



How to Make Money From Bitcoin Volatility

Description

For a long time, I have been covering equity, which is impacted by fundamentals, regulatory policies, and macro trends. A stock price is the company's future earnings potential, and the price investors are willing to pay to get a share in future earnings or revenue. There are various parameters to analyze the stock price momentum like stock valuation, technical indicators, new sentiments, and overall economic environment. Basis this, investors prepare their investment strategies. But how can you make money from Bitcoin?

For that, you need to understand the factors driving Bitcoin's volatility.

Regulatory issues a major roadblock for cryptocurrency

BTC is not an official replacement for paper currency. While companies like **Tesla** and **Microsoft** say that they will accept BTC as a mode of payment, everything will go for a toss if the government bans the currency.

During the 2017-2018 crypto bubble [burst](#), the BTC price dipped 80% after a series of security and regulatory issues flooded in early January 2018. There were rumours that South Korea might ban crypto trading. Many crypto trading platforms were exposed to hacks, scams, and irregular trades. Moreover, these platforms were not user friendly as people lost their Bitcoin because they forgot their password or accidentally deleted the platform from the device.

At present, India is considering banning crypto, but the United States and Canada regulators have not expressed any such thing. This time, the Canada Revenue Agency (CRA) is scrutinizing major crypto transaction for tax avoidance. So if you are filthy rich or became filthy rich because of cryptocurrency and have not shown that income to the CRA, be prepared for scrutiny. The taxman might take away a significant portion of your crypto wealth.

But none of these ban BTC trading. In fact, it is a positive sign that the growing popularity of digital gold is pushing regulators to gradually accept it as means of investment or exchange.

What drives Bitcoin volatility?

Apart from regulatory issues, demand and supply drive BTC prices. And the factor that controls its demand is its popularity because BTC in itself has limited utility. Think of it as a film actor. A celebrity only gets movies till he/she can win millions of hearts. Negative publicity or stronger competition can destroy his/her career.

BTC was walking the red carpet between November 2020 and February 2021. But then, Dogecoin rose to fame thanks to all the positive PR it got from Tesla CEO Elon Musk. Sadly, no ETF holds Dogecoin.

How to make money from Bitcoin volatility?

The mantra for making money from volatility is to buy the dip and sell the rally. Never chase the rally, as that will only increase your downside risk. If you feel BTC is here to stay, this is the right time to [buy the dip](#). But instead of buying BTC, consider investing in the **Purpose Bitcoin CAD ETF** ([TSX:BTCC.B](#)), Canada's first Bitcoin ETF.

The [ETF](#) buys BTC and stores it, relieving you from the risk of hack and problems associated with the crypto trading platform. In return, it charges a 1% asset management fee. You can buy and trade this ETF on Toronto Stock Exchange through the Tax-Free Savings Account (TFSA). This way, you are saved from CRA's tax claws. But unlike other ETF, the BTCC only holds Bitcoin and no other crypto — likely because of regulatory approvals. Once regulators start accepting other crypto coins, the ETF could provide diversified exposure to other cryptos. But all of this is just a futuristic dream at present.

Crypto trading tips

If you not to trade in crypto follow these three tips:

- First, don't place a big bet for this toss of the coin probability. Instead, keep aside a very small portion, probably \$100 or \$200 and invest that in the Bitcoin ETF. The Purpose ETF is down 16% from its April 15 high.
- Second, never get carried away on windfall gains and put all your money in BTC. It can make you a king or beggar. Invest if you have the appetite to bear losses and handle windfall gains.
- Finally, diversify beyond crypto in fundamental stocks.

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