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## [ PDF Database Document ] - BTCC Cryptocurrency Exchange

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<https://www.btcc.com/en-US/academy/crypto-basics/crypto-cfd-what-is-it-how-does-it-work>

### Crypto CFD: What is It? How Does it Work?

With the development of cryptocurrency, the possibility of profit is also increasing. One method is cryptocurrency CFD transactions. The day trading method derived from the stock market has entered the cryptocurrency market. The same is true of cryptocurrency CFD, except that cryptocurrency is used instead of legal tender.

Cryptocurrency CFD is more complex than traditional spot trading, but it can be profitable. We'll cover everything you need to know about cryptocurrency CFD, including what they are and how they work.

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## What is Crypto CFD?

Cryptocurrency CFD provides an opportunity to effectively make profits by betting on the future trend of some cryptocurrencies without using too much capital. However, like the traditional stock market CFD trading, there are risk factors. Especially because, although you don't need initial capital, you are responsible for paying any losses.

Very similar to traditional CFD, this type of trading allows traders to take advantage of market fluctuations. Contracts for differences or contracts for differences allow you to predict or guess the future price trajectory of a specific encrypted asset (such as bitcoin), and your initial cost is relatively low.

In short, a CFD is a contract that pays the difference between the opening price and the closing price. Traders must correctly predict when prices will move. If there is a loss in the transaction, he or she must pay the loss.

## How Does CryptoCFD Work?

Cryptocurrency CFD is realized by traders' prediction of the future of digital currency.

In all cases, traders must invest a small part of the asset value as collateral for the transaction (to some extent). For this type of transaction, cryptocurrencies can be traded in pairs. The currency pairs you can trade include the following.

BTC/USD  
BCH/USD  
ETH/USD  
XRP/USD  
LTC/USD  
BTC/ETH

Although these transactions are limited, the potential for profitability still exists. For people who start trading CFD in cryptocurrency, it makes sense to use only one or two transactions in their learning process.

## **Advantages of CFD**

Cryptocurrency CFD trading does have the potential to generate profits, but it hardly requires a lot of money. The option of using a small portion of the value of an asset for trading is a real advantage. This is especially helpful for those who are new to CFD.

The ability to select trading assets allows you to control and gain insight into which strategies may be most effective for CFD trading. With this in mind, you are likely to generate good returns. While this may be a disadvantage, the extreme volatility involved in encrypted assets provides a lot of opportunities to make profits. You must learn this before investing a lot of money in cryptocurrency CFD.

The short-term transactions involved in cryptocurrency CFD mean that you are less dependent on the long-term good performance of cryptocurrency assets, which may be the case if you are hodl currency. This means that if your transaction is successful, you have more opportunities to make profits before the value of assets decreases again.

Unlike CFD trading on the stock market, your trading has no time limit. Stock markets around the world have limited trading hours. Cryptocurrency transactions can take place at any time of the day and are never closed.

## **Disadvantages of CFD**

- CFD is very unstable. Your chances of losing money are as much or more as you can get profits.
- Relying on the fate of one or two cryptocurrencies, rather than a diversified portfolio, will reduce your return opportunities. Putting all your eggs (or coins) in one basket is not conducive to long-term success.
- Despite the potential for high returns, cryptocurrency CFD still has costs, usually higher in percentage than other types of investments, whether cryptocurrency or others.

## **Comparison Between Trading Crypto CFD and Crypto on the Exchange**

So what are the advantages of trading cryptocurrency CFD compared with trading on ordinary exchanges? Although it involves more risks, the main benefit is that trading and value fluctuations occur quickly. This is different from the long-term game when buying cryptocurrency on the spot exchange.

This allows profits to be made almost immediately – if you make the right judgment. The downside is

that if users lose money, they have to pay the difference instead of other trading methods, which allow you to wait for it to pick up. This is one of the many risks you take when trading CFD, but it may happen less if you succeed in this area.

## **CFD and ETFs**

There are significant differences between CFD and ETF, especially when risks are involved. In other words, CFD is actually speculative trading, based on market trends and traders' views. ETF (Exchange Traded Fund) is an asset you can invest in. It owns shares in many companies.

Some ETFs may invest too much in a company, resulting in extreme fluctuations in the value of your portfolio. However, the ability to invest in many companies means that you are diversified and more likely to generate returns.

In contrast, CFD gives you the opportunity to control the company you invest in according to your own judgment. This is, rather than an automated process, following a stock market index. The advantage of this is that you can have more control over what you think will bring you the greatest return, whether it really does it or not.