5 Stepping Into Digital Asset Trading

Finding Your Path in Digital Asset Trading

This e-book lays out a systematic approach to mapping your financial trading goals and brings together many of the key points we have learned so far. It summarizes the advantages of personal versus managed trading and helps you determine which trading approach fits you best.

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The first four e-books provided a grounding in fundamental trading principles and common terminology.

In addition, they took a deep dive into personal versus managed trading and explored common performance metrics for digital asset trading. The fifth book brings together all of this knowledge to help you decide which type of approach is best for you.

Financial planning is as personal as a custom-tailored dress or suit. It must fit you to a tee and suit the occasions for which it is required. Making the right choices requires you to stitch together the fabric of your financial goals with the thread of your risk tolerance. To determine the correct approach for you, you must also have a clear and confident grasp of the benefits of personal versus managed trading in the context of digital assets. This is where this e-book comes into play, helping you to assimilate and consider much of the information we have learned so far.

CHAPTER 1

Mapping Your Financial Goals

Before diving into a sea of investments, get your bearings by mapping out what matters to you.

Financial goals are not just about the figures in your bank account; they are about the life you want to lead. Imagine your financial goals as destinations on a map. Some are just a short stroll away, such as a new smartphone or a weekend getaway.

Others are more of a long-distance hike, like owning a home or securing a comfortable retirement. Each requires a different route. Though every investor is different, most financial investment decisions are guided by a number of common considerations. These include:

01
Balance of short and long-term goals: Your financial map will have overnight stops (short-term goals) and final destinations (long-term goals). Short-term goals might be saving for a holiday; long-term goals could include your child's education fund.

02
Alignment with values: For many investors, investment decisions are a way to express and uphold their personal values. An emphasis on philanthropy, education, or entrepreneurship might guide your route.

03
Psychological comfort: Investing is not just about intellectual choices; it is about how much market turbulence you can stomach without losing sleep.

04
Capacity for losses: Assess your level of resilience. Can your financial set-up withstand a storm, or would you feel more comfortable on calmer waters?

05
Financial education: How well equipped are you to navigate the financial seas? Your level of financial trading knowledge and capacity to analyze market events will be key determinants of your approach to trading.

You cannot set sail on a long voyage without first understanding the art of sailing. Owning a boat is not enough! Similarly, effective investing requires more than just funds to invest. There are a number of practical factors and steps to consider before and throughout your trading journey.

Journeying in accordance with your financial goals and risk tolerance requires knowing yourself, charting a course that suits your journey, and being prepared to adjust your sails as the winds change.

It is a balance of the heart's desires and the mind's caution - and it is a journey that is uniquely yours.

01

Your investment plan: This is your map. It should show the route from where you are now to each treasure you seek.

02

Your choice of asset classes and vehicles: These are the winds and currents you will use to propel your ship. Choose the ones that are compatible with your map and can handle the weather you are willing to risk.

03

Diversification: No wise captain relies on a single trade wind. Spread your sails to catch different breezes.

04

Tax implications: Remember to factor in the cost of the ports you will dock at. Taxes can take a significant share of your treasures

05

The economic climate in which you are traveling: The financial seas are affected by the economic weather. Stay alert to changes.

CHAPTER 2

Digital Assets in the Wider Trading Landscape

Digital assets have stormed the financial world, bringing with them a plethora of new opportunities and challenges for traders and investors.

This chapter examines the complex world of digital assets in context.

A   Why are digital assets relevant?

B   What are the challenges surrounding digital assets?

C   What is the potential significance of digital assets for the investment landscape of the future?

Imagine a world where value is not embodied by physical objects but represented as entries in a secure, decentralized digital ledger.

This is the realm of digital assets. It ranges from cryptocurrencies like Bitcoin and Ethereum to tokens representing everything from virtual real estate to ownership in a piece of digital art.

These assets are divisible, allowing even small investors to engage in microtransactions, and their ownership is immutable, recorded on the blockchain for all to verify.

A

The Relevance of Digital Assets

One of the appeals of digital assets is their ability to diversify an investment portfolio. Their inherent volatility can deter risk-averse investors, while investors with a high risk tolerance may be drawn to their potential for high returns. Trading platforms dedicated to these assets operate round-the-clock, breaking the chains of traditional stock market hours and enabling a truly global trading experience. As regulatory landscapes evolve, they too shape the trajectory of digital asset trading, presenting new challenges and opportunities.

Incorporating digital assets into a trading strategy can provide greater liquidity and lower transaction costs than those typically associated with traditional stocks and shares, especially for international transfers. For one thing, the advent of smart contracts has enabled automated, intermediary-free transactions. For another, fractional ownership opens the door to high-value investments that were previously out of reach to a large number of traders. Alongside this, the transparency afforded by blockchain technology brings a new level of trust to transactions, democratizing investment opportunities far and wide.
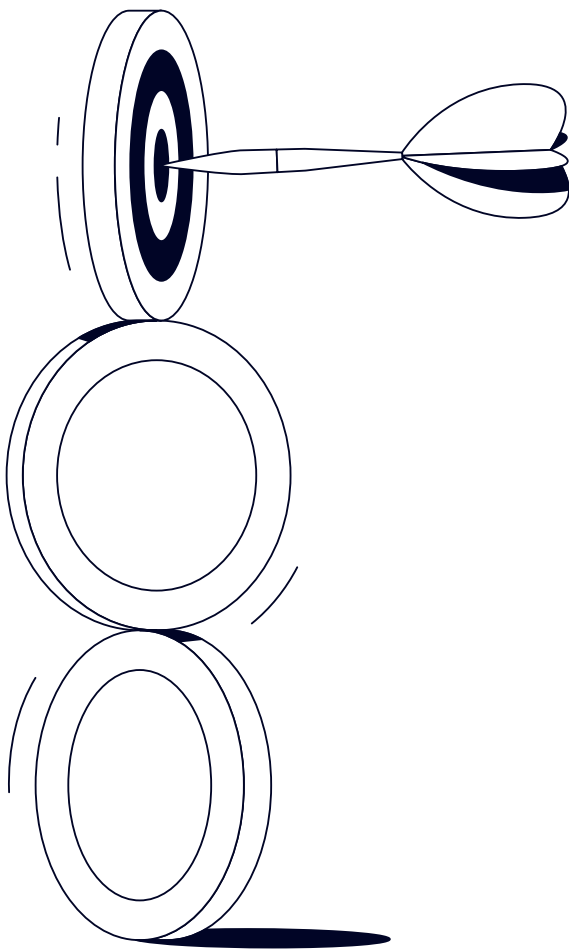
B

Risks of Digital Asset Trading

With innovation comes risk. **Investors must become keenly aware of the regulatory uncertainties and cybersecurity threats present in the digital asset space.** This steep learning curve deters many potential investors, and the market's volatility can be as punishing as it is rewarding. User error (such as the loss of private keys) can result in irreversible losses, while concerns over the environmental impact of some blockchain networks may give investors ethical pause for thought.

The lines between traditional and digital trading are blurring. Hybrid platforms now cater to both asset types, while blockchain technology is being harnessed to enhance the efficiency of conventional trading practices. Financial giants are dipping their toes into digital waters, offering services for new asset types and creating products like cryptocurrency, ETFs and regulatory-compliant stablecoins. Still, integrating these modern assets into established tax and accounting systems remains a challenge.

C
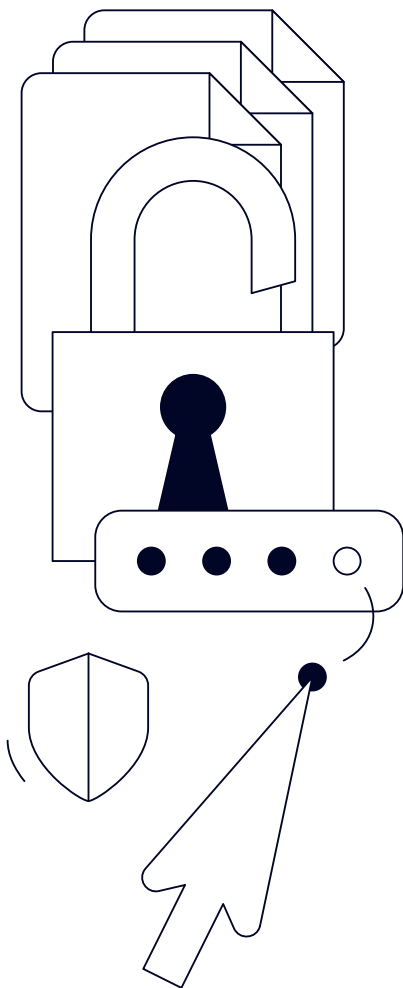
The Future of Digital Assets

The future of digital assets is bright and brimming with potential. While regulatory frameworks solidify, providing clarity and protection for investors, technological advancements continue to push the boundaries of what blockchain can achieve. **The synergy between digital assets and fintech will define the financial services world of the future.** With each global economic event that transpires, digital assets become ever more influential in the shaping of financial systems

By understanding the expansive role of digital assets in the broader trading landscape, investors can better navigate the opportunities and pitfalls of this brave new world of finance. Moving forward, **the integration and evolution of digital assets will continue to be a defining force in the landscape of modern trading.**
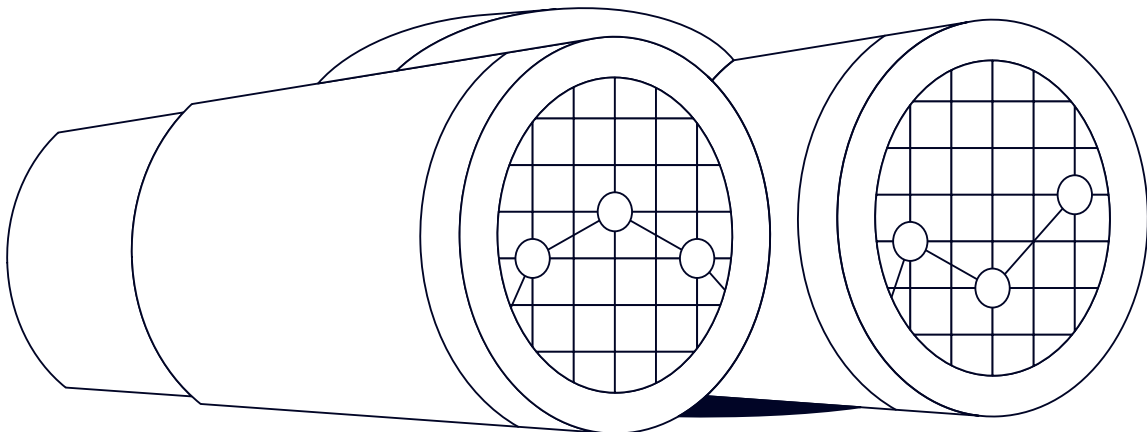
CHAPTER 3

Advantages of Personal Trading

Personal trading puts you in the driving seat on your journey to financial independence.

Be aware, however, that managing your own investments entails more than just checking your accounts from time to time: It's about being the chief architect of your financial destiny.

Personal trading demands that you stay informed and make educated decisions. By doing so, you are able to ensure that your investments remain in line with your financial aspirations and life goals.

This and the next chapter compare the advantages of personal versus managed trading to help you find the right approach for you.

In the third e-book, 'Understanding Personal Trading,' we learned that **personal trading is the buying and selling of financial assets** like stocks, bonds, commodities, and currencies by an individual for their own account.

Five key benefits of this way of trading are as follows:

1 **It allows you to align your strategy optimally with your individual goals.**
When you are fully hands-on with your investments, you can create and adapt your strategies to match your personal mix of short- and long-term goals. If you aim to purchase a home within five years, you might opt for a mix of investments that balance growth and stability, adjusting your portfolio along the way to meet your timeline and evolving financial needs. Along with your goals, personal trading enables you to align your investment decisions fully with your values, ethics and beliefs. For example, if environmental sustainability is a core value, you might prioritize green investments or eschew companies with poor environmental records.

2 **It allows you to be fully flexible.**
A significant part of the allure of personal trading lies in its flexibility. In contrast to managed trading, investors who manage their own portfolios are able to swiftly adapt to market vicissitudes or modify their investments to better align with changing personal financial circumstances. Market conditions are as fickle as the weather, and hands-on control allows you to adjust your sails promptly. If a sudden market downturn affects a sector you are heavily invested in, you can reassess and, if it is appropriate to do so, reallocate your assets swiftly to mitigate losses. There is no delay as a result of the need to contact your portfolio manager and request an adjustment to your strategy.

3 **Personal trading fees are predictable and have a straightforward fee structure.**
In personal trading, fees are fixed and do not vary based on an investment's performance. The cost of each trade is known in advance and is irrespective of its eventual outcome. You can tailor your trades to avoid unnecessary fees and choose only the services you need. If done with care, sidestepping management fees and maintaining hands-on control can be a way to enhance your net returns.

4 **You alone are in control.**
When it comes to identifying the news and views that shape your investment decisions, you remain the decision-maker. You choose which expert opinion is relevant for your trading portfolio.

5 **You gain hands-on learning experience and build your confidence.**
Acting as the master of your trading decisions provides valuable opportunities to learn. As you explore different financial instruments and market dynamics, you build a robust understanding. Moreover, there is an undeniable satisfaction that comes from actively shaping your own financial growth. Personal involvement fosters a sense of ownership and pride in your financial achievements. It builds confidence through the knowledge that you are at the helm, steering your financial ship.

As we have seen, personal trading offers a route to flexibility and potentially rewarding returns. It allows you the opportunity to align your financial actions with the broader picture of your life's journey, your ethics and beliefs.

However, it is a path that requires commitment and education. It is not without its risks, and it requires a strategic approach bolstered by the right tools and resources.

CHAPTER 4

Advantages of Managed Trading

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 finances for a living.

Managed trading appeals to investors seeking **a balance between professional oversight and the desire for hands-on participation** in the financial markets. Paid expertise can help to cultivate portfolio growth and resilience in pursuit of your self-determined goals.

Opting for managed trading is like entrusting your investment vehicles to a seasoned pilot. In a managed trading setup, investment accounts are helmed by professional managers: experienced strategists who navigate the market's ebb and flow with finesse. **These managers assemble portfolios that reflect each client's objectives while infusing them with the robustness afforded by expert diversification.**
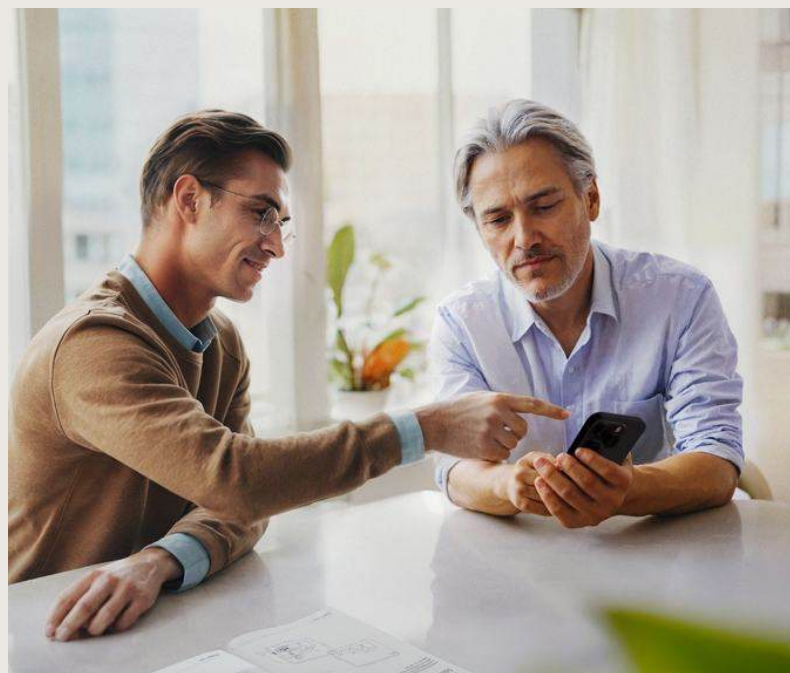
Ten key advantages of managed trading are:

1 A diversified portfolio without the effort of extensive research.
Imagine a tapestry woven from a multitude of threads, each representing a different asset. This sums up the concept of diversification, a technique that is utilized by managed trading professionals to spread investment risk across various instruments. By constructing a portfolio in which stocks and bonds are harmoniously integrated alongside crypto assets and alternative securities, portfolio managers craft an investment quilt that is designed to withstand market volatility and enhance the potential for returns.

2 Professional expertise you can rely on.
The 'captains' of managed trading are educated financial professionals, often with years of experience in successfully navigating the trading market. Their expertise is the compass by which they steer through the tumultuous seas of market data, economic indicators, and company performance. They are the vigilant sentinels, ever-watchful for trends and shifts that could signal a need to adjust course.

3 You enjoy the benefits of advanced risk management techniques.
It is the job of managed trading services to keep abreast of the ever-evolving investment landscape, including the rise of digital assets. The emergence of cryptocurrencies and other digital instruments brings with it the potential for diversification into burgeoning markets, albeit that this diversification must be tempered by proper risk management. Working in accordance with your willingness to take risks, fund managers create professional risk management plans and incorporate them into your broader strategy. Access to these specialized resources can bolster your trading success.

4 Trading decisions are less emotionally driven.
In the world of personal trading, traders are often their own worst enemy - not because of a fundamental lack of technical ability, but due to emotional biases that skew their judgment. When professional fund managers make investment decisions, their choices are based not on emotion but on thorough research and analysis. The idea of a 'quick buck' opportunity can be tantalizing, with stories of overnight successes tempting investors to chase the next big thing. But the emotional discipline of professionals resists the allure of market hype and the panic of downturns. Managed trading promotes consistent adherence to an investment strategy rather than reacting to market noise.

5 Trading activity is always carried out within legal boundaries, according to current regulations, and in an ethically sound manner.
Understanding how your investments impact your tax liability is crucial to obtaining a complete picture of their profitability. Investors must be cognizant of the tax consequences of their trades and incorporate tax-efficient strategies into their overall trading plan.

Managed trading removes the need to worry about changing rules, laws or tax regulations for each country. Your fund manager is responsible for ensuring that your trades align with current regulations and ethics.

6   You save time and benefit from a single point of contact.

In managed trading, your portfolio manager takes care of everything, from research and data analysis to trade execution and success metrics. By contrast, personal traders have sole responsibility for staying informed about the financial environment, market events and economic happenings at all times - a time-consuming but essential task if they are to equip themselves with the knowledge to make sound decisions. In managed trading, all of this is conveniently done for you. You have no need to access and monitor different trading platforms, data analysis tools, trading communities, and expert opinions. Your portfolio manager is the sole point of contact for any matter related to your portfolio.

7   Your investments are informed by a unique combination of technology-powered data analysis and human experience.

Managed trading services provide access to a powerful combination of technology (e.g. data analysis for predicting market trends and algorithmic automation for optimal order placement) and human knowledge and experience (for picking up on subtle market shifts). This is what makes managed trading so appealing. Experienced fund managers always employ an organized, strategic approach.

8   Your trading journey will almost certainly be less stressful.

While personal trading provides the thrill of hands-on navigation, managed trading aims to make things largely stress-free. It is suited for investors who prefer the steady hand of a professional at the helm. The focus remains on long-term horizons, prioritizing sustained growth over the allure of quick profits.

9   Managed trading grants you entry to exclusive markets.

As their name suggests, exclusive markets are those that come with certain barriers to entry. You often need special permissions, a lot of capital, or certain qualifications to access them. These markets contain alternative investments such as hedge funds, venture capital, private equity, and custom-made financial products. Managed trading accounts are one way in, with experts handling the complexities for you.

10   Managed accounts often bundle services into one fee.

Managed accounts often bundle different services and options into one fee, allowing traders to enjoy the security of a capped price. By contrast, personal traders might find that the 'low' per-trade costs of frequent trading add up quickly in practice.

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

CHAPTER 5

Trading Goals Over Time

Life is a continuous series of chapters and your financial narrative should adapt accordingly.

Whether you opt for a managed or personal trading approach, periodically taking stock of your financial goals is more than prudent: It is essential. Have your short-term targets shifted? Are your long-term aspirations still in focus? It is natural for your investment strategies to require recalibration as your life unfolds and markets fluctuate.

Take time to review the outcomes your investments have yielded thus far and derive lessons for future investment decisions. If you trade for yourself, documenting your positive outcomes can create a personal playbook for successful trading. It is equally important to recognize past missteps – not as failures, but as opportunities to fortify your strategy.

Be mindful of external factors - such as inflation and economic shifts - and consider how they might shape your financial planning going forward. Bear in mind that your risk tolerance is not set in stone, but is shaped by both personal circumstance and market conditions. Lastly, ensure that your estate and retirement plans are updated as often as needed, reflecting your current financial circumstances.

CHAPTER 6

A Strategy Fit for the Future

Advancements in the digital realm are rapidly transforming the face of trading. Keeping up with the pace of innovation in digital assets and blockchain technology is not just advantageous – it is imperative.

As a personal trader, you must stay aware of new tools that could streamline your trading and consider how regulatory changes in the digital asset space may necessitate changes to your strategy.

Automation, an increasingly accessible tool, can boost trading efficiency. However, it is essential to strike a balance between embracing technology and maintaining active oversight.

With a broad range of insights in hand and an educated eye on the horizon, **you'll be equipped to define a strategy that not only responds to the present but anticipates the future.** This involves having a clear idea of how you will adjust your investment portfolio in response to changes in the investment environment and establishing a regular review cadence. Similarly, if you opt for managed trading, you should review your portfolio performance regularly - keeping the broader financial landscape in mind - to ensure it is meeting your goals and needs.

To enable you to review your portfolio performance objectively, you must define trading metrics that align with your financial objectives (see e-book four, 'Key Metrics in Digital Asset Trading,' to find out more about measuring trading success). You must also consider the importance to you of pursuing socially conscious investments that contribute positively to the broader financial ecosystem.

Your trading activities do not exist in a silo: They are an integral part of your overall financial health. Working independently as a personal trader or alongside your portfolio manager, weigh your trading decisions against their tax implications and ensure they sit in harmony with your other financial responsibilities, such as managing debt and building savings.

By embracing these holistic considerations and preparing for a future of continuous learning, technological adaptability, and strategic evolution, you can look forward to steady progression in your financial journey.

CHAPTER 7

Conclusion and Key Takeaways

As we near the end of our journey through the intricacies of personal and managed trading and the brave new world of digital assets, take a moment to pause and reflect.

This e-book is aimed at tying together the lessons learned so far and preparing you for a future in which the financial landscape is ever evolving. Managed trading can be an appealing option for this changeable new world.

Managed trading is an ideal approach for those who lack the time or desire to invest up to several hours per day in staying up to date with market events, analyzing portfolio developments, reviewing trading plans, and monitoring trading strategies. Moreover, as digital assets continue to reshape the financial landscape, managed trading removes the onus from the investor to continually update and enhance their skills.

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 a compelling option for those seeking access to expertise and broad diversification options in their investment journey in digital asset trading. Its outcomes are testament to the power of professional management in navigating the complex and often unpredictable world of finance.

Key Takeaways

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

01

Before diving into a sea of investments, be sure to map out your short and longer-term financial goals, consider the values you wish to see reflected in your investments, set your level of psychological comfort with risk, define your capacity for losses, and examine your ability and willingness to pursue an ongoing financial education.

02

The lines between traditional and digital trading are blurring. The allure of digital assets consists in their ability to diversify an investment portfolio as well as in increased liquidity and lower transaction costs. The integration and evolution of digital assets will undoubtedly continue to be a defining force in the landscape of modern trading.

03

Consider carefully whether you wish to pursue a managed or personal trading approach. The key benefits of personal trading include: The ability to align your strategy optimally with your specific goals, the freedom to be fully flexible and make instant changes, the predictable nature of trading fees, the ability to exercise sole control over your finances, and the opportunity to gain hands-on learning experience.

04

The key benefits of managed trading include: Access to a wide range of diversification options, expert oversight and input, the protection offered by advanced risk management techniques, less emotionally driven trading decisions, an assurance of remaining within legal boundaries, time saved (and the convenience of a single point of contact), a unique combination of technology-powered data analysis and human experience, less stress compared to personal trading, entry to exclusive markets, and multiple services bundled in one fee.

05

Whether you opt for managed or personal trading, keeping up with the pace of innovation in digital assets and blockchain technology will help you make wise investment choices now and in the future. Ensure that your trading activities do not exist in a silo but are closely integrated into your overall financial health.

Teroxx

CHAPTER 8

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.

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.

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.

(Measures of) central tendency
Measures of central tendency are statistical measures that allow us to identify the 'center' or 'average' of a dataset. Common measures include the mean (average), median (middle value), and mode (most frequent value). These metrics help us to summarize and understand data by identifying its central point, providing insights into its typical or representative value.

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.

Ethereum
Ethereum is a decentralized blockchain platform that enables developers to build and deploy smart contracts and decentralized applications (DApps) by utilizing its native cryptocurrency, Ether (ETH).

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.

Ledger
In the context of digital assets, a ledger refers to a decentralized, tamper-proof record of transactions maintained across a network of computers. It is typically mentioned in association with blockchain technology.

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.

Microtransaction

A microtransaction is a financial transaction involving a very small amount of money, often fractions of a cent or a cryptocurrency. It enables the exchange of goods or services on a small scale, such as in online gaming or digital content purchases.

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.

Position sizing
Position sizing is an important facet of risk management whereby traders strategically allocate a certain percentage of their portfolio to particular trades. They aim to optimize returns while minimizing potential losses, enhancing overall portfolio stability and longevity.

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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