

Crypto CFDs Demystified

Taurex Trading Guides

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Introduction

Cryptocurrencies are digital currencies that utilise complex mathematical algorithms to encrypt and validate transactions on a decentralised network of computers. Unlike traditional currencies, they lack backing from physical commodities or legal tender and operate outside the regulation of central authorities like governments or central banks. While offering advantages such as reduced transaction fees, quicker processing, and increased anonymity, they also exhibit higher volatility, risk, and susceptibility to cyberattacks.

Some of the most popular and widely traded cryptocurrencies in the world are Bitcoin, Ethereum, Ripple, Litecoin, and Bitcoin Cash. Each of these cryptocurrencies has its own unique features, such as the size of the block, the speed of the transaction, the consensus mechanism, and the programming language. The prices of these cryptocurrencies are determined by the supply and demand in the market, as well as the sentiment and expectations of the investors.

Cryptocurrency CFDs (Contracts for Difference) are financial derivatives that enable speculation on crypto price movements without owning them. They are agreements between you and your broker, where you can profit from the difference in crypto value between trade opening and closing. You can buy (long) if you expect a rise or sell (short) if you anticipate a fall. Leverage allows trading with more money than your account holds, but it increases potential losses.

Trading crypto CFDs offers benefits like profiting from market fluctuations, access to various cryptocurrencies, lower fees, and avoiding wallet and exchange dealings. Yet, it entails risks such as high volatility, potential for losses exceeding initial investment, lack of regulation, and technical glitches. Hence, trading crypto CFDs demands thorough research, analysis, and risk management.

How Crypto CFDs Work

As previously mentioned, cryptocurrencies represent a modern form of digital currency operating on a decentralized network of computers without intermediaries. They utilize cryptography for transaction security and currency creation. Cryptocurrencies offer benefits like lower fees, faster transfers, and increased privacy, but also face challenges such as high volatility, security risks, and regulatory uncertainty.

To trade CFDs, you must open an account with a broker offering them and deposit funds serving as your margin. Margin is the required amount in your account to open and maintain a position, usually expressed as a percentage of the total trade value. For instance, trading \$10,000 worth of Bitcoin CFDs with a 10% margin necessitates at least \$1,000 in your account, enabling leverage of ten times your capital. While leverage can enhance profits, it also amplifies losses, necessitating caution and the use of risk management tools like stop-loss and take-profit orders.

Trading CFDs has some benefits, such as the ability to profit from both rising and falling markets, access to a wider range of cryptocurrencies, lower fees and commissions, and the convenience and security of not having to deal with wallets and exchanges. However, trading CFDs also has some drawbacks, such as the high volatility and unpredictability of the market, the risk of losing more than your initial investment, the lack of regulation and protection, and the possibility of technical issues or glitches. Therefore, trading CFDs requires a lot of research, analysis, and risk management.

CFDs are complex and risky instruments that are not suitable for everyone. You should only trade CFDs if you have sufficient knowledge and experience and if you can afford to take the high risk of losing your money. You should also read the terms and conditions of your broker carefully and understand the fees, charges, and risks involved. You should never trade with money that you cannot afford to lose.

Buying vs Trading Crypto CFDs

There are some advantages and disadvantages of trading CFDs compared to buying cryptocurrencies directly. Here are some of them:

- ✓ **Liquidity:** CFDs are more liquid than cryptocurrencies, meaning you can easily enter and exit trades at any time without having to worry about finding a buyer or a seller. This gives you more flexibility and convenience, as you can trade whenever you want and take advantage of the market movements. Cryptocurrencies can have low liquidity, especially for smaller or newer coins, which can make it harder to execute your orders at your desired price. This can result in delays, partial fills, or unfilled orders, which can affect your trading performance and profitability. Low liquidity, which is the difference between the expected price and the actual price of a trade, can also cause price slippage. This is when the price changes significantly during the execution of a trade, which can reduce your profits or increase your losses. With Crypto CFDs, you can trade with a reliable and regulated broker that offers competitive spreads and fast execution. This means that you can get the best possible prices for your trades with minimal slippage and maximum efficiency.
- ✓ **Costs:** CFDs have lower costs than cryptocurrencies, as you do not have to pay any fees for storing, transferring, or securing your coins. You also do not have to deal with any technical issues, such as setting up a wallet, downloading software, or updating firmware. However, you do have to pay some fees for trading CFDs, such as spreads, commissions, and overnight charges. Spreads are the difference between the bid and ask prices, which can vary depending on the market conditions and the broker. Commissions are the fees that the broker charges for each trade, which can be a fixed amount or a percentage of the trade value. Overnight charges are the fees that the broker charges for keeping your position open overnight, which can be positive or negative depending on the direction of your trade and the interest rate differential between the two currencies. You should compare the fees and charges of different brokers before choosing one to trade with.

Regulation: Cryptocurrencies are not regulated by any central authority, which means that you have more freedom and anonymity but also more risk and uncertainty. You are solely responsible for the security and safety of your coins, and you have no guarantee or insurance in case of theft, hacking, or loss.



You also have to be careful of scams, phishing, and malware that target cryptocurrency users and investors. With Crypto CFDs, you do not have to worry about the regulation of the underlying cryptocurrency market, which can be complex and uncertain. Instead, the regulation comes as part of the broker you trade with. If you trade Crypto CFDs with a regulated broker, such as Taurex, it means that you have some protection and recourse in case of any disputes or issues with your broker. For example, regulated brokers have to comply with certain standards of security, transparency, and customer service. They also have to keep your funds in segregated accounts and offer compensation schemes in case of insolvency. Trading Crypto CFDs with a regulated broker can give you more peace of mind and confidence in your trading experience.

- ✓ **Volatility:** Crypto CFDs allow you to benefit from the high volatility of the cryptocurrency market, which can create many trading opportunities and potential profits. However, volatility can also be a double-edged sword, as it can also lead to large losses and increased risk. You need to be aware of the factors that influence the price of cryptocurrencies, such as supply and demand, news and events, sentiment and emotions, and technical analysis. You also need to monitor the market closely and adjust your strategy accordingly. You should use risk management tools, such as stop-loss and take-profit orders, to limit your exposure and lock in your profits. You should also diversify your portfolio and trade with a reasonable amount of leverage.

Major Cryptocurrencies for CFD Trading

There are hundreds of cryptocurrencies available for CFD trading, but some of the most popular and widely traded ones are:

- ✓ **Bitcoin (BTC):** The first and most dominant cryptocurrency, created in 2009 by an anonymous person or group using the pseudonym Satoshi Nakamoto. Bitcoin is based on a peer-to-peer network that uses a distributed ledger called the blockchain to record and verify transactions. Bitcoin has a limited supply of 21 million coins, which are generated through a process called mining, where participants use specialized hardware and software to solve complex mathematical problems and receive rewards in the form of new bitcoins. Bitcoin is often considered as a store of value, a hedge against inflation, and a digital gold, as it is scarce, divisible, durable, portable, and verifiable. Bitcoin also enables fast, secure, and low-cost global payments, as it does not rely on any intermediaries, such as banks or governments, to process or validate transactions.
- ✓ **Ethereum (ETH):** The second-largest cryptocurrency by market capitalization, launched in 2015 by a team led by Vitalik Buterin, a Russian-Canadian programmer and co-founder of Bitcoin Magazine. Ethereum is a platform that enables the creation and execution of smart contracts and decentralized applications (DApps) using its own programming language, Solidity. Smart contracts are self-executing agreements that run on the blockchain and can encode any kind of logic, rules, or conditions. DApps are applications that run on the blockchain and can provide various services, such as finance, gaming, social media, and more. Ethereum also has its own native currency, Ether, which is used to pay for the transactions and computations on the network. Ethereum is often considered as a platform for innovation, a catalyst for the decentralized web, and a digital oil, as it supports a wide range of use cases, such as decentralized finance (DeFi), non-fungible tokens (NFTs), identity management, and more.





- ✓ **Binance Coin (BNB):** The native token of Binance, the world's largest cryptocurrency exchange by trading volume and users. BNB was launched in 2017 as an ERC-20 token on the Ethereum blockchain but was later migrated to its own blockchain, called Binance Chain, in 2019. BNB also has a deflationary mechanism, where Binance burns a portion of its profits in BNB every quarter, reducing the total supply and increasing the scarcity and value of the token.
- ✓ **Tether (USDT):** A stablecoin, a type of cryptocurrency that aims to keep its value stable and pegged to another asset, such as a fiat currency or a commodity. Tether is the most widely used stablecoin in the crypto market, with a market capitalization of over \$40 billion as of February 2024. Tether is issued by a company called Tether Limited, which claims to back every USDT token with one U.S. dollar in its reserves. However, the company has faced controversy and scrutiny over its lack of transparency and audits, as well as allegations of market manipulation and fraud. Tether is used by crypto investors who want to avoid the extreme volatility of other cryptocurrencies, as well as to facilitate cross-border transactions, arbitrage, and hedging.
- ✓ **XRP (XRP):** The native cryptocurrency of the XRP Ledger (XRPL), an open-source, decentralized technology that was launched in 2012. The XRPL is designed to facilitate faster and cheaper cross-border payments, as it can settle transactions in less than five seconds and at a fraction of the cost of traditional methods. XRP acts as a bridge currency, enabling the exchange of any two currencies on the XRPL without the need for intermediaries or liquidity providers. XRP also serves as an anti-spam measure, as each transaction on the XRPL requires a small amount of XRP to be destroyed, preventing network congestion and malicious attacks. XRP is developed and promoted by Ripple, a U.S.-based company that provides payment solutions for banks and financial institutions. However, Ripple and XRP are separate entities, and Ripple does not control or own the XRPL. Ripple owns a large amount of XRP, which it sells periodically to fund its operations and development.

Tips for Staying Updated on Crypto Trends & News

The cryptocurrency market is constantly evolving and changing, so it is important to stay informed and updated with the latest trends and news. Here are some tips for doing that:

✓ **Follow reputable sources:** There are many websites, blogs, podcasts, newsletters, and social media accounts that provide valuable information and insights about the cryptocurrency market. However, not all of them are reliable or trustworthy, so you need to be careful and critical about the sources that you follow. Some of the reputable sources that you can check out are CoinDesk, Cointelegraph, Crypto Briefing, etc. These sources cover the latest news, analysis, opinions, and interviews about the cryptocurrency market, as well as provide educational and informative content for beginners and experts alike. They also feature various sections, such as markets, technology, regulation, industry, and events, that cater to the different interests and needs of the crypto community.

Use tools and apps: There are many tools and apps that can help you track and analyze the cryptocurrency market, such as price charts, indicators, signals, alerts, news aggregators, calendars, and portfolios. Some of the tools and apps that you can use are Taurex+, CoinMarketCap, CoinGecko, etc. These tools and apps allow you to monitor the prices, volumes, market capitalizations, and trends of various cryptocurrencies, as well as to compare and contrast them with other assets, such as fiat currencies, commodities, and stocks. They also enable you to access and customize various features, such as technical analysis, trading strategies, market sentiment, news feeds, events schedules, and portfolio management, that can help you make informed and smart decisions about your crypto investments and trades. In addition, with Taurex +, you have access to different tools and technologies provided by Acuity and Trading Central that will enhance your trading experience with trading ideas that encompass technical and fundamental analysis. You can access trading signals and market sentiment trading ideas for Crypto CFDs that will help you assess and test your strategies so you can trade confidently and complement your analysis using ideas provided by experts.

- ✓ **Join communities and forums:** There are many communities and forums where you can interact and exchange opinions and ideas with other cryptocurrency enthusiasts, traders, and experts. You can learn from their experiences, ask questions, get feedback, and discover new opportunities and perspectives. Some of the communities and forums that you can join are Reddit, Telegram, Discord, X (Twitter), and Facebook. These platforms host various groups, channels, servers, pages, and accounts that are dedicated to different aspects and topics of the cryptocurrency market, such as general discussion, specific coins or projects, technical analysis, trading tips, mining, development, and more. They also foster a sense of community and engagement among the crypto users, who can share their views, insights, and support with each other. However, remember to be careful and critical when analyzing and discussing someone else's ideas. Do not blindly follow whatever you see on the internet; be aware of the possible risks you can be exposed to.
- ✓ **Educate yourself:** There are many resources and courses that can help you learn and improve your knowledge and skills about the cryptocurrency market, such as books, videos, podcasts, webinars, and online platforms. You can learn from reputable academies and websites that provide resources and courses that cover various topics and levels of the cryptocurrency market. Learn about the fundamentals, economics, technology, security, regulation, innovation, and future of cryptocurrencies. If you prefer, you can focus on practical and hands-on guidance and examples from experts so you can learn from experience. You can find online various formats and modes of learning, such as reading, listening, watching, and interacting, that suit different preferences and styles of learners.



Conclusion

In conclusion, crypto CFDs are a type of financial instrument that allows you to speculate on the price movements of cryptocurrencies without actually owning or storing them. This means that you do not have to worry about the security, storage, or transfer of your coins, which can be costly and complicated. Crypto CFDs offer a lot of flexibility and opportunities for traders who want to diversify their portfolios and access the fast-growing crypto market. You can trade a wide range of cryptocurrencies, such as Bitcoin, Ethereum, Binance Coin, and XRP, with low fees and commissions. You can also profit from both rising and falling markets, as you can open long or short positions depending on your market view. However, crypto CFDs also involve a lot of challenges and uncertainties, as any other CFD.

The cryptocurrency market is highly unpredictable and influenced by various factors, such as supply and demand, news and events, sentiment and emotions, and technical analysis. Therefore, trading crypto CFDs requires a lot of research, analysis, and risk management. You should only trade crypto CFDs if you have sufficient knowledge and experience and if you can afford to take the high risk of losing your money. You should also use risk management tools, such as stop-loss and take-profit orders, to limit your exposure, protect your profits, or cut your losses. You should also choose a reliable and regulated broker, such as Taurex, that offers crypto CFDs with competitive prices, fast execution, and various tools and technologies to enhance your trading experience. Taurex is a licensed and regulated broker that provides crypto CFDs with high liquidity, low spreads, and fast execution. Taurex also offers various tools and technologies, such as Taurex+, Acuity, and Trading Central, that provide you with trading signals, market sentiment, trading ideas, and technical and fundamental analysis. By trading crypto CFDs with Taurex, you can access the exciting and dynamic cryptocurrency market with confidence and convenience.

Have a question? Get in touch.

Our knowledgeable support staff are available 24/5 via telephone, live chat, email, or a support ticket.



support@tradetaurex.co.uk



+44 (0) 20 3983 8250



tradetaurex.com

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CFDs are complex instruments and come with a high risk of losing money rapidly due to leverage. 66.67% of retail investor accounts lose money when trading CFDs with this provider. You should consider whether you understand how CFDs work and whether you can afford to take the high risk of losing your money.

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