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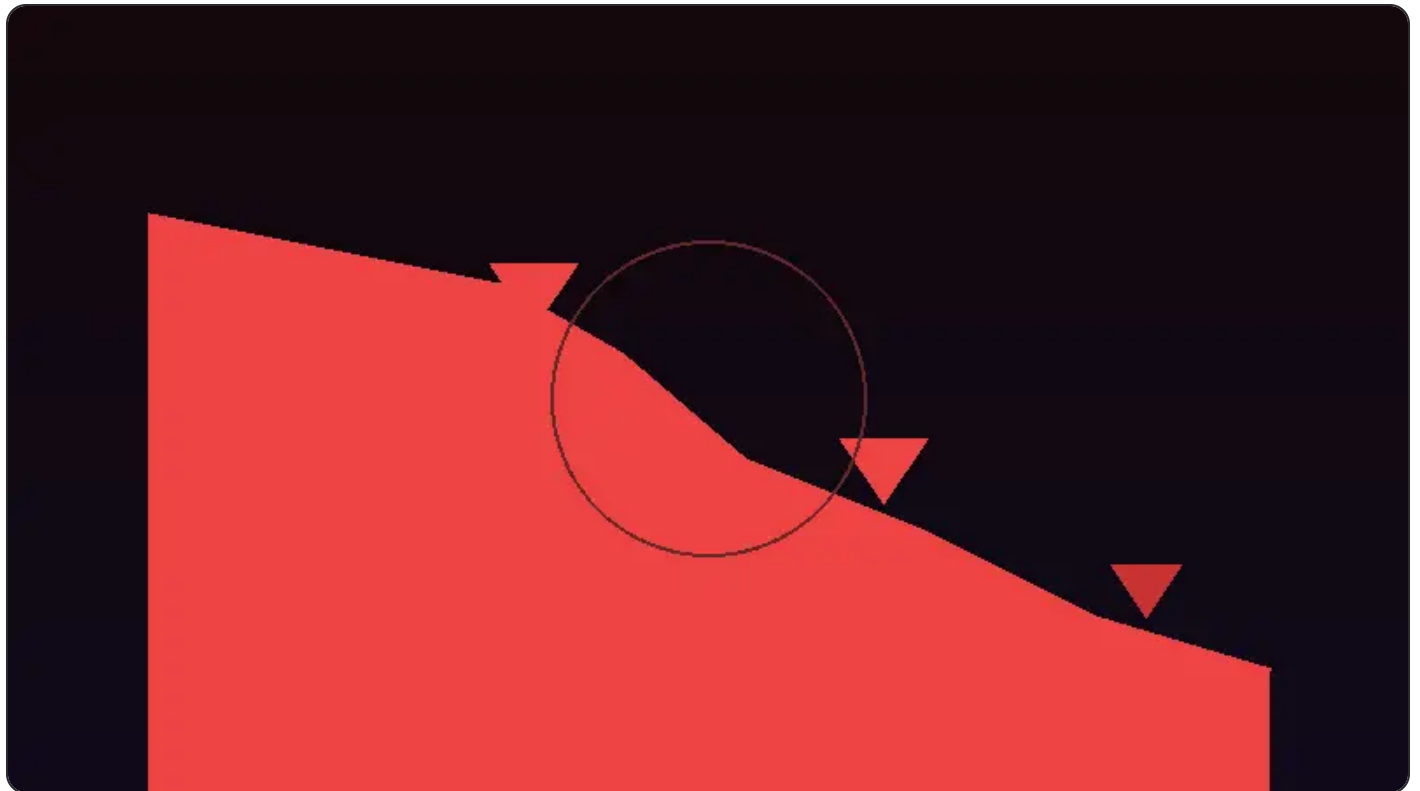
How to Short Crypto Using Perpetual Futures

A practical guide to shorting crypto with perpetual futures — how it works, when to short, risk management, and common mistakes to avoid.



Liquid
Editorial team

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Shorting is how traders express a bearish view, hedge downside risk, or trade overextended rallies. In crypto, the common way to short is through **perpetual**

That simplicity does not make shorting easy. Short positions have **different risk, different funding exposure**, and **different squeeze dynamics** than long positions. Open a short perp without understanding liquidation and funding, and the market can punish you quickly.

PERP SHORTS	HOLDING COST	MARKET HOURS	UPSIDE RISK
No borrow	Funding	24/7	Asymmetri
No share locate, no borrow fee	Can pay you, can cost you	Liquidations don't sleep	Loss isn't capped at entry

What Does Shorting Mean?

Shorting means you profit if the asset price falls and lose if the asset price rises.

In traditional stock markets, shorting usually means borrowing shares, selling them, then later buying them back and returning them. That creates borrow costs, locate constraints, and settlement rules.

With perpetual futures, you open a short derivative position. You are not borrowing the underlying asset — you are trading a contract whose PnL moves *opposite* the reference price:

- Price down: short gains.
- Price up: short loses.

The position can be closed whenever the market and venue are available — but eligibility, market support, liquidity, fees, and local restrictions still matter.

SHORT PNL — SAME MATH AS A LONG, SIGN FLIPPED

$$\text{PnL} \approx \$5,000 \times (\$3,500 - \$3,200) \div \$3,500$$

BEFORE FEES + FUNDING

+\$428

Win — ETH falls 8.6%

Lose — ETH rallies 8.6%

Lose — ETH rallies 20%

5× SHORT ETH @ \$3,500 — BOTH DIRECTIONS

THESIS WORKS · ETH → \$3,200

+\$430

ETH drops 8.6%. The \$5,000 short notional gains roughly \$430 on \$1,000 of margin — a 43% return before fees and funding.

Exit price

\$3,200

Margin used

\$1,000

Position PnL

+\$430

Return on margin

+43%

THESIS FAILS · ETH → \$3,800

-\$430

ETH rallies 8.6%. Same notional, sign flipped — and on a short, the upside is *not* capped. Stops and position size matter more here than on a long.

Exit price

\$3,800

Position PnL

-\$430

The trade is the mirror image of a long. The difference is psychological and structural: **a long's price downside is bounded by zero, while a short can keep losing as price rises.** In leveraged perps, either side can be liquidated well before those theoretical endpoints.

When Shorting Can Make Sense

FOUR LEGITIMATE REASONS TO SHORT	
01	Downtrends Trade with a falling market instead of waiting in cash.
02	Overextended rallies If price rises sharply while funding is high and sentiment is crowded, a pullback can become more likely. Timing still matters.
03	Event-driven catalysts Bad earnings, regulatory pressure, protocol failures, unlocks, hacks, or negative macro events can create short setups.
04	Hedging spot holdings If you hold spot crypto and don't want to sell, a short perp can offset some downside exposure. Reduces directional risk; introduces basis, funding, liquidation, and venue risk.



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Shorting with perps is structurally different from shorting listed stocks.

PERP SHORTS VS. STOCK SHORTS	
Stock short	Perp short

Funding Rates When You Are Short

Funding can help or hurt a short.

FUNDING DIRECTION CHANGES THE CARRY ON YOUR SHORT	
POSITIVE FUNDING · YOU COLLECT	
Carry + Longs are crowded and pay shorts. Your short collects funding each interval — even before any directional PnL. This can subsidise a short that takes time to work.	
Direction	Funding sign
Short	+

NEGATIVE FUNDING · YOU PAY

Carry –

Shorts are crowded. You're paying longs to stay short. A thesis that's right but slow can still produce disappointing net PnL if funding eats the gains.

Direction	Funding sign
Short	–
Carry	
Outflow	

Do not ignore negative funding. A short that is right on price can still produce disappointing net PnL if funding costs are high and the trade takes too long to work.

The Main Risk · Squeezes

Shorts can be forced to buy when price rises. In perp markets, liquidated shorts are closed by buy orders — which can push price even higher. If many shorts are clustered near similar liquidation levels, the move can cascade into a **short squeeze**.

× WARNING SIGNS YOU'RE ON THE WRONG SIDE

Deeply negative funding · rising open interest · heavy bearish consensus · thin order-book liquidity above price · price reclaiming a major resistance level · large clusters of short liquidation levels nearby. When you are short, **crowding matters**. Being right about fundamentals does not protect you from a violent squeeze.

Risk Management for Shorts

01 Use a stop loss

Decide where the short thesis is wrong before entering. A **stop** above resistance is often cleaner than a random percentage stop.

02 Size for upside volatility

Assets can rise faster than your thesis changes. Use lower leverage on volatile tokens and event-driven markets.

03 Check liquidation distance

If a normal bounce can liquidate you, the short is too levered.

04 Account for funding

Negative funding is a real holding cost — and it can flip without warning.

05 Don't add blindly to losing shorts

Averaging up can work for disciplined traders with deep collateral and a clear plan. It can also turn a manageable loss into liquidation.

06 Respect news risk

ETF approvals, partnership announcements, court decisions, and macro surprises can invalidate shorts instantly.

Shorting as a Hedge

A short perp can hedge spot holdings — but the hedge is not perfect.

SPOT LEG

-\$1,000

The spot ETH bag drops 10% with the market. No surprise — that's the directional exposure you started with.

Notional
\$10,000
PnL
-\$1,000

Move
-10%

PERP SHORT LEG

+\$1,000

The short perp offsets the spot drop almost dollar-for-dollar before fees and funding. Net directional exposure is roughly zero — but you've taken on basis, funding, and liquidation risk.

Notional
\$10,000
PnL
+\$1,000

Move
-10%

That is *directionally* hedged, but not risk-free. Funding can be costly, perp and spot prices can diverge, the short can be liquidated if undercollateralised, execution slippage matters, tax and accounting treatment may differ, and the hedge ratio changes as prices move.

Hedging is risk transformation, not risk deletion.

Further Reading

- [Liquid docs: funding rates](#)

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- [What Is a Short Squeeze?](#)

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- **Choose the market and direction.** Go short when the setup and risk are clear.
- **Manage the position.** Watch funding, liquidation distance, and squeeze risk until the trade is closed.

Frequently Asked Questions

How do you short crypto?



What are the risks of shorting crypto?



Can you short Bitcoin?



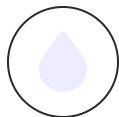
What does it cost to short crypto?



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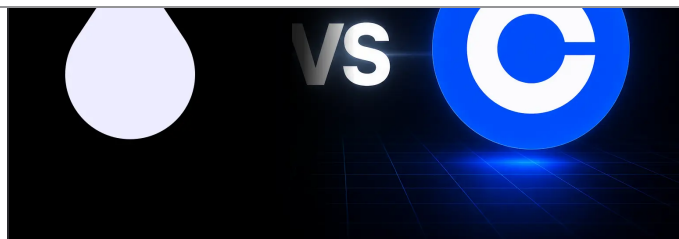


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