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Ether NFT Wash Trading

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One of the complaints about Bitcoin is the large amount of wash trading of the token. It turns out that Ether is equally guilty of this questionable trading activity but only in NFT trading using Ether. The dollar amount of wash trades of NFTs in Ether was about \$665 million in March of 2023. For all of 2022 [NFT trading volume](#) on Ethereum that was wash trading was about \$30 billion according to *CoinDesk*. The reason that anyone investing in or trading NFTs should be concerned is that Ether NFT wash trading distorts the market and gives the appearance of a lot more interest in a given NFT than actually exists.

How Can You Spot Wash Trading in Crypto?

Wash trading is illegal in the US stock markets. When a trader carries out a wash trade specifically to get a tax write-off on prior losses the IRS will not allow the taxpayer to benefit from this. In the stock market where identities are not hidden behind wallet addresses, identifying wash trades is relatively easy. The tactic is often used to hype small companies in a pump and dump scheme. This tactic is harder to determine in crypto. However, the fact that the blockchain is transparent allows anyone with the patience and smarts to get a fair idea of where the wash trades are. Dune Analytics has information from an anonymous researcher showing the details of the [\\$30 billion of NFT trading volume](#) that is wash trading.

Tracking Down Ether NFT Wash Trades

The folks who identified the high percentage of wash trades in the Ethereum system did several things to identify wash trades. They looked for four things. They identified trades back and forth using the same wallet address. Then they looked at pairs of trades between two wallet addresses which turns out to be one of the most common sorts of wash trades. When a specific wallet address purchased the same NFT three times or more this was identified as a wash trade. Finally, when a single wallet had initially funded two other wallets, trading between those two was considered to consist of wash trades.

How Much of All Ether Trading Consists of Wash Trades?

At first glance the extremely high rate of wash trading of NFTs in Ethereum (58% in 2020) looks really bad. However the \$30 billion in wash trades accounts for about 1.5% of all trading on Ether. A big part of why the dollar amount is so high is that prices of the NFTs involved were grossly inflated. That, of course, was the purpose of those who engaged in wash trading. Although a wash trade involves selling and then immediately buying back, the point is to make money. Thus, the individuals doing this are eventually selling the tokens involved or selling other tokens as the market is driven higher and higher by their activities.

NFT Marketplaces to Avoid

Fortunately, for those who want to avoid being gamed by wash traders in the NFT world, not all NFT market places have the same degree of problems with wash trading. According to the folks who investigated this, X2Y2

and LooksRare are two NFT marketplaces with 87% and 98% wash trades respectively. It turns out these market places reward those who trade there frequently. Thus it is possible that some of the wash trading is simply being done to get reward points or whatever a marketplace is offering.

NFT traders who are looking for active marketplaces based on high use rates need to compare prices as well and be aware that they might end up being sucked into a wash trading scheme where they are the last to make a purchase before the wash traders go away and the price of their NFT collapses.

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