By Manuel Blay, Editor of TheDowTheory.com

Double non-confirmation keeps the trend bearish

The Bitcoin 2024 Conference in Nashville is over. Bitcoin 2024 will be remembered as the conference when Bitcoin became an important part of domestic politics. Former U.S. President Trump, presidential hopeful R.J. Kennedy, and others are displaying aggressive plans for the State to own Bitcoin. So, at least one part of the establishment is ready not only to tolerate but to embrace Bitcoin.

Is this fundamentally bullish?

I really don’t know.

Bitcoin was initially intended as a peer-to-peer medium of exchange to be used and held in self-custody. It was not supposed to be an asset hoarded or one that requires intermediaries to own and transfer. Moreover, it certainly wasn't designed to be managed by the state-run monetary systems it sought to challenge. A government stake in Bitcoin exposes it to government interference, similar to what occurs with oil.

So, in the short run, news about the government hoarding Bitcoin may be bullish, albeit the reaction to the Bitcoin conference has been less bullish than I expected.

If almost all Bitcoin were stored in ETFs and governmental institutions with minimal actual transactions, it would be unfeasible for miners to operate profitably. Miners rely on block rewards and transaction fees for revenue, and a significant reduction in transaction volume would lead to plummeting income. Given the energy-intensive nature of Bitcoin mining, this decline would make it unsustainable for many miners to continue their operations, potentially forcing them to shut down or scale back significantly.

Moreover, a **lack of active transactions would threaten Bitcoin's security by reducing the overall hash rate**, making the network more vulnerable to attacks. Additionally, the concentration of Bitcoin holdings in ETFs and, in the future, the governments could lead to increased centralization, undermining the decentralized nature of the network. Thus, **a balance between ETF and/or government holdings and active usage is crucial for the sustainability of Bitcoin mining** and the overall health of the Bitcoin ecosystem.

Finally, the market reaction to the approval of the spot Ethereum ETF on 7/22/24 has been less than enthusiastic.

Price action has been poor, with no rally.

Most of the flow into ETFs has been reshuffling, with no significant new money pouring in. The ETFs saw net inflows of $107 million on launch day, which was considered a "pretty big success" by Bloomberg. However, these inflows were a fraction of those seen on the Bitcoin equivalent's first day of trading in January, which drew in $655 million on launch day.

After the first day of trading, Ethereum ETFs saw net outflows of $107 million on the second day, 7/24/24. This was mainly due to **outflows from Grayscale's Ethereum Trust** (ETHE), which amounted to $484 million. However, the net flows turned positive on July 30 (just about time!), with an inflow of $33 million.

So, let's examine the charts, the ultimate arbiters of market truth.

To recap, in my April 1st Report, I started sounding the alarms on BTC. I noted that a confirmed breakdown of the 3/20/24 lows by BTC and ETHE would be bearish. We experienced such breakdowns on 4/17/24 and again on 5/1/24, indicating a bearish trend.

On 6/5/24, BTC surpassed its 5/21/24 highs, but ETHE did not confirm. So, no new bull market was signaled, and the bearish trend continued.

On 7/5/24, BTC made a lower low, which was unconfirmed by ETHE- a glimpse of hope.

So, cryptos are in a state of indecision: An attempt to break up by BTC was not confirmed by ETHE, and a lower low by BTC was not confirmed by ETHE.

According to the Dow Theory, we need to wait until either ETHE confirms BTC breakdown by violating its 5/14/24 lows, which would reaffirm the bearish trend or ETHE surpasses its 5/28/24 highs, confirms BTC, which would signal a new bullish trend.

The charts below display the most recent price action. The deep blue horizontal lines emphasize the 5/21/24 (BTC) and 5/28/24 (ETHE) highs. We observe that BTC broke above its 5/21/24 highs, whereas ETHE did not join the parade, and afterward, both cryptocurrencies started to plunge. On 7/5/24, BTC violated its 5/1/24 lows (red line), unconfirmed by ETHE. So, **Crypto is in a state of indecision**. When Bitcoin edged higher, ETHE did not confirm, when Crypto broke down, ETHE did not confirm either. The bottom line: **The bearish trend remains in force.**

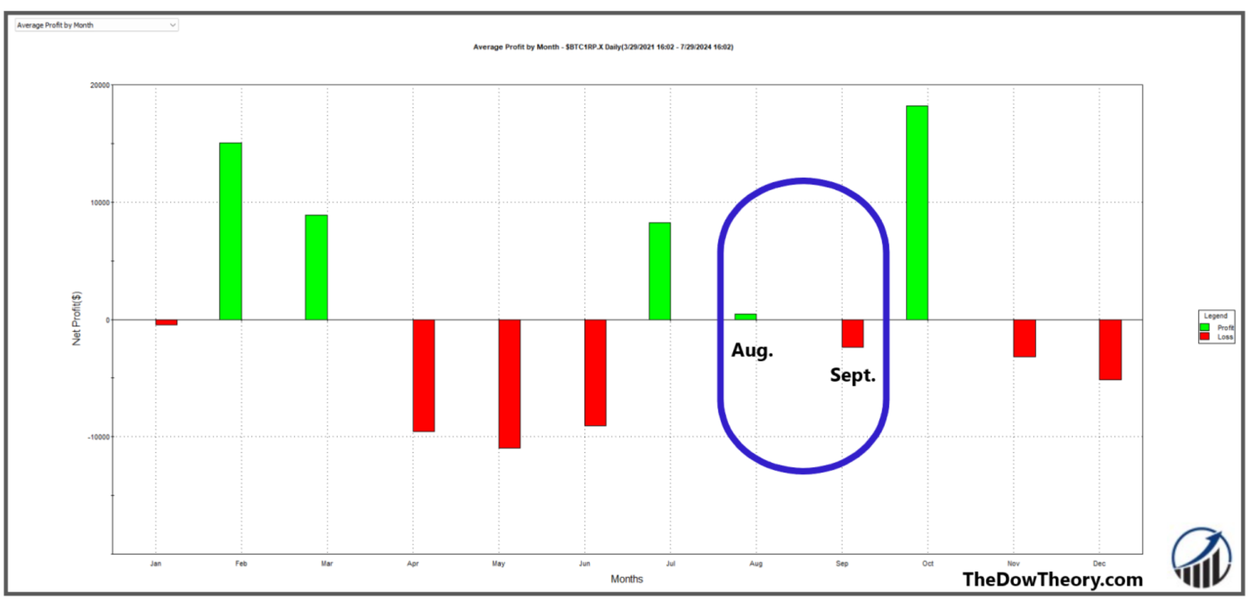
You may also observe two grey rectangles. While not a secondary reaction under the Dow Theory, the rectangles show the most recent rally. We observe that BTC surpassed its relative highs, and ETHE, again, refused to confirm- another non-confirmation.

Thus, there are two alternative outcomes:

1. If ETHE breaks above its 5/28/24 highs, the trend will shift to bullish.

2. The bearish trend will be confirmed if ETHE breaks below its 5/14/24 lows.

While I am not a big fan of seasonals, it's worth remembering that August and September are bad months for Bitcoin. Both since BTC's inception and notably since 2021, those months have been inauspicious for BTC.



Notably, this sample includes some striking outliers. For example, Bitcoin's top August return was 64.7% in 2017, followed by 13.6% in 2021. In both cases, Augusts following Bitcoin halving years yielded exceptional returns. Since 2024 is a halving year, August 2025 could also be extraordinary if history holds true.

Conclusions:

- ETHE must break topside its 5/28/24 high to consider the trend for BTC and ETHE shifting from bearish to bullish. Until then, I consider the trend bearish.
- If ETHE breaks below its 5/14/24 lows, the bearish trend will be reaffirmed.
- Price action and net flow into ETHE ETFs since their approval has been lackluster.

See you next month.

With my best investment wishes,

Manuel Blay

DISCLAIMER

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