Crypto Futures Trading: Risk Management and Financial Planning

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Abstract:

- Every professional trader needs a trading plan. Having a trading plan can help you in many ways, including reducing your stress levels, increasing your awareness of your trading behaviors, and decreasing the number of transactions you miss.
- Capital investments can be shielded against catastrophic losses with the help of risk management strategies like Stop-Losses and Total Capital at Risk.
- If you can't afford to lose the money you invest, don't invest it. If you want to invest your crypto savings without letting your emotions get in the way, try trading crypto futures.

Due to the huge leverage, crypto futures can provide enormous profits, but they also carry the risk of losses equal to or more than the initial outlay. If you want to make money trading cryptocurrency futures, you need a foolproof risk and money management plan.

Risk Management in Crypto Futures Trading

1.Trading Strategy

No trader worth their salt goes into the market without first developing a trading strategy. To better control risk in the extremely speculative crypto markets, a trading plan is essential. Consistency and profitability in trading may both improve with the aid of a well-thought-out plan.

Create a comprehensive plan for entering and exiting trades, including entry and exit signals, position sizing, and stop-loss levels.

There are many positive outcomes that can result from having a well-thought-out trading plan, such as reduced anxiety and a more focused approach to trading.

The next crucial stage, especially in a losing trade, is to stick to the trading plan you've established. Even the most seasoned traders will inevitably suffer losses at some point in their careers. When beginning traders experience their first string of loss deals, they often give up on their strategy altogether. Maintaining discipline and following the plan are essential components of a successful trading career. If you give up and panic, you'll probably make more erratic deals. What's worse is that in your rage to get back what you've lost, you can make riskier trades and end yourself with even less money than before.

2. Set the Stop-Loss Order

Using a stop-loss is a frequent strategy for minimizing losses, which is consistent with the basic idea of risk management, which is to lower the chance of disproportionate losses. An investor can establish a limit on the amount of money they stand to lose on an investment by placing a stop-loss order.

Let's pretend you invest $3,500 in Binance Futures to buy ten BNBBUSD contracts. Your stop-loss order could be set 20% below the buy price, or $280, to protect you from any losses in the trade.

Your stop-loss order will be executed if the BNBBUSD currency pair's price drops below $280. Based on market conditions, the exchange will then sell the futures at the going market price, which might be exactly the $280 trigger price or much lower.

Stop-loss orders are used by investors as a component of their risk management plan to get out of losing positions if they don't perform as predicted. Using stop-loss orders, traders may make calculated judgments to sell without allowing their emotions get in the way.

3. Never put more than 5% of your portfolio at risk in any single trade

Trading accounts can benefit from money management strategies that decrease exposure to loss while increasing opportunities for profit. It's a prudent policy to never risk more than 5% of your account balance on a single trade. The 5% restriction prevents you from risking too much of your portfolio on a single position, and its value adjusts up or down as your account balance does.

When investing in high-leverage derivatives, such as perpetual futures contracts, it is possible to lose your whole investment capital in a matter of minutes due to the volatility and unpredictability of cryptocurrencies. The rule of thumb for trading in volatile assets is to risk no more than 1%-2% of your capital on every individual trade, thus investors should stick to this rigorous restriction.

So, let's say you have 10,000 BUSD in USDS-M Futures. If so, each deal would include 100–200 BUSD in risk. Only 1%-2% of your account balance would be at risk in case of a bad trade.

Successful risk management necessitates correct position sizing, proper stop loss placement and monitoring, and awareness of the risk versus reward dynamic. You may create a portfolio that won't cause you sleepless nights with the help of a solid financial plan.

4. Avoid Excessive Trading

Investors and traders in the futures market need to be wary of overtrading. When a trader has too many open positions or bets too much money on a single deal, the trader is overtrading and putting their entire portfolio at danger. Overtrading can be avoided by having a trading plan and sticking to it with discipline.

Overtrading is a common problem among novice traders, and it's usually caused by irrational feelings like greed, fear, or enthusiasm.

Opening a large number of positions can result in big gains for traders, but it also greatly increases the risk of catastrophic losses. Setting a limit on the total value of your investments is a sensible way to control potential losses.

It is possible (and virtually anything can happen in the crypto markets) that all 25 holdings in your portfolio will go against you at the same time and inflict a big loss of 25% of your capital.

Total capital at risk takes into account not only the risk of each individual trade, but also the total amount of capital that could be lost over the course of a whole portfolio. If you're risking 1% of your portfolio on each transaction, then you shouldn't have more than 10 active positions at any given time.

5.Never invest more money than you can afford to lose

Always remember the one cardinal rule of investing: never put up cash you can't afford to lose.

Futures contracts for cryptocurrencies can have high levels of volatility. It doesn't take much for your money to disappear in a highly unpredictable market. There is always the possibility of a huge price increase or decrease. Putting more into something than you can afford to lose is a surefire way to get yourself into a sticky situation. For this reason, you should only trade cryptocurrency futures with money you can afford to lose.

An effective trader must be able to put their feelings aside and instead act in a methodical, calculating fashion. You should also have a solid risk and money management strategy in place to safeguard your capital at all times. Always be prepared to take a loss, and keep in mind that it is an inevitable element of futures trading by following the rule of thumb of risking 1-2% of your account balance per trade.

Conclusion

High leverage in futures trading allows for substantial potential gains. Still, one can lose their entire investment if they don’t fully comprehend how it works and how to reduce associated dangers.

If you’re seeking for a way to make bigger profits while also being willing to take on more risk, crypto futures are an excellent financial tool to consider. By carefully managing your finances and taking calculated risks, you may increase your profits from trading crypto futures and minimize your losses.

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