

# Profitable INVESTING Tips

## Stock Market Investing Tips, Techniques, and Resources



## What Does Reduced Bitcoin Trading Volume Mean?

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Sell in May and go away is an old saying from the US stock market. The point is that many who trade the stock market go on vacation during the summer. Fewer traders trading means less trading volume for stocks. Now we see that Bitcoin trading volume is lower than it has been for two and a half years. What does reduced Bitcoin trading volume mean? Summer vacations are not the only reason that trading volume of stocks, futures, options, or cryptocurrencies falls.

## Trading Volume As a Market Indicator

Trading volume of Bitcoin, stocks, or commodity futures tells us the level of interest in that equity. When there is a trend in a market, either up or down, a trader often relies on the volume of trading to confirm their suspicion that others are either buying or selling and driving prices up or down. Traders refer to trading volume as a momentum indicator in this case. There are also times when a change in trading volume signals a pivot of the market from up to down or vice versa. A marked shift in trading volume can often be a signal that a bull market has run its course and that a trader needs to sell and get out.

## Reasons to Distrust Bitcoin Trading Volume

A serious problem in trading Bitcoin is the high level of [wash trading](#) in many crypto exchanges. Wash trading in crypto is when a trader sells Bitcoin or Ether tokens and immediately buys them back. This can be done in stocks as an attempt to record a loss for tax purposes. In the case of stocks this is illegal and the IRS will not allow the trader to deduct the loss on their taxes. The more important reason why this is illegal in the stock market is that wash trading inflates trading volume numbers. When as many as 70% of Bitcoin trades are wash trades, trading volume numbers are misleading. A naïve trader will be sucked into buying Bitcoin as there appears to be a rally brewing. When high trading volume is all wash trading, they are being misled and may lose substantial amounts of money.

## Is Interest in Bitcoin Falling?

*Bloomberg* reports that [Bitcoin trading volume is at a 30-month low](#). They do not say anything about the current level of wash trading. So, did all of the wash trading go away? That would certainly reduce trading volume of Bitcoin. For the sake of argument, let us assume that the Bitcoin trading volume numbers cited by *Bloomberg* are valid. What do they mean? It could be that many traders are on vacation but the more likely reason is that those who have profited from the Bitcoin 76% surge since the first of the year are taking a pause to reassess where they think the market will go next.

## What Will Affect the Price of Bitcoin Going Forward?

The primary reason for crypto winter was the worst inflation in forty years. It caused the US Federal Reserve to steadily raise interest rates (and the dollar) for more than a year. Although the inflation numbers are

substantially better than at the beginning of 2022, inflation is not cured and the Fed is going to keep raising rates a few more times this year. Traders may see the risk of more rate increases as a risk of Bitcoin falling again. The other issue is market regulation. The European Union has passed a comprehensive set of laws governing crypto and US regulators are using rules that apply to stocks and commodities in the absence of new crypto laws from Congress. The point is that if the Commodity Futures Exchange Commission steps in to deal with an issue like Bitcoin wash trading, it could adversely affect the price. Or perhaps the biggest Bitcoin traders are simply considering their next moves. Meanwhile, traders will watch Bitcoin trading volume for cues as to where prices go next.

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