Fractal Energy Trading Crypto MasterClass

Module One
What is Broken?

READYSETCRYPTO

Module One
What is Broken?

By Doc Severson

• We Are Not Financial Advisors or a Broker/Dealer: Neither ReadySetCrypto® nor any of its officers, employees, representatives, agents, or independent contractors are, in such capacities, licensed financial advisors, registered investment advisers, or registered broker-dealers. ReadySetCrypto ® does not provide investment or financial advice or make investment recommendations, nor is it in the business of transacting trades, nor does it direct client commodity accounts or give commodity trading advice tailored to any particular client's situation. Nothing contained in this communication constitutes a solicitation, recommendation, promotion, endorsement, or offer by ReadySetCrypto ® of any particular security, transaction, or investment.

• Securities Used as Examples: The security used in this example is used for illustrative purposes only. ReadySetCrypto ® is not recommending that you buy or sell this security. Past performance shown in examples may not be indicative of future performance.

• All information provided are for educational purposes only and does not imply, express, or guarantee future returns. Past performance shown in examples may not be indicative of future performance.

• Investing Risk: Trading securities can involve high risk and the loss of any funds invested. Investment information provided may not be appropriate for all investors and is provided without respect to individual investor financial sophistication, financial situation, investing time horizon, or risk tolerance.

•Cryptocurrency Trading Risk: crypto trading is generally more complex than stock trading and may not be suitable for some investors. Margin strategies can result in the loss of more than the original amount invested.

Table of Contents

Introduction - The Current State of Crypto Analysis

The title of this module implies that something is wrong if I'm asking the question "what is broken?" I have seen this same set of "broken" things occur with the equity markets over the years… and I'm seeing the same things happen with the crypto market, yet it's much worse this time around for reasons that I'll get into here.

Let's start out by asking a simple question: How do you know ***when*** to buy your next crypto? Or when to sell it?

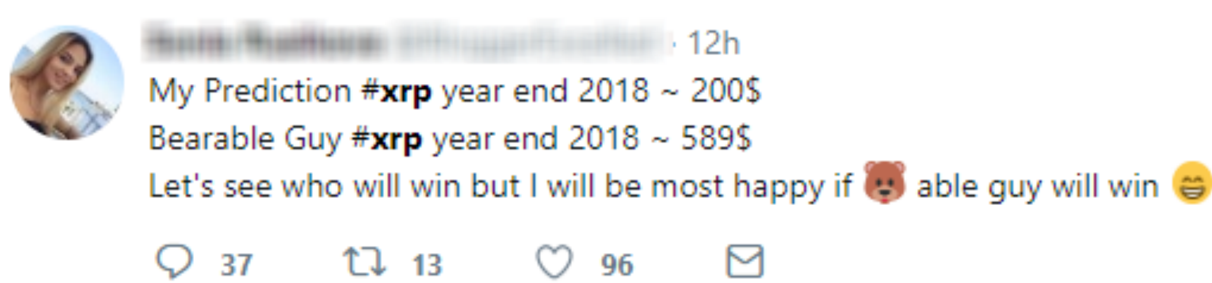
This is usually one of the first challenges that an investor will come up against when they get into the field of cryptocurrencies. So they quickly turn to a community that can accumulate the wisdom of ages - Twitter. There you will get your first indoctrination about how to invest, reading posts like "The Ten Commandments of Crypto" which include gems of wisdom like:

- Thou shalt HODL
- Buy the Dip
- Don't FOMO
- Thou shalt not pump & dump

….and many others that seem to just circulate around and speak more to trading cryptocurrencies as some kind of religion and a set of societal rules vs. an actual investing pursuit.

And while you might be able to find a couple of sane individuals on social media, the rest of the noise and bad advice will just waste your time, and make you realize that precious few of these individuals have any structure to what they are doing as well.

Posts like these just lead people in the wrong direction:



There's no value there - literally anyone could write out a post with a prediction. What methods did they use to make the prediction? Monte Carlo analysis, or tossing a dart?

And notice that they got 37 other helpful individuals to comment on their post, all of them offering their collective opinions on the topic. They are just treating this like a game, not as a serious pursuit.

And the more that you look, the more that you realize that almost NO ONE else has any clue as to what they are doing. It's literally the blind leading the blind, as this next post shows:

It's like social gambling….*what should I do, folks? Put it all on red or black?*

And to think that 131 people felt qualified to vote on this. Hurry, there's only four days left to vote on this poll!

It's usually at this point that investors start to look for more "experienced" investors, and it can be very easy to be roped into sites that post their "wins," like this one:

It's compelling, right? I mean, who wouldn't want to more than double their money in a short amount of time? It's easy to assume, based on the confident tone of their post, that these guys must be experts in their field. (Never mind that you will never see them post a losing trade) They are trying to rope you in, undoubtedly to a "pump & dump" scheme. This is where a site will attract a huge buzz around an announcement and you get to "go for the ride" on their gains as they drop the bomb on a coin and get the shorts covering for a quick ride higher.

Unfortunately, what you don't realize is that these "pumpers" have already bought into the coin that they're going to facilitate manipulation on, and they're just using this event to sell their inventory to the rest of the sheep thinking that they'll get an easy ride higher. I think it's a pretty good generalization that most people don't make money with pump & dump schemes, as they get caught "holding the bag" a little too long when the "pump" gets turned into a subsequent "dump." Once again, the retail investor that joins the rest of the "herd" will come out on the short end of the stick.

It won't take you long to realize that trying to find answers in the middle of social media "noise" isn't worth the time, especially if you get roped into a couple of pump & dump schemes, or get influenced into chasing (FOMO) a breakout move that gets "announced" on social media sites.

"There must be a better way…." you think. You're looking for something more established, more serious, less noise and more credibility.

Maybe there is an answer from someone more "established." Like the financial press.

The Financial Press

If there’s someone that you can trust, it’s the financial press, right? They are the “watchdog” of the people, trained to look out for all of us “little folks.” So you sample some articles which look to be clear, objective advice:

Looks pretty clear and simple, right? If the “experts” are forecasting a major breakout, that makes their advice that much more credible and powerful than those amateurs on social media, right? A pretty compelling reason to log into your online broker and start to buy, isn’t it?

And you read on to the next article:

Michael Novogratz Sets $10,000 Price Target for Bitcoin (BTC) in 2018

Wow, a “certified expert” with a name that you’ve heard of before. Sounds like a pretty solid recommendation, one that you’d better act on TODAY, right?

Let’s step back and think about this for a minute.

What is happening, as we sit here, to traditional journalistic outlets, particularly those that sell newspapers? They are sitting ducks, dead meat, targets for innovative disruption, likely to be chopped up and sold off piece by piece as profits erode. The Internet has commoditized “information” to the point where people do not want to pay for it. Don’t believe me? What did you do the last time you linked to an article on the internet that only allowed you to read the first paragraph before it forced you to sign up to get past the paywall? You probably abandoned it and moved on. There is no money to be made from reporting and journalism in the traditional sense of selling “news” or “information.” Even the NY Times is having to cut to the bone, and the only traditional media sources still in play are those in specific, price-insensitive niches.

So if there is no money in reporting information, why do they do it and how do these financial websites survive?

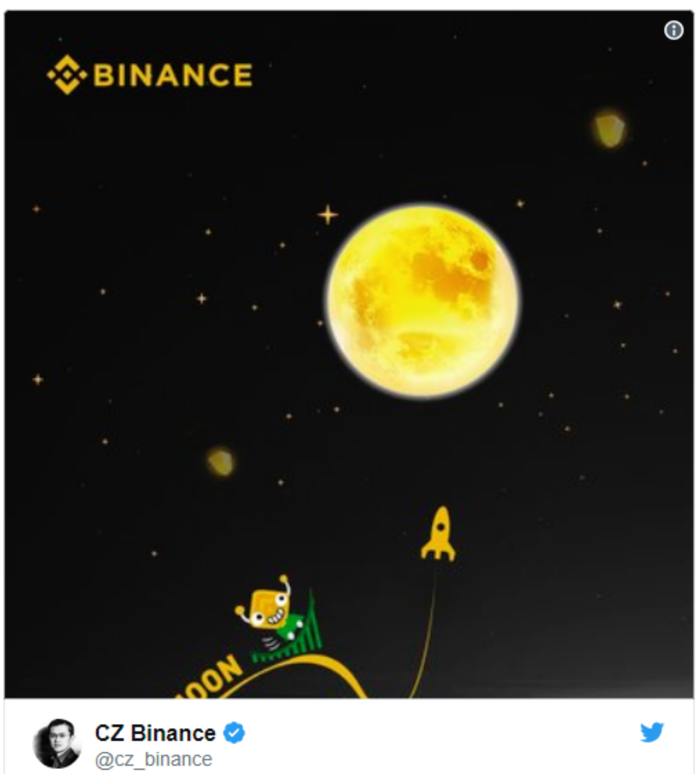
It’s simple. CLICKS.

Articles get written to ATTRACT ATTENTION so that you CLICK on that page. And guess what? There are a bunch of other “clickbait” links on that page that are just TEMPTING you to click on them, all with titles such as “I couldn’t believe what she did next!” It’s called CLICKBAIT, friends, and selling ad space and clicks is how money is made by these faux “journalists.”

Let’s see another one:

Experts call out a massive price forecast

To start with, this interesting and bullish Tweet from Binance CEO, Changpeng Zhao:



You want clicks to your website? Yep, just append a Tweet from the CEO of Crypto broker Binance that “crypto is going to the moon” and title it “Experts call out a massive price forecast.” Yessir, all of those HODLers that have lived through the 2018 bear market click on this article because it just might contain what they’re looking for. Clicks. Ad revenue. The game goes on, and you just got played. You’re now part of the “product” and not just a consumer any more.

See my point here? You’re looking to the financial press for credible information about what to buy and when to buy it…but instead of learning critical information that’s specific to your requirements, YOU got used and manipulated for others’ gain.

What’s worse than this is that if you DO use this information to make investing decisions, you will be making one of the worst investing mistakes of your career, as financial markets LOVE to punish investors that become part of the “herd” that all get their information from the same places. They all act and think alike, and come to the same conclusions based on the same bad information.

They continually buy at the highs and sell out at the lows. You don’t want to do this.

And this is what finally leads investors to charts and technical analysis, so that they can do their own research and analysis. Perhaps you’ve come to this juncture as well. It is the right idea, after all, as you’ve always heard others telling you to “do your own research.” Charting it is, then. What could go wrong?

Let's Use Technical Analysis and Charts!

This is usually the next step that investors take once they figure out that no one in the Social or Media space is really looking out for them….charts and technical analysis.

The website Investopedia defines "technical analysis" as:

"*A method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume. Technical analysts do not attempt to measure a security's intrinsic value, but instead use charts and other tools to identify patterns that can suggest future activity*."[1]

The last three words are key…."*suggest future activity.*" So in a nutshell, what we're trying to do is to predict future behavior based on what's happened in the past. It sounds absurd, but we do it all the time in other endeavors besides financial markets.

- Psychologists try to predict human behavior from their classifications and body of knowledge about past human behavior.
- Gamblers predict and bet on race or game outcomes before they take place, based on evaluating past behavior.
- Criminal Investigators try to stay one step ahead of their foe by identifying patterns of behavior, and then using that knowledge to anticipate a criminal's next action.

And unless you're a devotee of Burton Malkiel and his "Random Walk Down Wall Street" hypothesis (that Markets are completely random), you've probably spent a fair amount of your time learning some form of charting technique, probably at least as much as you've spent actually learning the various strategies to trade.

The Professionals Ignore It

While this reference is to the stock/equities market, I consider the ultimate "professional trader" the individual that you see trading in the live pits. And they won't use a chart. Yes, believe it or not, the majority of "pit" traders won't have anything to do with Technical Analysis. They don't believe in it because their Market is right in front of them, so they don't need a chart to understand price discovery. They

[1] http://www.investopedia.com/terms/t/technicalanalysis.asp

can see the institutional, or “paper” orders coming in from the various trade desks, certain to move the market. They can also see, hear, and smell the emotions of fear and greed coming out of every pore of the traders in front of them.

They typically memorize price levels of the instrument that they’re trading, and focus more on reading the behavior of the crowd right in front of their eyes. If you’ve ever been to a live auction where items of value are being auctioned off live, it’s essentially the same thing….rapid-fire price discovery, quick decisions are mandatory, and the price depends on supply and demand.

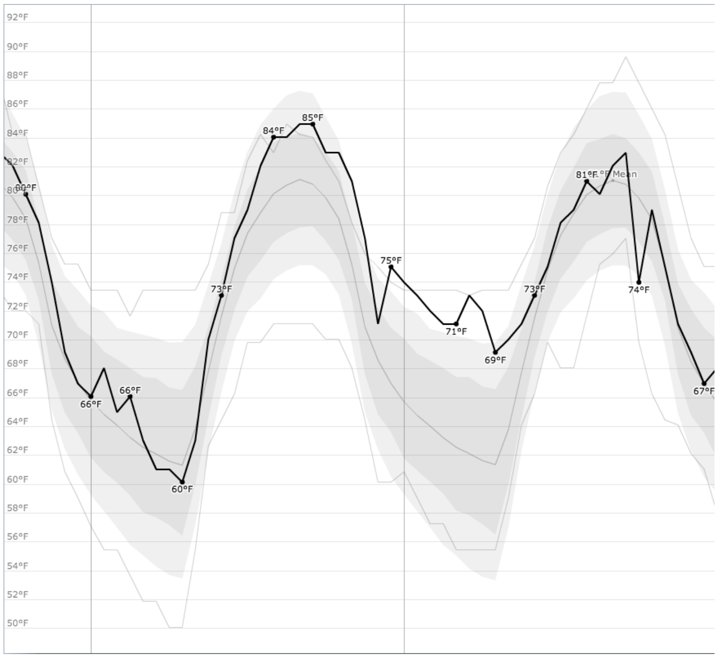
So if you put a chart in front of a trader who has spent time on the “floor,” you’ll either get a glazed look from them, or a response filled with disdain. “*Black magic, that stuff is worthless!*” they’ll say.

Well, we all know that crypto markets don’t have trading pits, and they never will. Price Discovery will always be electronic, so unless you can reach through the wire and sense the order flow, the most efficient way to accomplish this is through price charts and technical analysis.

[Retail Traders Use Price Charts]

There is just no way to get the same inputs to read the order flow and price discovery when you’re at home, or wherever you’re trading from.
So…something that began from this movement was learning to plot price points on a chart. At once, you get a graphical representation of what the price is doing, and the first thing that you’ll notice is that the price shows “flow” and patterns, which are available from any price chart on any platform, like this one from Tradingview:

There’s no doubt that charts appeal to the “eye” of most traders, especially the Japanese Candlesticks that were brought to the Western world only recently.



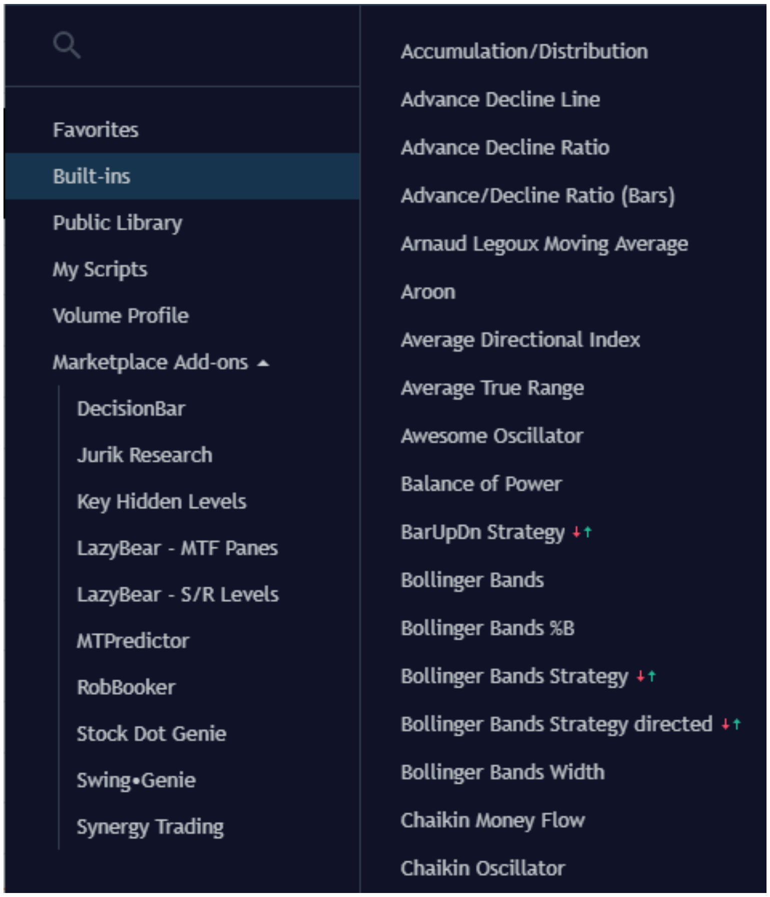
A quick look at any price chart will show you whether the price is rising or falling, or perhaps just moving sideways within a range. There’s no doubt that price charts can be a very useful tool for understanding where the price has been in the past!

But how well does it show us what price might do in the future?

And this is really what we’re after with technical analysis, right? We’re trying to determine an edge from the distance of our homes, to determine something above a 50/50 coin flip that price is likely to move up, down, or sideways during the period of time that we define our trades in. And the first thing that we find when we look at a basic price chart is that we don’t have any idea of where the price might be going next.

And this is where the idea of the magic “chart indicator” comes in.

Retail Traders Use Indicators



Whenever there is a vacuum, especially in the trading business, something will fill it. And because traders found it difficult to read anything into a price chart, technical analysis "indicators" were born. Indicators on a chart basically take price, time, and sometimes volume information….and apply some mathematical function to it. Out of these functions come new lines on the chart, some providing theoretical "buy" and "sell" signals, more commonly known as "green arrows." A whole industry has cropped up around providing these "magic signals" for charts.

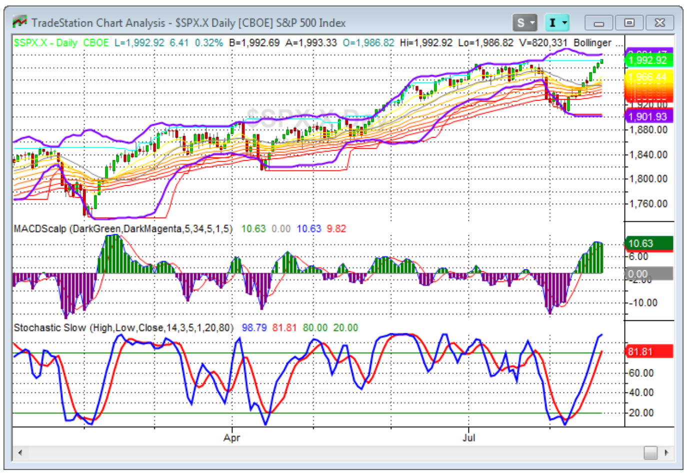
And most charting packages now provide a dizzying array of different technical indicators, based upon Oscillators, Momentum studies, moving average studies, pivot point studies, volume studies, trend studies, candlestick studies…..the list is seemingly endless.

And there's no doubt that indicators are visually appealing, because they make so much sense when you apply them to previous history on a chart. The problem, however….is that we don't trade signals from the past. We trade on the hard right edge of the chart where the future happens.

Trading the Hard Right Edge

In baseball, it's hitting a pitch. In golf, it might be hitting a drive over a large pond or hitting the ball onto the green from a tight lie. There are many difficult challenges in sports, but when it comes to trading, nothing is so challenging as trading the Hard Right Edge of the chart where decisions must be made.

And it's *difficult*. Trading by itself is a relatively simple process, but we tend to complicate it by twisting ourselves into knots trying to decide what to do. These indicators are supposed to help that process, but more often than not they complicate matters.



Something that happens to most traders who experience a normal string of losses in their trading …is to look around and find another indicator to use. Instead of just using THAT new indicator, they bolt it onto their existing charts and add this new filter.

Before long, charting analysis begins to be a form of video game where there are so many things going on with your charts, you're starting to lose the one thing that really matters to making decisions on the Hard Right Edge….PRICE! In this chart, the actual price candles are almost obscured by all of the other price-based studies. And the lower studies take up so much room on the chart that the price itself is being relegated to second-tier status, like it doesn't matter at all.

And this problem usually feeds on itself, with the trader frantically adding more indicators & studies to their charts, desperately looking for the right mix to stem the tide of losses.

The Holy Grail

Many traders go down this "more=better" path when it comes to studies and indicators. And if they don't throw in the towel first, the next level to a retail trader's progression is to clean up their charts. They finally understand that "more = worse" when it comes to the number of studies on the chart, but most still have faith in the power of the indicator….*if only they could find the right one!* This leads to the hunt for the Holy Grail of Indicators. Again, the trading industry is only too happy to provide them an ever-expanding list of "must-have" tools. A student at this level of their development will bounce around from one "grail" indicator to the next, slowly becoming more and more burnt out and disillusioned by all of the marketing.

Unless you're a very unusual student, you're probably nodding your head by now. I've certainly gone through all of these stages, including the "random walk" stage as well. And for me, I've had to come full circle back to the root of the issue to solve it.

But first, we've made the assumption that today's crypto market is the same as the ones that we had 10…20…even 50 years ago, when many of these indicators were designed. That might not be the case.

And This is Not Just Any Market….

Up to this point, we've established that most traders are having a difficult time making decisions on the Hard Right Edge of their charts, as whatever combination of price, volume, and studies/indicators is not really providing them much of an edge for them to make decisions with.

Here's the deal, folks…..this is not just *any* market. Crypto is several times more volatile than any equity market that you'll trade today! In the US Equities market, a 1% rise or fall in the day's price is considered a BIG DEAL. A ten percent haircut in the price is called a "correction" and since they are rare, are also considered to be a BIG DEAL, justifying a lot of ink and pundits explaining it away.

Now compare that to the crypto market where on any particular day, it's not uncommon to see a ten percent move in a DAY! Crypto markets also move much faster, with equivalent moves happening about fifteen times faster than the equity markets.

Can you see the issue here? We have one of the most dynamic and volatile markets out there, yet the majority of the participants in it are Retail traders with very little experience. They are inexperienced and vulnerable, falling for the same traps with even less regulation and higher probabilities of failure.

We simply need a more robust set of analysis and trading tools. And that is the focus of this program.

Summary - What is Broken?

I think that from the case that I've laid out here, there are two main issues that I think are "broken" with respect to today's retail crypto investor:

1) We begin by substituting "Opinion" for "Analysis," as we incorrectly assume that others on Social Media or in the Financial Press know more than we do about what's going to move next, or what is the new hot coin to buy. We also assume that they care about our interests. This automatically makes us part of the investing "herd" that typically underperforms professionals, by buying at the highs and selling out at the lows.
2) The crypto market is several times more volatile than "traditional" trading markets, meaning that it's that much more difficult to be on the right side of volatility and price discovery.

What do we have to do to fix our approach?

Simplify and Understand

We need to get to the core of the issue to really understand what price is telling us, and that means that we need to simplify our technical approach and focus on what the PRICE is doing. Most of us truly don't understand the simple signals that price gives us every day, and we need to do this in a manner that's not "lagging" the market. We need all the edge that we can get to trade this.

Adapt Our Strategies and Indicators

If we have a market moving several times faster than traditional financial markets, then it might not make sense to use the same tools on our charts.

What we're going to start doing in the next module….through the rest of this program….is to work on those two objectives and adapt our analysis to create "edge."

Homework and Next Steps

Please complete the following tasks before moving to the next module:

- [ ] Watch the associated video for this module.
- [ ] Look at some of the trading decisions that you've made in the past; were they influenced by any of the social media or financial media sources that we discussed?