

# How to Pick a Market Maker & Liquidity Provider in Crypto

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# Executive Summary

This eBook provides a comprehensive understanding of the roles, dynamics, and strategic considerations involved in choosing market makers and liquidity providers in the cryptocurrency world.

Market makers are entities (either businesses or individuals) actively participating in cryptocurrency exchanges by buying and selling cryptocurrencies. They ensure the smooth functioning of trading activities — even in volatile market conditions — by acting as intermediaries and placing bold buy and sell orders. They enhance liquidity, facilitate tighter bid-ask spreads, and stabilize prices by absorbing supply and demand imbalances.

Liquidity providers are either firms or individuals and are essential for digital assets. They supply orders to the market, ensuring a counterparty is always available for trade executions, which is vital for reducing market slippage and ensuring price stability. Liquidity providers contribute to market efficiency by enabling quicker transactions and play a significant role in price discovery — especially in the volatile cryptocurrency markets. Many platforms incentivize liquidity provision through transaction fee distribution or liquidity mining.

The eBook distinguishes between market makers and liquidity providers. While both contribute to market liquidity, market makers are active participants who constantly engage in buying and selling to create a liquid market. Liquidity providers, in contrast, are more passive, supplying orders for others' use.

For new crypto projects, having a reliable liquidity provider is vital for ensuring trading volume, stabilizing the token's price, and making it attractive to investors and traders. Liquidity providers lay down the foundation for a crypto project's growth, market credibility, and long-term success.

Choosing the right partner requires evaluating potential market makers and liquidity providers based on their track record, industry reputation, expertise, and cost structures. The depth of a market maker's order book and its effectiveness in maintaining tight bid-ask spreads are crucial. However, for liquidity providers, the focus is on their effectiveness in providing stable prices. Specialization and area of expertise are also essential considerations, especially for projects with specific focuses, like Non-Fungible Tokens (NFTs).

Cost considerations are also critical. Market makers typically have varied fee structures, including monthly fees for each market or rebates on fees paid. Understanding these structures and their alignment with the project's budget is important. Additional considerations include hidden costs, scalability of fees, and the comparative analysis of different market makers' fee structures.

Reporting and analytics from partners are essential for market monitoring and informed decision-making. Advanced analytics, such as sentiment analysis, predictive modeling, and behavioral analytics, provide deeper insights into market dynamics and can inform marketing and investor relations strategies.

Finally, this eBook emphasizes the importance of selecting a partner who can evolve with the project, highlighting the need for long-term partnerships, adaptability, and alignment in values and business practices. Cultural and ethical alignment reinforces trust and credibility among investors and stakeholders.

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*“AlphaPoint is a global fintech company providing digital asset infrastructure to power the next generation of exchanges, brokerages, and payment networks. Since 2013, we have enabled over 150 customers in 50 countries — powering over 1 trillion USD in trading volume.”*



**Jack Sallen**, Co-Founder & VP of Customer Success

**Choosing the right partner requires evaluating potential market makers and liquidity providers.**

## What is a Market Maker in Crypto?

In the world of cryptocurrency, a [market maker](#) is either a business or an individual entity that actively participates in exchanges by buying and selling cryptocurrencies.

Market makers play a crucial role in facilitating the smooth functioning of trading activities, even in volatile market conditions. They act as intermediaries between buyers and sellers and operate by placing bold [buy \(bid\) and sell \(ask\) orders](#). Market makers provide liquidity to the market, which, in turn, enables traders to execute their trades without any delay or disruptions.

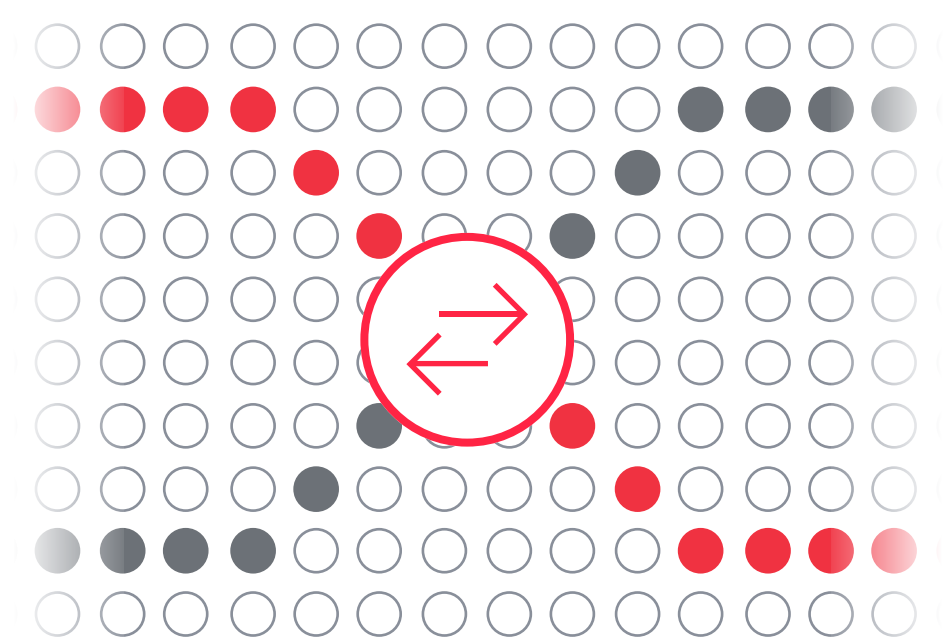
The presence of market makers contributes to several positive outcomes in the cryptocurrency ecosystem, such as:



Enhancing liquidity and making it easier for traders to enter or exit positions without significantly impacting the market price.

Promoting tighter bid-ask spreads (which reduces the transaction costs incurred by traders.)

Helping to stabilize prices by absorbing temporary imbalances in supply and demand.



<sup>1</sup>[Investopedia \(2023\) | Market Maker Definition: What It Means and How They Make Money](#)

<sup>2</sup>[Investor.gov | Bid Price/Ask Price](#)

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## Understanding the Role of Liquidity Providers

Liquidity providers can be either firms or individuals and are fundamental to cryptocurrency trading. Their primary role involves offering buy and sell orders to the market. These orders are essential for maintaining a healthy market environment, as they ensure that there is always a counterparty available for trade executions. This availability of immediate trading partners helps in reducing market slippage and ensuring price stability.

Moreover, liquidity providers contribute to the overall efficiency and vibrancy of the market. By injecting liquidity into the system, they enable quicker and more seamless transactions for traders and investors. This is particularly crucial in certain crypto markets, where the absence of traditional financial intermediaries like banks and brokers means that liquidity needs to be sourced from other participants in the ecosystem.

The significance of liquidity providers extends beyond just providing capital. They also help in price discovery — a critical process in financial markets — by setting the bid and ask prices based on their perception of an asset's value. This role becomes even more pivotal in the relatively volatile and unpredictable environment of cryptocurrency markets, where prices can fluctuate significantly within short periods.

In addition to their direct market involvement, liquidity providers often earn rewards or fees for their services. Many digital asset platforms incentivize liquidity provision by distributing a portion of transaction fees or through liquidity mining, where providers earn additional tokens. These incentives not only compensate for the risks taken by the liquidity providers (such as impermanent loss) but also encourage more participants to contribute liquidity, thus enhancing the market's depth and resilience.

<sup>3</sup>[Techopedia \(2023\) | Liquidity Provider](#)

# Distinguishing Market Makers and Liquidity Providers

While both contribute to market liquidity, the primary difference lies in their [roles and approaches](#). For example, market makers are active participants, constantly showing a best market engaging in buying and selling to create a liquid market. Meanwhile, liquidity providers are more passive; mainly supplying orders to be used by others and ensuring there are enough buyers and sellers. Unlike market makers, liquidity providers may not actively show liquidity or display a best bid/ask on an order book.

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## The Importance of Liquidity Providers

For emerging crypto projects, securing a dependable liquidity provider is of paramount importance. The presence of a reliable liquidity provider is crucial in ensuring sufficient trading volume for a new token; a factor that is instrumental in its initial market acceptance. Adequate liquidity is essential not only for facilitating smooth and efficient transactions but also for providing a sense of security and trustworthiness to potential investors and traders.

Significant trading volume, facilitated by liquidity providers, helps to stabilize the token's price and provide confidence to the token's market. This mitigates the extreme volatility often associated with new cryptocurrencies. This stability is also highly attractive to investors and traders, who might otherwise be wary of the high risks typically involved in new token investments. Moreover, a stable and liquid market makes the token more accessible and appealing — potentially attracting a broader range of investors, from individuals to institutional players.

In essence, liquidity providers play a pivotal role in the early stages of a crypto project, laying down the foundation for its growth, market credibility, and long-term success. Their involvement is a key factor in determining how quickly a new token can establish itself in the competitive and fast-paced world of cryptocurrency trading.

<sup>4</sup>[Coruzant \(2023\) | Market Maker vs Exchange Liquidity Provider](#)



# Choosing the Right Partner

In the rapidly evolving landscape of crypto, selecting the right partner — be they a market maker or a liquidity provider — is a decision of paramount importance. This choice is fundamental to the success and sustainability of a project. It is, therefore, essential to approach this decision with a comprehensive evaluation of potential partners, focusing on their track record, industry reputation, expertise, and cost structures.



Experience



Evaluation



Cost

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## Evaluating Market Makers and Liquidity Providers

When assessing market makers, one critical aspect to consider is the depth of their order book. This reflects the market maker's ability to handle large orders without causing significant price fluctuations. This aspect is vital for ensuring market stability and reducing the impact of large trades on the token's price. Additionally, the historical performance of these market makers in managing the order flow and their effectiveness in maintaining tight bid-ask spreads are indicative of their proficiency in fostering a healthy trading environment.

On the other hand, evaluating liquidity providers requires a slightly different focus. The primary consideration here is their effectiveness in providing stable prices. This stability is crucial in reducing market volatility and making the asset more appealing to a broader range of investors. The reputation of the liquidity provider in the industry, as well as their track record in handling unexpected market movements, and their resilience during times of market stress, are all vital factors to assess.

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## Specialization and Area of Expertise

Another key element in choosing the right partner is their area of expertise. Different market participants specialize in various segments of the cryptocurrency market.

For instance, if your project is centered around Non-Fungible Tokens (NFTs), it is crucial to select a partner with proven experience and success in the NFT market. This specialized expertise ensures that the partner is well-equipped to handle the unique challenges and opportunities that come with your specific project type.

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## Cost Considerations

Finally, while a detailed discussion on cost will be addressed later in the eBook, it's important to have an initial understanding of the fee structures.

Different partners may have varying pricing models – some might charge a monthly fee per market, while others could offer rebates or waive fees under certain conditions. Others may charge no fee at all, with the market spread serving as the profit center for the operation. Aligning these pricing models with your project's financial plan is crucial for long-term sustainability and success. Understanding these cost implications early on helps in making an informed decision that aligns with both the strategic and financial objectives of your project.

Choosing the right market maker or liquidity provider for your crypto project involves a careful evaluation of their market performance, specialization, and cost structure. This decision is not just about finding a service provider, but about selecting a partner who can contribute to the growth and stability of your project in the dynamic world of cryptocurrency.

# Capabilities, Relationships, and Connections

Selecting the right market maker or liquidity provider is a strategic decision that significantly impacts the trajectory of any cryptocurrency project. These entities are crucial not only for their range of services but also for their extensive connections and relationships with major exchanges, elements that are essential for facilitating token listings and boosting their visibility.

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## Automated Market Makers and Liquidity Pools

One of the increasingly significant aspects is the role of [automated market makers \(AMMs\)](#). These are protocols that use algorithms to price assets and provide liquidity of digital assets, replacing the traditional order book model.

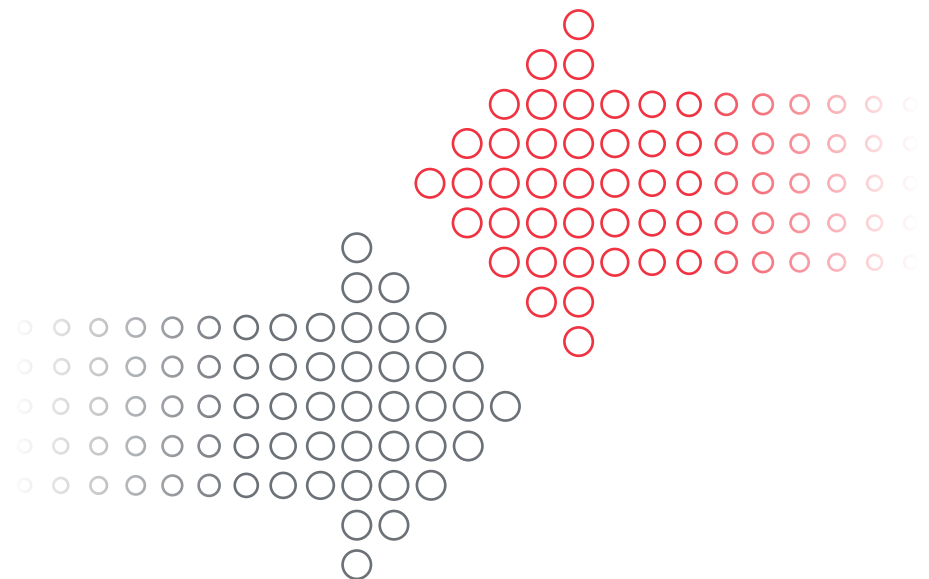
AMMs create liquidity pools, which are essentially reservoirs of tokens locked in a smart contract, providing the necessary liquidity for efficient market-making on exchanges. These pools are crucial for maintaining a robust trading environment, supplying ample order volume, and ensuring market depth.

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## Broad Exchange Coverage and Advanced Tools

Your chosen partner must exhibit the capability to offer liquidity on both major and decentralized exchanges, such as [Uniswap](#). This widespread presence ensures that crypto tokens receive the necessary visibility and are effectively traded across various platforms, thereby reaching a broader audience and investor base.

Moreover, the utilization of advanced tools and [algorithms](#) by the market maker or liquidity provider is essential. These technological advancements are not just add-ons but necessities in maintaining efficiency and competitiveness in the dynamic and sometimes unpredictable crypto market.



<sup>6</sup>Coinbase | What is Uniswap?

<sup>7</sup>Investopedia (2023) | Basics of Algorithmic Trading: Concepts and Examples

## Networks and Relationships: The Key to Efficiency

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*“The importance of a market maker's relationships and connections is underscored by their ability to execute trades and manage operations across various venues effectively. This involves not only filling orders but also performing essential actions such as hedging or risk management.”*



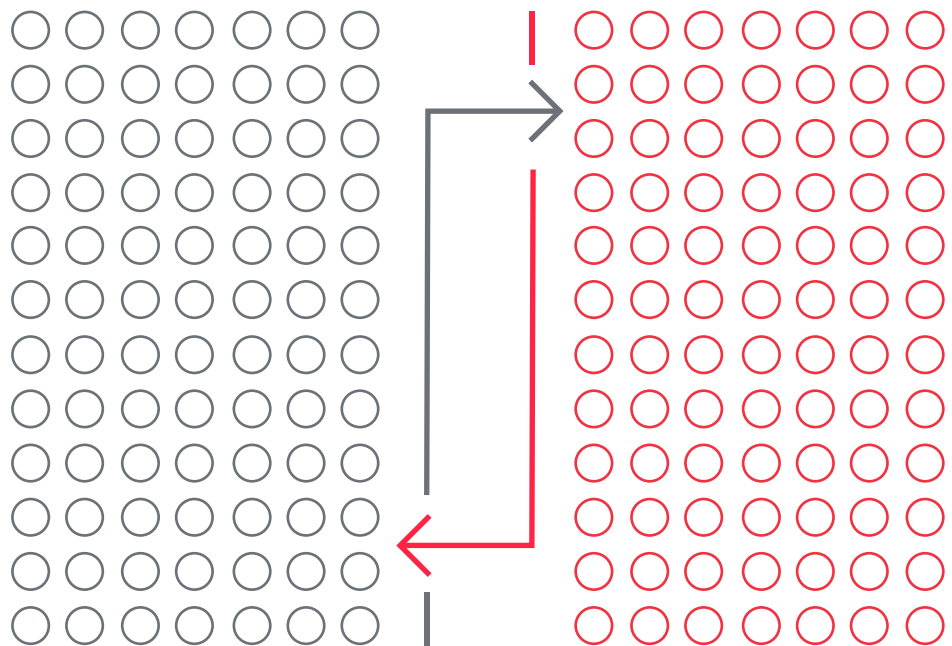
**Jack Sallen**, Co-Founder & VP of Customer Success

The ability to access different protocols, including [FIX](#), [REST](#), and [WebSocket](#), is crucial in this regard.,, These technological infrastructures enable market makers to operate in a digital environment, ensuring they can efficiently broadcast and manage markets across different geographical areas and time zones.

## Robust Network with OTC Desks and Trading Firms

Additionally, a well-chosen provider should maintain a robust network with [over-the-counter \(OTC\) crypto desks](#) and trading firms. These relationships are pivotal for effective distribution and liquidity management.

The collaboration with OTC desks enhances the ability to manage large orders, which could otherwise impact the market price if executed on standard exchanges. Moreover, connections with trading firms expand the reach and potential partnerships, facilitating better liquidity provision and market stability.



<sup>8</sup>[FIX Trading Community | Financial Information eXchange \(FIX®\) Protocol](#)

<sup>9</sup>[TechTarget | REST \(REpresentational State Transfer\)](#)

<sup>10</sup>[BitDegree | What is WebSocket?](#)

<sup>11</sup>[YellowCard | What is Crypto OTC Trading and How Does it Work?](#)

# Pricing and Cost

Understanding the fee structures of market makers is crucial, as they typically charge fees based on trades executed, spreads, or a combination of both. Thus, it's essential to comprehend their fee structure and how it aligns with your project's budget. This understanding will ensure that the costs incurred for market-making services are in line with the financial projections and goals of your project.

Regarding fee structures for market makers, a few methods are in use. As noted by Jack:

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*“Exchanges often employ a combination of these approaches, such as the common method of charging a monthly fee for each market. For instance, if a company wants to engage market makers for ten different markets, they will be charged for each one separately.”*



**Jack Sallen**, Co-Founder & VP of Customer Success

Another method involves rebates on the fees paid by market makers or, in some cases, waiving fees entirely for the orders placed on these markets in the online exchange.

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## Additional Considerations

In addition to the basic fee structures, it's important to consider potential hidden costs and value-added services that could influence your budgeting. Sometimes, market makers may charge for additional services like high-frequency trading support or access to proprietary trading algorithms. These services, while potentially beneficial, can significantly alter the cost landscape and should be evaluated for their return on investment.

Moreover, the scalability of fees is another aspect to consider. As your project grows, will the fees scale accordingly, and are there thresholds or caps that can provide cost predictability? This scalability ensures that as your market presence expands, the fee structure remains sustainable and aligned with your growth trajectory.

Furthermore, it's also beneficial to compare different market makers' fee structures. This comparative analysis can provide insights into market standards and help negotiate better terms. Understanding the competitive landscape in terms of pricing can also aid in making a more informed choice that matches your financial capabilities and project needs.

# Reporting and Analytics

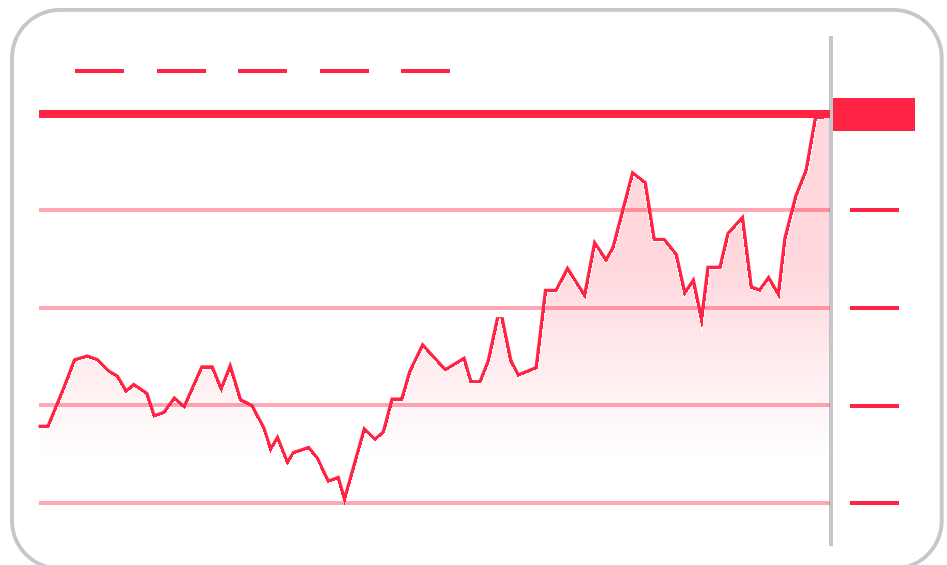
Opting for partners who provide detailed reports on trades, volumes, and spreads is essential in today's complex market environment. These reports are more than just informational tools; they are critical for market monitoring and informed decision-making.

While basic trade reports are foundational, advanced analytics can provide a [more nuanced understanding](#) of market dynamics. These analytics might include sentiment analysis, predictive modeling, and behavioral analytics, offering a more comprehensive view of market movements and trader behavior.

This advanced level of analysis can be particularly beneficial for fine-tuning marketing and investor outreach strategies. For instance, understanding the demographic details of active traders or the times when trading activity peaks can inform targeted marketing campaigns and investor relations efforts.

Additionally, the integration of these analytics with other business intelligence tools can provide a holistic view of your project's performance. This integration can highlight correlations between market activities and other business metrics, offering strategic insights for broader business decisions.

These analytics enable a deeper understanding of market dynamics, offering insights into trading patterns, liquidity trends, and price movements. This information is invaluable for adjusting strategies, identifying market opportunities, and mitigating risks. Furthermore, regular reporting can keep you abreast of how effectively the market maker or liquidity provider is performing, ensuring transparency and accountability in the partnership.



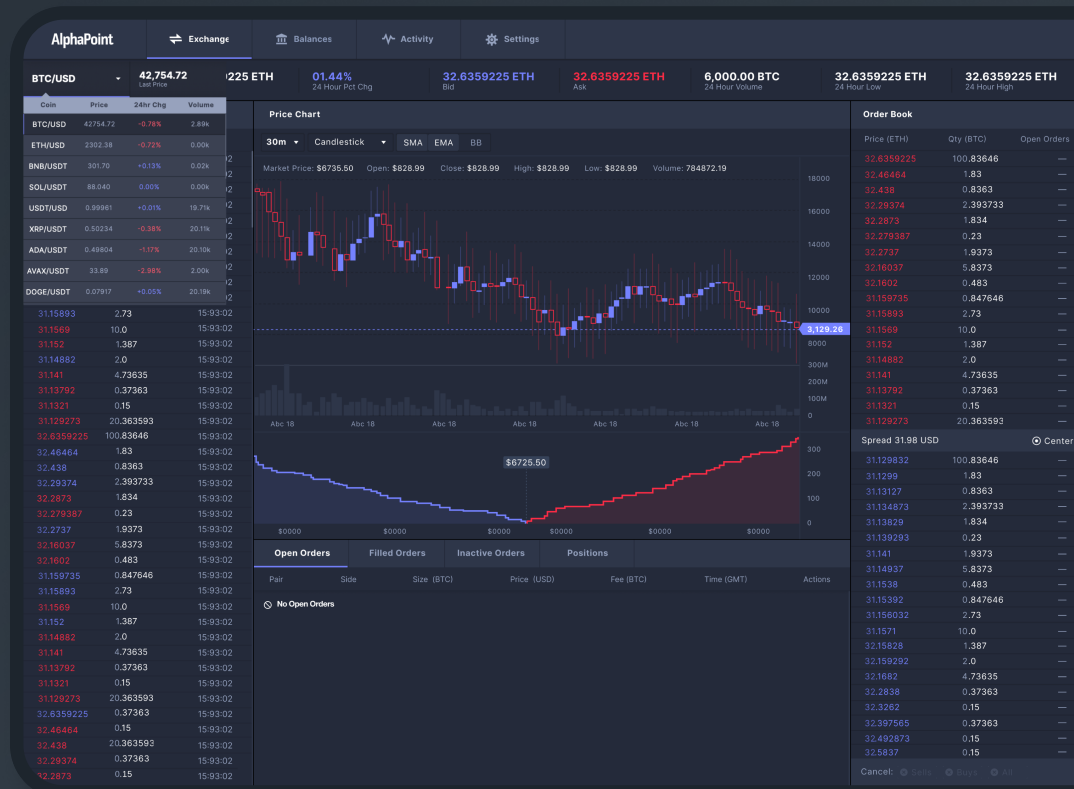
<sup>11</sup>[CoinTelegraph \(2023\) | How AI analysis can change finance and crypto trading](#)

# Making the Right Choice

As we have illustrated throughout this eBook, the choice of a market maker or liquidity provider for your crypto project hinges on several essential factors. The reputation of the provider, the range of services offered, the pricing structure, and their overall impact on your project are all critical considerations.

The importance of thorough research and background checks cannot be overstated. Understanding a potential partner's track record, expertise in relevant market segments, and technological capabilities is vital. This due diligence ensures that the chosen partner aligns with the strategic and operational objectives of your project.

Additionally, the role of sufficient liquidity in the success and stability of new crypto projects is one of paramount concern. Liquidity is the linchpin that ensures efficient market operation, price stability, and investor confidence. Thus, selecting a partner who can effectively contribute to this aspect is crucial for the longevity and prosperity of your cryptocurrency venture.



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## Long-Term Partnership and Evolution

In choosing a market maker or liquidity provider, consider the potential for a long-term partnership. A provider who is able to quickly add more products to their offering, and is able to quickly address any products that become problematic for any reason. On the other hand, a provider that can evolve and adapt alongside your project over time (like AlphaPoint) is invaluable. This adaptability includes their ability to scale services, introduce new technologies, and respond to changing market conditions.

The provider's track record in innovation and staying ahead of market trends can be a strong indicator of their ability to support your project's long-term vision. Also, evaluate their customer support and responsiveness. A partner who is consistently available to address your concerns and provide insights can be a significant asset in navigating the complex crypto market.

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## Importance of Cultural and Ethical Alignment

Finally, ensure that there is a cultural and ethical alignment between your project and the chosen partner. This alignment ensures that both parties share similar values and business practices, facilitating a harmonious and productive working relationship. The provider's reputation for fair dealing, transparency, and ethical practices should align with your project's core values, reinforcing trust and credibility in the eyes of investors and stakeholders.

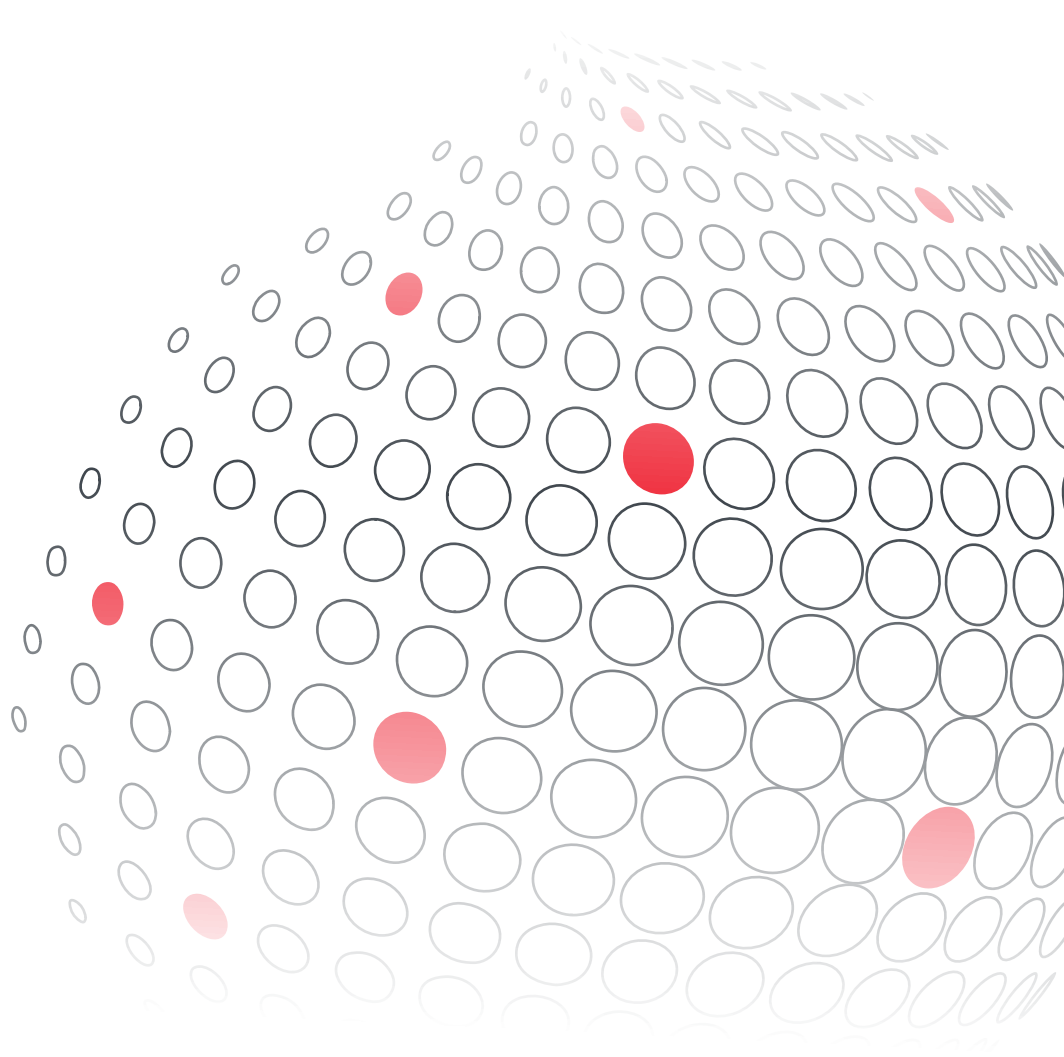
<sup>12</sup>[CoinTelegraph \(2023\) | How AI analysis can change finance and crypto trading](#)

<sup>13</sup>[AlphaPoint website](#)

<sup>14</sup>[CME Group website](#)

<sup>15</sup>[XP Securities \(XP Investments homepage\)](#)

<sup>16</sup>[Chivo \(Chivo Wallet homepage\)](#)







## About AlphaPoint

AlphaPoint is a global financial technology company providing digital asset infrastructure to power the next generation of exchanges, brokerages, payment networks, and banking.

Established in 2013, AlphaPoint has enabled over 150 customers in 50 countries, including the CME Group, XP Securities, and Chivo. AlphaPoint has powered over 1 trillion USD in trading volume, and the technology has handled billions in assets on the platform.

