DEX
MASTERCLASS

DEX Masterclass

The DEX Masterclass is a series of episodes where George Harrap (Bitspark CEO) and Aaron Mangal (Editor The Latest Crypto) discuss the tools, techniques and tricks of decentralised trading. Topics include advanced trading strategies, shorting exotic currencies, arbitrage between exchanges, creating stablecoins, the BitShares ecosystem, finding unique trading opportunities and how trading on the Sparkdex works.

Episodes

101: Centralised exchanges vs decentralised trading

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Centralised exchanges vs decentralised trading

What you'll learn

- How traditional exchanges work
- Innovation introduced by crypto exchanges
- The difference between centralised and decentralised exchanges
- Introduction to Sparkdex

Watch Episode 1

What are centralised exchanges?

05:00 - 09:05

In today's trading world, we can make a distinction between centralised and decentralised exchanges. The differentiation between the two types of exchanges is a totally new concept, introduced by cryptocurrency trading.

In the traditional world of trading, think forex and stock markets, we are almost always talking about a centralised exchange: one company that has both buyers and sellers on board. For example, the New York Stock Exchange is a centralised exchange. That is a company that runs a marketplace that enables people to exchange one asset for another.

If two people want to trade US dollars for Apple shares, they need a place to meet in order to exchange those two assets. The best way for them to meet is via an exchange, which keeps all the different prices transparent so that everyone can see what the going price is for exchanging USD for Apple shares.

That is essentially the role of all traditional centralised exchanges like NYSE, NASDAQ, DOW JONES, HKSE, London FTSE 100, etc.

When two people trade on one of these exchanges, they are not actually trading directly with each other. Instead, it's the centralised exchange that is the counterparty. For example, it is the NYSE that has the US dollars and Apple shares in custody. The centralised exchange acts as the middleman that matches the requests between buyers and sellers of US dollars and Apple shares. That concept is referred to as order matching.

Taking these dynamics to crypto exchanges, the centralised exchanges like Binance act as the middlemen that provide order matching between the people trading cryptocurrency with another cryptocurrency or national fiat currency.

How do traditional centralised exchanges work?

09:05 - 16:00

While the common belief is that traditional exchanges like the NASDAQ run a smooth operation, the reality of the layered inefficiencies that happen beneath the surface actually paint a different picture.

Before, we explained how a trade is not actually done directly between two people but through the centralised exchange acting as the middleman. But that doesn't mean anyone can go to the NASDAQ website and sign up for trading. There is also no NASDAQ bank account to send money to.

What happens instead, is that individual traders need to go through brokers that are connected directly to the exchange. That's a both ends of the trade which means we're talking about several layers of intermediaries just for one simple trade.

Then there are the banks. Brokerages settle between each other and the centralised exchange using different accounts with different banks. As another intermediary layer, banks act as a multiplier of inefficiency. They are not incentivised to make transactions quicker because holding on to money longer is a money making opportunity for the banks themselves.

In fact, most traditional exchanges around the world work with a T+2 model, which means it actually takes two days for settlement to occur. Taking the size of the industry in consideration, this means billions of dollars are held in the bank's custody every single day waiting to be settled, with fees racking up along the way.

New models that compete with this system, are generally not welcomed to put it mildly. Brokerages and banks have little interest in allowing a concept like crypto exchanges where traders can sign up through a website to connect to an exchange directly and start trading immediately, because it would put a lot of these intermediaries out of business.

Altogether, the whole process seems out of touch with how things work today where everyone is used to easy sign ups or downloading a mobile app and start using the service immediately. Traditional exchanges aren't even open 24/7 which means that if something big happens over the weekend, markets can't react until Monday morning.

What do centralised cryptocurrency exchanges look like?

16:00 - 21:50

There are many centralised crypto exchanges such as Bitfinex, Bittrex, Poloniex and Binance which is currently the largest in terms of daily volume. Unlike traditional centralised exchanges, you can go straight to the website of any crypto exchange, sign up and start trading. Trades are done by connecting directly to the exchange, meaning there are no more brokers or other middlemen involved other than the exchange itself as the counterparty that acts as the order matcher.

Another big difference compared to the traditional model, is that a centralised crypto exchange actually controls the order book and your funds. The centralised exchange is in charge of keeping your funds secure and protect it from hacks, which makes trusting the exchange to act as a good custodian a very important factor.

Crypto centralised exchanged are fast, but not as fast as traditional exchanges. That has everything to do with the total number of customers they serve and the location they are in. A traditional exchange really only serves a limited number of customers - the few brokers who have access - with servers installed right next to the exchange. In contrast, a crypto exchange needs to serve anyone with a computer anywhere in the world.

Most liquidity in the crypto market is on centralised crypto exchanges because they are generally easy to use. You don't need to manage your keys, don't need to learn or understand complicated wallets. All you need is an email and a password to start trading. The downside of that is that all the funds are held in a centralised place, making it a target for exchange hacks.

How do decentralised exchanges work?

21:50 - 32:35

Decentralised exchanges (DEX) are practically the opposite of what we've described under centralised exchanges. They are generally less easy to use with lower liquidity, but far more superior in terms of security.

There is no counterparty at the center of a trade on the DEX, traders exchange assets directly between each other. Instead of giving the order to a middleman to make the trade at a certain price, the individual wallets of the traders talk directly to each other and exchange assets on the agreed price.

Individuals on the DEX have custody over their own funds, wallets and keys. There is no centralised authority that can stop you from trading or freeze your accounts. But if you lose access to your account or lose your keys, there is also no centralised party that can restore access. Much like in the real world, if you leave your wallet on a park bench and walk away, you've simply lost your wallet.

DEXs have been around for about 5 years now, with BitShares the first DEX to come online. BitShares is a very fast exchange with tested transaction per second at 3300, with the capability to go up to 100,000. Speed is very important for exchanges because prices can change very quickly, so orders need to be completed promptly in order to capitalise on market opportunities.

Next to the BitShares DEX, there are quite a few others than run on different blockchains such as Ethereum. The blockchain a DEX runs on affects the technical side of a DEX such as which coins can be listed, who gets to decide which coins are listed, to what degree it is decentralised and if it has mining.

What is Sparkdex?

32:35 - 41:10

Created by Bitspark, Sparkdex is a gateway to the BitShares DEX. It is not a new DEX, using a new blockchain or a new construct. Instead, it's just a different way of interacting with the already existing BitShares blockchain and DEX.

There a number of different gateways that tap into the BitShares blockchain, using the same open source documentation but providing a different experience in terms of user interface and trading fees.

Sparkdex is essentially a window that visualises your interaction with the BitShares blockchain, and Bitspark has added things that adds value for customers. For example, Bitspark has added specific cryptocurrencies that are related to our core services such as local currency stablecoins for HKD, AUD, USD and rewards token ZEPH.

However, even though Bitspark created the Sparkdex, Bitspark can't change anything related to the blockchain, order books or executed trades. It is still a decentralised exchange. If anything were to happen to Bitspark, your keys, wallets and funds are still controlled and accessible by you.

Next steps

Further Reading

- Understanding the DEX
- Why DEXs are on the rise
- Top FAQS on DEXs
- Why BitShares is most undervalued blockchain

Sparkdex

Create a Sparkdex account here.

Keep learning

Watch the next episode

Bitshares ecosystem & stable.PHP case study

What you'll learn

- Why DEXs are on blockchains
- How the BitShares DEX works
- BitShares ecosystem: BTS, Voting, Committee, Worker Proposals
- The difference between Proof of Work, Proof of Stake, Delegated Proof of Stake
- What are BitShares DEX gateways and how do they work
- User Issued Assets & Market Pegged Assets
- Case study: stable.PHP

Watch Episode 2

Why are DEXs on Blockchains

01:35 - 05:40

It all comes down to trust. On a centralised exchange, traders do not know each other but they trust in the exchange itself to make sure everything works as it should. On a DEX, there is no centralised party to take on that role as traders exchange assets directly between each other.

This is where blockchain comes in as a way to allow people who do not trust each other to still interact without having problems when it's time to transact.

What that means for a DEX, is that every single interaction is recorded on the blockchain for everyone to see. It gives everyone equal access to the order books and the history of everything that has happened on the DEX.

It's a lot more transparent compared to traditional centralised exchange, where there could be dark pools - which are separate order books that only a select number of people can see. On the DEX, everyone can see the same thing at the same time so you can't hide anything or get access to information quicker than anybody else.

What is BitShares & the BTS token

05:40 - 09:20

Created in 2014, the BitShares DEX was the first of its kind. It's native token is BTS which is used to operate the DEX and pay for transaction fees, execution fees and voting. BTS is also used as collateral for the many stablecoins available on the BitShares DEX. It is a decentralised token so there is no single party in control of BTS.

In terms of usability and capability, the BitShares DEX is simply far better than most other DEXs. Trading on EtherDelta for example is a very manual and time consuming process. Executing trades on BitShares a lot simpler and certainly faster. That has everything to with Delegated Proof of Stake.

Proof of Work vs Proof of Stake vs Delegated Proof of Stake

09:20 - 13:50

Proof of Work (mining)
With mining, you have people running fast computers to get the correct answer for every new block, which is typically every 10 minutes for Bitcoin.

People get into mining because it's a way to make money. The more people who mine, the more difficult it gets to mine, therefore the more mining capacity you need in order to maintain profitable. This adds additional layers of security to the network as the computing power becomes immense.

Sometimes people combine their power in mining pools, which has led to moments where over 50% of the hash rate in Bitcoin was owned by one single pool. Technically, this means that the majority of hash power can be owned by a few entities which allows them to destroy Bitcoin by double spending for example.

The Proof of Works model runs the risk of not being decentralised enough. That's where Proof of Stake comes in.

Proof of Stake
In order to validate blocks, you need to have a stake in the chain. The logic follows that the people with the largest stake have the most to lose, therefore they're going to act in the best interest of the chain.

The theory works, but it hasn't been able to scale sufficiently. There were still issues around centralisation and players that accrue larger amounts having too much influence and shutting others out.

Delegated proof of stake
This model was first pioneered by BitShares, and is an improvement on Proof of Stake. With Delegated Proof of Stake, there are only a limited number of people who verify blocks which are referred to as Block Validators - that's the delegation. These people are voted in by other members who are required to have coins to do so - that's the stake.

How Delegated Proof of Stake makes BitShares DEX reliable and faster

13:50 - 19:00

BitShares has anywhere between 21 and 27 Block Validators, who are randomly assigned in an unpredictable order via the blockchain itself. Block Validators don't need to have a stake in the system themselves, they just need to be good at validating blocks in order to get voted in.

The unpredictability is what makes this model work.

With Proof of Work, you can predict that the people with the most hashing power are going to mine the most blocks. In the case of Proof of Stake, the people with the largest stake will be the biggest validators.

But with this Delegated model, say there are 21 Block Validators, there is only a 1 in 21 chance for a validator to be the next in line. The probability of 5 Validators colluding and also being the next 5 Validators chosen at random is incredibly low. And if Validators don't do a good job, they get voted out.

However, Validators do already know from who the next block is coming from, so there is no need for a discovery process which can take a lot of power and time.

That's what makes it possible to have a 1.5 second blocktime on the Bitshares blockchain which results in quick transactions on the DEX.

BitShares: Voting, Committee and Worker Proposals

19:00 -24:40

BitShares works as a Decentralised Autonomous Corporation, directed by a combination of voting, a committee and worker proposals.

Voting

Voting can be done by anyone that holds BTS. Votes can be cast for block validation, as well as voting people into the committee of BitShares, and approving Worker Proposals.

Committee

The committee has the ability to set transaction fees, charged in BTS, based on what the stakeholders want. All fees collected on transactions are kept in a reserve pool. That reserve pool is then used to pay people working on approved Worker Proposals. So essentially, the committee is in charge of keeping the balance between money coming in (fees) and money going out (worker proposals).

Worker Proposals

Worker proposals are a way for anyone in the community to propose working on a certain project to benefit BitShares. If everyone thinks that's a great idea then they will vote for the project and then the committee releases the funds from the reserve pool to pay the worker in BTS.

It's a pretty innovative concept which allows you to get paid by the blockchain, without having an employer, bank or work contract. You just simply login, propose working on a project and if the community likes it you get paid in BTS.

What are Gateways?

24:40 - 32:05

Gateways are different windows into the BitShares blockchain. There are currently around 15 gateways that are all running on the same BitShares system, the same exact blockchain.

In fact, with a BitShares account you could login through any of these gateways to access the DEX from a different window.

While all the gateways operate under the same rules, private companies create them to provide additional features that would add value for their customers. Think of different user interfaces or the ability to list additional currencies.

For example, trading Bitcoin on the BitShares DEX and blockchain requires a custom solution because BTC is on a different blockchain. Gateways such as Sparkdex are providers of those solutions.

What type of cryptocurrencies can be traded on Sparkdex? (1/2)

32:05 - 37:25

There two different types of cryptocurrencies we will discuss here: User Issued Assets (UIA) and Market Pegged Assets (MPA).

UIA: Trading Bitcoin on the Bitshares blockchain

To make trading BTC on the BitShares DEX possible, a gateway will run a Bitcoin node that process transactions on the Bitcoin blockchain. When a customer makes a BTC deposit, the gateway will take that BTC and issue a BitShares-based token in exchange which represents the value of that Bitcoin deposit. That is the UIA and as a BitShares based token, it can be traded quickly and easily across the BitShares ecosystem.

The UIA token takes on the name of the gateway that issues it. So in the case of Bitspark, the UIA Bitcoin token used for trading on the BitShares blockchain is Sparkdex.BTC. And because all the gateways are actually hooking into the same system looking at the same order books, you will see the BTC tokens of other gateways regardless of which gateway you are using yourself.

At the end of the day, when a customer wants to withdraw the BTC deposit, the gateway token is exchanged back into real Bitcoin and burned thereafter. This is where gateways can really distinguish themselves in terms of how fast they can receive and withdraw your Bitcoin.

The burning of the gateway issued UIA token is required to prevent a buildup of tokens that have no actual BTC tied to them. A good gateway will provide transparency around the issuance and burning of UIA tokens. See the Sparkdex transparency page as an example.

This mechanism is exactly the same as what happens on a centralised exchange. The key difference being that on a DEX these processes are more transparent and traceable. With a centralised exchange, there is no way to see if they actually burn the tokens and run with balances that don't actually exist.

What type of cryptocurrencies can be traded on Sparkdex? (2/2)

37:25 - 48:25

MPA: stablecoins

Market pegged assets (referred to as smart coins or stablecoins), use smart contracts and collateral to create new coins with a value tied to another asset.

While there are many stablecoins today, BitUSD was the first one ever created back in 2014, made possible by the BitShares MPA feature.

MPAs created on BitShares do not require trust. The collateral for creating say BitUSD, is held in a smart contract. For BitUSD, that collateral is BTS which means that at any point in time, you can exchange BitUSD for the same US dollar value in BTS tokens.

If BTS drops in value to the point where it can no longer back the value of BitUSD, the blockchain automatically sells it off. To create a buffer that can deal with the volatility of the collateral's price, in order to make 1 BitUSD you need 1.6 BitUSD worth of collateral.

Global settlement

If something happens where the value of the collateral falls quicker than the blockchain can sell it off, the stablecoin goes into global settlement. In this scenario, the collateral backing the stablecoin is put into a large pool that people can bid on.

This happened to BitUSD at the end of 2018 when the price of BTS (the collateral) fell swiftly from $0.80 to around $0.04. Because the initial collateral was much higher than the 1:1 ratio, this meant that BitUSD fell to only about $0.85, yet still far below the $1.00 where it should stay.

Over the course of 3 months, people were able to bid on the pool created during the global settlement which refloated BitUSD back to the 1:1 ratio.

Stablecoin case study: stable.PHP created by Bitspark

48:25 - 56:47

Bitspark has created stable.PHP, a stablecoin for Philippine peso using BitUSD as collateral backing. The PHP stablecoin has 2 main uses across the business.

1: Cash in, Cash out in the Philippines
It gives Bitspark access to the Philippines market, providing people with a way to cash in and out of cryptocurrencies using their own local currency. All without needing to rely on bitcoin exchanges or local banks. Using stable.PHP, customers in the Philippines can do many different things such as sending and receiving money across borders, or even paying their solar electricity bills in selected regions made possible by the partnership between Bitspark and Okra Solar.

2: Shorting the Philippine peso
Because the collateral backing the PHP stablecoin is BitUSD, there are shorting opportunities for traders to capitalise. Almost every emerging market currency over time depreciates against the US dollar because USD is the global reserve currency, and the same goes for Philippine peso.

With USD as your collateral, you can make money over time as PHP depreciates either creating more PHP or take the initial PHP and buy more BitUSD.

Both uses, emerging markets accessing crypto and traders being able to short exotic currencies, is what Bitspark is replicating around the world by issuing local currency stablecoins for all the world's currencies over time.

Next steps

Further Reading

- Robin Hood front running
- What is BitUSD
- A to Z of stablecoins
- BitShares versus Ethereum
- Philippine peso Stablecoin launched by Bitspark

Join BTS community

Find a worker proposal and vote for it.

Keep learning

Watch the next episode

Navigating the Sparkdex

What you'll learn

- How to create an account
- How to find your way on the Dashboard
- Finding more information through Explorer
- Deposit, Withdraw and Send
- Extra features

Watch Episode 3

Creating a Sparkdex account

01:00 - 07:20

Go to the Create Account form on bitspark.io where you choose your account name. Note that this name is public on the Blockchain - everyone will be able to see this. Unlike with Bitcoin where money is sent to an address, on BitShares it's the account name where people send money to.

The form will generate a password for you, which you need to store safely because no one can reset the password for you.

It's your account and your keys, if you lose them there is nothing we can do to get them back.

These credentials can log you into any DEX on the BitShares so next to Sparkdex, you can go to Bitshares.org and login with the same account.

After your account is created, it is registered on the Blockchain which takes a couple minutes to be verified.

Getting started

05:45 - 08:30

The first time you log in to the DEX, you will get an intro tutorial that shows you around the Dashboard screen.

If you look at the market, you will see price charts using TradingView and below that more information on the order book.

The order submission form is where you place buy and sell orders.

The order book gives you an overview of all the asks and bids, plus the lowest ask and the highest bid. The difference between the lowest ask and highest big is called the spread.

On the right hand side, you will see other core markets such as Sparkdex.BTC, ZEPH, Sparkdex.HKD etc. Looking at one currency, you will see a list of all the different pairs to that currency and the volume for those markets.

Dashboard - Top level indicators

08:30 - 14:25

At the top level of the Dashboard, you'll see last price, last executed trade, previous market trades and the volume. Volume is denominated in the base currency: if you're looking at the 24 hour BTC/BITUSD market and volume says 44 million, it means 44 million BTS was traded in the last 24 hours.

There are more indicators which are not relevant to all currencies. For example, BitUSD is a trustless stablecoin and to create more you need to lock up BTS. One of the indicators here is the price feed at which you can currently do that.

To do the reverse and redeem collateral, the settlement price is also indicated here. The margin call price indicates at which price you might get margin called if you don't have enough collateral to back the BitUSD which you have created.

An interesting way to look at the market is by viewing market depth. Market depth is a collection of all the different orders, and you can view it by changing the price chart to a depth chart by clicking 'show market depth'. This view shows you if there are any walls that exist in the market at certain price points.

Explore page

14:25 - 19:45

‘Explore’ gives you a live view of the Bitshares blockchain. It shows you the block producer, transaction count per block, stats such as transactions per second and different types of orders taking place across the DEX.

Under ‘assets’, you can search for any of the coins on the BitShares blockchain, and see specifics such as max supply. All accounts created on the blockchain can be found under ‘accounts’.

The ‘witnesses’ tab gives you visibility into the block verifiers following the Delegated Proof of Stake (DPos), which we discussed in the previous episode. Related to that, you can see the accounts in the committee under the ‘committee’ tab.

‘Markets’ gives you a look into all the different markets on the DEX and their respective base supply, volume, price and change.

Lastly, under ‘fees’ you’ll find an overview for all fees for all the different types of operations and transactions you can do on the blockchain.

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Deposit, Withdraw & Send

19:45 - 28:45

To make a deposit, click the dropdown menu in the navigation bar and select ‘deposit’. Select currency and gateway to display your specific currency address.

You will be shown both a QR code and a full address which you can copy to your clipboard. Withdrawals work the same way. After selecting the currency, you need to nominate to which address you want to withdraw to.

To send funds to another account on the BitShares blockchain, go to ‘send’ from the dropdown menu, type in the receiving account’s name, select currency and specify amount.

Extras

You can download your history in CSV or Excel format. This is helpful for power users that trade a lot and need to keep track of their accounting.

The news section curates all the news and updates related to the Bitshares ecosystem.

Assets shows you the number of assets you’ve created.

You can buy a lifetime membership stat which gives you access to lower rates. Information related to that can be found under ‘Membership stats’.

Everything related to voting such as worker proposals or committee members is under ‘voting’.

Next steps

Further Reading

- 10 Basic crypto trading questions - answered
- How to read crypto charts
- Exploring trading styles

Get in on the action!

Join SparkDEX Telegram group

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Essential trading tools

What you'll learn

- Arbitrage
- Longing & Shorting
- Moving averages

Watch Episode 4

DEX Masterclass 104

Trading Strategies - Arbitrage

02:00 - 13:15

The concept of arbitrage is where you buy a coin at one price and then sell it another price for a profit.

There are many different markets in the world and they do not all behave the same way at the same time. This gives you the opportunity to buy low somewhere, and then sell high somewhere else. The benefit here is that you can estimate profits based on calculations, not speculations.

For example, there could be a profitable difference for bid/ask prices for the BTS/BTC markets on Sparkdex and Binance. The opportunity here is to buy BTS on one exchange at the lower price, and sell BTS on the other exchange at a higher price immediately after.

Most arbitrage opportunities can be found when comparing smaller exchanges with larger exchanges, as the difference in activity means the price on the small exchange isn't changing second by second.

The same arbitrage opportunities can be found between geographic markets. Back in 2017, there was a 30% premium on BTC in Korea compared to the rest of the world.

So you could buy BTC in the US at one price, and sell it at a higher price on Korea. That kind of opportunity can now also be accessed on the Sparkdex by looking at stablecoins pegged to local currencies, and the difference prices they are trading at for BTC.

Pro tip: Even though HKD is pegged to USD, there can be arbitrage opportunities between the two currencies in the BTC market.

Longing & Shorting

13:15 - 22:45

Longing
If you buy something, and you expect the price to go up.

Shorting
If you sell something, and you expect the price to go down

When you lock up collateral to issue stablecoins, you are going long on that collateral cryptocurrency.

In the case of BitUSD created by locking up BTS, when you issue more BitUSD you are going long on the BTS token. If the value of BTS were to drop, your collateral backing the BitUSD won't be enough to maintain the peg.

Example: Shorting the PHP stablecoin
Looking at the USD/PHP market over the past 40 years, it's reasonable to assume that the Philippine peso will continue to be worth less in USD over time.

On Sparkdex, stable.PHP uses BitUSD as collateral backing. If you lock up BitUSD to issue stable.PHP, that initial collateral will be worth more PHP as the market continues down the same trend. Your initial USD collateral will grow in value on the PHP market, while at the same time you have minted new PHP which you can use for other things - or even trade for even more BitUSD.

By doing this, you have effectively shorted PHP using USD, something which is not practically impossible through traditional forex brokerage accounts.

Exponential Moving Average (EMA)

22:45 - 33:15

The Exponential Moving Average is an indicator that shows the average price over a specific time period, with more weight allocated to the most recent prices.

There are different ways to use the EMA indicator, which you can search for from the Indicator dropdown menu. Here we'll take a closer look at the EMA cross, with one line for the last 9 periods and one line for the last 26 periods.

The strategy with this indicator is to buy when these lines cross and sell when they cross again - something that typically works out 75% of the time.

This is a universal concept which you can apply to any market.

However, because crypto markets are open 24/7 you could miss one of these trading opportunities. Therefore, setting up an EMA bot will help you to apply this trading strategy at all hours of the day.

Next steps

Further Reading

- Simple guide to arbitrage
- How to apply EMA
- 3 popular short-term trading strategies

Arbitrage

Find arbitrage opportunities across exchanges. For example LocalBitcoins and SparkDEX.

Keep learning

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DEXBot trading strategies

What you'll learn

- Relative orders
- Order book depth
- Staggered orders
- Arbitrage opportunities

Watch Episode 5

DEXBot trading strategies

01:10 - 03:10

Uniquely in the world of trading, crypto markets are always open 24 hours per day, 7 days of the week. This means that there can be new opportunities at any point in time, even when you're asleep.

For that reason, setting up orders manually in anticipation of these opportunities is a way to position yourself favourably. Or alternatively, you can use tools to automate that for you.

That's where DEXBot comes in. This is an open source trading bot that you can download for free at DEXBot.info.

There are two trading strategies we'll look into in this episode: relative and staggered orders. For both, we will explain how you can use the DEXBot to execute these strategies but you can also choose to do it manually. Trading strategies do not depend on automation, they simply require discipline.

Relative orders

03:10 - 07:35

The order book is a list of buy and sell orders for a specific market. With the relative order strategy, you are putting both bid and ask orders on the book.

When markets oscillate and you have trades on the order book on both sides, you are market making. This means you are positioned perfectly to capitalise on any opportunities that arise.

If you're using DEXBot, it will automatically execute the first order that hits. DEXBot manages orders on both sides by refilling amounts on the other side of the book after orders have been taken.

In an ideal scenario, you'd be selling high and buying low.

Order book depth

07:30 - 10:25

You can visualise the order book depth to get a better picture of the liquidity in a market. With both bid and ask side presented visually next to each other, in an ideal scenario you would see a “valley shaped” or “V shape” order book. This means there is very little liquidity right at the market price, but increasingly so when go back in order book depth.

The V shape is like that because generally people have the same amount of money but they are buying for cheaper therefore the total size of the numbers are bigger.

A “mountain order book” would look like the inverse of this, like an inverted V. This means that most of the liquidity is focused right at the market price.

Staggered orders

10:25 - 25:25

With staggered orders, you're setting a number of different orders in a price range. Say you set staggered orders on one side for Zeph, and someone comes to you to sell Zeph.

They would first get the best price available and then they would get progressively worse prices (from their point of view). For you, the prices only get better. Market making at its finest.

This is an interesting way to add liquidity to an order book. The benefit of staggered orders is that you can accommodate larger orders at increasingly better prices (for you). As a market maker, that's how you make money.

Again, this may happen over night, which is another good reason for setting up the DEXBot for this type of strategy.

Arbitrage opportunities

A market heavily influenced by staggered orders present interesting opportunities. Particularly when when big market swings take place, orders set previously create massive arbitrage opportunities. How arbitrage works is explained in more detail in DEX 104, but in this episode we briefly revisit it in relation to staggered orders.

Watch as George discovers a sizeable arbitrage opportunity between Binance and Sparkdex, where the market is wide open for anyone to make $500 per Bitcoin just by buying at one exchange and selling at another.

The lesson here is that crypto markets are always on the move and to the trained eye there are many profitable opportunities to be found.

Sharpen your skills. Never miss a trading opportunity.

Next steps

Further Reading

- DEXBot: Market making trading bot
- I ran a market making bot for 5 days: 54% profit
- Best crypto trading bots

Set staggered orders

Before setting up DEXBot, try out a staggered orders strategy by placing order manually within a price range.

Master the markets

Sign up to Trading Tuesdays to stay connected to the markets by reading our weekly price analyses.

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