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Stock Market Investing Tips, Techniques, and Resources



What Is Bitcoin Wash Trading?

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In the US stock market an illegal way to manipulate the market is with a wash trade. Wash trading is when someone simultaneously **buys and sells a stock** for the sole purpose of misleading other investors. The IRS bars deduction of losses from this kind of trade and anyone caught doing this is subject to prosecution under US law. The cryptocurrency market is not subject to the same trading rules and Bitcoin wash trading is common. According to *Forbes*, **Bitcoin wash trades** may constitute as much as 51% of all trading volume!

Bitcoin Wash Trading More Common Than Previously Expected

Forbes analyzed one hundred fifty-seven crypto exchanges in regard to how much wash trading goes on. This was necessary because buying and selling can be dispersed across various exchanges in an effort to hide such activities. They found that as much as fifty-one percent of Bitcoin trades were bogus wash trades. The U.S. Commodity Futures Trading Commission provides this definition of wash trading:

entering into, or purporting to enter into, transactions to give the appearance that purchases and sales have been made, without incurring market risk or changing the trader's market position

Because technical traders use trading volume as a guide to the current market interest in something like Bitcoin, inflating its apparent trading volume is misleading as it is likely to drive up prices when there is no valid reason for prices to go up. One of the problems in determining how much Bitcoin is traded and how much wash trading occurs is that the estimates of daily trading range from \$32 billion a day by CoinMarketCap to \$57 billion by Nomics to \$5 billion by Messari. One bit of fallout from mistrust of just how much real trading of Bitcoin occurs is that the SEC has refused to approve a spot Bitcoin ETF.

Where Bitcoin Is Traded

According to *Forbes*, there are 157 main crypto exchanges worldwide. Their opinion after investigating the exchanges is that more than one half of them are reporting fake trading. *Forbes* says that in mid-June Bitcoin trading volume was \$128 billion as opposed to the \$262 billion that comes from the sum of reporting from all individual exchanges. The top twenty-one exchanges account for \$1 billion in Bitcoin trading while the following thirty-three account for anywhere from \$200 million to \$999 million including spot trades, futures, and perpetual swaps. The largest market for Bitcoin futures is the CME Group. The fake trading volume largely comes from exchanges like Bybit, MEXC Global, and Binance all of which have very little regulatory oversight. *Forbes* reports that of the less-regulated exchanges there is likely about \$90 billion in trading as opposed to the reported \$220 billion. It is of note that before *Forbes* took a look at the subject, Bitwise reported in 2019 that as much as 95% of Bitcoin trading on CoinMarketCap was non-economic or fake!

Where Do Estimates of Wash Trading Come From?

Forbes says that they employed qualitative and quantitative analysis in order to adjust reported trading volume to the likely real levels. They work with data from CoinMarketCap, CoinGecko, Nomics and Messari, two other third-party data providers and several exchanges. As the degree of regulation and transparency went down *Forbes* applied a larger adjustment to reported trading volume. Their most reliable group had a 25% discount while the second group had discounts from 26% to 79% and the third group had discounts ranging from 80% to 99% off of the reported value for daily trading.

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