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Seven Common Mistakes Crypto Investors and Traders Make

Cryptocurrency markets are volatile enough without making simple, easily avoidable mistakes.

Investing in cryptocurrencies and digital assets is now easier than ever before. Online brokers, centralized exchanges and even decentralized exchanges give investors the flexibility to buy and sell tokens without going through a traditional financial institution and the hefty fees and commissions that come along with them.

Cryptocurrencies were designed to operate in a decentralized manner. This means that while they're an innovative avenue for global peer-to-peer value transfers, there are no trusted authorities involved that can guarantee the security of your assets. Your losses are your responsibility once you take your digital assets into custody.

Here we'll explore some of the more common mistakes that cryptocurrency investors and traders make and how you can protect yourself from unnecessary losses.

1. Losing your Private Keys

Cryptocurrencies are built on blockchain technology, a form of distributed ledger technology that offers high levels of security for digital assets without the need for a centralized custodian. However, this puts the onus of protection on asset holders, and storing the cryptographic keys to your digital asset wallet safely is an integral part of this.

On the blockchain, digital transactions are created and signed using private keys, which act as a unique identifier to prevent unauthorized access to your cryptocurrency wallet. Unlike a password or a PIN, you cannot reset or recover your keys if you lose them. This makes it extremely important to keep your keys safe and secure, as losing them would mean losing access to all digital assets stored in that wallet.

Lost keys are among the most common mistakes that crypto investors make. According to a report from Chainalysis, of the 18.5 million Bitcoin mined so far, over 20% has been lost to forgotten or misplaced keys.

2. Storing your Cryptocurrencies Online

Centralized cryptocurrency exchanges are probably the easiest way for investors to get their hands on some cryptocurrencies. However, these exchanges do not give you access to the wallets holding the tokens, instead offering you a service similar to banks. While the user technically owns the coins stored on the platform, they are still held by the exchange, leaving them vulnerable to attacks on the platform and putting them at risk.

There have been many documented attacks on high-profile cryptocurrency exchanges that have led to millions of dollars worth of cryptocurrency stolen from these platforms. The most secure option to protect your assets against such risk is to store your cryptocurrencies offline, withdrawing assets to either a software or hardware wallet after purchase.

3. Not Keeping a Hard Copy Record of your Seed Phrase

To generate a private key for your crypto wallet, you will be prompted to write down a seed phrase consisting of up to 24 randomly generated words in a specific order. If you ever lose access to your wallet, this seed phrase can be used to generate your private keys and access your cryptocurrencies.

Keeping a hard copy record, such as a printed document or a piece of paper with the seed phrase written on it, can help prevent needless losses from damaged hardware wallets, faulty digital storage systems, and more. Just like losing your private keys, traders have lost many a coin to crashed computers and corrupted hard drives.

4. Entering a Wrong Trade Order

A fat-finger error is when an investor accidentally enters a trade order that isn’t what they intended. One misplaced zero can lead to significant losses, and mistyping even a single decimal place can have considerable ramifications.

One instance of this fat-finger error was when the DeversiFi platform erroneously paid out a $24-

million fee. Another unforgettable tale was when a highly sought-after Bored Ape nonfungible token was accidentally sold for $3,000 instead of $300,000.

5. Sending to a Wrong Address

Investors should take extreme care while sending digital assets to another person or wallet, as there is no way to retrieve them if they are sent to the wrong address. This mistake often happens when the sender isn't paying attention while entering the wallet address. Transactions on the blockchain are irreversible, and unlike a bank, there are no customer support lines to help with the situation.

This kind of error can be fatal to an investment portfolio. Still, in a positive turn of events, Tether, the firm behind the world's most popular stablecoin, recovered and returned $1 million worth of Tether to a group of crypto traders who sent the funds to the wrong decentralized finance platform in 2020. However, this story is a drop in the ocean of examples where things don't work out so well. Hodlers should be careful while dealing with digital asset transactions and take time to enter the details. Once you make a mistake, there's no going back.

6. Over-diversifying your Portfolios

Diversification is crucial to building a resilient cryptocurrency portfolio, especially with the high volatility levels in the space. However, with the sheer number of options out there and the predominant thirst for outsized gains, cryptocurrency investors often end up over-diversifying their portfolios, which can have immense consequences.

Over-diversification can lead to an investor holding a large number of heavily underperforming assets, leading to significant losses. It's vital to only diversify into cryptocurrencies where the fundamental value is clear and to have a strong understanding of the different types of assets and how they will likely perform in various market conditions.

7. Not or Incorrectly Setting up a Stop-Loss Arrangement

A stop-loss is an order type that enables investors to sell a security only when the market reaches a specific price. Investors use this to prevent losing more money than they are willing to, ensuring they at least make back their initial investment.

In several cases, investors have experienced huge losses because of incorrectly setting up their stop losses before asset prices dropped. However, it's also important to remember that stop-loss orders aren't perfect and can sometimes fail to trigger a sale in the event of a large, sudden crash.

That being said, the importance of setting up stop losses to protect investments cannot be understated and can significantly help mitigate losses during a market downturn.

Crypto investing and trading is a risky business with no guarantees of success. Like any other form of trading, patience, caution and understanding can go a long way. Blockchain places the responsibility on the investor, so it’s crucial to take the time to figure out the various aspects of the market and learn from past mistakes before putting your money at risk.