



RIDE THE WILD BULL OF BITCON

By Cameron Buchanan

The most hyped up and talked about instrument in the markets of 2017 would have to be Bitcoin. The second half of 2017 has seen the price of Bitcoin go from around U.S.\$1939 to a high of over U.S.\$19,343. Before I go further, all prices are quoted in U.S. Dollar (USD). The biggest run happened from 14 September to 16 December, where price moved from \$3226 to \$19,343. That is just around 6x. Interesting to note that the three-month parabolic price curve came after a 2 week sell off from a high on 1 September of \$4950. In that 2 weeks it came off 35% of its value. Only recently we have seen price fall again sharply in 2 weeks with a 3-wave corrective structure from the 16 December High of \$19,343 to the recent low of \$12,629 on 30 December. Once again, a 35% drop has occurred in 2 weeks. So, if you like buying the pullback, this could be the perfect time to buy, if a pattern cycle is forming. However, what if it keeps falling back to its early 2017 lows? There may be an alternative way to not only take advantage of the speculation up, but also burst of the bubble down, as we have seen recently with the 35% devaluation in 2 weeks. How can you trade this market down? There are couple of ways I know. As a futures trader, I will be highlighting the futures path.

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The Chicago Mercantile Exchange (CME), which is the largest Futures Exchange in the world did not want to miss out on the Cryptocurrency mania, and has created a market for Bitcoin Traders. BTC Futures launched on Monday 18 December, 2017.

Our members have been asking us about trading Bitcoin futures. Here are the answers to the most common questions we have been asked, and other important information you need to know if you are wanting to trade Bitcoin.

Do you need to own Bitcoin or need a digital wallet to trade it?

No, because Bitcoin futures is cash settled and does not involve the exchange of Bitcoin. As it is a futures contract, you must open a futures trading account with a futures broker who will guarantee your trades. In the futures business, brokerage



firms are known as futures commission merchants (FCM) or introducing brokers (IB).

How much will it cost to trade Bitcoin futures?

Firstly, to trade on the futures exchange the trader requires money in their trading account that meets the required margins of that market. If you are an intraday trader (in and out in day) you need to know the intraday margin. If you intend to hold the trade overnight or for a few days or weeks, you need to understand the initial and maintenance margins. This is typically a higher amount due to the higher risk of overnight or longer term positions. FCM's and IB's will make it more attractive for intraday traders to participate and will offer lower initial margins. However, this is not the case with BTC futures due to its infancy stage. An IB we use has set the intraday margins at \$50,000, with maintenance margins at \$31,584 (43% of the contract value). How do we work this out? Let's say Bitcoin is selling at \$18,000 on the futures market, the contract value of Bitcoin futures is actually worth 5 x \$12,000, equalling \$90,000. The margins can change daily due to price fluctuations. The margins for BTC are enormous compared to more established markets like E-mini S&P 500 futures and Euro or Japanese Yen futures at \$500 for initial margins and \$2,250 - \$4,500 for maintenance margins. Based on these margins at current prices, Bitcoin will be unaffordable for many retail traders with small accounts. The price of Bitcoin will need to drop or the margins will need to reduce to encourage retail traders. At current prices, Bitcoin futures will be limited to large institutional traders, until a mini contract is released.