By Manuel Blay, Editor of TheDowTheory.Com

Random Thoughts and Examining Bitcoin's Correction and the Broader Bullish Landscape

Due to popular demand, we will start with the first Crypto Report. This first issue will be longer than normal as I will lay out the basics and I will finish with technical analysis.

My main focus will be Bitcoin, as it has become a significant player in the financial landscape, especially after the SEC's approval of the Bitcoin Spot ETF, although I will also keep an eye on Ethereum. For a deeper understanding of my perspective on Bitcoin, both fundamentally and technically, I recommend watching this video. As discussed in the video, I believe in the effectiveness of trend-following strategies when applied to Bitcoin. I have not yet applied the Dow Theory to crypto for two main reasons. Firstly, I prefer a longer price history, like my approach with stock indexes. Secondly, the extremely high volatility of crypto, though potentially subsiding with increased institutional involvement, currently makes it less suitable for the Dow Theory, especially on daily bars. The Dow Theory has its place to gauge the primary trend. Currently, I find more comfort in utilizing the Rule of Seven, a strategy that has consistently proven its effectiveness in setting profit targets and assessing trends using shorter-term trend-following techniques.

I maintain an agnostic stance towards Bitcoin, much like I do with most investment narratives. But it trends, and hence, trend followers can make money. I make no pretense of being a crypto expert. However, for what’s worth, here are my beliefs:

a) As with gold, I don’t oppose some minor buy-and-hold exposure to Bitcoin, not through an ETF but safely stored in one wallet and keeping an eye on the seeds. However, as a stopgap measure and until your account is opened in an exchange and your cold wallet is operative, one could invest in a Bitcoin ETF. My favorite ones are IBIT and FBTC. While the U.S. and its currency remain the less dirty shirt in the laundry basket, hedging the unexpected with **an asset that is no one's**

liability makes sense. In this Letter and this one, you can read about the geopolitical background that supports the case for some physical gold that fully applies to Bitcoin. When I talk about a "hedge," **I only mean Bitcoin, not other cryptos**. I see Bitcoin as digital gold. Other cryptos may be likened to silver or have specific uses, but I don't see them as the right protection against currency devaluation or a systemic crisis.

As with gold, there is Bitcoin to hold (in your wallet) and Bitcoin to speculate and trade (in exchanges or with your ordinary broker trading ETFs).

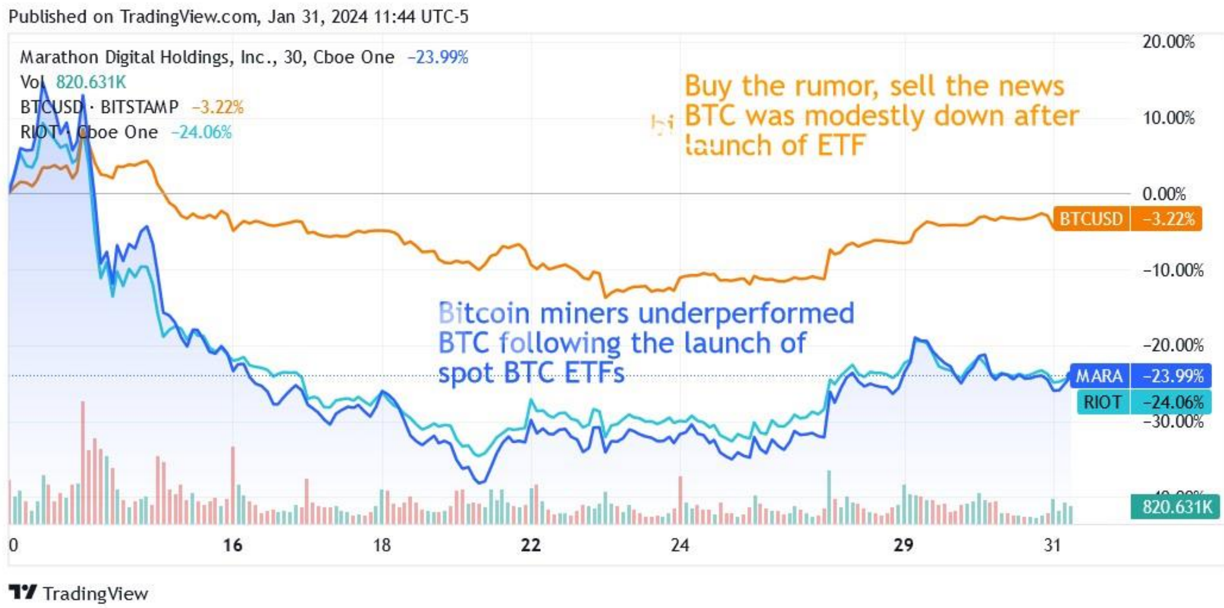
b) **I am not so convinced that Bitcoin is going to dethrone gold** or even that it will be a viable store of value in the very long term. Time will tell. Occasionally, I even have thought that Bitcoin was created by insiders to divert funds from gold, create digital competition, and thusly retardate its rise. Once the job is accomplished, I would not be surprised to see gold rallying sharply while Bitcoin underperforms. The charts will tell us. In full transparency, I do own some Bitcoin, but the percentage of my portfolio allocated to it is less than that devoted to gold. I am comfortable with a 1-2% allocation of my total net worth to BTC. In contrast, I am good with a 5-10% allocation for gold, with the remainder invested in stocks, private equity, and real estate. Each investor must make his/her own decisions.

c) **Gold has its drawbacks**: It's not easily transportable and accessing it may prove difficult in times of urgency. Moreover, its insurance entails intricate fine print. Furthermore, even if stored in a safe location, one can never be 100% sure that the vault is going to honor its commitment not to give your gold back if some government plays some dirty trick à la Roosevelt. On the other hand, Bitcoin can be safely stored by oneself, not needing storage services, and in case of need, as people in Venezuela, Africa, and Russia have experienced, one can protect and transfer their wealth easily.

d) **Bitcoin presents three drawbacks: two are real, and one is perceived**. The first real concern is the dependency on an operational internet and miners for Bitcoin to exist. If the internet were to go down due to war or any Act of God, Bitcoin would cease to exist, with its residual value reduced to $0. In such a scenario, gold may retain some or all of its value.

The second concern is the concentration of miners, which raises worries about decentralization and safety (proof of work). Ideally, a more decentralized network enhances safety, but the current industry trend is toward a greater concentration of miners, often not in the most "anti-system" hands. The struggles of Bitfarms (ticker BITF), steadily losing market share, epitomize these concerns. Additionally, future halvings are expected to contribute to more industry consolidation.

An **additional threat is the very creation of spot Bitcoin ETFs**. Arthur Hayes, the co-founder of the BitMex exchange, suggests that if Bitcoin ETF issuers end up holding the majority of Bitcoin holdings and investors choose Bitcoin derivatives over directly holding the cryptocurrency, the network's transaction volume could decrease. Consequently, miners would lose any motivation to continue validating transactions. Whether Hayes is correct or not remains uncertain. However, the following chart shows the poor relative performance of two of the leading miners (MARA & RIOT) *vs.* Bitcoin since 1/11/24, the date of the launch of the spot ETF.



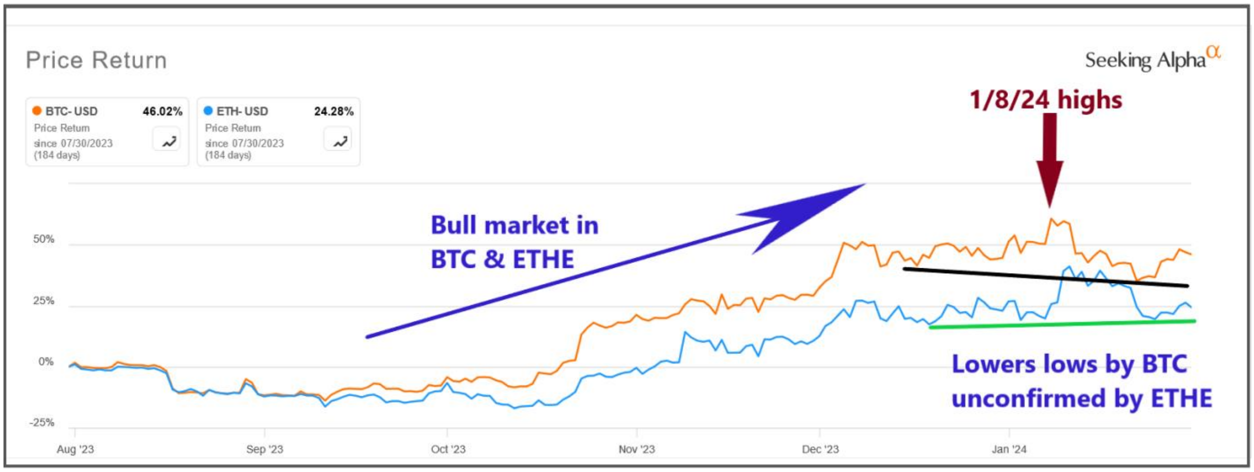
And more Bitcoins trapped in an ETF means fewer transactions for the exchanges. As an example, Coinbase (COIN) has also severely underperformed Bitcoin since 1/11/24:

Some experts disagree with his perspective. While I don't personally have a definitive answer, Hayes' argument makes sense to me. Bitcoin is akin to fresh water. It has to flow so it doesn't stagnate and rot. Bitcoin was designed for unrestricted movement, not confinement in an ETF.

Perhaps the reality lies in a middle ground: ETFs won't threaten Bitcoin's existence as long as a significant number of coins remain outside the ETF domain. We will keep monitoring the charts.

If you have been following my stock market Letter for some time, you'll know that while I pay attention to fundamentals, **the ultimate decision is usually based on price action**. So, what are the charts telling us now?

Let's look at the first chart:



BTC and ETHE have been making confirmed higher higher highs. So, it is a bull market. Following the 1/8/24 highs BTC dropped for 10 trading days until 1/23/24 and broke below its 12/11/23 lows (black line in the above chart). ETHE declined until 1/25/24 and arrested its drop above its 12/19/23 lows (green line). The lack of confirmation by ETHE is a short-term bullish sign. So, what's next?

If BTC and ETHE jointly broke down below their respective 1/23/24 and 1/25/24 lows (at 38,531.10 and 2,225.16 according to my TradeStation® charts), it would signal a new bearish trend, and I would be selling the BTCs allotted to trading. The chart below highlights the relevant price levels to be monitored now.

The bull market would be reconfirmed if BTC and ETHE jointly surpass their respective 1/11/24 and 1/12/24 highs.

Bitcoin (BTC)		
Low 11/21/2022	15,602.00	
High 2/18/2023	24,624.00	
Difference	9,022.00	
Multiply 7	63154	
		Additional points
Divide 4	15,788.50	first objective
Divide 3	21,051.33	second objective
Divide 2	31,577.00	third objective
		Price objective
	31390.50	First price objective
	36653.33	Second price objective
	47179.00	**Third price objective**

Finally, **let's take a look at profit targets**. As I have explained many times in the Letter, I am particularly fond of the Rule of Seven for setting price objectives. Since Bitcoin trades 24/24, it is difficult to get closing prices. So, I based my calculations based on data retrieved from the WSJ. The right table gives you details of my calculations.

All three objectives have been successfully achieved, with the third one reached on 1/8/24, leading to the current secondary reaction. However, in terms of predicting future price action, the Rule of Seven does not provide additional profit targets. **We must wait for the market to stabilize and calm down to establish new targets**. Typically, reactions like the one we are currently experiencing follow the accomplishment of profit objectives. Now, a reset is necessary. Once we are confident that the correction lows have been reached, we will measure the first leg up and determine new profit targets. Meanwhile, to avoid excessive optimism, **we will closely monitor the most recent lows (1/23 and 1/25 for BTC and ETHE, respectively), and any breach of these levels would be considered bearish.**

With my best investment wishes,

Manuel Blay

DISCLAIMERS

These monthly updates on Crypto are meant to be a helpful overview of their status from a technical analysis point of view. When events unfold after the monthly Letter is published it is incumbent on the reader to follow his/her own positions. In the future, we plan to follow these markets on a timelier basis, just as we currently do with the American stock market.

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