Simple Tips for Investing in Crypto Bear Market

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It's not easy to keep cool when crypto assets are taking double-digit losses. But don't bury your head in the sand and follow these simple steps to make the most of this bear market opportunity.

The crypto market is experiencing double-digit percentage losses, with Bitcoin (BTC) briefly dropping below $30,000 on May 9, 2022, for the first time since July 2021. The general market sentiment and turmoil shaking the TerraUSD (UST) stablecoin and LUNA has understandably concerned many investors. But that doesn't mean you should throw up your hands and flee the market.

So, what should you do instead?

1. Use Dollar-Cost Averaging To Buy The Crypto Dip

It's all too easy to be on the wrong side of a crypto trade when markets turn wildly volatile, but that doesn't mean you have to sit there and watch your portfolio plummet by the hour.

Investors who have held back a reserve of fiat currency or stablecoins, or have expendable capital in their bank accounts, will have the ability to "buy the dip." This common phrase used throughout the crypto industry refers to the practice of buying up an amount of cryptocurrency whenever there's a significant bearish correction in the market.

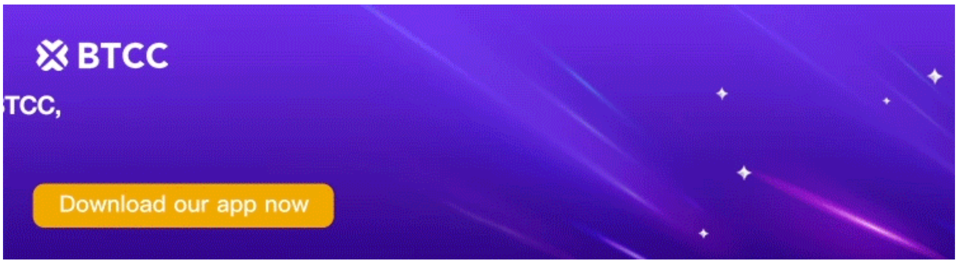
The idea is, if and when prices return back to their previous highs, the dip buyers will bank a nice profit. This echoes the infamous preachings of stock trading legend Warren Buffett, who once said "When there's blood on the streets, you buy."

While buying the dip can be done in a single trade, the most recommended strategy is to implement something called “dollar-cost averaging (DCA).” This involves breaking up your reserve funds into smaller tranches and making several trades over time.

For example, let’s say you have $1,000 in reserve funds. A good DCA strategy would be to break up the amount into five tranches of $200 or even 10 tranches of $100 and place trades using those smaller amounts.

The thought behind this is, it’s incredibly difficult to know exactly when an asset has bottomed out (reached the lowest price before reversing), so instead of spending all your money in one go, it usually works out better to buy a small amount and wait to see if the asset falls in price further. If it does, buy a little more, and so on.

Doing this will typically garner much better results than if you had invested all your capital in a single trade – unless, of course, you were lucky enough to go all-in at the perfect time.



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2. Find The Best Entry Point Using Indicators

For investors that possess a basic or higher understanding of technical analysis – the practice of predicting an asset’s price movements based on chart trends, indicators and patterns – it’s possible to use certain indicators to gauge when an asset has reached a bottom.

Of course, no indicator is completely foolproof, but they can often give you a strong signal when to buy a dip.

A popular method is to use the Relative Strength Index (RSI) indicator – a momentum oscillator characterized by a channel and a line that oscillates in and out of it. There are two key elements to this tool:

- **Overbought:**When the indicator line breaks out above the channel the asset in question is considered “overbought” – in other words, overvalued – and usually signals that prices will fall back down soon.
- **Oversold:**When the indicator line breaks out beneath the channel the asset in question is considered “oversold,” or undervalued, and usually signals that prices will rise soon.

While these two signals can be used alone to good effect they don’t always accurately predict bottoms or tops, particularly on lower time frames such as the four-hour, hourly or 30-minute options. A better method is to employ the RSI divergence strategy.

One thing to note about the RSI is it usually follows a similar pattern to an asset’s price, meaning when the price falls, the RSI indicator line also falls. However, there are times when the two lines move in opposite directions. This is known as an RSI divergence, and typically indicates the beginning of a trend reversal.

To spot a bottom, you will need to see if the RSI line makes a higher high while the corresponding price makes a lower low. Ideally, the RSI line will be near or into the oversold region on a larger time frame, such as the daily, to signal a strong reversal opportunity.

3. Diversify Your Investment Exposure To Different Crypto Assets

Just like it’s nearly impossible to accurately predict the bottom of a bear market, it’s also impossible to know exactly which of the 17,000+ cryptocurrencies will recover the fastest or go on to rally the highest.

One way to hedge your bets is to use DCA for a range of different crypto assets. This might involve reducing your trade sizes even smaller, but, in doing so, you’ll reduce your overall risk. Of course, it’s not enough to randomly select crypto assets and invest in them. You’ll want to perform rigorous due diligence first on each crypto asset you intend to buy and look for the following:

- **Previous all-time high:**No crypto is guaranteed to return to its all-time high, but it can give you an idea of what sort of potential the asset has.
- **Past performance:**Look at the asset’s price history using tools like TradingView and see how well it has recovered during previous crashes. Does it correlate strongly with the rest of the market, or does it regularly outperform other leading assets? Previous performance is no guarantee of future price activity, but, again, it gives you a rough idea of what might be possible.

- **Upcoming roadmap announcements:**One thing that can assist in an asset's recovery is the arrival of a major update or roadmap development. These can include things like a rebranding, a mainnet launch or a new partnership.

4. Don't Panic

This might seem like a no-brainer, but managing your emotions during bear markets is not as easy as it sounds. In fact, it's often described as being the hardest thing to master when learning how to trade professionally.

Renowned American economist Benjamin Graham once said, "Individuals who cannot master their emotions are ill-suited to profit from the investment process."

An important step is to recognize that fear and greed are powerful motivators and can often lead to making snap judgments that end in losing trades. Having a concrete plan in mind before placing a trade can make all the difference between making a profit or losing money. This can simply be a case of saying, "When I see a bullish RSI divergence on the daily chart, I will allocate X amount to the trade, and take profit at Y."

Taking profits is another thing that seems easy but is difficult to master. Greed will often cause you to trade beyond your take profit level with the expectation that the asset price will rise even higher. This increases the risk that the trade will go against you, especially if you don't set a stop loss.

The cryptocurrency market is very volatile and if you miss this opportunity to buy low, you may be frustrated, but another cryptocurrency crash may be coming. Make sure you take profits, make sure you keep some money for the crash, and remember to stay calm when the shorts enter.