susceptible to sharp rises and falls as the relevant market values fluctuate. Leveraged trading can have a proportional effect on your trading account balance. This may work against you as well as for you. Not only may investors get back less than they invested, but in the case of higher risk strategies, investors may lose the entirety of their investment, or more.

Hypothetical Results Disclaimer

Some trading commentary is based on hypothetical performance results that have certain inherent limitations and may not represent actual trading. Past performance does not predict future results. Predictions do not include the impact of market liquidity and no representation is being made that any account will or is likely to achieve profits or losses similar to those being shown. Forward looking statements include words such as "anticipates," "estimates," "expects," "projects," "intends," "plans," "believes" and are based on this author’s current expectations and assumptions regarding the market in question and actual results may vary significantly from those expressed or implied. Before deciding to trade in any market you should carefully consider your investment objectives, level of experience, and risk appetite. You should not invest money that you cannot afford to lose. Seek advice from a certified independent financial adviser if you have any doubts.