

# BTSE

## Crypto Trading Psychology:

## Dealing with FUD and FOMO in the Cryptocurrency Market

Overcome FUD and FOMO to invest like a pro



## FUD and FOMO in Crypto

Cryptocurrency trading has transformed the financial world in ways that were once unimaginable. From decentralized digital assets to the creation of entirely new financial ecosystems, the way people invest and the way they perceive money are changing.

However, as remarkable as this landscape may be, it also presents unique psychological challenges that can determine the success or failure of an investor. To navigate the volatile and complex world of cryptocurrency trading, it is crucial to understand the key concepts of **FUD** (fear, uncertainty, and doubt) and **FOMO** (fear of missing out).

“ **FUD and FOMO can have significant effects on crypto trading decisions, often leading to irrational behavior and poor investment choices.** ”

Both FUD and FOMO can wreak havoc on an investor's ability to think rationally and strategically, undermining their long-term success in the market. By recognizing and addressing these psychological challenges, investors can develop a more balanced and disciplined approach to maximize the potential for sustainable gains. Success involves tuning out the noise, and this guide will show you how to reach that state.

## How FUD and FOMO Impact the Market

To navigate the volatile and complex world of cryptocurrency trading, it is crucial to understand the key concepts of FUD and FOMO.

FUD and FOMO are powerful psychological forces that can greatly impact the cryptocurrency market. FUD can cause investors to panic and sell their holdings, leading to rapid price drops. Conversely, FOMO can cause investors to buy into a hyped asset without proper due diligence, often leading to inflated prices and subsequent crashes. Both FUD and FOMO can lead to irrational decision-making and contribute to market volatility, leading to losses. Here are several examples:



## 2017 Bitcoin Crash

In 2017, Bitcoin experienced a massive surge in value, reaching a high of nearly \$20,000 in December. However, this rapid growth was followed by a sharp decline, with prices plummeting more than 80% over the course of the following year. This crash was fueled by a combination of factors, including regulatory crackdowns, security concerns, and the spread of FUD among investors. The fear of an impending bubble burst led many to sell their holdings, contributing to the rapid decline in value.

## ICO Boom of 2017

The 2017 ICO boom exemplifies FOMO in crypto. ICOs are fundraisers where new projects sell tokens to early investors. Many investors, driven by FOMO, invested in ICOs without proper research, leading to rapid growth in projects, including scams and failed ventures. According to a 2018 study conducted by Ernst & Young, over 10% of funds generated through "initial coin offerings" were either lost or stolen in cyberattacks. The ICO bubble burst, causing significant losses for many investors.

## 2020 COVID-19 Market Panic

In early 2020, the COVID-19 pandemic led to plunges in global financial markets, including cryptocurrencies. Investors liquidated assets like crypto and moved their liquidity into what they perceived as safer investments, causing Bitcoin to lose almost 50% of its value on March 12, 2020. Eventually, the market recovered as governments implemented stimulus measures and the pandemic's economic impact became clearer.

## 2021 Altcoin Season

During the 2021 "Altcoin Season," the crypto market saw a rapid surge in altcoin prices as investors sought new opportunities. Newcomers, driven by FOMO, invested heavily in altcoins, aiming to emulate early Bitcoin and Ethereum investors' success. However, this frenzy inflated prices and increased volatility, causing significant corrections and losses for many investors.

## Sequoia Capital and FTX

Even seasoned investors can succumb to FOMO. Sam Bankman-Fried, founder and former CEO of FTX, pitched his vision for a versatile financial platform to Sequoia Capital while reportedly playing League of Legends. Sequoia cut a check for FTX, but the exchange later informed investors it needed US\$8 billion to avoid bankruptcy. Consequently, Sequoia marked down its US\$214 million investment in FTX to \$0.

## 2023 Silicon Valley Bank Collapse and USDC Depeg

The USDC depeg occurred when Silicon Valley Bank (SVB) faced liquidity issues after the Federal Reserve raised interest rates, resulting in a US\$1.8 billion loss as SVB's customers withdrew capital. This sparked concerns among other firms, leading to a bank run. On March 10, due to a sudden surge in withdrawals by depositors amounting to as much as US\$42 billion in a single day, SVB had to cease operations as it became insolvent. The Federal Deposit Insurance Corporation (FDIC) ended up closing SVB on the same day; when USDC's issuer, Circle, revealed that more than 8% of its US\$40 billion reserves remained at SVB, investors panicked and swapped USDC for other digital assets, leading to heightened demand when there was insufficient liquidity to support the token conversions, depegging USDC from US\$1.



## Overcoming FUD and FOMO in Crypto Trading



“ Study the duds, not only the big wins ”

FUD and FOMO can have significant effects on crypto trading decisions, often leading to irrational behavior and poor investment choices. Both FUD and FOMO contribute to market volatility and can make it difficult for traders to maintain a clear, grounded perspective on their investments. That means it's incredibly important to understand and manage these emotions in the crypto market.

Emotional regulation is crucial for success in crypto trading, as it helps traders make rational decisions in a market characterized by volatility and uncertainty. By keeping emotions in check, traders can avoid the pitfalls of FUD and FOMO and make more informed choices based on facts and analysis. Here are a few techniques for keeping FUD and FOMO at bay:

### ■ Maintain a Long-Term Perspective

Focusing on long-term trends and objectives can help traders stay grounded during periods of market turbulence and ignore the FUD. By keeping an eye on the bigger picture, traders can maintain a sense of perspective and avoid knee-jerk reactions to short-term fluctuations.

## ■ **Develop a Well-Researched Trading Plan**

A solid trading plan, based on thorough research and analysis, can help traders navigate market uncertainty with confidence. By sticking to a well-defined plan, traders can minimize the influence of FUD on their decision-making process.

## ■ **Use Risk Management Techniques**

Implementing risk management techniques, such as setting stop-loss orders and diversifying portfolios, can help traders protect their investments during periods of market instability. By proactively managing risk, traders can mitigate the impact of FUD on their portfolio's performance.

## ■ **Set Realistic Goals and Expectations**

Establishing clear, achievable goals and maintaining realistic expectations can help traders resist the allure of FOMO. By focusing on what is truly attainable, traders can avoid being swept up in hype and make more informed decisions.

## ■ **Practice Patience and Discipline**

Developing patience and discipline can help traders resist the temptation to jump on every seemingly promising investment opportunity. By waiting for the right opportunities and sticking to their trading plan, traders can avoid succumbing to FOMO.

## ■ **Learn to Discern between Fact-Based Information and Social Media Trading Hype**

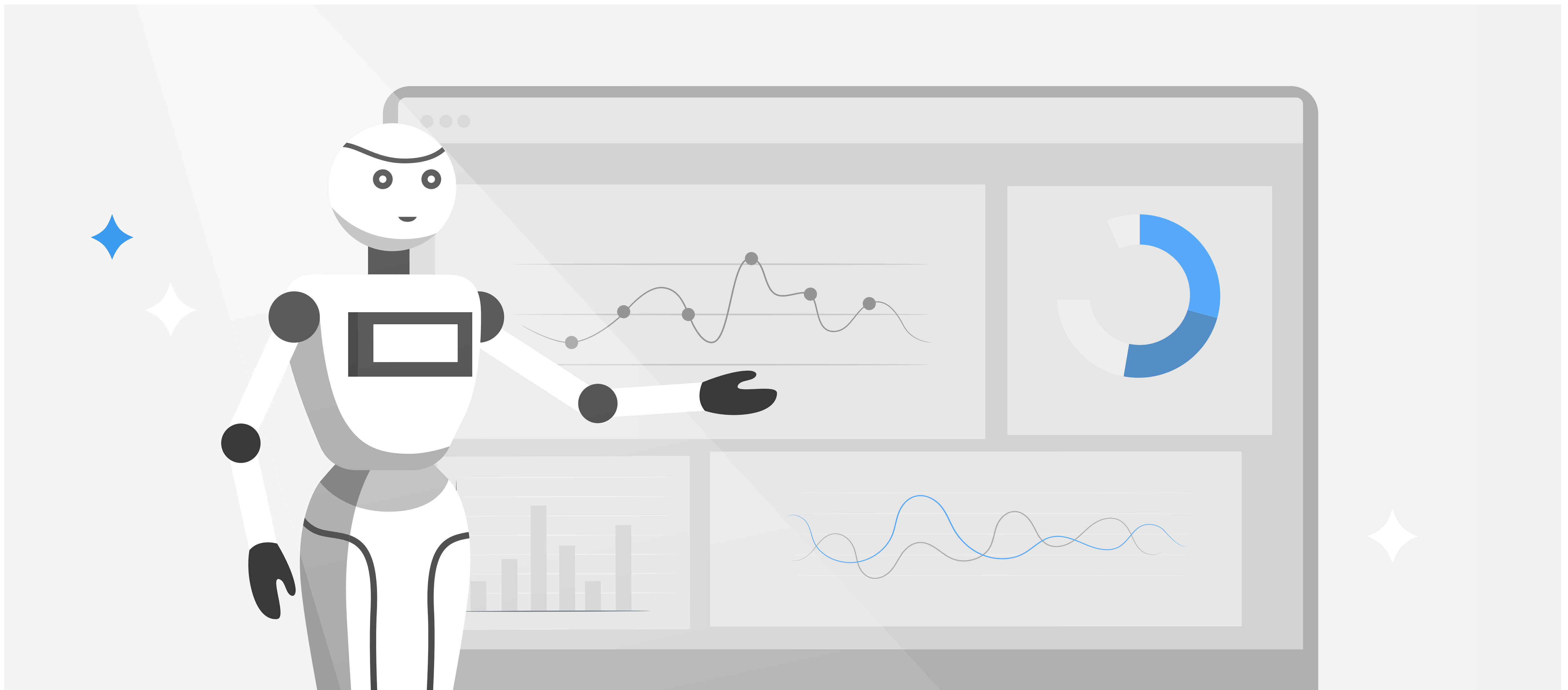
Only invest in projects that you can explain clearly to your peers, and make sure to read and understand the whitepaper. This approach can help traders separate hype from substance and make more informed decisions about which projects to invest in.

## ■ **Study the Duds, Not Only the Big Wins**

Analyzing failed projects and understanding their pitfalls can help traders gain valuable insights into potential red flags and avoid making similar mistakes in the future.



## Use Technology to Manage Emotions in Crypto Trading



### ■ **Algorithmic Trading Systems**

use pre-defined rules and strategies to automate the trading process, minimizing the influence of emotions and snap decisions on trading activities. By executing trades based on objective criteria, these systems can help traders maintain discipline and avoid impulsive actions driven by FUD and FOMO.

### ■ **Crypto Robo-Advisors**

are digital platforms that provide automated investment management services, typically using algorithms to build and manage portfolios based on an investor's risk tolerance and goals. By leveraging the expertise of robo-advisors, traders can reduce the impact of emotions on their investment decisions and maintain a more balanced portfolio.

### ■ **The BTSE VIP Program**

offers advanced traders access to a range of premium features, such as lower trading fees, higher withdrawal limits, and 24/7 dedicated customer support. These benefits can help traders streamline their trading experience and make more informed decisions, minimizing the influence of emotions on their actions.

The program also provides access to BTSE's order book API, with direct API integration and increased rate limits, enabling traders to make data-driven decisions and reduce the impact of emotions on their trading. By utilizing a premium platform such as BTSE VIP Program, traders can access valuable insights and develop a more objective approach to managing their investments.

## ■ **Crypto Trading Software with Customizable Alerts and Stop-Loss Features**

can help traders stay on top of market movements and protect their investments during periods of volatility. By setting up alerts for specific price movements or other indicators, traders can remain informed without constantly monitoring the market. Additionally, stop-loss features can help traders automatically exit a position if the market moves against them, mitigating potential losses and reducing the influence of emotional impulses on trading decisions.

**Bottom Line:**

## **Don't Let FOMO & FUD Guide Your Decisions**

Managing emotions, particularly those sparked by FUD and FOMO, is crucial for success in the crypto trading landscape. To effectively navigate the volatile world of cryptocurrencies, traders should adopt strategies such as maintaining a long-term perspective, developing a well-researched trading plan, using risk management techniques, setting realistic goals, practicing patience and discipline, and learning to discern between fact-based information and social media hype.

Remember, there is always the next opportunity. Holding back and observing the market is a reasonable option and can help traders learn and develop the skills and resilience needed to thrive in the ever-evolving world of cryptocurrencies.

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