How to Use a Bitcoin Bear Call Spread

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Bitcoin is on the way up again. There are a couple of ways to look at this. One is to follow the hype about Bitcoin being a store of value, a hedge against inflation, and a refuge when the traditional financial system goes to pot. If that is the case you will buy and hold. Unfortunately, as we saw during 2022 prices fell from one **Bitcoin plateau** down to the next and then the next on the way to Bitcoin losing 80% of its value. The recurring sales pitch that Bitcoin will go up forever is not necessarily true. Alternatively, you can look at the volatile Bitcoin market with its huge up and down swings and think that there must be a way to make money without losing your shirt. Here is where we would like to discuss how to use a Bitcoin bear call spread as an example of how to hedge your risk while seeking profits in Bitcoin trading.

What Is a Bear Call Spread?

A bear call spread is a strategy used when trading options. This strategy is often used in trading stock options but can just as well be applied to trading **options on Bitcoin futures**. Options traders use the bear call spread when they want to profit from prices that are likely to fall or at least remain the same. The advantage of this approach over other approaches is that it also limits the risk a person has if the stock (or Bitcoin) goes up in price. Where a Bitcoin trader can use this approach is with options on Bitcoin futures.

Calls in Bitcoin Options Trading

Options trading uses two tools, calls and put. A call is a contract that gives the buyer the right to purchase the underlying stock, currency pair, or **Bitcoin futures** contract at a set price even when the market price goes much higher. Traders pay a premium for this right which lasts for the duration of the contract. They are under no obligation to execute the contract and will only do so when it is profitable. The person who sells a call is paid a premium but has the obligation to sell at a price specified in the contract even when the prices goes far above the original price. The cost of a call contract is higher if the specified sale price called the strike price is near the current market price and lower if the strike price is much higher than the market price.

How Does a Bear Call Spread Work?

In a bear call spread a trader sells a call close to the current market price and buys a call much higher than the current market price. The premium for the call that they sell is higher than the premium for the call that they purchase. Thus they begin the trade with a profit. If they are right about the stock, currency pair, or Bitcoin futures contract falling in value of at least remaining the same they will retain the original profit. If the price goes up, they will lose money as it goes above the strike price of the call that they sold but will then stop losing any more money when the price hits that of the call that they sold. Thus, they will have hedged their risk in this trade.

What Is the Point of a Bitcoin Bear Call Spread?

Bitcoin has nearly doubled in price against the dollar since the first of the year. If you look back over recent years you see that every Bitcoin rally has been followed by a substantial retreat. The point of a Bitcoin bear call spread is that when you think Bitcoin is ready for a retreat you can use this approach to make money and at the same time protect yourself from the extensive downside risk of a big Bitcoin price retreat. This approach is more complicated than simply buying or selling Bitcoin and even a bit more complicated than buying and selling Bitcoin futures. In order to do this right you need to understand options trading and open an options trading account. You still need to have a sense about what the **Bitcoin price** is likely to do but you are able to limit your risk while having the opportunity to make money and never actually have to buy, hold, or sell Bitcoin.

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