

# Crypto Trading Strategies for Beginners

## Introduction to Beginners Cryptocurrency Trading Strategies



There are countless ways to profit off of trading cryptocurrency. Trading strategies help you organize those techniques into a coherent framework that you can follow. This way, you can continually monitor and optimize your cryptocurrency strategy.

The two main schools of thought you'll need to consider when building a trading strategy is technical analysis (TA) and fundamental analysis (FA). We'll differentiate which one applies to which of these strategies, but make sure you understand the differences between these concepts before going further.

Since there are many different trading strategies, we'll cover some of the most common ones. This article mainly focuses on cryptocurrency trading strategies. However, these may also apply to other financial assets, such as forex, stocks, options, or precious metals like gold.

So, would you like to devise your own trading strategy? This article will help you with the basics of how you should approach speculating on the crypto markets. With a solid trading strategy, you're more likely to achieve your trading and investment goals.

## What is a Trading Strategy?

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We can describe a trading strategy as an extensive plan for all your trading activities. It's a framework you create to guide you in all your trading endeavors.

A trading plan can also help mitigate financial risk, as it eliminates a lot of unnecessary decisions. While having a trading strategy is not mandatory for trading, it can be life-saving at times. If something unexpected happens in the market (and it will), your trading plan should define how you react - and not your emotions. In other words, having a trading plan in place makes you prepared for the possible outcomes. It prevents you from making hasty, impulsive decisions that often lead to big financial losses.

**For instance, a comprehensive trading strategy may include the following:**

- what asset classes you trade
- what setups you take
- what tools and indicators you use
- what triggers your entries and exits (your stop loss placement)
- what dictates your position sizing
- how you document and measure your portfolio performance

In addition, your trading plan may also contain other general guidelines, even down to some minor details. For example, you can define that you will never trade on Fridays or that you will never trade if you are feeling tired or sleepy. Or you can establish a trading schedule, so you only trade on specific days of the week. Do you keep checking the Bitcoin price during the weekend? Always close your positions before the weekend. Personalized guidance like this can also be included in your trading strategy.

Devising a trading strategy may also include verification by backtesting and forward testing. For instance, you could do paper trading on the Binance Futures testnet.

In this article, we'll consider two types of trading strategies: active and passive.

As you'll shortly see, the definitions of trading strategies aren't necessarily strict, and there may be overlap between them. In fact, it may be worth considering a hybrid approach by combining multiple strategies.

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## Active Trading Strategies

Active strategies require more time and attention. We call them active because they involve constant monitoring and frequent portfolio management.

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## Day Trading

Day trading might be the most well-known active trading strategy. It's a common misconception to think that all active traders are by definition day traders, but that isn't true.

Day trading involves entering and exiting positions on the same day. As such, day traders aim to capitalize on intraday price movements, i.e., price moves that happen within one trading day.

The term "day trading" stems from the traditional markets, where trading is open only during specific hours of the day. So, in those markets, day traders never stay in positions overnight, when trading is halted.

Most digital currency trading platforms are open 24 hours a day, 365 days a year. So, day trading is used in a slightly different context when it comes to the crypto markets. It typically refers to a short-term trading style, where traders enter and exit positions in a timespan of 24 hours or less.

Day traders will typically use price action and technical analysis to formulate trade ideas. Besides, they may employ many other techniques to find inefficiencies in the market.

Day trading cryptocurrency can be highly profitable for some, but it's often quite stressful, demanding, and may involve high risk. As such, day trading is recommended for more advanced traders.

## Swing Trading

Swing trading is a type of longer-term trading strategy that involves holding positions for longer than a day but typically not longer than a few weeks or a month. In some ways, swing trading sits in the middle between day trading and trend trading.

Swing traders generally try to take advantage of waves of volatility that take several days or weeks to play out. Swing traders may use a combination of technical and fundamental factors to formulate their trade ideas. Naturally, fundamental changes may take a longer time to play out, and this is where fundamental analysis comes into play. Even so, chart patterns and technical indicators can also play a major part in a swing trading strategy.

Swing trading might be the most convenient active trading strategy for beginners. A significant benefit of swing trading over day trading is that swing trades take longer

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to play out. Still, they're short enough so that it's not too hard to keep track of the trade.

This allows traders more time to consider their decisions. In most cases, they have enough time to react to how the trade is unfolding. With swing trading, decisions can be made with less haste and more rationality. On the other hand, day trading often demands fast decisions and speedy execution, which isn't ideal for a beginner.

## Trend Trading

Sometimes also referred to as position trading, trend trading is a strategy that involves holding positions for a longer period of time, typically at least a few months. As the name would suggest, trend traders try to take advantage of directional trends. Trend traders may enter a long position in an uptrend and a short position in a downtrend.

Trend traders will typically use fundamental analysis, but this may not always be the case. Even so, fundamental analysis considers events that may take a long time to play out – and these are the moves that trend traders try to take advantage of.

A trend trading strategy assumes that the underlying asset will keep moving in the direction of the trend. However, trend traders also have to take into account the possibility of a trend reversal. As such, they may also incorporate moving averages, trend lines, and other technical indicators in their strategy to try and increase their success rate and mitigate financial risks.

Trend trading can be ideal for beginner traders if they properly do their due diligence and manage risk.

## Scalping

Scalping is one of the quickest trading strategies out there. Scalpers don't try to take advantage of big moves or drawn-out trends. It's a strategy that focuses on exploiting small moves over and over again. For example, profiting off of bid-ask spreads, gaps in liquidity, or other inefficiencies in the market.

Scalpers don't aim to hold their positions for a long time. It's quite common to see scalp traders opening and closing positions in a matter of seconds. This is why scalping is often related to High-Frequency Trading (HFT).

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Scalping can be an especially lucrative strategy if a trader finds a market inefficiency that happens over and over again, and that they can exploit. Each time it happens, they can make small profits that add up over time. Scalping is generally ideal for markets with higher liquidity, where getting in and out positions is relatively smooth and predictable.

Scalping is an advanced trading strategy that isn't recommended for beginner traders due to its complexity. It also requires a deep understanding of the mechanics of the markets. Other than that, scalping is generally more suitable for large traders (whales). The percentage profit targets tend to be smaller, so trading larger positions makes more sense.

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## Passive Investment Strategies

Passive investment strategies enable a more hands-off approach, where the management of the portfolio requires less time and attention. While there are differences between trading and investment strategies, trading ultimately means buying and selling assets in the hopes of making a profit.

## Buy And Hold

"Buy and hold" is a passive investment strategy where traders buy an asset intending to hold it for a long time, regardless of market fluctuations.

This strategy is typically used in long-term investment portfolios, where the idea is simply to get in the market without any regard for timing. The idea behind this strategy is that on a long enough time frame, the timing or entry price won't matter much.

The buy and hold strategy is almost always based on fundamental analysis and typically won't concern itself with technical indicators. The strategy also probably won't involve monitoring the performance of the portfolio frequently - only once in a while.

While Bitcoin and cryptocurrencies have only been around for a little more than a decade, the HODL phenomenon could be compared to the buy and hold strategy. However, cryptocurrencies are a risky and volatile asset class. While buying and

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holding Bitcoin is a well-known strategy within the cryptocurrency space,, the buy and hold strategy may not be suitable for other cryptocurrencies.

## Index Investing

Typically, index investing means buying ETFs and indices in the traditional markets. However, this type of product is also available in the cryptocurrency markets. Both on centralized cryptocurrency exchanges and within the Decentralized Finance (DeFi) movement.

The idea behind a crypto index is to take a basket of cryptoassets and create a token that tracks their combined performance. This basket may be made up of coins from a similar sector, such as privacy coins or utility tokens. Or, it could be something else entirely, as long as it has a reliable price feed. As you'd imagine, most of these tokens heavily rely on blockchain oracles.

How can investors use crypto indexes? For example, they could invest in a privacy coin index instead of picking an individual privacy coin. This way, they can bet on privacy coins as a sector while eliminating the risk of betting on a single coin.

Tokenized index investing will likely become more popular over the coming years. It enables a more hands-off approach to investing in the blockchain industry and cryptocurrency markets.

## Closing Thoughts

Devising a crypto trading strategy that suits your financial goals and personality style is not an easy task. We went through some of the most common crypto trading strategies, so hopefully, you can figure out which one may suit you best.

To find out what is really working and what is not, you should follow and track each trading strategy – without breaking the rules you set. It's also helpful to create a trading journal or sheet so you can analyze each strategy's performance.

But it's worth noting that you don't have to follow the same strategies forever. With enough data and trading records, you should be able to adjust and adapt your methods. In other words, your trading strategies should be constantly evolving as you gain trading experience.

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It may also be beneficial to allocate different parts of your portfolio to different strategies. This way, you can track the individual performance of each strategy while exercising proper risk management.