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https://www.btcc.com/en-US/academy/research-analysis/what-should-be-considered-before-futures-trading

What Should be Considered Before Futures Trading?

Futures trading is not exactly the same as ordinary trading, although there are similarities. Here are some key aspects you should consider.

Leveraged Trading

Leverage is a key feature of margin trading. At present, most futures trading platforms provide this service. By using leverage, traders can increase potential profits, but the risk is parallel to the leverage it involves. Cryptocurrency exchanges typically provide up to 50 times leverage. Binance provides up to 125 times leverage,while BTCC provides up to 150 times leverage for its permanent contracts. Trading with high leverage may be a potential gain for senior traders, but the risk of clearing positions is still great.

When trading futures, beginners should avoid betting on high leverage, but the lowest leverage level may play a role. The selected leverage determines the margin required for the transaction. For example, if a trader chooses 10x leverage, the position will have 10% of his capital and the rest will be borrowed. This comes either from the exchange itself or from traders who lend at interest.

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Liquidity Assessment

Traders and investors pay close attention to the liquidity of a new asset to determine the integrity of the market, trading speed, market liquidity, and, in general, assess the stability of an asset, all of

which are to enable traders to quickly convert their assets into cash without too much price decline.

When trading futures, there are three main indicators to determine liquidity. It includes the liquidity of assets, exchanges and markets. Traders should always consider whether there are enough buyers, sellers, manufacturers and recipients, as well as the overall state of an asset and market.

Generally speaking, most futures cryptocurrency markets are more liquid than spot exchanges because most futures contracts are settled in cash. Therefore, in addition to bitcoin futures with physical delivery, bitcoin is not needed at all. Due to sufficient liquidity, the risk of price decline is much lower. However, fundamentals should always be implemented to reduce risks.

Market Volatility

One of the most important things to know about cryptocurrencies and their respective futures trading is high volatility. Although this is mainly proposed as a risk, it also brings more opportunities. Especially for short-term traders who like to speculate on rapid price changes. Cryptocurrency is still a small market compared with foreign exchange or stocks. Therefore, digital assets are vulnerable to sharp fluctuations due to the impact of whales or various events affecting the industry.

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Diversification

In addition to hedging, cryptocurrency futures can also diversify your capital. It is no secret that diversification is one of the best capital management techniques available to traders and investors. You can establish multiple positions in bitcoin (BTC), Ethereum (ETH), chainlink (link) and many other tokens to create a diversified portfolio of futures contracts. In this way, you can reduce the risk of exposure to a single asset, because the price of such assets may fall unexpectedly.

Hedging

Trading cryptocurrency futures is a great way to hedge against traditional assets or the sharp decline that cryptocurrency itself may occur. Institutional investors prefer to use bitcoin futures as a hedging tool. Bitcoin futures trading will not expose you to extreme BTC price losses in the spot market, because futures contracts have a predetermined maturity price.