

# ReadySetCrypto Futures Masterclass



## **Module Eight:** BitMEX Futures



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## **BitMEX Futures**

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## My Thoughts on Trading Futures With BitMEX

BitMEX is the 800 pound gorilla in the crypto derivatives/futures space. Their name stands for “Bitcoin Mercantile Exchange.” They have been servicing the crypto market since 2014, and as such have gained “early mover” advantage. Arthur Hayes (Figure 1) is their current CEO and has never been shy about public opinions concerning the crypto trading space.

Figure 1



In my 23 years of trading experience using everything from stocks to options to futures to binaries, I have not come across a more dangerous broker/interface for the retail trader to use. There is a reason why BitMEX occupies the most expensive office real estate in Hong Kong; not only have they found a way to attract massive trading volumes which influence the price of the spot currencies, but they’ve also weaponized a trading interface that is probably responsible for more blown accounts than anything else that I’ve ever seen.



My experience is in US-based exchanges which are overseen by the SEC or CFTC, and traditionally have had a very heavy hand in oversight. As an example of this, if you apply for a US-based Options trading account and show the slightest hesitation about your background/experience when applying for an account, they will neuter your account with the simplest permissions possible, rendering it essentially unusable for more of the advanced strategies necessary in today's market.

This “nanny-state” oversight, while seemingly oppressive, is also for the good of 99.9% of retail traders. The statistics of the success rate of retail traders is about as bad as you might imagine, so the SEC especially puts heat on brokers to ensure that their online customers minimize the harm that they can do to themselves.

This permeates everything downstream of that with most US-based stock/options/futures interfaces, with the brokers doing EVERYTHING in their power to prevent you from doing damage to yourself. The brokers are smart enough to know if that if blow up your account, you likely won't be back and they've lost your business.

And then there's BitMEX. They are not technically under the jurisdiction of the United States, if they provide unregulated services to US customers, then BitMEX will be in the crosshairs of the US Security & Exchange Commission. But as long as they “block” US customers, then they can continue to provide a service that most customers don't understand. What other broker do you know of has a hashtag associated with liquidation?



I believe that BitMEX operates a dangerous trading interface; it requires a fair amount of experience not only to correctly navigate the minefield of choices, but also to avoid the temptation of overtrading.

Small account? No problem! Here's a “LEVERAGE” slider where you can pretend that your account is actually 100x larger than it is. BitMEX is the online equivalent of a loud, flashy Las Vegas casino that greets you by name and hands you a drink the moment that you walk in the door.

With that said, there are some redeeming features to this exchange, but we have to tread carefully. Let's get started.....

# BitMEX Trading Contract Details

Before you consider trading with BitMEX, you should carefully read their Terms and Conditions, which you can find by navigating to the bottom of [bitmex.com](https://www.bitmex.com) home page and looking for the “terms of use” link which will direct you to

<https://www.bitmex.com/app/terms>. You will also be required to checkbox that you have read this document before you open an account with them.

Here are some basics of BitMEX:

## What Types of Contracts Do They Offer?

I’m going to speak specifically to “Bitcoin” contracts, because BitMEX has the deepest offering for this product. Product offerings always follow the money and the volume. Here are the current product listings:

- **Perpetual Swap Contract** - This contract never expires like regular futures, it gets renewed every day so it’s much like a leveraged version of the spot currency. This contract pays/receives “funding” to keep it perpetual. More on that later. You can go long or go short the contract. The price of this contract is fairly close to the spot price.
- **Upside Profit Contract** - This is a “long-only” instrument that you buy to speculate on potential market rallies. This contract has an expiration date. This is basically an implied call option contract; we will not cover this type of trade in this guide.
- **Downside Profit Contract** - Again, a “long-only” instrument that you buy to speculate on potential market declines. This contract has an expiration date. This is basically an implied put option contract. Like the Upside Profit contract, we will not cover this contract in this guide.
- **XBT/USD Futures Contract** - BitMEX normally offers Front Week, Front Quarter, Back Quarter, and Back Quarter + 1 contracts. These can be traded short or long, and the price is normally quite far from the spot price.

As I’ll show in the module video, I believe that we should focus only on the Bitcoin Perpetual contract.

## What is the Leverage per Contract?

- Each Perpetual Contract is worth \$1 USD of Bitcoin.
- Each Futures Contract is worth \$1 USD of Bitcoin.



## Where Can You Trade It?

You can only trade BitMEX on their web interface at [bitmex.com](https://bitmex.com). At the time of this writing, there was no native mobile app interface, although there are some third-party mobile apps that I did not investigate.

## What Days/Hours does it Trade?

Trading of these contracts is essentially available 24x7, however keep in mind their performance disclaimer:

- **7.3:** *HDR shall make reasonable efforts to ensure that the Services are available to you. However, access to the Services may be disrupted from time to time due to necessary maintenance, technical issues, network and system overloads or events outside of HDR's control. HDR will use commercially reasonable efforts to avoid downtime of the Services during anticipated peak hours, but assumes no liability (whether for trading-related losses or otherwise) if the Services or any part thereof are unavailable at any time or for any period.*

## Are There Any Biases to Short vs. Long?

The Perpetual Contract has a “funding rate” charged every 8 hours against one side of the ledger. You must watch the left sidebar to understand whether the funding rate is being paid to your position, or is debiting your position. None of the other instruments have a carry charge.

## What are the Costs?

BitMEX uses a fixed leverage of 100:1, so the margin cost to a position is based on how many of the underlying “coin” that you peg the position to.

The full margin and fee schedule is available here: <https://BitMEX.com/app/fees>

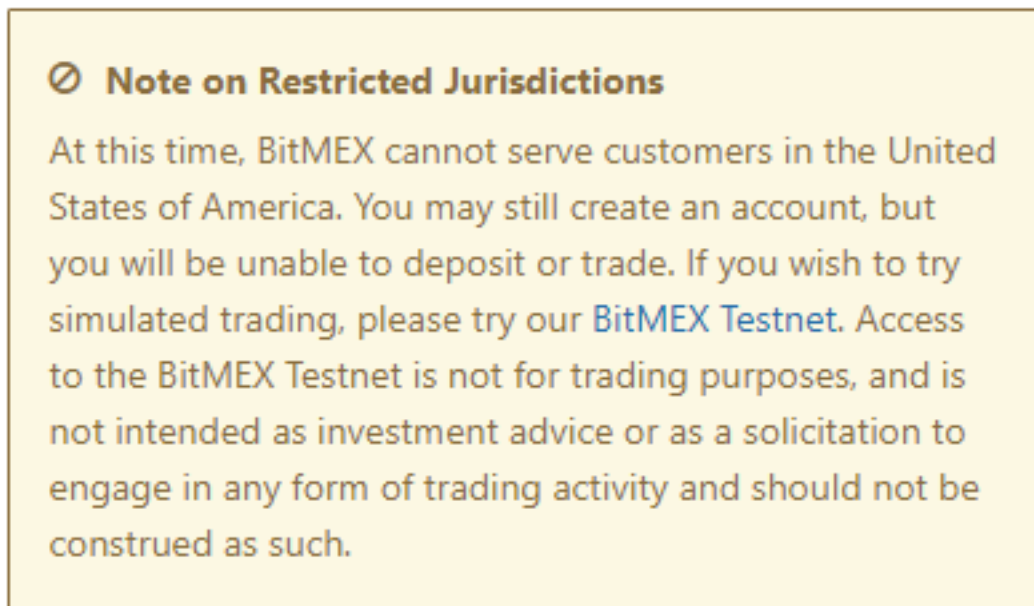
## What Underlying Crypto Assets are Traded?

Bitcoin/USD, Bitcoin/Yen, Cardano, Bitcoin Cash, EOS, ETH, LTC, Tron, Ripple, and Bitcoin/Won.

## What Sovereign Countries May Trade BitMEX?

BitMEX does not provide an “accepted countries” list; they only focus on who they do NOT want trading it, and that’s people from the United States. This is the warning from their registration form:

**Figure 2**



Sure, there are well-known methods of circumventing this regulation, however if you don’t currently live in an area that meets their residency requirements, then you trade at your own risk and hold currency in their account at your own risk.

## Is There An Overnight Hold Penalty?

There is no “overnight” hold fee, but rather the Perpetual Contract funding fees.



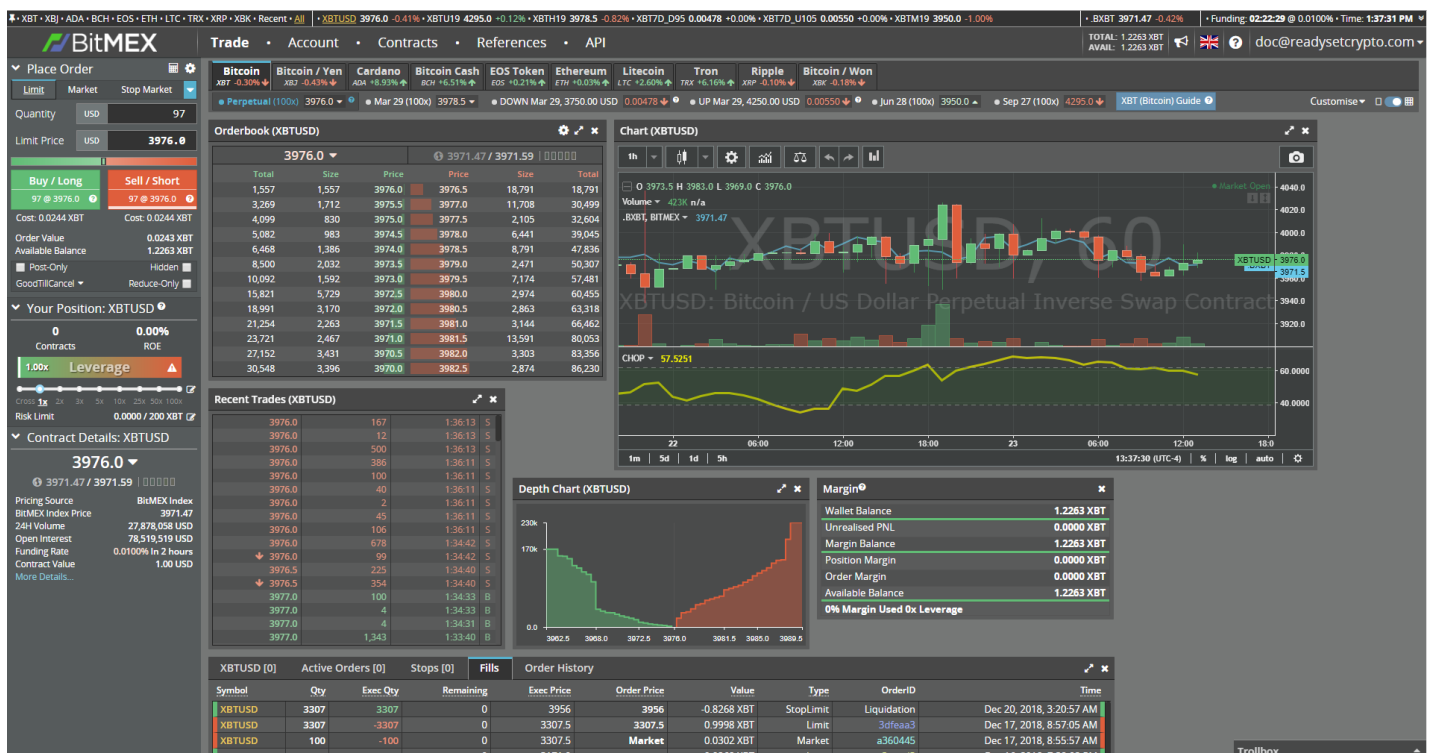
# The BitMEX Trading Interface

BitMEX has a very sophisticated overall user interface that's quite confusing to begin with, but with some focus and time can be mastered for specific purposes. My goal in this module is to just highlight those features in the interface that we want to master.

## [The Overall Trading Interface](#)

What you'll see in these screen shots are the "testnet" interface which you can use to develop skills with the BitMEX trading interface before you're ready to risk capital. (remember the staged progression in module 3!) Here is the front page interface in figure 3:

Figure 3



This interface can be broken down into three areas:

- The Contracts (top of the interface, right below top menu)
- The Flexible workspace, which occupies most of the screen
- The Order-Entry left sidebar

We are only going to focus on Bitcoin vs. the USD, which is the left-most contract specified at the top of the interface above the flexible workspace.

The Flexible workspace is quite innovative, as each sub-window or “widget” can be expanded, shrunk, or moved around to suit your requirements. It’s helpful to have charts, Orderbook, Depth Chart, Recent Trades, Active Orders, etc.

## The Order Entry User Interface

The Order Entry Interface is based on the left side toolbar:

**Figure 4**

**Place Order**

Limit Market Stop Market

Quantity USD 97

Limit Price USD 3976.0

Buy / Long 97 @ 3976.0

Sell / Short 97 @ 3976.0

Cost: 0.0245 XBT Cost: 0.0244 XBT

Order Value 0.0243 XBT

Available Balance 1.2263 XBT

Post-Only Hidden

GoodTillCancel Reduce-Only

**Your Position: XBTUSD**

0 Contracts 0.00% ROE

1.00x Leverage

Cross 1x 2x 3x 5x 10x 25x 50x 100x

Risk Limit 0.0000 / 200 XBT

**Contract Details: XBTUSD**

3964.5

3969.71 / 3969.80

Pricing Source BitMEX Index

BitMEX Index Price 3969.71

24H Volume 27,822,267 USD

Open Interest 78,439,270 USD

Funding Rate 0.0100% In 2 hours

Contract Value 1.00 USD

More Details...

Up at the top of the sidebar, you’ll select whether you’re entering a Limit, a Market, or some type of “Stop” order. You’ll also enter the quantity and limit price here, based on your risk parameters which we’ll discuss in the next section.

Below that you’ll see the two buttons to either create a short or long position. You can see the “cost” calculation which should correspond to your max positional risk calculations. On this interface, you can see that an order value of .0243 represents a small percentage of my 1.2263 XBT balance, or within the equity of my account.

The Leverage slider is below that, and we want to keep that at “1x” and not pretend to trade larger than our account can bear. Leveraged margin is a recipe for blown accounts.

You can also see that I have selected the XBTUSD Perpetual Bitcoin contract. Notice near the bottom that the funding rate is +.0100% which is payable in 2 hours. Since it’s a positive rate, longs will pay shorts. This will flip back and forth depending on the polarity of the market.

As you can see, this is somewhat of a standard “Forex” interface with buy/sell buttons, and not a true ladder interface. There is also no “one-click” method of adding closing orders for an existing position; you’ll need to add an opposite sell order to close an existing long order, for example.



## The Order Types

There are three order types that you need to learn to use BitMEX:

### **Market Order**

This is an order to fill the position at the “market” price. If you select “Market” you will see the Buy/Long and Sell/Short display the actual prices that you will pay to enter at the Market price. Normally you give up some edge to enter at the “market” as well as paying a “taker” fee of .075% commission.

A Market order is for entering or exiting NOW at the current price.

### **Limit Order**

This is an entry - and exit - order which is meant for a different purpose than the Market order. Whereas the Market order gets you in NOW, the limit order is one where you control the price of entry. If you are looking to enter on a pullback down to a known support level, you enter a Limit order at that level. It may fill in minutes, or it may never fill if that pullback does not occur.

More experienced traders will split the difference between the bid and ask prices shown...say between the \$3958.4 bid and the \$3960.5 ask prices....to get a little more “edge” on their entry, irrespective of whether they are entering short or long. Your ability to get filled on a limit order depends on how thick or thin the order book is at any particular time, and how volatile the market is. If the market is on a one-way freight train move to the upside, then placing a limit order below the market is a recipe for seeing the price run away from your order. During choppy times, however, a limit order might be perfect.

In either case, entering a limit order earns you a .025% maker fee since you are now a virtual “market maker.”

A more straight-forward use of a limit order is as a trade EXIT. Once you enter long, identify your “for-profit” exit and lay a limit order at that price. Use the methods suggested in Module 5 to identify those price points.

### **Stop Order**

In a normal, liquid futures market, the very instant that I enter, I am applying a “bracket,” which is a “one-cancels-other” combination of limit order to take profit, and a stop order to limit losses. Should I go long, this would be a combination of sell limit above the entry price, and sell stop below the entry price. A short position entry would create a bracket with a buy limit to take profit below the entry price, and a buy stop above the entry price. This is the notion behind the “OCO” bracket trade.

I have heard many horror stories over the years about STOP orders that went awry. Keep in mind that a STOP order is actually a “Market” order, because your instruction is to enter/exit AT THE MARKET PRICE once that stop level has been reached.

The market price can be ANYTHING that the broker says that it is at that microsecond in time when your stop price is hit.

So it’s my duty to caution you to only use STOP orders when you cannot watch the market, or are stepping out for an hour. My preference would be that you place price alerts on the chart to tell you when to act; these are known as “mental stops” and are only as good as your discipline allows you.

STOP orders can also be used as a “buy stop” or “sell stop” to enter breakout/breakdown levels where a consolidation is breaking out or breaking down.

## The Charts

The charts are actually a TradingView API, so if you’re familiar with TradingView, you’ll feel right at home. They are tied in with the BitMEX exchange, so you’ll be charting the exact instrument that BitMEX is trading.

You can also set up multiple timeframe charts by clicking the option “Open In New Window” on the upper toolbar of the chart, which will open a new chart in a new browser window. You can do this as many times as you need until you have the necessary number of timeframes.

You might have a slightly different feature set than you’re used to if you’re a TradingView “Pro” user paying an annual fee. You also will not be able to search TradingView for custom studies, like the RSILg indicator that we showed in Module five.



# Risk Management and Position Sizing on BitMEX

First off, as we've discussed to this point, we're going to focus our efforts on trading the Bitcoin Perpetual Contract, or XBTUSD. This is, by far, the most liquid futures contract available and meets all of our needs.

The ways that 99% of traders start using BitMEX is to see a setup, and enter a position with the maximum amount of position size that they can scrape up, and then slide the leverage bar over if the position is too large for their account to support without adding more margin. You know how that story ends...don't do it!

Remember, before we enter a position we must satisfy two main rules:

- 1. Define our exit PRIOR to entry**
- 2. Define our position risk to be NO MORE than 2% of our account equity.**

And those rules are difficult to satisfy with the BitMEX interface, for many reasons. Your balance is displayed in BTC/XBT while the position size is denominated in dollars. It took me the better part of a day to figure out exactly how positions gain and lose value depending on the perpetual contract position size. Things are not quite what they seem on first read, and you cannot position-size in the same manner as a spot currency position since you technically do not "own" these perpetual contracts...you are "renting" them.

Let me first discuss the valuation of the perpetual contract. Per their online guide, it states: "USD Contract Value = 1USD" This led me to believe that one contract of XBT/USD would gain \$1 for every BTC/USD point higher in a long position, for example. This is not the case and it's not very well-explained in the guides.

If XBTUSD is currently \$4000, and we go long 4000 contracts, then each contract is valued at 1/4000 of the position. So yes, the contract value, per contract, = 1 USD.

So if you want to create a position that mimics the value of the spot Bitcoin price vs. the USD, you would essentially buy the number of contracts that equals the XBTUSD contract price. In other words, if the XBTUSD contract is showing a price of \$4000, then going long 4000 contracts of XBTUSD will give you a 1:1 gain or loss for every point that XBTUSD goes up or down, depending of course if you are long or short.

Now, do you have enough capital in your account to go long 4000 contracts of XBTUSD? You'll see that in the left sidebar "order value" vs. "available balance" figures. If the order value exceeds the available balance, this is where traders cheat and slide up the "leverage" control until they can afford the trade. While it's still possible to limit the risk of your position to 2% while using more leverage, I think it invites unintended consequences. Every position that's ended poorly that I've heard about from BitMEX users was always prefaced with the statement, "I was using 10x

leverage but.....” So please park the “leverage” control until you get to be an excellent risk manager with hundreds of successful trades under your belt.

## Sizing the Position

Creating the right size of the position depends on where you intend your “stop” to be as well as how big the position is. I would use a two-step approach to sizing your position correctly:

**Step One:** Determine WHERE on the chart you intend to place your stop loss

**Step Two:** Size the position via the “Quantity” box how many contracts that you will trade for the position, making sure that the position size ensures that the risk will stay below 2% of your account value for this position.

It might take some time to juggle these numbers back and forth until you hit on the correct position size...meanwhile, the trade might have left the station. This is where I’ll use a position calculator to help me change those two variables at once and calculate the numbers on the fly, like the model in Figure 5:

**Figure 5**

Overall Account Balance and Positional Risk								
BTC/USD Price	Acct Balance BTC	Acct Balance \$	2% Risk \$	2% Risk BTC				
\$3,960.11	1.2263	\$4,856.28	\$97.13	0.024526				
Trade Setup and Risk Calculations								
Entry Price	Short or Long?	Price Target	Actual Stop	# Contracts	Stop Risk	Stop Risk %	Potential Profit	Target Profit %
\$3,896.00	Short	\$3,800.00	\$3,940.00	4000	\$45.41	0.93%	\$102.72	2.12%

I’ll go over how to use this tool in the module video. Even if you don’t use something like this, the creation of a tool like this will create a deeper understanding of how the broker’s contract creates risk, and how to manage it.

## Summary - BitMEX

As I did the research for this module, I did gain a little bit more appreciation for the depth of product/service offerings that BitMEX creates, however the majority of those advanced features should only be attempted by a more experienced trader/risk manager. **BitMEX is really no place to learn futures trading!** Fortunately, their TestNet interface provides an answer to that.

I do believe that BitMEX can be safely traded for the purpose of establishing short or long positions, provided that you ignore 90% of their service offerings and just focus on one product. Be a master of “one thing” and don’t fall for the temptation of trying to trade everything in front of you.

And as of this writing in 2019, BitMEX is still the lead vendor in this space, commanding most of the volume in the markets, and earning the majority of the commissions. This places them squarely in the headlights of those hungry, disruptive firms that would like nothing more than to knock the gorilla off of its perch. And given the speed of change in the Crypto arena, it would not surprise me to see significant erosion of their market share to new competitors within the year.