

4 Stepping Into Digital Asset Trading

# Key Metrics in Digital Asset Trading

This e-book introduces the multifaceted world of data-based metrics in digital asset trading. It introduces the statistical methods used to analyze trading performance and examines six key determinants of trading performance.



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The first three e-books in this series defined essential trading terminology and explained how to approach developing a trading plan.

They delved into the characteristics of managed versus personal trading and broke down the types of fees involved in each. Before placing your first trade, it is also a good idea to familiarize yourself with key trading metrics.

This fourth e-book, therefore, provides a comprehensive overview of the nuanced factors affecting trading performance and the ways by which this performance can be measured. It examines the applications and potential pitfalls of various trading metrics as well as the statistical techniques you should have in your toolkit.



CHAPTER 1

# What Defines Good Trading Performance?



## What Defines Good Trading Performance?

Favourable performance in financial trading defies a one-size-fits-all definition; rather, it differs depending on the goal or strategy being pursued. At the same time, there are some characteristics that represent common goals for the majority of traders.

### **Profitability:**

At its most basic level, trading performance is measured by profitability. However, that profitability is not merely about individual wins or losses; it is the ability (or otherwise) of a trader to generate profits over the long term.

### **Consistency and longevity:**

Making profitable trades is one thing, but doing so consistently is what really matters. Long-term performance is the most reliable indicator of a trader's skill and the efficiency of their strategy.

### **The right balance of risk and reward:**

Risk management is crucial. A strategy that earns high returns at the cost of very high risk might achieve the desired results for a while but lose money in the long run. A trader's ability to balance risk with reward is a crucial determinant of their long-term performance.

### **Favourable performance relative to benchmarks:**

Often, absolute figures do not tell the whole story. Understanding how your trading performance compares to relevant benchmarks or market indices provides insights into your performance relative to market potential.



CHAPTER 2

# Metrics for Measuring Trading Performance

## Metrics for Measuring Trading Performance

Trading metrics form the core of your analytical toolkit and should play an integral role in your trading plan. Learn them by heart in order to build them into your portfolio check-ups. Key trading metrics include:

### Net profit and return on investment (ROI):

ROI is net profit divided by the total costs of an investment. As its name suggests, it indicates the percentage return on your invested capital. It is the most popular metric used to evaluate how well an investment has performed.

### Risk-adjusted returns:

The Sharpe and Sortino ratios give insight into how much risk is being taken to achieve returns.

### Win/loss ratio:

This is the ratio of successful trades to unsuccessful ones over a given period. This basic snapshot can be deepened by evaluating the average size of wins to losses.

### Drawdown:

The largest amount by which a trading portfolio declines from the peak before beginning to rise again, painting a picture of risk tolerance and discipline.

### Expectancy:

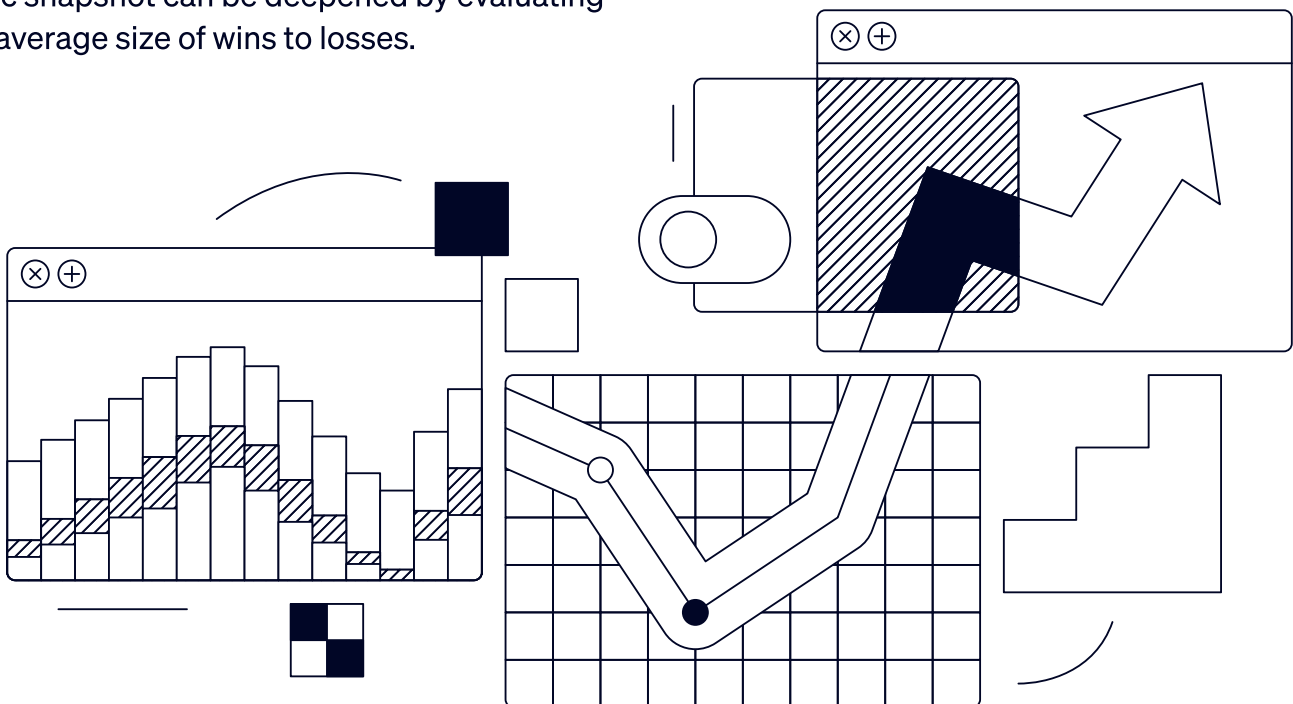
The average amount a trader can expect to win or lose per trade based on their historical performance - a pivotal value for strategy evaluation.

### Comparative analysis:

Comparative analysis entails comparing your trading results to a market index or to other traders using metrics. This offers a wider lens on your performance.

### Average winner and average loser:

These metrics represent the average profit made on winning trades and the average loss incurred on losing trades respectively.



CHAPTER 3

# Using Trading Metrics to Inform a Strategy

# Trading metrics provide numerical snapshots of how your portfolio is performing.

As mentioned in the previous section, traders must look beyond raw profits in order to achieve consistency and continuously improve their strategies. Monitoring key metrics such as win/loss ratio, drawdown, and expectancy can help to elevate the performance of a trading portfolio to the next level.

In Chapter 4 of the third e-book, 'Insights Into Personal Trading,' we learned that a clear trading plan lays the foundation for your success. Metrics have an important role to play in shaping and refining this plan for optimal profitability.

Below are four examples of approaches that draw on the power of metrics to inform and elevate your trading.

## 01

**Backtesting:** Using backtesting to obtain metrics for past data allows you to analyze how well a particular trading strategy would have performed historically.

## 02

**Algorithmic trading:** Trading metrics can be used to inform the programming and ongoing tweaking of trading algorithms.

## 03

**Portfolio diversification:** Metrics help you make effective decisions about diversification, enabling you to reduce your risk while maintaining steady returns. To find out more about diversification methods, see Chapter 2 of the second e-book, 'Insights Into Managed Trading.'

## 04

**Performance reviews:** Regular analysis of trading metrics provides a basis for refining your strategy and identifying areas for improvement



CHAPTER 4

# Common Pitfalls and the Risk of Misinterpretation

While the trading metrics mentioned in the previous section are numbers-based and ostensibly straightforward, they nevertheless require an understanding of how to approach them.

We as humans have a tendency to be biased by emotion or fear, even when we believe we are being objective and neutral. For this reason, we must exert a conscious effort to remain cautious and objective. Some common pitfalls to be aware of include:

01

**Single metric reliance:** Overemphasis on one metric can lead to skewed decision-making.

02

**Contextual misinterpretations:** Metrics only become truly meaningful when considered within the appropriate market and economic context.

03

**Curve-fitting:** In backtesting, manipulating a strategy to fit historical data (curve-fitting) can produce misleading results.

04

**Statistical significance:** It is important to consider whether a trading metric represents a statistically significant insight and is not just the result of random chance.

CHAPTER 5

# Why Statistically Analyze Your Trading Data?

# This chapter delves into the intricate world of statistical analysis as a means of interrogating your trading data.

Statistical tools help traders and analysts dig deeper into a variety of trading data and verify the validity of what the numbers appear to be telling them.

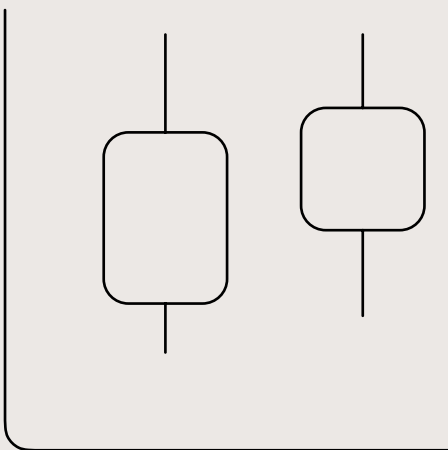
The question at the heart of trading is deceptively simple, namely: what is a desirable trading outcome? Is it a stable income, the thrill of a risky bet paying off, or the consistency of returns?

As we learned in the first part of this e-book, for most traders, good trading is characterized by **profitability, effective risk management and consistency over time.**

Traders hope and strive for returns that not only soar high above losses but endure across diverse market conditions. They assess their portfolios against these goals using simple metrics like win/loss ratio as well as by more nuanced metrics such as drawdown and the Sharpe ratio.

As they do so, they must also consider the time frame over which they wish to analyse their trades. The way in which success manifests in the data over an electrifying day of trades can look markedly different from a year's slow and steady gains. **Choosing the right snapshot to measure your personal goals is pivotal for meaningful analysis.**

To distill truth from chaos, traders can turn to statistical significance tests. In trading as in other domains, statistical significance can be thought of as a bulwark that guards against the deceptive sirens of chance. It is the companion that guides us through the labyrinth.



Here are six **statistical concepts** that can help you better understand what your trading data is telling you.

# 01

**Probability analysis of trading outcomes:** Probability is a measure of the likelihood of future events. In trading, probability analysis uses historical data and uncertainty modeling to estimate the likelihood of a range of potential trading outcomes, shining light on the likeliest path of a stock's journey.

# 02

**Plotting probability distribution:** Visualizing the probability distribution of a set of data often has the effect of introducing order and uncovering a familiar pattern (for example, the bell curve or 'normal distribution') among what appears at first to be chaos. This allows traders to spot deviations and act based on what is most likely to happen.

# 03

**The law of large numbers:** It is through sheer volume that the erratic is tamed. As trades accrue, their collective story creates predictability for the future, strengthening the foundations of a trader's statistical analysis.

# 04

**Tendency and dispersion:** Measures of central tendency indicate the approximate center of a data set, while measures of dispersion measure the spread of data around this central point. Central tendency is described using the mean, median and mode: values that establish the 'center of gravity' for a data set. Range and standard deviation chart the spread of possibilities: the boundaries within which the ebb and flow of market waves are contained.

# 05

**Expectancy:** The 'crystal ball of trading,' expectancy multiplies the win rate by the average win and adjusts it by the rate and size of losses. This is another way of forecasting the likely outcome of a trade before you commit to it.

# 06

**Outliers:** In a forest of data, outliers are the ancient trees among the saplings. They are rare and potentially monumental. Their presence can shape a strategy by driving both caution and opportunity, though prudence is required in their interpretation.



CHAPTER 6

# Types of Statistical Analysis

## 6d Types of Statistical Analysis

Statistical analysis is important when it comes to accurately quantifying the performance of your trading portfolio. In the previous chapter, we learned about the statistical concepts that can help us turn trading data into meaningful insights. Trading data can also be interrogated using a range of analytical tests and procedures, including:

### Statistical models:

These are the looms on which we weave raw numbers into coherent simulations of real-world phenomena. From simple moving averages to complex neural networks, each model offers a unique lens through which to interpret potential outcomes.

### Regression analysis:

Regression analysis helps trace the influence of independent variables (such as the timing of a trade) on a trading outcome (the dependent variable). This helps to piece together the map of cause and effect in a sea of what might at first appear random events.

### Hypothesis testing:

Earlier in this guide, we mentioned backtesting: using historical data to examine how a particular strategy would have performed in the past. This idea is also known as 'hypothesis testing'. Like a diligent scientist testing their theories in the lab, hypothesis testing uses statistical tools to challenge our strategies against the crucible of historical data, helping to validate or refute their merit.

### Time-series analysis:

Time-series analysis is a technique for analyzing a series of data points collected at consistent intervals. Through its lens, we can clearly see the pulse of the market over time. We can discern rhythms among the noise and infer tomorrow's movements from the patterns of today.

Each concept and method has a role to play in a sophisticated, data-based understanding of trading performance: one that thrives on the rigor of statistical scrutiny and the judicious interpretation of what our numbers tell us.



CHAPTER 7

# Six Key Determinants of Trading Performance

# Favourable trading performance is influenced by a multitude of factors.

In the complex and volatile world of the financial markets, it is important for traders to make use of the things they can control. The following six elements, in particular, have the potential to influence a trader's journey.



01

Trader psychology and discipline



02

Market knowledge and experience



03

Implementation of risk management



04

Effective capital allocation



05

Adherence to a robust strategy



06

Smart use of technology



01

## Trader psychology and discipline

Success begins in the mind. Emotional control is paramount, especially during market volatility, as it enables traders to stick to their strategies rather than succumb to panic selling or fear-driven buying.

Disciplined adherence to a trading plan can shield traders from distractions and spontaneous decisions with the potential to lead to major losses.

### **Coping with losses:**

Traders are bound to face losses, but it is their coping mechanisms that dictate their resilience. Cultivating a mindset of detachment toward losses, and viewing them as an opportunity to learn, can significantly enhance trading longevity.

### **Managing biases and emotions:**

Biases such as overconfidence can cloud judgment. Successful traders are aware of potential psychological pitfalls and work actively to mitigate their influence. Similarly, understanding how fear and greed can skew decision-making encourages traders to develop the balanced mindset that is crucial for prudent navigation of the markets.

### **The virtue of patience:**

Patience is invaluable when it comes to waiting for optimal trade setups. Foresighted traders who resist the urge to trade impulsively tend to perform better in the long run.

### **A culture of learning:**

Given the ever-evolving nature of the markets, continuous learning and adaptability are not just desirable but essential survival skills for traders.



### **Learn More**

To learn more about the psychological side of trading, see Chapter 8 of the third e-book, 'Insights Into Personal Trading'.





02

## Market knowledge and experience

To trade digital assets successfully, it is advisable to have a broad understanding of the digital trading market. Chapter 2 of the first e-book of this series explains more about its unique characteristics.

Discerning the likely implications of market movements requires both experience and a thorough grounding in fundamental market principles. Below are some of the key areas of expertise on which traders rely.

### **Reading market indicators:**

In order to anticipate trends and make informed decisions, traders must learn to interpret market indicators. This skill demands proficiency in trading technology as well as an understanding of the 'stories' behind market movements. It is both an art and a science.

### **Leveraging historical performance:**

Pattern recognition and learning from historical market performance can afford traders a competitive edge, helping them predict future movements and shape their investment strategies accordingly.

### **Applying sector-specific knowledge:**

Specialized sector knowledge can usefully inform trading decisions, allowing traders to weigh the potential of investments based on nuanced and holistic insights.

### **Keeping up with global economic events:**

A grasp on how global events affect markets can equip traders to position their portfolios proactively rather than reactively.

### **Staying alert to variance in market conditions:**

Experience gained in different market conditions - bullish, bearish, and sideways - prepares traders for the inevitable ebb and flow of the financial markets.

### **Understanding market cycles:**

Recognizing market cycles and their potential impacts can be a significant advantage for trading success.



03

## Implementation of risk management

As part of a holistic trading strategy, good risk management can help to reduce the chance of catastrophic losses. As already described in Chapter 6 of the second e-book and Chapter 9 of the third e-book, there are a number of risk management techniques to choose from. They include:

### **Stop-loss orders:**

Setting stop-loss orders allows traders to define their risk upfront and can help them to manage potential downside.

### **Diversification:**

A well-diversified portfolio spreads risk across various asset classes and can prevent the decimation of capital during a market downturn.

### **Position sizing:**

The adage 'Do not put all your eggs in one basket' is an apt one for trading. Position sizing - determining the optimal number of units of a particular asset to purchase - can reduce the chance of a single loss being debilitating.

### **Risk-reward ratio:**

Traders should weigh the potential rewards against the risks and be comfortable with the level of risk they undertake in each trade.

### **Protection of profits:**

Implementing trailing stops can protect profits while giving trades room to grow. This aspect of trading is a balancing act that demands precision.

### **Strategy review:**

Risk management strategies require regular review and adjustment to keep pace with changing market dynamics.



04

## Effective capital allocation

Choices regarding capital allocation can shape the performance of a portfolio as much as the investments themselves. Consider:

### **Smart asset class allocation:**

Allocating capital to different asset classes in a carefully considered way can help to create a balanced portfolio that withstands volatility.

### **Balancing of investment types:**

A mix of aggressive and conservative investments can yield favorable long-term results without unnecessary exposure to risk.

### **Profit reinvestment:**

The decision to reinvest profits or cash out will depend on your individual goals and market outlook.

### **Reserves for market downturns:**

Maintaining capital reserves for downturns can provide stability and the liquidity needed to capitalize on market opportunities.

### **Avoidance of overexposure:**

Sizing trades properly is crucial to avoid overexposure, which can lead to significant losses.

### **Liquidity for decision-making:**

Maintaining adequate liquidity allows you as a trader to make quick decisions without being hamstrung by a lack of funds.

### **Avoidance of over-leveraging:**

Over-leveraging is a common pitfall that often leads to amplified losses.



05

## Adherence to a robust strategy

A solid trading strategy is the foundation upon which a trading career is built. Chapter 4 of the third e-book provides a clear ten-step guide to creating your individual trading plan. Keep the following points in mind to give your strategy the best chance of success.

### **Clarity is king:**

Developing a clear, tested strategy provides a roadmap to follow amidst market chaos.

### **Adherence is everything:**

The ability to stick to a strategy consistently - even when the market noise lures you in the opposite direction - can help to protect you against impulse, fear-driven decisions and emotional biases.

### **Strategies require review and optimization:**

Successful traders do not just set and forget their strategies. Instead, they subject them to ongoing review and optimization.

### **Build in flexibility:**

While your strategy should not change on a whim, it is also important to recognize - based on data - when a change is genuinely needed. Market changes can swiftly render once-winning aspects of a strategy obsolete.

### **Choose consciously between active vs. passive trading:**

Making the decision to pursue active or passive trading approaches involves understanding the personal time commitments, skill levels, and risk preferences involved.

### **Consider a mix of analytical methods:**

A combination of both fundamental and technical analysis often provides the most holistic view of the market. This can equip you to develop a correspondingly well-rounded strategy.



06

## Smart use of technology

Technology has completely changed the world of trading, making it faster, more informed, and open to everyone around the globe. In the future, the role of technology in trading will only increase in significance.

New technologies like high-frequency trading (HFT) let transactions happen in microseconds, conveying the advantage of lightning-fast speed. Algorithmic trading, which uses complex mathematical models to decide when to buy and sell, has also become more mainstream in recent years.

Artificial intelligence (AI) and machine learning (ML) are increasingly used to predict market trends and identify trading opportunities by mining past data. And with mobile trading apps, anyone with a smartphone can trade anywhere, anytime.

Technology gives traders the tools to analyze huge amounts of data and derive meaningful insights into the market. Real-time data helps traders stay updated, while advanced software tools help with technical analysis and charting.

Backtesting software lets traders test their strategies without placing money at risk. Tools that analyze news and market sentiment give traders a holistic picture of the market, placing numerical data in the context of psychological and geopolitical driving forces. Risk management software and simulation platforms are useful in developing protective measures and monitoring the identified risks.

Today, traders can access different global markets and types of assets more easily than ever before. Fintech innovations have introduced new ways of trading, like crowdsourcing and social trading. Blockchain technology is also creating new investment opportunities.

Clearly, technology has a huge and multi-faceted role to play in trading performance. It has changed how we interact with markets and will continue to shape our trading methods and financial strategies. As technology evolves, traders must adapt, learn, and keep innovating to make the most of what it offers.



CHAPTER 8

# Conclusion and Key Takeaways

Metrics provide useful snapshots into the many and complex facets of trading performance. They help to quantify the profitability, risk characteristics, and consistency of a portfolio, among other things.

As you venture through the world of financial trading, it is important to understand how to measure trading outcomes efficiently and accurately.

Trading metrics are tools that guide traders through the often murky waters of financial markets, helping to facilitate results-oriented strategies and informed decision-making. They enable traders to approach success in a systematic fashion while steering clear of erroneous conclusions and interpretations.



# Key Takeaways

The five key take-aways from this e-book are:

## 01

At a basic level, most traders strive for portfolios that are profitable, perform consistently over a given period, and comply with the individual trader's desired level of risk.

## 02

There are a variety of success metrics that can form part of your regular portfolio check-ups. These include the ROI, the risk-adjusted returns (e.g. the Sharpe and Sortino ratios), the win/loss ratio, and the drawdown. These metrics can also be compared to those of other traders and to relevant benchmarks to give an idea of relative performance (comparative analysis).

## 03

Though trading metrics are number-based and might appear self-explanatory, it is important to understand how to interpret them. There is the risk of overemphasizing one metric, curve-fitting, misinterpreting the economic context and not taking into account statistical significance.

## 04

When it comes to analyzing trading performance, there are six key statistical concepts to consider: probability, bell curve development, predictability, tendency and dispersion, expectancy, and outliers.

## 05

Trading performance is influenced by the trader's psychology and discipline as well as by their market knowledge and experience, implementation of risk management, capital allocation, trading strategy and use of technological advancements.

The next and fifth e-book takes an even deeper look at the benefits of managed versus personal trading. By the end of it, you should be one step closer to being able to determine the optimal trading set-up for you.

CHAPTER 12

# Glossary

# Glossary

You can also visit our glossary online: [www.teroxx.com/learn/glossary](http://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.

## **Artificial intelligence**

AI entails computer systems simulating human intelligence. It is important in trading for analyzing vast datasets, making informed predictions (such as using historical data to forecast price movements), and executing trades automatically.

## **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.

**Average loser**

The average amount of loss incurred on losing trades. It is calculated by summing the losses of all losing trades and dividing by the number of losing trades.

**Average winner**

The average amount of profit made on winning trades. It is calculated by summing the profits of all winning trades and dividing by the number of winning trades.

**B****Bear markets:**

Bear markets are periods in the financial markets characterized by declining prices across various asset classes. They are typically accompanied by pessimism and a general expectation of further losses.

**Bell curve**

Also known as 'normal distribution,' a bell curve represents a symmetrical spread of data around the mean. For traders, plotting the distribution of returns on a graph can reveal the likelihood of profit or loss within a trading strategy.

**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.

**Bull markets**

Bull markets are periods of sustained optimism and rising prices in the financial markets. They are marked by investor confidence, economic growth, and expectations of continued upward momentum.

**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.

### **Dividends**

Dividends are the portions of a company's earnings that are distributed to its shareholders. They are typically paid out on a regular schedule, usually quarterly, as a reward for owning the company's stock.

### **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**

The peak-to-trough decline during a specific period for an investment, trading account, or fund. It measures the extent of the loss from the highest point (peak) to the lowest point (trough) before a new peak is reached.

**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.

**Expectancy**

Also known as 'expected value,' this is the average amount one can expect to gain or lose per trade over the long term. It is calculated by multiplying the win ratio by the average winner, then subtracting the product of the loss ratio (1 - win ratio) and the average loser.

**F** **Fear gauge (VIX)**  
The VIX (Volatility Index), more commonly referred to as the 'fear gauge,' is a measure of market volatility derived from the prices of options contracts on the S&P 500 index. It is often used as an indicator of investor sentiment and market uncertainty.

**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

**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.

**Herd behavior**

Herd behavior refers to the tendency of individuals to follow the actions of the crowd or group rather than making independent decisions. It often leads to exaggerated market movements and the formation of bubbles or panics.

**High frequency trading (HFT)**

HFT involves the execution of a large number of trades at extremely high speeds, often leveraging powerful computers and algorithms. In real-life trading, HFT firms capitalize on minimal price discrepancies across markets or exchanges, exploiting fleeting opportunities for profit within microseconds.

**Historical volatility**

Historical volatility measures the past price movements of a financial asset over a specified period, providing insights into the asset's past performance and the level of risk associated with it.

**I****Implied volatility**

Implied volatility is a measure of expected future volatility derived from the prices of options contracts. It indicates the market's expectations for potential price fluctuations in the underlying asset.

**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.

**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.

**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.

**Loss aversion**

Loss aversion is a psychological bias whereby individuals feel the pain of losses more acutely than the pleasure of equivalent gains, often leading to risk-averse behavior and suboptimal decision-making.

**M****Machine learning (ML)**

ML is a subset of AI that enables computer systems to learn from data and improve their performance without being explicitly programmed. In trading, ML algorithms can be used to adapt to changing market conditions, refine trading strategies, and identify profitable opportunities. One way in which ML models do this is by analyzing historical market data to identify patterns and trends, helping traders make more informed decisions.

**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.

**Means**

Means represent the average value of a dataset, calculated by summing all values and dividing by the total number of observations. The different types of mean are arithmetic, weighted, geometric and harmonic, though the arithmetic mean is mostly commonly used. In trading, means and medians are used to analyze performance metrics such as returns or drawdowns.

**Medians**

Medians represent the middle value of a dataset when arranged in ascending order. Several forms of median may be used, including simple, weighted, running, and trimmed. In trading, means and medians are used to analyze performance metrics such as returns or drawdowns.

**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****Outliers**

Outliers are data points that significantly differ from the rest of the dataset. In trading, outliers can represent extreme market events or anomalies that impact performance metrics. For example, a sudden spike or drop in asset prices may result in outliers in a trader's profit or loss distribution, influencing risk assessment and strategy evaluation.

**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.

**Pips**

The 'pip,' or 'percentage in point,' is the smallest unit of price movement in the foreign exchange market. It typically represents the fourth decimal place in currency pairs and is used to measure changes in exchange rates.

**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****Range**

Range refers to the difference between the highest and lowest values in a dataset. In trading, range can represent the variability of returns or price movements over a specific period. Calculating the range of daily price movements for a stock can help traders assess volatility and set appropriate risk management measures.

**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.

**Risk-to-reward ratio**

The risk-to-reward ratio is a measure used by traders to assess the potential return of an investment relative to its risk. It is calculated by dividing the expected profit of a trade by the potential loss.

**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.

**Sortino**

The Sortino ratio is a risk-adjusted performance measure that evaluates the return of an investment relative to the downside risk, focusing only on the negative deviation from the target or expected return. In real-life trading, a high Sortino ratio indicates that the investment generates higher returns relative to its downside risk, making it an attractive option for risk-averse investors.

**Spread**

Spread is the difference between the bid and ask prices of a financial instrument. As such, it represents the cost of executing a trade and the profit margin for market makers.

**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' 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.

### Trailing stops

Trailing stops are dynamic stop-loss orders adjusting with asset price movements, protecting profits while allowing trades to capitalize on favorable market conditions. As a stock price rises, a trailing stop order adjusts upward, then secures the gains if the price suddenly reverses.

## 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.

### Volatility scalping

Scalping is a trading strategy that involves making numerous small trades with the aim of profiting from small price movements. It is often executed within a time frame of seconds or minutes.

**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.

**Win/loss ratio**

A ratio that compares the number of winning trades to losing trades. It is calculated by dividing the total number of winning trades by the total number of losing trades.

**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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