TRADING VOLUME

The cryptocurrency market has no one particular centralized exchange so actually it is difficult to know exactly how many transactions were made. Volume can be estimated these transactions in a number of ways, though its most significantly use is to help identify strong support and resistance levels in the market and this helps to gauge the strength of the price movement or momentum. Volume helps us measure supply and demand rate and how this can affect the price in the market.

Volume in cryptocurrency trading refers to the number of coins that change hands on a given day in the market. In the cryptocurrency futures market it refers to the number of futures derivative contracts traded. Every particular transaction is carried out as a result of demand being met by supply. But when demand exceed supply, Prices tend to rise higher and Conversely when supply exceed demand, Prices tend to collapse and fall downwards.

These phenomena where volume occurring during advances is termed “ Demand Volume” ; while volume occurring during declines are called “Supply Volume.”

There are so many different ways to visualize volume and price relationship, While some school of analyst think of volume as a gauge of market pressure but for me I see it in a more visual form.

Let us illustrate this further, I will like you to picture a water pressure and a plastic ball, the ball is placed pointing skyward just above the garden water hose and the water tap is oppened, as you apply pressure continuously the ball shoots upward to the sky. If the pressures continues to rise so does the ball rise higher with the rising water pressure. but what happens when the water pressure gets turned down? The plastic ball is most likely to continue upwards on it own momentum for 2 to 3 seconds before falling back down.
We see that the ball couldn't continue on its own without you increasing the water pressure and likewise we see how easily if falls to the decrease of the water pressure. And just like the plastic ball, Prices need increasing volume to continue higher, So when price move higher but on diminishing volume, they are ,out likely to fall back.

To understand volume, we need to understand the basic rules of volume analysis which includes the following:

When prices are rising and volume is increasing, be assured the present trend is most likely to continue as the increase in volume signals demand volume i.e prices is expected to continue to rise upward.
When prices are rising and the volume is decreasing, it is said that the odds are most likely the present trend will not continue i.e the prices rise will likely decelerate and then turn downward or fall.
When prices are falling and volume is increasing, the present trend is most likely to continue falling as the increase in volume signals supply volume. i.e prices will continue to fall.

when prices are falling and volume is decreasing, the present trend is not likely to continue as it is expected that the price decline will decelerate and the prices will turn upward because the supply volume has decelerated.
When the volume is neither rising nor falling the effect on price is absolutely neutral and as a result price experiences what is called a trading range or consolidation.

How can you implement this rules to your trading?
Lets look at some illustrations, Lets say Bitcoin has been in a trading range for several weeks with and average daily volume of 50,000,000BTC changing hands. Then prices begin to move upward higher as the daily volume picks up to 80,000,000BTC traded.

With this is justifiable to believe that prices is most likely to continue upward and move higher as this is said to be fueled by “Demand Volume”. As expected, prices did continue to move even higher the following weeks . But after the sixth week we see prices tumble and lose like 35 percent of the previous gains. At this point the obvious question arise “ Should we sell the Bitcoin ?” But again the clues we need lies in the volume. Going back to the volume picture we noticed that during the fallback, Bitcoin has been trading 30,000,000BTC par day.

With this information we bring our volume rule to the board. We can summaries that this is most likely a temporary reaction in the market. But if the upward move is likely to continue then what might be the source or cause of this reaction you might ask, what is actually happening in the market place? There could be lots of factor which might include that probably early buyers could be taking profits or any new buyers could be waiting for a setback opportunity before buying. But again all these are healthy natural reasons for any market corrections and therefore not a good reason to abandon our trade position just yet unless we noticed that the volume is beginning to increase on the down days.

Back to our BTC we see that as expected by week seventh the prices recovers and even begins shooting up again as volume increased averaging 95,000,000BTC traded a day. Week 8 continued the same way but then week 9 brought another reaction in price and a reduction in volume to 50,000,000BTC traded a day.

We still hold on to our BTC as prices continues to rise making new highs but oddly enough, Volume is not longer rising with the price as volume is only averaging now at 60,000,000BTC traded par day.

We see a clear change in volume signaling strong warning as we see Demand Volume is drg up. Even though new demand may still coming into the market, but remember our volume rule? that says prices can only go up if fuel□ed by the rising demand volume and if they fail to get that extra boost, prices can fall under their own weight.

As expected prices tumbles down the next few days on heavy supply volume. So obeying this rule we decide its time to sell our BTC.

Let’s look at it in another different scenario. What if prices have been in a sideways trading rang for some time and then begins to fall on low volume?
Should we call this breakdown move to the downside a false move since its occurring on a low volume? Not necessary because, although prices must be accompanied by a strong volume when moving to the upside to confirm the legitimacy of the move, be warned that down moves often occur or begin on light volume as a result of the market falling under its own weight so it is important to be aware that volume usually tend to be lighter when prices are falling than when prices is rising.

Another phenomena that seem to keep baffling technical analysts is the fact that tops may also be formed on heavy volume, they call this “Climax” Which usually occur after the market has been moving upward for long period of time.

Climax occurs with a forceful volume just before a change in trend direction takes place. So we can say it can occur in both tops and bottoms. Climax oddly enough till this day still puzzles technical analysts even after all these many years.

Here we see that if we look closely and observe the market price action, it might help us make some sense of the situation to determine if its a climax or not. Unlike stocks, commodities and bonds market, crypto exchanges like binance operate 24hrs a day and 7days a week.

Let's say, that typically prices make new highs in the morning accompanied by strong heavy volume but then we observe that by afternoon the prices starts to drop gradually but the volume still remains heavy, thereby producing something that looks like a reversal day, giving us a classical example of what is know as "Distribution phase."

This is a phenomena that occurs when the previous owners of the cryptocurrency are dumping their coins and taking profits but then to who and who do you think is buying these coins from these previous owners?
 “The Johnny just come late-lies” who are so ignorant and unaware that they are buying the top from the previous owners of the cryptocurrency who have been buying and holding for weeks and by now have too many coins to distribute than the johnny just come late-lies can possibly handle. thereby leading to supply volume overcoming demand volume, creating a price crash and the new buyers(late-comers) are left holding the bags. This phenomenon can easily be described as what traders meant by “buying the top” or when they say“Cryptos are moving from strong hands to weak hands”.

Bottoms on the other hand literally does the opposite pattern to tops as it mostly occur on very light volume, as volume tends to dry up when bottom is occurring indicating that supply volume has diminished and the sell off pressure has lessen. If after seeing this prices starts to move higher on increased volume, it is a good sign that the declines ended.
The traditional way that technical analysts represents volume graphically in the form of bar chart directly beneath the price charts but you can also look at volume is multiple different ways like using a continues line rather than a bar chart.

In Summary, an understanding of Volume patterns adds a 3rd eyes to your forecast enabling you to see a hidden third dimension in your analysis.

As we said earlier, cryptocurrencies can fall of their own weight, but to advance it takes plenty of buying power. it's no difference from pushing a boulder up a hill, it takes expenditure of energy to move it up the hill. but once you let it go, it can build up plenty go downside momentum on its own.

The rule is very simply, I say "Never trust a breakout that isn't accompanied by a significant increase in volume."

While some school of thoughts believe that there must first be a spike in volume that shows the final panic dumping of the coin, they feel that volume should then contract or dry up to show that the selling pressure has lessen. But while this is a nice theory, the reality remains that there’re far too many charts with different volume formations that turned out to be big winners today. So lets keep things simple but yet profitable by not worrying about the shape of the volume pattern while it is still forming especially in accumulation phase.

However, once the price breaks out above the top of the resistance of the accumulation formed after the long period of dump, i.e we are talking during a bottom, I want you to worrying plenty about volume from that moment as price breaks through above the resistance tip of the accumulation, volume should spike and pick up significantly on that breakout. If it doesn’t the odds and probabilities are very high that at best you have got a mediocre winner which might advance only few points or at worst the coin will tun out to be a false breakout of a fakeout that will soon be back into the trading range it

I don’t believe that there is a magical level of volume necessary for identifying a winner rather, than looking for breakouts that have a randomly picked number when compared to past volume it should be at least 4.65times the average volume of the few past weeks. So here I say to look for either a week volume spike that is at least twice the average volume of the coin in the past month but preferably it is even higher, or you can look at volume build up on the coin over the past three to four weeks that is at least twice the average volume of the past several weeks coupled with at least some increase in volume on the breakout week.

This can easily be done using Coinmarketcap.com. What ever the exact number is, if there is no significant increase in volume when the breakout occurs, then I will say run and avoid such coin and if you have purchased it with a buy stop order, The its okay to sell it for a fast profit when it advances after the breakout which it does usually do.