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How Does Leverage Work in Crypto Trading?

Original:

<https://www.btcc.com/en-US/academy/research-analysis/26554>

Leverage is the practice of utilizing borrowed funds to effect a financial transaction, and it is widely used in the cryptocurrency trading industry. With the help of leverage, you can trade larger sums without risking a disproportionately huge portion of your capital. So, you can leverage your transactions even with a modest starting money. Leveraged trading can increase your earnings, but it also comes with a significant degree of danger, especially in the unsteady cryptocurrency market. When trading cryptocurrency, use leverage with caution. If the market goes against your position, you could incur significant losses.

Trading with leverage might be difficult for newcomers. But before trying out leverage, it's important to have a firm grasp on what it is and how it operates. The focus of this essay is on using leverage when trading on the cryptocurrency market, although much of the advice is applicable to more conventional markets as well.

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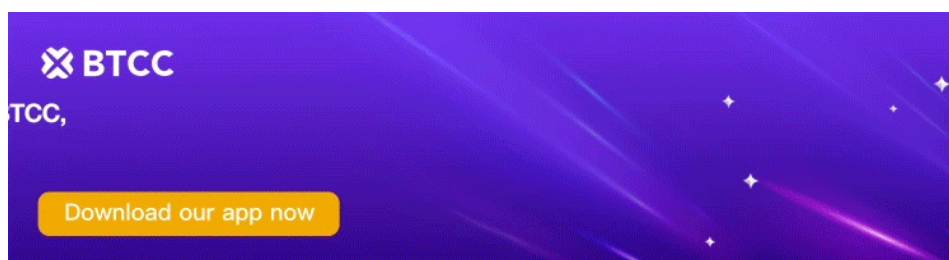
What is Leverage Crypto Trading?

Leverage is the practice of investing in cryptocurrencies or other financial assets with borrowed money. As a result, you can make larger purchases or sales without having to dig deeper into your pocket. You may be able to borrow as much as one hundred times your account balance from some cryptocurrency exchanges.

Leverage is measured in ratios such as 1:5 (5x), 1:10 (10x), and 1:20 (20x) (20x). That number is the multiple by which your initial investment has grown. Let's say you wish to open a bitcoin position worth \$1,000 but only have \$100 in your exchange account (BTC). With a leverage of 10:1, your \$100 will be equivalent to \$1,000 in purchasing power.

Numerous crypto-based derivatives are available for leveraged trading. Margin trading, leveraged tokens, and futures contracts are all examples of a specialized form of leveraged trading.

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How Does Leverage Work in Crypto Trading?

You need to put money into your trading account before you can get a loan and use leverage. The collateral is the initial deposit you make. How much collateral is needed is proportional to the amount of leverage employed and the overall value of the position being opened (known as margin).

Let's pretend you have \$1,000 and wish to invest it in Ethereum (ETH) with a leverage of 10 times. A margin of 10% of \$1,000 means you must have \$100 in your trading account to secure the loan. Your margin call would be significantly lower with a 20x leverage ($1/20$ of \$1,000 = \$50). However, the bigger the leverage, the greater the possibility of insolvency.

A margin threshold must be maintained in addition to the initial margin deposit. If the market goes against you and your margin falls below the maintenance barrier, your account will be terminated until you deposit more money. The cut-off point is often referred to as the safety margin.

Long and short positions can both benefit from the use of leverage. When you open a long position, you are betting that the value of the underlying asset will increase. Conversely, if you open a short position, it indicates that you anticipate a decline in the asset's value. This may sound similar to ordinary spot trading, but with leverage, you can actually buy or sell assets based on your collateral alone, rather than the actual assets you possess. If you believe the market will fall, you can open a short position without actually owning the asset you are selling.

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A Leveraged Long Position Example

Consider that you wish to start a long position in Bitcoin worth \$10,000 with a 10x leverage. This implies that you will put up \$1,000 as security. You will make a net profit of \$2,000 (after fees) if the price of bitcoin increases by 20%, which is far more than the \$200 you would have made if you had traded your \$1,000 in unleveraged transactions.

However, your stake would lose \$2,000 if the price of BTC decreases by 20%. With merely \$1,000 as your initial capital (collateral), a 20% decline would result in a liquidation (your balance goes to zero). In fact, even a 10% decline in the market could cause you to be liquidated. The exchange you are utilizing will determine the precise liquidation value.

You must put extra money in your wallet to raise your collateral if you want to avoid getting liquidated. The exchange will often notify you of a margin call before the liquidation occurs (e.g., an email telling you to add more funds).

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A Leveraged Short Position Example

Let's say you want to start a \$10,000 short bet on Bitcoin with a 10x leverage. In this scenario, you would borrow Bitcoin from someone else and then sell it for the going rate. You have a \$1,000 deposit as collateral, but thanks to your 10x leverage, you can sell \$10,000 worth of bitcoin.

You borrowed 0.25 BTC and sold it, assuming the price of Bitcoin at the time was \$40,000. You can purchase 0.25 BTC back with only \$8,000 if the price of Bitcoin falls by 20% (to \$32,000). You would make a net profit of \$2,000 as a result (minus fees).

To purchase back the 0.25 BTC, you would need an additional \$2,000 if BTC rose 20% to \$48,000. Since there is just \$1,000 left on your account, your position will be liquidated. Once more, you need to enhance your collateral before the liquidation price is reached in order to prevent being liquidated.

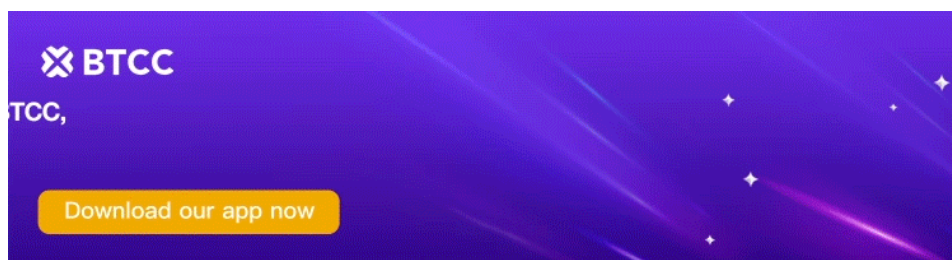
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Why Use Leverage in Crypto Trading?

As was previously indicated, leverage is used by traders to magnify their market exposure and profit potential. Yet the aforementioned instances also show that leveraged trading carries the risk of substantially larger losses.

Leverage is used by traders for a number of reasons, one of which is to increase the fluidity of their money. To keep the same size of position with less collateral, they may, for instance, utilize 4x leverage on two different exchanges instead of 2x leverage on a single one. This would free up some of their funds for use in other areas (such as investing in NFTs, trading in other assets, staking, or providing liquidity to decentralized exchanges).

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How to Control Risks When Trading with Leverage?

High-leverage trading may necessitate less initial money but raises the danger of insolvency. A 1% change in price could result in catastrophic losses if the investor's leverage is large. High levels of leverage reduce an investor's ability to withstand price swings. You'll have greater room for mistake in your trades if you use less leverage. Since this is a problem, Binance and other cryptocurrency exchanges have capped the amount of leverage that new customers can employ.

Stop-loss and take-profit orders, among other risk management measures, can reduce exposure to loss in leveraged trading. Stop-loss orders allow you to automatically close your position at a predetermined price, which is very useful when the market moves against you. Protect yourself from catastrophic losses using stop-loss orders. Take-profit orders, on the other hand, close after your profits have reached a predetermined threshold. With this strategy, you may lock in your profits before a downturn in the market.

It should now be obvious to you that trading with leverage is risky since your profits or losses can quickly snowball out of all proportion. It's fraught with peril, particularly in the speculative cryptocurrency market. Trading properly and accepting responsibility for your actions is something we stress here at Binance. To assist you stay in charge of your transactions, we include features like an anti-addiction notice and a cooling-off period option. You should always proceed with caution, and you shouldn't forget to DYOR when it comes to learning about leverage and developing trading methods.

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How to Trade Crypto with Leverage on BTCC?

On cryptocurrency exchanges like BTCC, you can trade cryptocurrencies using leverage. Leverage is a concept that may be found in different sorts of trading, and we'll show you how to use it in margin trading. You'll need a BTCC account and deposit crypto before we begin. If you haven't, Check out the [BTCC guide](#) to open.

- 1. Register a BTCC account**
- 2. Choose the type of crypto futures**

Here is a list of the many cryptocurrencies available for trading, as well as their market prices. On this page, you may select your cryptocurrency futures contract and monitor the current market price at any moment. You can go long when the price is high and short when the price is low. To see feed of previously executed trades on the platform, select a crypto contract (For example: BTC Weekly).

BTCUSDT Quarterly

Current price

19360.49

24h Change

-228.30 -1.17%

24h High

19694.13

24h Low

19315.93

USDT Contracts

All

Daily

Weekly

Quarterly

Perpetual

Products

Current price

24h Change

★

BTC

BTCUSDT Quarterly

100x, 50x, 20x, 10x

19360.49

-1.17%

★

ETH

ETHUSDT Quarterly

100x, 50x, 20x, 10x

1324.57

-0.83%

★

LTC

LTCUSDT Quarterly

50x, 20x

53.65

-0.56%

★

11INCH

11INCHUSDT Quarterly

50x

0.5840

-0.05%

★

ADA

ADAUSDT Quarterly

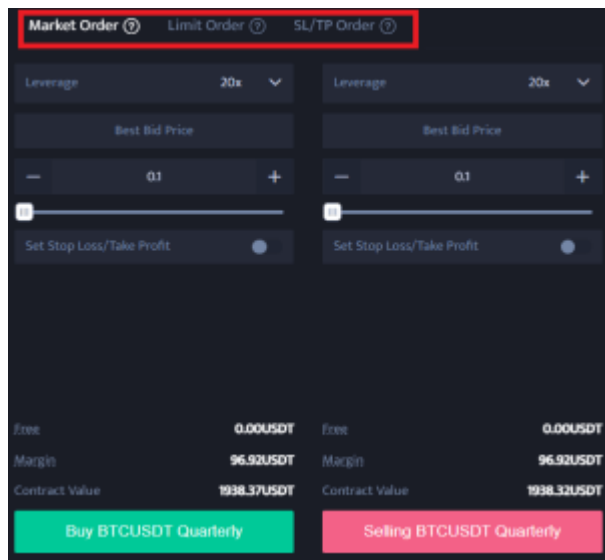
3. Choose the type of crypto order

Select the contract trading order type. BTCC contract orders are divided into **market orders, limit orders and stop-loss orders**.

- **Market Order:** Users place orders at the best price in the current market to achieve fast trading.
- **Limit Order:** Limit Order is used to plunge to the top/bottom of the market, which is a user-defined bid/ask price. Once the market reaches the limit price, it can be filled.
- **Stop Loss Order:** Stop Loss Order can be interpreted as a "Breakout Order", which is an advanced limit order where the user can set a custom bid/ask price. After the market reaches the limit price, it will be closed.

The leverage multiplier can be adjusted by yourself, for example, the minimum leverage of BTC contract of the week is 10x, and the high leverage multiplier is 100x.

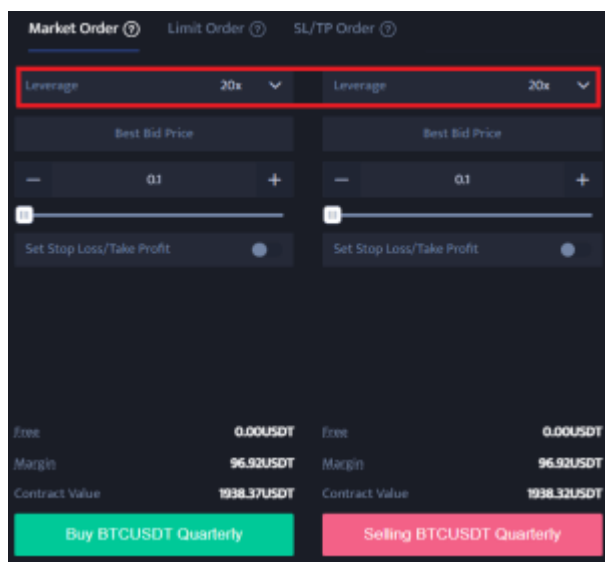
Trading units can be selected according to the user's investment situation, the range can be 0.01-30 lots to choose from, with real-time changes in the contract value and reference margin below.



4. Choose the leverage

You can manually change your leverage for each position. Choose leverage amount. Specify the amount of leverage by tapping on and tap the leverage amount.

Please keep in mind that operating leverage carries the risk of liquidation. Leverage should be adjusted based on your financial status and risk tolerance.



5. Choose the lot size

The contract trading unit at BTCC allow users to choose the number of lots based on their investment situation, and the range can be selected from 0.01 to 200 lots.

Market Order ⓘ Limit Order ⓘ SL/TP Order ⓘ

Leverage 20x ▾ Leverage 20x ▾

Best Bid Price Best Bid Price

— 0.1 + — 0.1 +

Set Stop Loss/Take Profit Set Stop Loss/Take Profit

Fee	0.00USDT	Fee	0.00USDT
Margin	96.92USDT	Margin	96.92USDT
Contract Value	1938.37USDT	Contract Value	1938.32USDT

Buy BTCUSDT Quarterly Selling BTCUSDT Quarterly

6. Set the stop profit and stop loss price

Market orders, limit orders and stop orders all need to set a take-profit and stop-loss price. The difference is that market orders are executed immediately at the best price, while limit orders and stop orders need to be set for the same day or a week.

Market Order ⓘ Limit Order ⓘ SL/TP Order ⓘ

Leverage 20x ▾ Leverage 20x ▾

Best Bid Price Best Bid Price

— 0.01 + — 0.1 +

Set Stop Loss/Take Profit Set Stop Loss/Take Profit

— Stop loss + — Stop loss +

— Take profit + — Take profit +

Fee	0.00USDT	Fee	0.00USDT
Margin	9.70USDT	Margin	96.96USDT
Contract Value	193.92USDT	Contract Value	1939.14USDT

Buy BTCUSDT Quarterly Selling BTCUSDT Quarterly

7. Choose price direction: Buy when bullish, Sell when bearish

After setting the basic data information, users can choose to buy (open long) or sell (open short) after entering their ideal price. Note that the price cannot be higher or lower than the highest buying price or lowest selling price of the platform. Click the buy or sell button, and the crypto contract order is completed.

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Conclusion

If you want to get started quickly with a smaller initial investment and the possibility of bigger rewards, leverage is your best bet. In spite of this, if you're using 100x leverage to trade, rapid liquidations could occur if leverage is mixed with market volatility. When considering the use of leverage in your trading, it is important to proceed with caution and carefully weigh the potential consequences. You should never use leverage if you are trading with money you can't afford to lose.

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Where to Trade Crypto Futures?

Now you can trade Crypto futures on [BTCC](#). [BTCC](#), a [cryptocurrency exchange](#), was founded in June 2011 with the goal of making crypto trading reliable and accessible to everyone. BTCC is a crypto

exchange offering users liquid and low-fee futures trading of both cryptocurrencies and tokenized traditional financial instruments like stocks and commodities.



BTCC offers exclusive bonus for new users. Sign up and deposit on BTCC to get up to [10,055 USDT](#) in bonuses. Meet the deposit targets within 30 days after successful registration at BTCC, and you can enjoy the bonus of the corresponding target levels. **Find out what campaigns are available now:** <https://www.btcc.com/en-US/promotions>

BTCC also has an [iOS](#) app and [Android](#) app if you prefer to trade on the go.

iOS QR Code



Android QR Code



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Why Trade Crypto Futures on BTCC

To trade Crypto futures, you can choose BTCC crypto exchange. [BTCC](#), a [cryptocurrency exchange](#), was founded in June 2011 with the goal of making crypto trading reliable and accessible to everyone. Over 11 years of providing crypto futures trading services. 0 security incidents. Market-leading liquidity.

Traders may opt to trade on BTCC for a variety of reasons:

- **Security:** safe and secure operating history of 11 years. Safeguarding users' assets with multi-risk management through the ups and downs of many market cycles
- **Top Liquidity:** With BTCC's market-leading liquidity, users can place orders of any amount—whether it's as small as 0.01 BTC or as large as 50 BTC—instantly on our platform.
- **Innovative:** Trade a wide variety of derivative products including perpetual futures and tokenized USDT-margined stocks and commodities futures, which are innovative products invented by BTCC.
- **Flexible:** Select your desired leverage from 1x to 150x. Go long or short on your favourite products with the leverage you want.

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BTCC FAQs

1. Is BTCC safe?

Since its inception in 2011, BTCC has made it a priority to create a secure space for all of its visitors. Measures consist of things like a robust verification process, two-factor authentication, etc. It is considered one of the most secure markets to buy and sell cryptocurrencies and other digital assets.

2.Is it possible for me to invest in BTCC?

Users are encouraged to check if the exchange delivers to their area. Investors in BTCC must be able to deal in US dollars.

3.Can I Trade BTCC in the U.S?

Yes, US-based investors can begin trading on BTCC and access the thriving crypto asset secondary market to buy, sell, and trade cryptocurrencies.

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