How Big Money Trades
Section 5a
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Today’s Objectives:

- Cryptocurrency Market Structure
  - Introduce Market Structure and Thoughts
  - Roles and Strategies of 4 Market Participants within Cryptocurrency Markets
  - Key Characteristics of Cryptocurrencies
  - 7 Edges of Big Money Traders within Commodity Markets

- Group Discussions and Debrief

- Guest Speaker – Brad Koeppen
How Big Money Trades Section 5b:

Introduce Cryptocurrency Market Structure and Thoughts
Introduce Cryptocurrency Market Structure and Thoughts - Objective

- Go over the application of Market Structure specific to the cryptocurrency markets
- Go over how the cryptocurrency markets work
- Provide some thoughts on how the cryptocurrency market works
Introduce Cryptocurrency Market Structure and Thoughts

- Cryptocurrency markets are highly decentralized.
- The overall structure, similar to FX, is simple. There is basically an exchange going on.
  - Cash Exchange
  - Futures (for those who don’t want to own physical)
- Similar to commodity markets, Cryptocurrency Markets are a combination of:
  - Exchange Traded
  - Over The Counter (OTC)
    - Exchange Traded
    - Bilateral
Introduce Cryptocurrency Market Structure and Thoughts

- Cryptocurrency markets are still relatively in their infancy.
- Their structure is different than most other markets because the banks are only minor players in this asset class.
- Most financial markets have a tight connection with their respective governments.
- As a result, most of the major players in financial assets have strict oversight with their government regulatory agency.
- Governments want to control money supply and they want to control assets.
Introduce Cryptocurrency Market Structure and Thoughts

- The rise of cryptocurrencies has been in conjunction with a host of new players that are outside the normal financial circles.

- These players are leaders in technology and often have a distrust of governments.

- Many of these players are setup in domiciles that are independent of major government influence.
Introduce Cryptocurrency Market Structure and Thoughts

- Cryptocurrency trading generates more attention than its current real significance in the financial world.
- Much of the hype is based on its future potential, not its current market capitalizations.
- To give you an idea, the market capitalization of Bitcoin is roughly $130B.
- That would make its market capitalization similar to Qualcomm (QCOM) and would put it at about the 50th largest company in the United States.
- It would only be about 6.5% the size of Apple and less than 1% of the United States Treasury market.
- The Chicago Wheat futures contract is 5x larger than the CME Bitcoin futures contract.
Introduce Cryptocurrency Market Structure and Thoughts

Exchange Traded

- Remember the key feature of exchanges is central clearing.
- The exchange handles the counterparty risk and gives you quick access to your funds.
- Exchanges in crypto space tend to be much smaller than traditional exchanges.
- Coinmarketcap.com alone lists a top 100 Crypto Exchanges.
Introduce Cryptocurrency Market Structure and Thoughts

Exchange Traded

- In Exchange space, there are 3 types of Exchanges
  1. Onshore – Regulated
  2. Offshore – Regulated
  3. Offshore

- Many of the offshore exchanges don’t have Know Your Customer (KYC) requirements

- Many of the offshore exchanges do not allow Americans to trade on their platform to avoid dealing with US Regulatory oversight.
  - Binance is a good example. They have Binance USA but it’s a fraction of Binance’s size
### Introduce Cryptocurrency Market Structure and Thoughts

#### By Volume:

<table>
<thead>
<tr>
<th>Rank</th>
<th>Cryptocurrency</th>
<th>Web Traffic Factor</th>
<th>Avg. Liquidity</th>
<th>Volume (24h)</th>
<th>No. Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>123</td>
<td>HBTC</td>
<td>516</td>
<td>205</td>
<td>$9,427,886,819</td>
<td>136</td>
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<tr>
<td>1</td>
<td>Binance</td>
<td>1000</td>
<td>410</td>
<td>$9,346,785,357</td>
<td>726</td>
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<tr>
<td>217</td>
<td>Bidesk</td>
<td>428</td>
<td>176</td>
<td>$7,926,389,601</td>
<td>68</td>
</tr>
<tr>
<td>179</td>
<td>Bitribe</td>
<td>650</td>
<td>0</td>
<td>$7,046,667,164</td>
<td>50</td>
</tr>
<tr>
<td>180</td>
<td>Chiliz</td>
<td>648</td>
<td>128</td>
<td>$6,434,679,558</td>
<td>36</td>
</tr>
<tr>
<td>260</td>
<td>ZG.com</td>
<td>200</td>
<td>78</td>
<td>$5,061,094,501</td>
<td>46</td>
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<tr>
<td>234</td>
<td>Binance.KR</td>
<td>342</td>
<td>0</td>
<td>$3,018,946,255</td>
<td>190</td>
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<tr>
<td>2</td>
<td>Huobi Global</td>
<td>780</td>
<td>414</td>
<td>$2,934,108,596</td>
<td>668</td>
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<tr>
<td>195</td>
<td>IDCM</td>
<td>561</td>
<td>0</td>
<td>$2,683,396,174</td>
<td>79</td>
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<tr>
<td>190</td>
<td>EtherFlyer</td>
<td>580</td>
<td>0</td>
<td>$2,476,663,110</td>
<td>55</td>
</tr>
</tbody>
</table>
Introduce Cryptocurrency Market Structure and Thoughts

Futures Based Crypto Contracts:

- Benefit – gain Bitcoin exposure without having to hold Bitcoin
- Type of Future Contracts:
  - **CME BTC** – 5 Bitcoin – **Cash settled** – 7,100 contracts a day - $355M notional
    - #3 Futures Exchange in Open Interest
  - **ICE Bakkt Bitcoin** – 1 Bitcoin – **Deliverable** - $27M
  - **OKEx** – Deliverable (#1 Exchange in Open Interest)
  - **BitMEX** – **Cash Settled** (#2 Exchange in Open Interest)
  - **Kraken** – Cash Settled
Introduction Cryptocurrency Market Structure and Thoughts

Futures Based Crypto Contracts:

The Chicago Mercantile Exchange (CME) has leapt up the listings to become the third-largest bitcoin futures exchange by number of open contracts.

- As of Thursday, open interest (or open positions) on the CME stood at $800 million – up nearly 120% from the July low of $365 million.
- CME’s 15% contribution to the total global open interest of $5.22 billion on Thursday was the third-highest among the major derivatives exchanges.
- In first and second positions, respectively, OKEx accounted for 23% of the total open interest on Thursday, while BitMEX contributed 18.6%.
- Open interest on the CME had a record high of $841 million on Monday.
- Increased activity on the CME shows institutional interest in the cryptocurrency is rising, according to industry experts.
Introduce Cryptocurrency Market Structure and Thoughts

Futures Based Crypto Contracts:

- CME’s climb is "an indication of increased institutional demand for bitcoin," said Vishal Shah, an options trader and founder of derivative exchange Alpha5.

- Chris Thomas, head of digital assets at Swissquote Bank, told CoinDesk that institutions prefer to trade futures of any product via an established and regulated exchange like the CME.

- "It’s a norm – institutions understand each part of the trade cycle when trading on the CME and don’t have to set up new processes to manage risks that they would have to while buying physical bitcoins," Thomas said.

- While open interest on the CME has increased to record highs, daily trading volumes have recently cooled.

- The exchange traded futures contracts worth $347 million on Thursday, down 73% from the high of $1.3 billion registered on July 27.
Introduce Cryptocurrency Market Structure and Thoughts

Futures Based Crypto Contracts:

![BTC Futures - Aggregated Open Interest](image-url)

- FTX
- Bybit
- Bakkt
- CME
- OKEx
- Kraken
- BitMEX
- Bitfinex
- Deribit
- Huobi
- Binance
- CoinFlex
# Introduce Cryptocurrency Market Structure and Thoughts

## Coinmarketcap.com Proprietary Quality Ranking

CoinMarketCap ranks the top cryptocurrency exchanges based on traffic, liquidity, trade.

<table>
<thead>
<tr>
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<th>Name</th>
<th>Web Traffic Factor</th>
<th>Avg. Liquidity</th>
<th>Volume (24h)</th>
<th>No. Markets</th>
<th>Ch</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Binance</td>
<td>1000</td>
<td>410</td>
<td>$9,346,785,357</td>
<td>726</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Coinbase Pro</td>
<td>959</td>
<td>346</td>
<td>$81,564,517</td>
<td>86</td>
<td></td>
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<tr>
<td>9</td>
<td>Upbit</td>
<td>896</td>
<td>139</td>
<td>$293,572,458</td>
<td>221</td>
<td></td>
</tr>
<tr>
<td>176</td>
<td>Coinbit</td>
<td>876</td>
<td>0</td>
<td>$175,554,158</td>
<td>33</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Kraken</td>
<td>856</td>
<td>348</td>
<td>$1,880,255,748</td>
<td>181</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Bittrex</td>
<td>848</td>
<td>178</td>
<td>$52,404,746</td>
<td>482</td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>Poloniex</td>
<td>817</td>
<td>189</td>
<td>$52,058,615</td>
<td>238</td>
<td></td>
</tr>
<tr>
<td>93</td>
<td>YoBit</td>
<td>814</td>
<td>36</td>
<td>$69,924,041</td>
<td>478</td>
<td></td>
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<tr>
<td>5</td>
<td>Bithumb</td>
<td>809</td>
<td>190</td>
<td>$281,612,483</td>
<td>108</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>OKEx</td>
<td>806</td>
<td>360</td>
<td>$2,012,844,990</td>
<td>439</td>
<td></td>
</tr>
</tbody>
</table>
Introduce Cryptocurrency Market Structure and Thoughts

- Courtesy of coinmarketcap.com

### Top 100 Cryptocurrencies by Market Capitalization

<table>
<thead>
<tr>
<th>Rank</th>
<th>Name</th>
<th>Market Cap</th>
<th>Price</th>
<th>Volume (24h)</th>
<th>Circulating Supply</th>
<th>Change (24h)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bitcoin</td>
<td>$187,479,306,112</td>
<td>$10,143.84</td>
<td>$35,886,909,809</td>
<td>18,482,081 BTC</td>
<td>-1.09%</td>
</tr>
<tr>
<td>2</td>
<td>Ethereum</td>
<td>$318,832,808,056</td>
<td>$345.17</td>
<td>$24,624,131,740</td>
<td>112,503,050 ETH</td>
<td>-2.88%</td>
</tr>
<tr>
<td>3</td>
<td>Tether</td>
<td>$14,155,349,859</td>
<td>$1.00</td>
<td>$67,443,979,583</td>
<td>14,145,569,420 USDT *</td>
<td>-0.06%</td>
</tr>
<tr>
<td>4</td>
<td>XRP</td>
<td>$10,724,036,797</td>
<td>$0.238252</td>
<td>$2,435,563,624</td>
<td>45,011,240,343 XRP *</td>
<td>-1.88%</td>
</tr>
<tr>
<td>5</td>
<td>Chainlink</td>
<td>$4,207,850,345</td>
<td>$12.02</td>
<td>$2,110,819,745</td>
<td>350,000,000 LINK *</td>
<td>-7.20%</td>
</tr>
<tr>
<td>6</td>
<td>Bitcoin Cash</td>
<td>$4,123,473,073</td>
<td>$222.75</td>
<td>$3,195,232,940</td>
<td>18,511,256 BCH</td>
<td>-2.39%</td>
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<tr>
<td>7</td>
<td>Polkadot</td>
<td>$3,734,861,788</td>
<td>$4.38</td>
<td>$816,274,931</td>
<td>852,647,705 DOT *</td>
<td>-9.03%</td>
</tr>
<tr>
<td>8</td>
<td>Bitcoin SV</td>
<td>$3,236,402,387</td>
<td>$174.85</td>
<td>$1,757,828,748</td>
<td>18,509,490 BSV</td>
<td>6.78%</td>
</tr>
<tr>
<td>9</td>
<td>Litecoin</td>
<td>$3,126,864,595</td>
<td>$47.81</td>
<td>$2,534,722,108</td>
<td>65,403,005 LTC</td>
<td>-1.30%</td>
</tr>
<tr>
<td>10</td>
<td>Binance Coin</td>
<td>$3,121,630,349</td>
<td>$21.62</td>
<td>$764,069,583</td>
<td>144,408,560 BNB *</td>
<td>-3.61%</td>
</tr>
</tbody>
</table>
Introduce Cryptocurrency Market Structure and Thoughts

Electronic Exchange:

- Quick access from anywhere – trade from phone or computer
- Market Access for small accounts
- Accounts can be opened quickly
- Different order types allow working orders while away from the screen
- Different order types allow for working orders algorithmically
Introduce Cryptocurrency Market Structure and Thoughts

OTC:

- Remember, OTC is usually defined as a bi-lateral transaction directly between 2 parties.

- (https://cointelegraph.com/explained/crypto-otc-trading-explained) In Cryptocurrencies, OTC is decentralized with no physical location.

- Trading is done via dealer networks.
Advantages of Crypto OTC desks:

• Increased liquidity. Crypto exchanges typically have low liquidity. Bitcoin OTC desks provide opportunities to purchase large amounts of crypto in short periods of time WITHOUT slippage.

• Price protection. As mentioned above, price slippage is bad. OTC orders don’t alter prices when moving millions of dollars around in the market.

• Anonymity. Order depth doesn’t show up when using OTC desks.

• Fiat support. All crypto OTC desks support fiat, while many crypto exchanges do not.
Introduce Cryptocurrency Market Structure and Thoughts

Advantages of Crypto OTC desks Continued:

• No limits. Coinbase limits purchases to $25,000 per day. Kraken only lets you withdraw $2,500 per day and $20,000 per month. Circle imposes a withdrawal limit of $3,000 per week.

• Rare tokens. Less common tokens can be bought in larger amounts than on exchanges.
Introduce Cryptocurrency Market Structure and Thoughts

Advantages of Crypto OTC desks:

- Large transactions are done via OTC desks rather than Electronic Exchanges.
- When you transact with an OTC desk, the transaction is occurring outside exchange structures.
- In the cryptocurrency industry, OTC desks have gained popularity among those who are willing to sell large amounts of coins, like miners or early crypto investors.
- On the other hand, there are plenty of investors — including high-profile ones — willing to buy crypto without resorting to major exchanges.
Introduce Cryptocurrency Market Structure and Thoughts

OTC-Continued:

- Perhaps this is why major companies such as Binance, Coinbase and Circle kept opening their own OTC desks right in the midst of the crypto winter, when the rates of bitcoin and major altcoins were far from optimistic.
Introduce Cryptocurrency Market Structure and Thoughts

OTC-Continued:

- According to some estimates, crypto OTC trading currently has larger daily volumes than the major exchanges.

- For instance, investigators from Digital Assets Research and TABB Group found out that the OTC market facilitated $250 million to $30 billion in trades per day in April 2018, while the exchanges handled about $15 billion in daily trades during the same period.
Introduce Cryptocurrency Market Structure and Thoughts

Who are the main customers of crypto OTC desks?

- Crypto miners who sell their profits represent a significant segment of OTC market sellers, while hedge funds and institutional investors are among the buyers.

- In October 2018, Cumberland OTC desk, the Chicago-based crypto trading unit of DRW Holdings LLC, revealed that most of its deals took place during Asian working hours.

- The experts then told Bloomberg it might be a sign that Asia-based miners, such as Bitmain’s Antpool and BTC.com, were liquidating their coins via OTC trading.
Introduce Cryptocurrency Market Structure and Thoughts

Who are the main customers of crypto OTC desks-continued?

- However, the OTC market is obviously far from being dependent on miners.

- According to an investigation performed by Reuters, this type of trading also involves wealthy investors, payment processors and, increasingly, hedge funds.

- As per 2018, the notable players on this market were men in their mid-20s or early 30s.

- The trades were mostly performed via online messaging services like Telegram or Skype, through brokers or on specialized OTC desks.
Introduce Cryptocurrency Market Structure and Thoughts

Who are the main customers of crypto OTC desks—continued?

- Incidentally, some experts believe that institutional investors, who are expected to drive crypto industry to mass adoption, are widely interested in buying crypto outside large exchanges.

- This statement has partly been corroborated by the recent news about the top 100 crypto companies — such as Huobi, Coinbase and Bithumb — launching their own OTC desks exclusively for institutional clients.

- To sum up, everyone who wants to buy or sell large amounts of crypto without excessive regulation (and sometimes on better terms) applies to OTC trading or intermediaries working in the sphere.
I'm not a bitcoin whale. Why would I use OTC trading instead of a crypto exchange?

- If you are seeking higher liquidity, combined with a decent level of anonymity, OTC trading might be an elegant solution for you.
- Let’s imagine you are trying to sell a noticeable amount of altcoins you saved from the early crypto years.
- Most importantly, you would be seeking high liquidity for your assets.
- The experts agree that major exchanges usually have lower liquidity than what is ideal.
- This is why you might rather use OTC trading if you are looking to invest more.
I'm not a bitcoin whale. Why would I use OTC trading instead of a crypto exchange - continued?

- The second key goal for a trader is to minimize the impact on the market as a consequence of a large deal.
- This point is relevant mostly for those who are looking to buy or sell thousands of bitcoins.
- If you apply to OTC trading, the transaction is performed directly and does not show up in order books, which is why it will not affect the price.
I'm not a bitcoin whale. Why would I use OTC trading instead of a crypto exchange - continued?

- Moreover, if you are investing in a lot of bitcoin or any other crypto asset, you might want to protect your identity and keep the deal anonymous.
- In this case, skipping the services of major exchanges and purchasing the assets directly from a counterparty is a nice way to avoid unnecessary attention and keep the deal to yourself.
I'm not a bitcoin whale. Why would I use OTC trading instead of a crypto exchange - continued?

- Finally, even if you are quite far from being a bitcoin whale, on regular exchanges, you have to respect certain daily and monthly trading limits.
- For instance, major United States exchange Coinbase has a $10,000 daily limit for its Pro Users, which can be increased to $25,000.
- Meanwhile, Malta-based Binance offers a 2 BTC daily limit to all users and a 100 BTC daily limit to those who pass all the necessary Know Your Customer (KYC) procedures.
- As skillful traders explain, these limits can be increased significantly upon personal request — at this stage, however, it has nothing to do with making an anonymous deal.
Introduce Cryptocurrency Market Structure and Thoughts

Differences:

- Bitcoin exchanges play a dual roles acting as both exchange, broker and in some cases, the counterparty trader.

- A similarity would be with a Bank and its dark pool.

- The difference though is there is no NBBO (National Best Bid Offer).

- There is an active and aggressive arbitrage run by proprietary trading firms between these different exchanges that keeps these prices in line in liquid crypto like Bitcoin.
Introduce Cryptocurrency Market Structure and Thoughts

Differences:

- Cryptos can trade different prices at different exchanges simultaneously.

- There is an active and aggressive arbitrage run by proprietary trading firms between these different exchanges that helps keep these prices in line in liquid crypto like Bitcoin.

- However, with exchanges moving offshore, the differences between onshore and offshore pricing has grown as exchanges have been “ring fenced” by geographic location.
Introduce Cryptocurrency Market Structure and Thoughts

Differences - Continued:

- There are so many exchanges though that prop firms are unlikely to be at all of them and there can be liquidity vacuums at smaller exchanges.

- Also, several of these exchanges can have subpar execution technology meaning they may struggle to handle order flow during either high volatile periods or during times of catalysts where there are bursts of orders that could overwhelm the system. This also is a reason for some exchanges to freeze up at certain times.
Introduce Cryptocurrency Market Structure and Thoughts

Differences - Continued:

- The overall structure is much more decentralized, less regulated and more susceptible to issues than other markets.

- Depending on your level of activity, you will want to beware that there are many potential issues in trading cryptocurrencies:
  - Spoofing
  - Order Types
  - Wash Sales
Introduce Cryptocurrency Market Structure and Thoughts

Spoofing:

- Spoofing -- an illegal form of market manipulation in which a trader places a large order to buy or sell a financial asset, such as a stock, bond or futures contract, with no intention of executing.

- By doing so, the trader—or "the spoofer"—creates an artificial impression of high demand for the asset.

- Simultaneously, the trader places hundreds or even thousands of smaller orders for the same asset, profiting on the increase in price brought about by the large fake order, which is then cancelled.
Spoofing - Continued:

- The technique has perhaps become more common, or at least gained more notoriety, in the 2010s because of the advent of speedy, high-volume and computer-driven trading systems.

- During this time, it also attracted the notice of securities regulators and law enforcement officials.[1]  

- Considered manipulative because the trader would not have achieved the price on the actual orders without first obtaining that price by virtue of the large bogus order.
Introduce Cryptocurrency Market Structure and Thoughts

Order Types:

- We think of order types as simple orders such as Limit, Stop, Stop Limit, Market Order, OCO, etc.
- However, if we are going to trade a product heavily, we need to beware of all order types offered by the exchange.
- Exchanges often create order types which are beneficial for liquidity providers to allow them greater flexibility to trade (and sometimes game) the order books.
- This is an issue in trading Cryptocurrencies. It is also an issue in Equity Trading.
Introduce Cryptocurrency Market Structure and Thoughts

Order Types Example:
Introduce Cryptocurrency Market Structure and Thoughts

Order Types Example:

- Hidden Order Type Video - [https://youtu.be/nkdD1wnGv6U](https://youtu.be/nkdD1wnGv6U)
- As a result, trading smaller size and keeping minimal amounts of capital on hand at any exchange is a prudent plan.
How Big Money Trades
Section 5c:
Roles and Strategies of 4 Market Participants within Cryptocurrency Markets
Roles and Strategies of 4 Market Participants within Cryptocurrency Markets - Objectives

- Go over who the 4 market participants are within the Cryptocurrency markets.
- Go over the strategies the 4 market participants are using within the Cryptocurrency markets
Roles and Strategies of 4 Market Participants within Cryptocurrency Markets

4 Market Participants:
1. Commercials
2. Large Speculators
3. Retail Investors
4. Market Makers
Roles and Strategies of 4 Market Participants within Cryptocurrency Markets

Commercial:

- Natural Longs are:
  - Miners
    - From Coindesk - “Miners are good traders. I think they are just looking for selling opportunities, not capitulation. I think it’s going to be the war of miners between those who want a bitcoin price rally and those who don’t. Some Chinese miners already realize their mining profitability (ROI), and they might not want new mining competitors joining the industry because of the bull market,” Ki Young Yu, founder of CryptoQuant, said.
    - Miners are becoming efficient in controlling their input costs. They are going as far as locating in Texas and using sources such as natural gas to power their mining operations. They have a strong sense of their cost structure and, thus, their Fair Value.
  - Mining Pools
  - Businesses accepting payments in BTC
Roles and Strategies of 4 Market Participants within Cryptocurrency Markets

Commercial:

- Natural Shorts are:
  - High Net Worth Individuals and Institutions looking for Asset Protection. As part of asset protection, they are looking for a way to have exposure (similar to gold) to a currency that can’t be debased by governments. Unlike gold, it would be easier to spend because Bitcoin can be broken up.
  - Grayscale (https://grayscale.co/)
Roles and Strategies of 4 Market Participants within Cryptocurrency Markets

Commercial:

- Natural Shorts are (continued):
  - Grayscale (https://grayscale.co/)
    - Firm creating access to cryptocurrency markets in a format similar to a closed end fund.
    - Grayscale needs to be a consistent buyer of Crypto to collateralize their Crypto Investment Products
    - They are helping legitimize the asset class by offering people investment vehicles where they can get Crypto exposure but not have the hassle of owning it. It looks similar to CEF (Central Fund of Canada – Closed end Gold and Silver Bullion Fund) to me.
Roles and Strategies of 4 Market Participants within Cryptocurrency Markets

Commercial:

- Natural Shorts are (continued):
  - Grayscale (https://grayscale.co/)
    - Because it trades in a closed end structure it is susceptible to trading at high premiums. BTC and other cryptos trade with momentum (explain why). The bullish sentiment leads bullish traders to overpay when Crypto rallies and puke at lower premiums when it breaks.
    - The original shares were issued with lockups meaning large groups of longs were unable to sell. This created extreme premiums for these shares because demand for Grayscale has been much higher than the supply of shares. Lately, more and more shares are becoming available which is helping to shrink the premium of the fund.
Roles and Strategies of 4 Market Participants within Cryptocurrency Markets

Commercial:

- Natural Shorts are (continued):
  - In my estimation there is a lack of natural shorts in Cryptocurrencies.
  - I can’t think of businesses that need to need to buy BTC to stay in business.
  - For BTC or any Crypto to take off there will need to be someone who needs BTC to run their business.
  - Ultimately, if there was a loss of confidence in the $ or another major currency, I could see BTC being a go to currency.
  - Businesses that need capital (which is almost all of them) would need to convert their $ into Crypto.
  - This would be a sentiment driven, almost all or nothing trade. Of course, at an extreme, governments would attempt to ban currency conversions to Crypto so there will have to be other avenues to backdoor the conversion.
Roles and Strategies of 4 Market Participants within Cryptocurrency Markets

Large Speculators:

- Long Term Speculators = those who have held since before 2013 and don’t get shaken out by the volatility
  - Winklevoss Twins

- Short term Speculators
  - Renaissance Medallion
  - Tudor
Roles and Strategies of 4 Market Participants within Cryptocurrency Markets

Small Speculators/Retail Traders:

- Crypto currencies have a cult like following from a group of small speculators. This group views Cryptos as anti-establishment and they love that!!
- Strong belief that this is a revolutionary story that they get to participate in.
- Behavior of this group is high momentum (lack of value analysis) and sentiment driven.
- Each time Crypto rallies, it confirms their beliefs and excites them to participate more.
- Small Specs cause a lot of the erratic price behavior we see that Large Specs, Commercials and Marketmakers take advantage of
Roles and Strategies of 4 Market Participants within Cryptocurrency Markets

Top Electronic Market Makers:

1. GSR Markets
2. Alpha Theta
3. Virtu
4. Jump
Roles and Strategies of 4 Market Participants within Cryptocurrency Markets

Market Makers:

- OTC Based Market Makers
  - Cumberland (DRW)
  - Genesis
  - Three Arrows
  - BTC2
  - Jump
  - Alameda
Roles and Strategies of 4 Market Participants within Cryptocurrency Markets

Market Makers:

- Market Makers engage in a series of arbitrages across the matrix of different Crypto (especially BTC) products in both Electronic and OTC transactions.
- Many trade same products on multiple exchanges and trade products with different specifications (cash vs. futures vs. funds)
Roles and Strategies of 4 Market Participants within Cryptocurrency Markets

Market Makers:

- Market Makers also trade a series of strategies similar to what you have learned from other sessions such as:
  - Flow Based – trading with or encouraging flow in specific situations
  - Momentum
  - Spreads – BTC/ETH
  - Spec – outlook on different Cryptos

  - Various exchanges who can have vertical markets (i.e., Binance controls 4% of the mining, owns 80,000 BTC, makes markets, and has 10 to 1 leverage on futures. You’d never see that in the US.
  - And they now own CoinMarket Cap and they deleted a bunch of the data once they bought it – used to have BTC back to 1/1/10 but now only April 2013). Binance started in China, moved to Japan, and then to Malta, and has an office in Nigeria should they need to move there. Binance has a US Subsidiary, but 13 states (including NC) are not allowed to open accounts there.
Roles and Strategies of 4 Market Participants within Cryptocurrency Markets

Market Makers:

- Most exchanges are not selling to US. And if they have a US branch, they only sell tokens that they are sure the SEC won’t call securities.
- Poloniex was a US exchange and it was bought by a subsidiary of Goldman Sachs. But as the pressure got higher about selling assets that might be considered securities, they went offshore and closed to US Citizens.
Roles and Strategies of 4 Market Participants within Cryptocurrency Markets

Market Makers (Continued):

- Also Decentralized exchanges where you can just go and sell to someone else without an exchange.
- For example, through Coinswap as a US Citizen, I can buy most coins.
- It’s operated by Binance and they say US Citizens can’t participate, but they don’t stop you from logging on or trading and there is no KYC procedures like the exchanges have.
Roles and Strategies of 4 Market Participants within Cryptocurrency Markets

Market Makers:

- Major US Exchange = Coinbase, Kraken,
- It’s also possible for a crypto to go to zero on one exchange if they don’t have any buyers and big sellers.
  - Example. Chainlink (5th largest crypto) was listed at about 1.80 for the March low but it went to 1 cent on one exchange.
  - One person on exchange has an order to buy more BTC than is available at 1 cent should there be enough panic selling.
How Big Money Trades
Section 5d:

7 Edges of Big Money Traders within Cryptocurrency Markets
7 Edges of Big Money Traders – Within Cryptocurrency Markets - Objectives

- Go over how the seven edges are used by big money traders in cryptocurrency markets.
7 Edges of Big Money Traders

1. Expertise in a Market or Strategy
2. Trade with Edge to Fair Value
3. Trade with Positive Reversion
4. Use Flows to Make Trading Decisions
5. Identify Asymmetric Trade Setups
6. Manage Risk through Spreads and Relative Value
7. Use Instrument Selection to choose the Optimum Strategy to maximize their Trade Idea
7 Edges of Big Money Traders – Within Cryptocurrency Markets

Edge 1) Expertise in a Market or Strategy

- Many traders in Crypto space who are experts in aspects of Crypto.
- They use this expertise to form their views on different Cryptos and to find specific trades based on their expertise.
- Miners and Market Makers are 2 extremes of this idea that are both incredibly successful
- Our guest speaker today, Brad, will be a great example of expertise.
7 Edges of Big Money Traders – Within Cryptocurrency Markets

Edge 2) Trade with Edge to Fair Value

- Big Money Traders will have fair values derived for Crypto and will make trades around fair value to capture edge
- Miners will have fair values around cost of production and trade around that value
- Market Makers will model based trades and adjust their models for supply/demand factors
Edge 3) Trade with Positive Reversion

- Big Money Traders will use different techniques to provoke the retail crowd to buy/sell from them at extremes to give them large positive reversion on entry and exit.
Edge 4) Use Flows to Make Trading Decisions

- Big Money Traders in a thinly traded market like Cryptos will trade to opportunistically manipulate prices to put on and take off positions.
- Big Money traders are willing to move the position against themselves to position themselves to make a great trade.
  - They could have on a long position and sense the crowd is to long.
  - They will move the position against themselves in an effort to make retail puke their positions.
  - Then they will have orders working below to buy BTC from retail when they puke.
  - As soon as retail pukes their position, they will move the price higher to make momentum players enter out of fear of missing the rally.
  - They will sell into that rally to liquidate for profit.
Edge 5) Identify Asymmetric Trade Setups

- Crypto is full of asymmetric setups.
- Many of the new Cryptos have extreme potential Rewards.
- They are more Boom/Bust, lottery style bets.
- Bitcoin tends to trade with quick price bursts after excessive range contraction.
- When these price bursts occur, large profits can be made in short periods of time.
Edge 5) Identify Asymmetric Trade Setups
Edge 6) Manage Risk through Spreads and Relative Value

- Relative Value is evident through a series of complex arbitrages
- Arbitrages are across many different combinations
  - Onshore vs. Offshore
  - Futures vs. Cash
  - Futures Cash Settled vs. Futures Deliverable
  - Cash priced in different FX creates FX arbitrage across the pair
  - Cash vs. Cash with different Technology platforms
Edge 6) Manage Risk through Spreads and Relative Value

- To make a good spread, we need correlation and liquidity.

- Spread opportunities are more limited in Crypto space but are growing rapidly. Many of the exchanges offer spreads as products so you don’t have to leg the spread yourself.

- Example of a spread is ETH/BTC.
Edge 7) Use Instrument Selection to choose the Optimum Strategy to maximize their Trade Idea

- Options are available to trade but not widely traded (primarily OTC)

- I would expect a complex options trade to emerge (it already has OTC) from this asset class
How Big Money Trades
Section 5e:
Questions & Homework from the last call
Homework from Day 04:

  - Relevant article on how to profit from contango curve in Crude

- Break out rooms to discuss the homework from day 4

Homework from day 4:

- List 3 concepts that you learned from the webinars:

- What's one idea from the 7 Edges of Big Money Traders that you could incorporate into your trading? How would you expect it to improve your performance?

- What beliefs do you hold that should be reevaluated as a result of what you learned today?
How Big Money Trades
Section 5f:
Q & A with Brad Koeppen
Guest – Brad Koeppen

Brad Koeppen
HEAD OF TRADING

Mr. Koeppen has been with CMT for almost 10 years and has been the Head of Trading at CMT Digital for over two years. Mr. Koeppen leads many of the strategic partnerships that CMT Digital has with its portfolio companies and assists in due diligence for trading or financial services related investment opportunities. Prior to joining CMT, Mr. Koeppen traded equity and index options, on the floor and electronically, for IMC, a global options market making firm.

Mr. Koeppen graduated from the University of Chicago with a degree in Economics and will receive his MBA from The University of Chicago’s Booth School of Business in June, with concentrations in Entrepreneurship, Economics, Finance and Strategic Management.
Thank you
Questions