Pound Cost Averaging for Crypto Investments Explained

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There's no perfect strategy for trading bitcoin and other cryptocurrencies. This doesn't mean that everyone should learn some form of investing strategy to get started and grow their long-term wealth. Big names in the investing world have always said "you must be able to grow your wealth while you sleep" and investing or business is the only way to do that.

One of the easiest and simplest investing strategies around is the pound-cost averaging model. This model can be a great way to make market volatility work in your favor.

What is Pound-Cost Averaging?
Pound-Cost Averaging or PCA is a financial market concept many investors are currently utilizing in the cryptocurrency space. In simplest terms, PCA refers to a strategic move to buy the same amount of a crypto asset at regular basis regardless of the market price of that cryptocurrency. This strategy can be used in any asset class that supports smaller transaction size or fractional ownership.

If you're reading this article, then you have an interest in crypto and more interested in acquiring more. You'll also know that the crypto market is wildly volatile and can see £100-£500 movements in a single day. Whenever market prices start to move, there's no shortage of FOMO (Fear of Missing Out) across the board on whether it's the right time to buy or not. For beginner traders, this can cause a lot of anxiety, uncertainty, or even prevent them from participating at all.

"Time in the market will always be a greater strategy than Timing the Market"

By utilizing the pound-cost averaging strategy, investors can smooth out the effect of market changes on the value of their investments over time. It is also a proven way to achieve some peace of mind because it essentially helps limit risk exposure by taking advantage of market corrections. It's important to note that PCA requires discipline not to cancel or suspend regular investments even if markets continue to move in a downward price direction.

How Does PCA Work in Crypto Investing?
In post-cost averaging, you first start by deciding how much money to set aside for investing in a cryptocurrency each day, week or month. An exchange like coinpass.com will allow you to place a standing order on your bank account to automatically transfer the desired daily, weekly, monthly, or quarterly portion into the account that funds your crypto investments. The crypto platform will then automatically trade your desired amount of crypto, based on the amount of fiat currency deposited. Employing this strategy means you can take a set and forget approach to building your crypto portfolio, regardless of market conditions.

PCA as an investment strategy opens the potential to reduce the average cost of the total amount of crypto assets that you purchase. As a result, you could be buying less of an asset while the price is relatively high and more units of that asset as the price goes lower. This lets you enter a position in the market gradually, instead of going all-in on a single move.

Suppose you decide to spend £200 to buy Bitcoin every week — when the market value is down, your
£200 will buy you more bitcoin, which means there's a higher potential for increased gains when the price goes up. When the market is up, that £200 will buy you fewer BTC but also reduces the risk of loss, should the market go down.

Why PCA works for crypto investments
Following the chart below and by investing £100 per month, you would have accumulated 0.177845 BTC over 12 months automatically, without having to do anything. During these 12 months, the price of a single bitcoin had moved £3100. Trying to time the market between highs and lows during that time would be nothing more than a high-stake guessing game. Even if you did manage to time the market perfectly, which very few manage to do. You would have only made an extra £170 in the example below.

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Even though it's been available for years, the cryptocurrency space is yet in its infancy stage and we are still in the process of mass adoption across the globe. As such, the crypto market remains quite volatile and prices of assets continue to be wildly unpredictable. If you're a beginner investor or are simply optimistic about the long-term growth potential (Hodler) of cryptocurrencies like BTC, ETH, and XRP, then you probably already know that there's no sense in trying to time the short-term swings of the market.

Instead, the main objective here should be to accumulate as many crypto assets as you can with whatever GBP amount you are comfortable investing. In that sense, pound-cost averaging is the best way to achieve this.

Another compelling benefit of pound-cost averaging in cryptocurrency is that it removes the emotional component of your decision-making process. This allows you to continue on a consistent course of buying a certain pound sterling amount of your preferred crypto asset, regardless of how wildly the price jumps up or down. In doing so, you will not bail out of your investment when the market experiences a massive drop, but rather see it as an opportunity to obtain even more crypto assets at a lower cost.

Utilizing PCA also helps you build up a positive money habit. At the very least, it lets you make investing a habit. Remember PCA is focused on the long term so, over time, you'll get used to drip-feeding your GBP into crypto investments, which with constant practice, can stick with you long term. Eventually, it can make investing a regular part of your financial plan as opposed to something you just think about now and then. Even small deposits can deliver considerable gains over the long term, more so when you consider the effect of compounding.

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