Teroxx

2 Stepping Into Digital Asset Trading

Insights Into Managed Trading

This e-book introduces you to the various benefits of managed digital trading. It outlines the process, the platforms, the role of a professional fund manager, the regulatory environment, the psychological challenges of trading (and how managed trading can mitigate them), and the indicators used to measure success.

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Introduction

Welcome to the E-book Series ‘Stepping Into Digital Asset Trading’

In the first e-book of this series, ‘Entering the World of Digital Asset Trading,’ we laid the foundation for successful digital asset trading. We explained the terminology, explored the interconnected environment in which digital asset trading takes place, and highlighted the risks and future direction of the trading market.

The second e-book, ‘Insights Into Managed Trading,’ introduces the fundamental principles of managed trading along with its benefits, costs, and role in the broader investment landscape.

The book also covers risk management plans, profitability, and ways to measure success. Its goal is to illustrate what profitable digital trading looks like within a time-efficient managed trading approach.

CHAPTER 1

Managed Trading Explained

Managed trading is the smart choice for those who wish to invest in the financial markets but lack the time or interest to become experts themselves.

It delegates the complex tasks of analyzing the market, making decisions, and executing orders to experienced professionals.

As a private person interested in growing your money through digital assets, it is tough to match the skillsets of those who manage funds for a living.

In essence, managed trading is a service in which investment decisions are made by professional fund managers who live and breathe the financial markets. Their way of working typically combines sophisticated algorithms with expert knowledge to develop a strategy aimed at meeting your specific investment goals.

It is this expert fusion of automated analytical tools and algorithms with long-standing human expertise and experience that makes managed trading so advantageous.

The Advantages of Managed Trading

From beginners to experienced investors and busy entrepreneurs to retirees: when it comes to navigating market complexities, the benefits of managed trading are utilized by a diverse range of client groups.

This applies whether the client's goal is to diversify a portfolio, preserve wealth, or learn from watching professionals at work.

Managed trading offers an array of potential benefits over personal trading, including:

01

Experienced fund managers **employ an organized strategic approach.**

02

Advanced risk management techniques are part of the daily trading practice.

03

A team of experts continuously monitors the investment landscape, making it possible for them to **respond to short-term changes in the market** as needed.

04

Compared to personal trading, trading decisions are **less likely to be influenced by bias or emotional drivers.** They are consistently based on thorough research and analysis.

05

Trading activity is **always carried out within legal boundaries**, according to current regulations and in an ethically sound manner.

Professional Fund Managers

Professional fund managers are the backbone of the financial services world. **Investing via a managed trading strategy means that a professional fund manager handles your digital asset investments on your behalf.** They guide your money towards growth, even when the market is tough. It is their job to understand how to make investment plans, manage different types of investments, and maintain good relationships with their clients.

> Fund managers are planners who balance risk with potential gains. They look at economic reports, market trends, and world events to create strategies that match their clients' needs. They adapt these strategies continuously depending on how the market moves.

For your part, you must maintain clear communication with your fund manager on an ongoing basis. This is important because, for example, your investment plans may change in response to changes in your private life (e.g. buying a house or having a baby). **Always be clear and open about your investment goals to obtain the best possible outcomes.**

Consider a managed trading service that uses data analysis to predict market trends and intelligent automation to achieve efficient order placement. As we know from the first e-book of this series, successful digital trading demands continuous portfolio management and regular analysis of the trading strategy and outcomes. Data and technlology can be harnessed to great effect with these tasks.

When you combine these benefits with the ability of an experienced fund manager to respond to subtle market shifts as they happen, you end up with a strong and resilient trading system: one that is capable of effectively riding the ups and downs of the markets.

CHAPTER 2

Exploring Diversification

Diversification Explained

You have probably heard the saying about not putting all your eggs in one basket. Nowhere is this more important than in investing. **Managed trading can help you spread your investments across different types of assets, reducing your risk.**

Successful investing entails looking look at how well particular strategies have worked in past market crashes and adjust their choices to manage future risks better. Diversification is not just a method but a mindset. **It means mixing a broad spread of investment types, such as stocks, bonds, real estate, and cryptocurrencies.** This blend creates a balanced portfolio in which the potential weakness of one investment is offset by the strength of another.

Fund managers analyze how certain choices performed in the past and use their findings to plan portfolios that can withstand tough times. To do this, they must also understand how investments relate to one another. If two investments frequently move in the same direction simultaneously, the likelihood is that they are highly correlated.

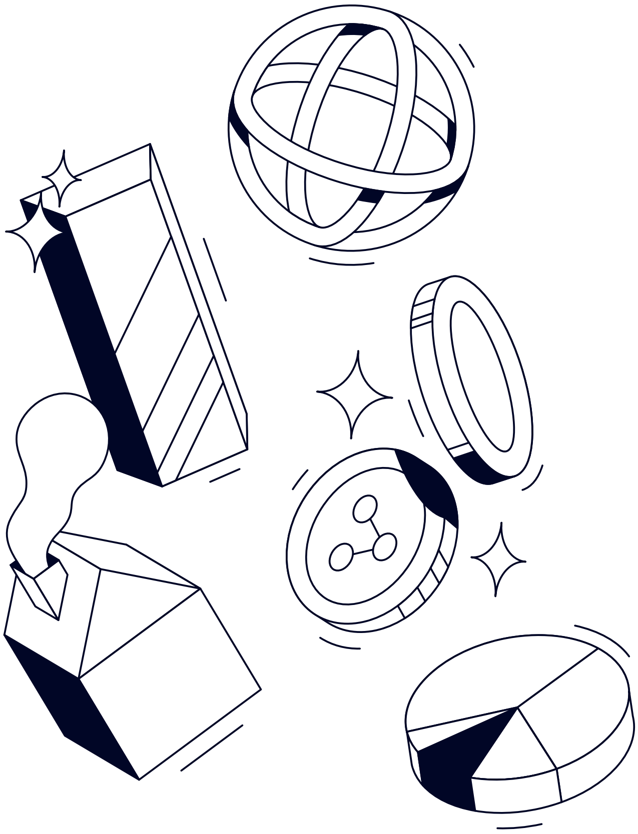
This can be risky during tough market times. Instead, it is preferable to maintain a range of investments that each follow a different pattern.

Diversification Across Geographies and Sectors

Diversification does not stop at choosing different asset types: it also involves investing in a variety of sectors and countries. This approach spreads out your risk and opens up more opportunities for growth.

Economic conditions vary from one country to the next. Spreading your investments across different regions can help you benefit from growth in one area as another experiences economic challenges.

Similarly, investing across various sectors - like technology, healthcare, and energy - ensures that your portfolio is not severely impacted when one sector hits stormy waters.



Developing Successful Diversification Strategies

When it comes to creating an effective diversification strategy, there are four key elements to bear in mind.

Combining different asset types:
Incorporating a mix of traditional and alternative investments can help smooth out market volatility.

Using funds for easy diversification:
Index funds and ETFs offer a straightforward way to diversify across a range of assets.

Balancing active and passive management:
Combining actively managed funds with passive investments can help manage costs while maintaining professional oversight.

Hedging risks with derivatives:
Using financial instruments like options and futures can protect against market downturns, adding an additional layer of security to your diversified portfolio.

There are a number of indicators that can be used to assess the diversification of your portfolio. These include:

✓ The variance and standard deviation of your trades. These metrics help gauge the volatility of your portfolio's returns.

✓ The Sharpe ratio, which indicates the additional return you are receiving for the increased risk of holding riskier assets.

✓ The way different assets move in relation to one another, i.e. the degree of correlation. This is quantified using a measure known as the 'correlation coefficient.'

Head to the glossary to learn more about any of these terms.

The benefit of a managed trading approach is that, if so desired, this vital analysis can be performed on your behalf by a qualified and experienced professional.

CHAPTER 3

The Psychological Aspect of Trading

Success in trading is not just about understanding the markets or having the right degree of diversification. It is also about avoiding emotional bias.

The ability to stay calm and focused, especially when the market gets tough, is key. Top traders stick to a well-considered trading plan to avoid hasty decisions and use stress-busting techniques like deep breathing or meditation. This emotional control not only brings inner calm, but aids the trader in adhering to important trading strategies like risk management and diversification.

Our brains can sometimes trick us, leading us to make biased decisions without being aware of it. For example, traders might think they know more than they actually do (overconfidence) or only pay attention to information that supports their existing beliefs (confirmation bias).

In order for individual investors to avoid these pitfalls, it is important for them to seek a variety of perspectives and rely on facts and figures, not just gut feelings. This approach ensures trading strategies that are clear-headed and comply with established standards.

Psychology plays a major role in trading, influencing every decision and strategy. Truly successful traders are those who can understand and control their own psychological biases. They use discipline, self-awareness, stress management, and confidence to successfully navigate the ever-changing financial markets.

These pyschological challenges are why many individual investors opt for a managed trading approach. **When you choose managed trading, an experienced fund manager oversees many of the day-to-day trading decisions on your behalf.**

CHAPTER 4

Access To Exclusive Markets

Exclusive Markets Defined

In the vast and complex world of financial markets, there are hidden corners known as 'exclusive markets.' These markets are not widely known or accessible to the average person, but they hold unique opportunities and challenges for those who can enter them.

Exclusive markets are special trading platforms that, as their name suggests, have certain barriers to entry. To access them, you often need special permissions, a lot of capital, or certain qualifications. They are distinguished by the fact that only a few can participate, the assets traded are complex, and the starting requirements are usually considerable.

These markets contain alternative investments such as hedge funds, venture capital, private equity, and custom-made financial products, which differ from the financial instruments found in mainstream markets and are designed for specific investment strategies. For most individual investors, entering these markets is tough. You might face financial, regulatory, or knowledge-related barriers that keep you out.

Exclusive markets offer special rights and/or payouts, or are structurally complex. Investors like them because they can make a portfolio more diverse or provide returns that are not linked to the regular stock and bond markets. However, these benefits come with risks, such as being hard to sell and being more sensitive to unique events or strategies.

Entering Exclusive Markets

Gaining access to exclusive markets usually means meeting strict criteria like having enough money, the right education, or considerable experience. **Managed trading accounts - where experts handle the complexities for you - are one way in.**

Because exclusive markets often have the potential to give higher returns than mainstream markets, they attract wealthy individuals and big investors. Exclusive markets operate by their own set of regulations, designed to protect everyone involved and to keep the market fair.

While exclusive markets are hard to access, they offer numerous strategic opportunities for the right investor. With the right knowledge and access, they can be very profitable.

They also come with risks, which means that being careful and well-informed is essential. The future of these markets is exciting and will likely be shaped by new innovations, regulations, and the ongoing quest for better returns and market efficiency.

CHAPTER 5

Managed Trading Platforms

Managed Trading Platforms

Managed trading platforms occupy an important place in modern investing. They offer expert-led trading with special tools for risk management and analysis.

The different types of managed trading platforms include:

Full-service brokerage platforms:
These traditional platforms offer personalized services and advice. They are a little more expensive, but provide a great deal of support for building diversified portfolios.

Online managed platforms:
These digital platforms are based on algorithms and are more budget-friendly. They are easy to use and a good option for those who are just starting out on their investment journeys.

Social trading networks:
These networks let people follow and copy other traders. They are good for learning and sharing investment strategies.

Hybrid platforms:
These platforms mix technology with personal advice. They offer flexibility and variable fees based on what services you choose.

Specialty platforms:
These are for specific markets or instruments. They focus on risk management and follow strict rules for the particular areas in which they trade.

> When choosing a platform, it is important to think about fees and about how well investments on the platform have performed historically. This applies particularly for the specialized platforms.

CHAPTER 6

The Role of Risk Management

Securing your financial future is a lot like preparing for a journey on unpredictable roads.

Diversification and risk management are the two essential tools that will help you stay safe and reach your goals. They are your financial ‘seatbelt and airbag,’ helping you navigate the ups and downs of the market.

Understanding your own comfort with risk helps you create a balanced strategy. **Having a solid risk management plan is crucial. This entails being ready for anything, understanding how risk and return work together, and making informed decisions.**

When investors understand the risks and rewards involved in their decisions, they feel more confident. Clear information about risk management helps build trust and peace of mind.

The next section delves into the world of regulatory environments and explores how compliance shapes your strategies and safeguards the integrity of your financial journey.

The two main types of risk in financial markets are:

01 **Systematic risk,** which is the part of the risk that affects the entire market.

02 **Unsystematic risk,** which is specific to certain industries or companies.

CHAPTER 7

Licenses and Regulations for Trading Professionals and Platforms

The world of finance contains important groups called regulatory bodies that ensure everything runs smoothly and fairly.

Two major **regulatory bodies** are the Securities and Exchange Commission (SEC) in the United States and the Financial Conduct Authority (FCA) in the United Kingdom. **They watch over the markets, making sure everyone follows the rules and that investors are treated fairly.** Since money and trading flow across borders, these and other regulators often work together to make sure rules are comparable and fair everywhere.

Becoming a professional in managed trading requires specific licenses, such as Series 65 in the United States and the Investment Management Certificate in the United Kingdom. Obtaining these licenses is tough and includes obligatory exams and real-world experience.

The application of the MiCA (Markets in Crypto-Assets) Regulation in Europe from December 2024 onwards will also have a significant impact. Companies operating in the EU will have to adapt to stricter requirements for licensing and ongoing monitoring. MiCAR brings EU-wide licensing for all digital asset service providers.

Similarly, trading platforms must follow strict rules. Compliance officers within companies are the people who make sure these rules are followed. They play a big role in keeping the market honest and reliable.

Managed trading is subject to different laws depending on the country. In the USA, for example, there is the Dodd-Frank Act; in Europe, there is MiFID II. The content of these laws varies from country to country and can affect how trading is carried out, especially where trades involve multiple jurisdictions.

Funds are required to regularly share important information with governing bodies to show that they are operating in a fair and ethical way. Not doing so can lead to financial penalties and reputational damage.

These wide-ranging regulatory requirements underscore the importance of ethical standards in trading. **Fund managers and trading platforms aim to work in ways that reflect the best practices set by regulatory groups.**

CHAPTER 8

Measuring Success in Digital Asset Trading

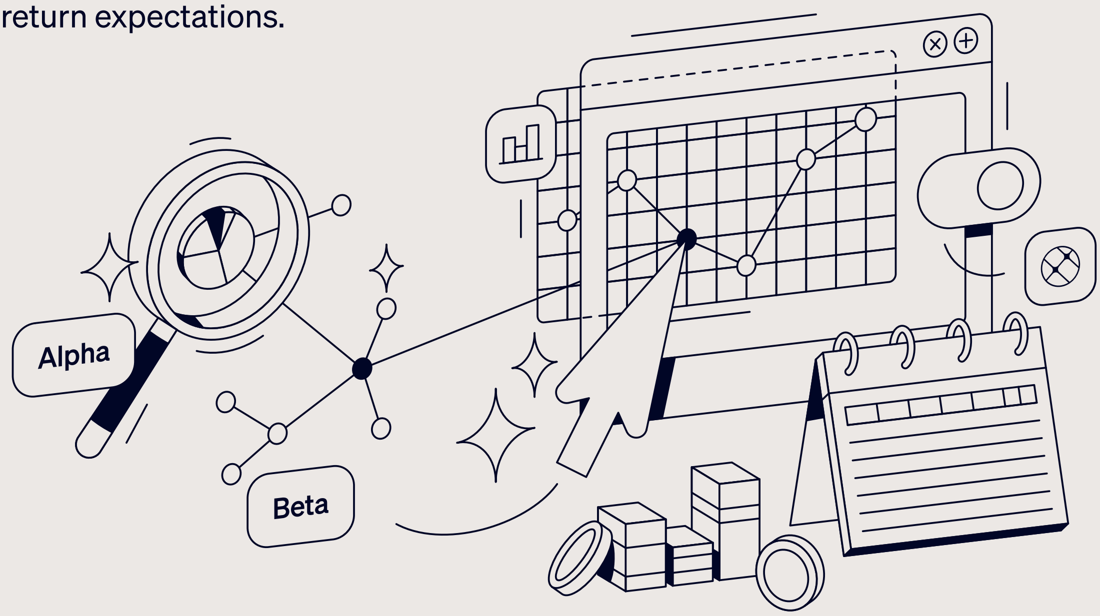
A range of indicators exist to measure a fund's performance.

You have probably heard of 'return on investment' (ROI), which tells you how much an investment has gained or lost as a percentage of the initial cost. When it comes to measuring performance, ROI can be thought of as the basic scorecard. But there is more to consider than just raw profit or loss. Take, for example, the alpha and beta measurements, often referred to as 'behind-the-scenes' measures of a fund's historical performance.

The alpha measurement reflects how well a fund has performed compared to the market average, while the beta measurement indicates how volatile or risky a fund is compared to the market. Understanding ROI, alpha, beta, and other metrics is key when picking a fund. They help you balance your risk appetite with your return expectations.

In order for these metrics to provide meaningful insights, we also need benchmarks. Benchmarks are the standards to which a given fund's performance is compared. In this sense, they can be thought of as guiding stars for navigating an investment journey.

Remember, too, to look at performance over different time periods. Even if a fund's short-term performance looks appealing, it is the long-term trends that often matter more, especially for understanding how a fund copes when the market gets rough.



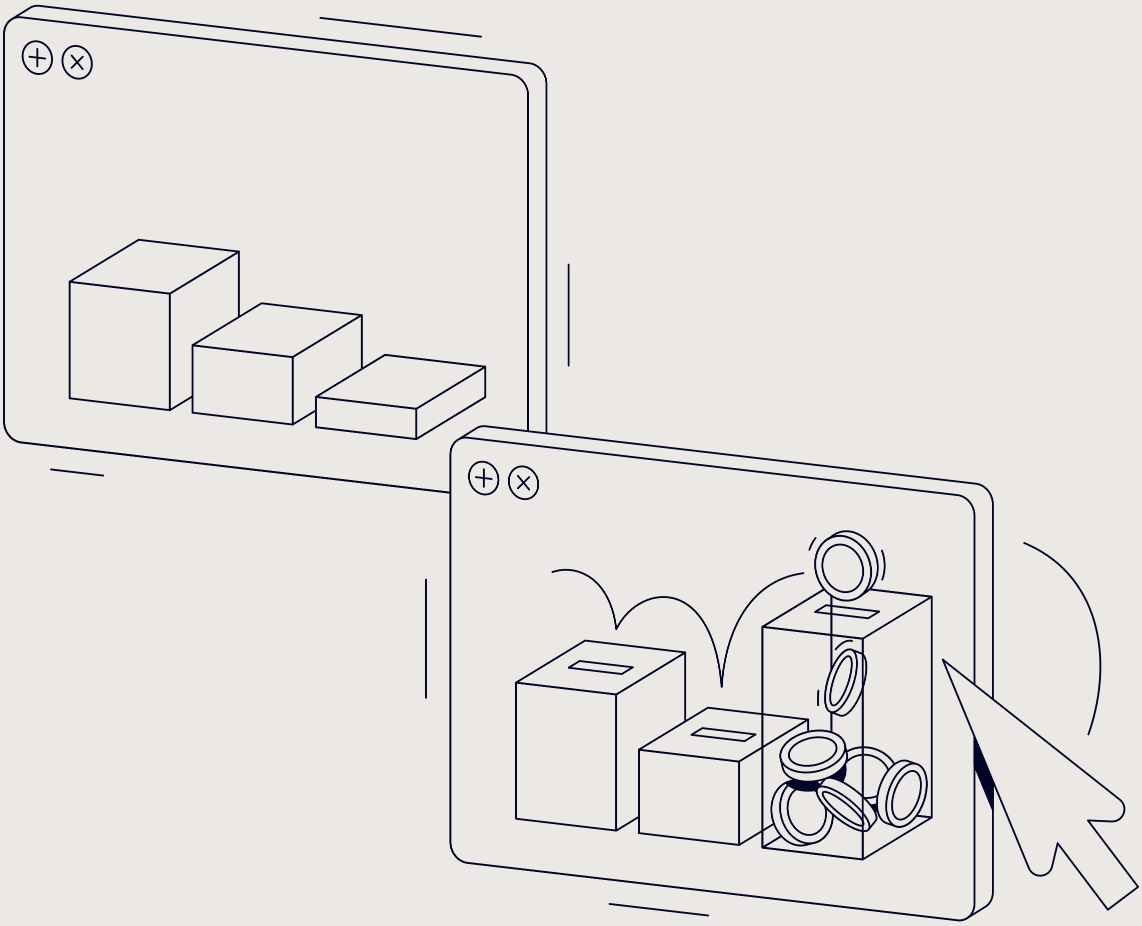
CHAPTER 9

The Cost of Managed Trading

Transparency on fees is critical. Managed trading is not free.

Understanding managed trading fees is essential, because they can significantly affect your investment's health and ultimately your profits.

A clear understanding of what you are paying for is vital in determining whether a service is worth its cost. This also involves comparing fees to industry standards to assess whether you are getting a fair deal.



The Cost of Managed Trading

Managed trading services charge **four different types of fees.**

Management fees:
These are the main (basic) fees and are calculated as a percentage of your total invested money, i.e. your assets under management (AUM). They cover the cost of receiving investment advice and the everyday handling of your investments.

Performance fees:
These fees are only charged if your investments perform extremely well, meeting certain goals or earning more than expected.

Administrative fees:
These cover operational costs like keeping your assets safe, processing transactions, and keeping you updated on your investments.

Entry and exit fees:
These are charges you might face when you start or stop using a managed trading service. However, they are not very common nowadays.

Sometimes, your fees will be lower the more you invest - sort of like a discount for buying in bulk. It is important to weigh the fees you are paying against the performance of your investments. Paying more in fees for active management might be worth it, especially if a fund performs exceptionally well.

Regulatory measures aim to ensure that the fee structures of managed trading services are kept as fair and transparent as possible, safeguarding you from excessive charges. Remember that fees can also influence your tax situation, so understanding how they work can aid efficient tax planning.

How much do you personally value convenience and peace of mind? Understanding this is part of figuring out whether a given service is ‘worth’ the cost.

Look at the long-term impact of fees on your returns and how expert management might lead to better gains. Consider the time you save by having professionals handle your investments and how they might manage risks and diversify your portfolio to make the most of your money.

Understanding the ins and outs of performance metrics and fee structures in managed trading is a bit like learning a new language. **It is about making informed decisions, understanding the risks and costs involved, and aligning your investments with your personal goals.** Knowledge is your friend when it comes to navigating this complex world with confidence.

CHAPTER 10

Choosing a Managed Trading Service

Choosing a Managed Trading Service

When choosing a managed trading service, there are a number of key things to look out for.

Performance history of the trading service:
Study historical performance in detail to get an overview of the success rates and trustworthiness of the service.

Transparent fee structure:
Fees should be clearly stated to enable you to balance them against your expected investment gains.

Transparency and clarity of the offer:
The best services are those that are easy to understand and offer options to suit your specific needs.

TIP

Once you have decided on a managed trading platform, we recommend asking yourself the following questions and sharing your answers with your fund manager.

01
Are you looking for quick gains (short-term goals)?

02
Are you saving for something far in the future, such as your retirement (long-term goals)?

03
Do you need regular income from your investments, or are you primarily interested in growing your money over time?

04
How much risk are you comfortable with?

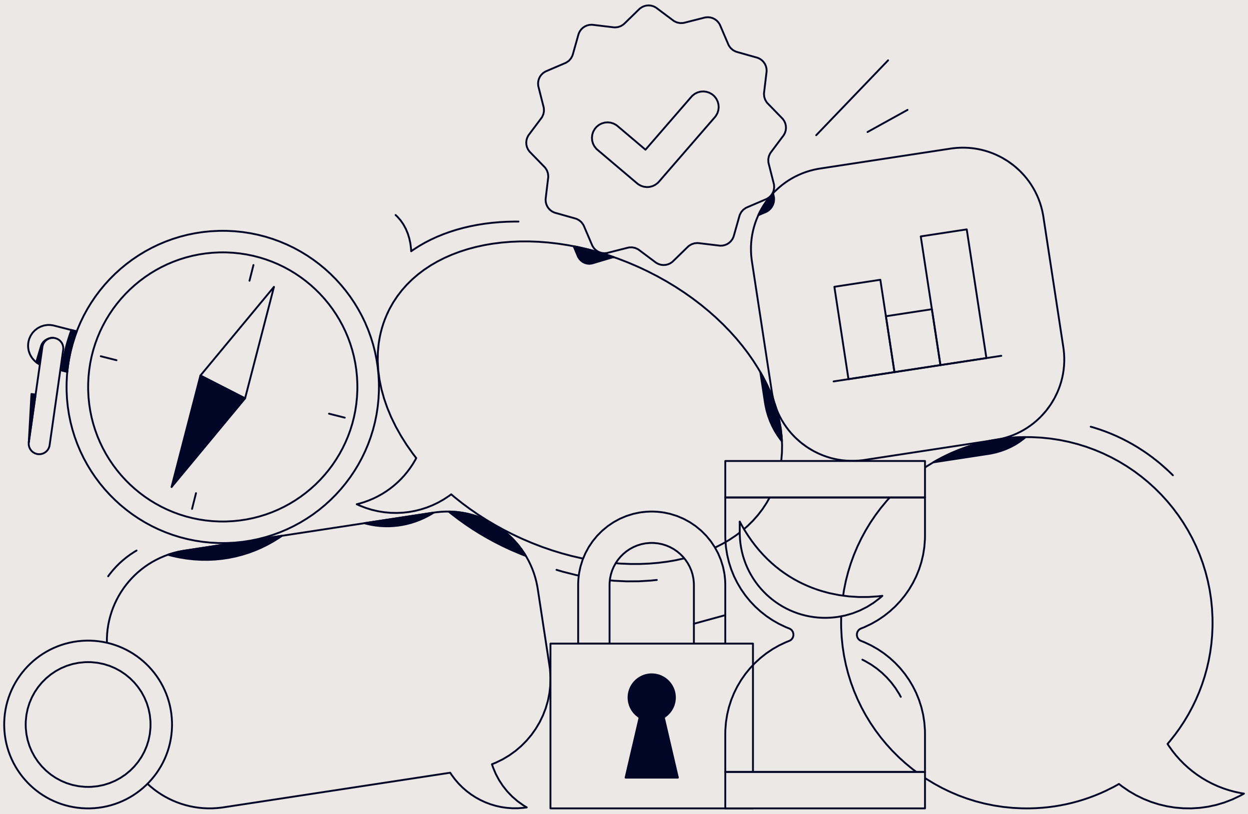
CHAPTER 11

Conclusion and Key Takeaways

Managed trading means engaging professional support to navigate the complex world of investments.

When you sign up to a managed trading service, a professional fund manager works with you to develop a personalized investment plan for your money. This plan should align with your financial goals and the level of risk you are comfortable with.

Once your plan is in place, experts handle the day-to-day running of your portfolio, overseeing all types of investments, managing risks, and helping your money grow. You may also get access to investment opportunities that you might not find independently, plus detailed reports on how your investments are doing.



Key Takeaways

The key benefits of managed trading are:

01

A single point of contact for your whole trade portfolio.

02

Time saved, as your fund manager takes care of everything from research and data analysis to trade execution and success metrics.

03

Access to an advantageous combination of technology (data analysis for predicting market trends plus algorithmic automation for optimal order placement) and human knowledge/experience (for picking up on subtle market shifts).

04

A fund manager to manage the diversification of your investment portfolio and create your risk management plan.

05

No need to worry about changing rules, laws or tax regulations for each country, as your fund manager is responsible for ensuring that your trades **align with current standards** and ethics.

CHAPTER 12

Glossary

Glossary

You can also visit our glossary online: www.teroxx.com/learn/glossary

A

Administrative fees
Charges incurred for administrative services provided by a financial institution, typically applied to managed trading accounts for services like account maintenance and reporting.

Alpha and beta
Alpha is a measure of an investment's performance relative to a benchmark, reflecting the excess return achieved by the investment manager through skill or strategy. By contrast, beta represents the sensitivity of an asset's returns to movements in the overall market. A beta greater than 1 indicates higher volatility compared to the market, while less than 1 signifies lower volatility.

Anti-money laundering (AML)
Anti-money laundering (AML) refers to regulations and procedures designed to prevent the process of illegally concealing the origins of money obtained through criminal activities. In the context of digital asset trading, adherence to AML guidelines and Know Your Customer (KYC) policies is essential for maintaining legal compliance and safeguarding investments from illicit financial activities.

Asset(s) / Digital asset(s)
An asset typically refers to any resource with economic value that an individual, company, or entity owns or controls and that can be used to generate future benefits. In the context of digital asset trading, digital assets are assets that exist in electronic form and are stored digitally, such as cryptocurrencies, digital tokens, or digital representations of real-world assets like art or property. These assets rely on blockchain or similar technology for security and verification.

Assets under management (AUM):
The total market value of assets managed by an investment firm or financial institution on behalf of an investor.

B

Benchmarks
Standard reference points that provide a baseline for comparison when evaluating the performance of investments, portfolios, or strategies.

Bitcoin
Bitcoin is a decentralized digital currency that was introduced in 2009 and pioneered peer-to-peer transactions without the need for intermediaries like banks. As the first cryptocurrency to enter the market, Bitcoin revolutionized the concept of digital value exchange and sparked the growth of the digital asset market. In doing so, it also prompted increased scrutiny and attempts at regulation from governments and regulatory bodies worldwide.

Blockchain
A blockchain is an open, decentralized digital ledger that records transactions across a network of computers in a secure and transparent manner. Each transaction, or ‘block,’ is linked to the previous one to form a chronological chain of blocks. This gives rise to the name ‘blockchain.’ This technology enables secure and immutable record-keeping, with applications ranging from cryptocurrencies like Bitcoin to supply chain management and voting systems.

C

CBDCs (central bank digital currencies)
Central bank digital currencies (CBDCs) are digital forms of national currencies issued by central banks. They enable electronic payments and transactions while maintaining the backing and stability of traditional fiat currencies.

Centralized exchanges (CEXs)
Centralized exchanges are platforms where users can buy, sell, and trade cryptocurrencies and other digital assets, with transactions facilitated by a central authority or intermediary.

Coincident indicators
Coincident indicators are economic indicators that move in tandem with the overall economy's business cycle, offering real-time insights into current economic conditions.

Compliance
Compliance describes adherence to laws, regulations, and standards set by regulatory bodies and governing authorities to ensure ethical and legal conduct within financial markets.

Consensus mechanisms
Consensus mechanisms are protocols used in blockchain networks to achieve agreement among participants on the validity of transactions and the state of the ledger. This ensures the integrity and security of the network without the need for a central authority.

Correlation coefficient
A statistical measure indicating the degree of relationship between two variables or sets of data. In a trading context, the data sets are financial instruments such as stocks. If two financial instruments have positive correlation, it means they tend to move up and down together.

Crowdfunding
Crowdfunding is a method of raising capital for projects or ventures by collecting small contributions from a large number of individuals, often via online platforms. It enables supporters to invest in or donate to projects they believe in.

Cryptocurrency
A cryptocurrency is a type of digital or virtual currency that uses cryptography for security and operates on decentralized networks based on blockchain technology. Unlike traditional currencies, cryptocurrencies are typically not issued by a central authority such as a government or central bank. Instead, they rely on an open, distributed ledger to record transactions. They can be used for various purposes, including online purchases, investments, and as a medium of exchange.

D

DAOs (decentralized autonomous organizations)
Decentralized autonomous organizations (DAOs) are organizations run by code and smart contracts on a blockchain. They allow for decentralized decision-making and governance without the need for centralized management.

Decentralized exchanges
Decentralized exchanges are platforms that enable peer-to-peer trading of cryptocurrencies and digital assets directly between users. They remove the need for intermediaries or central authorities, thereby enhancing privacy and security.

Decentralized Finance (DeFi)

Decentralized Finance (DeFi) refers to a variety of financial services and applications that are built on blockchain technologies. The goal of DeFi is to create open, permissionless, and transparent financial systems that enable activities such as lending, borrowing, trading, and investing without traditional intermediaries like banks.

Derivatives

Derivatives are financial contracts whose value derives from the performance of an underlying asset, index, or rate, often used for risk management or speculation.

Dodd-Frank Act

Dodd-Frank Act: U.S. legislation enacted in response to the 2008 financial crisis, aimed at regulating the financial industry and reducing systemic risk.

Drawdowns

Drawdowns represent the peak-to-trough decline in the value of a portfolio or investment during a specific period, measuring the extent of loss experienced before a recovery.

E

Environmental, social, and governance (ESG) factors

Environmental, social, and governance (ESG) factors are criteria used to assess the sustainability and ethical impact of an investment. They consider things like a company's environmental impact, social responsibility, and corporate governance practices.

Entry and exit fees

Charges incurred when entering or exiting an investment, often applied to managed trading accounts or investment funds.

Exchange-traded fund (ETF)

Exchange-traded funds (ETFs) are investment funds traded on stock exchanges in a similar way to stocks. They hold assets like stocks, commodities, or bonds and typically aim to replicate the performance of a specific index.

F

Financial Conduct Authority (FCA), United Kingdom
The Financial Conduct Authority (FCA) is the regulatory body in the United Kingdom that is responsible for overseeing and regulating financial firms and markets to ensure their integrity and protect consumers.

Forex
Forex, or foreign exchange, refers to the global market on which currencies are traded. It enables individuals, businesses, and institutions to buy, sell, and speculate on the value of different currencies relative to one another.

Futures
Derivative financial contracts that obligate the parties to transact an asset at a predetermined future date and price.

G

Gross domestic product (GDP)
Gross domestic product (GDP) is the total monetary value of all goods and services produced within a country's borders within a specific time period, often used as a key indicator of a nation's economic health and performance.

H

Hedging
Hedging is a risk management strategy used to offset potential losses in one asset by taking an opposite position in another asset. Its aim is to protect against adverse price movements.

Hash rate
Hash rate refers to the speed at which a computer or network can perform the cryptographic calculations required to mine cryptocurrency blocks or validate transactions on a blockchain. The hash rate is a measure of the computing power dedicated to a blockchain network and is often expressed in hashes per second (H/s), kilohashes per second (kH/s), megahashes per second (MH/s), gigahashes per second (GH/s), or terahashes per second (TH/s), depending on the scale of the network's operations. A higher hash rate indicates greater computational power and network security.

I

Index funds
Index funds are investment funds that aim to replicate the performance of a specific market index, such as the S&P 500, by holding the same proportion of assets as the index they track. They offer broad market exposure with lower fees compared to actively managed funds.

ICOs (initial coin offerings)
Initial coin offerings (ICOs) are fundraising events in which new cryptocurrencies or tokens are sold to investors in exchange for established cryptocurrencies or fiat currencies. ICOs enable blockchain projects to raise capital for development, but come with risks such as regulatory uncertainty and potential for scams.

IPO
An initial public offering (IPO) is the process by which a private company offers its shares to the public for the first time, allowing it to raise capital by selling ownership stakes to investors on a stock exchange.

K

Know Your Customer (KYC) policies
Know Your Customer (KYC) policies are procedures and regulations implemented by financial institutions and other businesses to verify and authenticate the identity of their customers. KYC measures typically involve collecting personal information - such as identification documents and proof of address - to prevent fraud, money laundering, and terrorist financing activities. This ensures compliance with legal and regulatory requirements.

L

Lagging indicators
Lagging indicators are economic or financial metrics that change after the economy or market has already begun to follow a particular trend. They provide confirmation of past trends but offer limited predictive value for future movements.

Layer 2
Layer 2 refers to any scalability solution built on top of an existing blockchain network. Layer 2 solutions aim to improve transaction throughput and reduce fees by processing transactions off-chain or in a more efficient manner.

Leading **indicators**
Leading indicators are economic or financial metrics that change before the economy or market follows a particular trend, offering insights into future trends or shifts in economic activity.

Leverage
Leverage refers to the use of borrowed funds to amplify potential returns from an investment. However, it also magnifies the potential losses, thus increasing both risk and potential reward.

Limit orders
Limit orders are instructions placed by traders to buy or sell assets at a specified price or better. These orders are executed only if the market price reaches the specified level, allowing traders to set precise entry and exit points for their trades.

Liquidity
Liquidity refers to the ease with which an asset can be bought or sold in the market without significantly affecting its price, often characterized by high trading volume and tight bid-ask spreads.

Liquidity mining
Liquidity mining is a mechanism used in decentralized finance (DeFi) protocols to incentivize users to provide liquidity to trading pools or lending platforms by rewarding them with tokens. Users contribute their assets to these platforms to facilitate trades or loans and help maintain liquidity in the ecosystem. The tokens are given in return.

Longer-term position trading
Longer-term position trading involves holding investment positions for an extended period, typically months to years, based on analysis of fundamental and technical factors rather than short-term market fluctuations.

M

Managed trading
Managed trading refers to a type of service whereby professional traders or investment firms manage the trading activities of clients' accounts on their behalf, typically for a fee or a share of profits. This approach allows investors to leverage the expertise and experience of professional traders while diversifying their investment portfolios as desired and mitigating the need for active involvement in trading decisions.

Management fees
Fees charged by investment managers or advisors for managing investment portfolios.

Market orders
Market orders are instructions given by traders to buy or sell assets at the current market price. Unlike limit orders, which specify a desired price for execution, market orders are executed immediately at the best available price in the market. They ensure swift execution, but may result in trades being executed at prices slightly different from the current market quote. This is particularly the case in volatile markets.

MiCAR (Markets in Crypto-Assets Regulation)
A regulatory framework established to govern the trading, issuance, and custody of crypto-assets within the European Union (EU). MiCAR aims to ensure investor protection, market integrity, and financial stability in the rapidly evolving cryptocurrency market landscape, promoting transparency and innovation while mitigating risks associated with digital asset transactions.

MiFID II
MiFID II, or the Markets in Financial Instruments Directive II, is a European Union regulation aimed at improving transparency, investor protection, and market integrity in financial markets.

N

NFTs (non-fungible tokens)
Non-fungible tokens (NFTs) are unique digital assets that are stored on a blockchain and represent ownership or proof of authenticity of digital or physical items, such as art, music, videos, or collectibles. Each NFT has distinct characteristics and cannot be replicated, making them valuable for creators and collectors in digital markets.

O

Overconfidence in trading
A behavioral bias whereby traders overestimate their abilities and underestimate risks, leading to poor decision-making and investment losses.

P

Personal trading
Personal trading involves individuals buying and selling financial assets for their own investment goals based on their own research and analysis. It differs from managed trading in that it is carried out independently of a financial institution. It reflects the personal trader’s individual risk tolerance and investment strategies.

Performance fees
Fees charged by investment managers or advisors based on the performance of an investment portfolio, typically calculated as a percentage of profits.

Pre-IPO access
Pre-IPO access refers to the opportunity for select investors to purchase shares of a company before the initial public offering (IPO). It is typically offered to institutional investors or high-net-worth individuals.

Pump-and-dump
Pump-and-dump refers to a type of scheme whereby the price of an asset is artificially inflated (pumped) through misleading information or hype. This is followed by a coordinated sell-off (dump) to profit at the expense of unsuspecting investors.

Q

Quick scalping
Quick scalping is a trading strategy that involves making numerous small trades to profit from small price movements in a short period. It relies on high-speed trading platforms and rapid execution.

R

Regulatory technology (RegTech)
Regulatory technology (RegTech) refers to technology solutions designed to help financial institutions comply with regulatory requirements more efficiently and effectively, often utilizing automation, data analytics, and artificial intelligence.

Return on investment (ROI)
Return on investment (ROI) is a measure used to evaluate the profitability of an investment relative to its cost, calculated by dividing the net profit generated by the investment by its initial cost.

S

Security tokens
Security tokens are digital tokens representing ownership of assets such as real estate or company shares. These tokens often adhere to securities regulations, providing investors with certain rights and protections.

Securities and Exchange Commission (SEC), United States
The Securities and Exchange Commission (SEC) in the United States is the regulatory agency responsible for overseeing and regulating the securities industry, protecting investors, and maintaining fair and orderly markets.

Settlement
Settlement is the process of transferring ownership of securities from a seller to a buyer and exchanging payment for the securities. It typically occurs a few days after a trade is executed.

Sharpe ratio
The Sharpe ratio is a measure of risk-adjusted return that calculates the excess return of an investment per unit of risk, with risk typically measured as the standard deviation of returns.

Stablecoins
Stablecoins are cryptocurrencies designed to maintain a stable value by pegging their price to an underlying asset like fiat currency or commodities. In this way, they provide a reliable means of transferring value and hedging against volatility in the cryptocurrency market.

Standard deviation
Standard deviation is a statistical measure of the dispersion of returns or prices around the mean or average, providing insight into the volatility or riskiness of an investment.

Stocks
Stocks represent ownership in a corporation, entitling shareholders to a portion of the company's assets and earnings. They are typically traded on stock exchanges.

Stop-loss orders
Stop-loss orders are instructions issued by traders to automatically sell an asset if its price falls to a specified level. They help to limit potential losses and manage risk in volatile markets.

Systematic risks
Systematic risks are risks that are inherent to an entire market or economy and affect all investments to some degree. Examples of systematic risks include interest rate changes, political instability, or economic downturns.

T

Token(s)
Tokens are digital assets representing ownership, utility, or access rights within a blockchain-based ecosystem. They are often used in crowdfunding, decentralized finance (DeFi), and other applications.

Tokenized / Tokenization
‘Tokenization’ refers to the process of converting assets, such as NFTs, into digital tokens using blockchain technology (‘tokenizing’), ensuring each unit's uniqueness and preventing replication or division. These tokens serve as proof of ownership and authenticity within the digital space.

Trading
Trading involves buying and selling financial assets such as stocks, bonds, or cryptocurrencies with the aim of generating profits through speculation, analysis, and market timing.

Trading futures
Trading futures refers to the act of choosing to buy or sell a futures contract: a standardized agreement to buy or sell an asset at a predetermined price on a specified future date. Trading futures provides investors with exposure to the price movements of the underlying asset without owning it outright.

Trading plan
A trading plan is a comprehensive set of rules and guidelines that outline an investor's approach to trading, including criteria for entering and exiting trades, risk management strategies, and performance evaluation criteria.

U

Unsystematic risks
Unsystematic risks are risks specific to an individual investment or company, such as management changes, supply chain disruptions, or product recalls.

V

Variance
Variance is a statistical measure of the dispersion of returns around the mean or average, representing the average squared deviation from the mean. It is often used to quantify the volatility or risk of an investment.

W

Wash trading
Wash trading refers to the practice of artificially inflating trading volumes by repeatedly buying and selling the same asset to create the illusion of activity. It is often used to manipulate market perceptions or attract investors.

Whales
Whales are individuals or entities holding large amounts of cryptocurrencies or other assets. Due to their significant holdings, they are capable of influencing market prices through their buying or selling activity.

Y

Yield farming
Yield farming is a practice in decentralized finance (DeFi) whereby users leverage a range of protocols and strategies to maximize their returns by providing liquidity, staking assets, or participating in other yield-generating activities within blockchain networks.

Please Note

This e-book series is an advertorial for Teroxx. Founded in 2018, Teroxx is a boutique digital asset trading company serving private customers and institutional investors across Europe. It is among the first companies to have achieved wallet exchange and custodian authorizations in Lithuania, a European fintech hub.

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