

TheDowTheory.com Crypto Report

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The trend remains bearish, but the setup for a *potential* bull market has been completed.

My bearishness on BTC has been proven right until now. While charts are not 100% foolproof, they help me stay on the right side of the market more often than not.

However, the setup for a *potential* bull market was completed on 8/28/24. Let's dig deeper. On 8/5/24, BTC and ETHE bottomed, and a rally followed until 8/23/24 (ETHE) and 8/26/24 (BTC). The rally qualifies as a secondary reaction against the still-existing bear market. Following the rally highs, BTC dropped until 8/30/24 (4 trading days) and ETHE until 8/30/24 (5 trading days). This pullback sets both cryptos up for a *potential* bull market signal.

Therefore, if the 8/26/24 BTC highs at 63,906.93 and ETHE 8/23/24 highs at 2,751.77 were jointly broken up, a **new bull market would be signaled.**

The charts below provide a visual representation of the current technical landscape. You may also notice two grey rectangles, which, while not a secondary reaction under the Dow Theory, illustrate



one rally. The blue rectangles depict the current (bullish) secondary reaction against the still-in-force bear market. The brown rectangles showcase the pullback that positioned both cryptos for a potential bull market. Blue lines highlight the 8/26/24 (BTC) and 8/23/24 (ETHE) highs, the critical levels that must be jointly surpassed to signal a new bull market. Red horizontal lines indicate the 8/5/24 lows; breaking below these would reaffirm the primary bear market.

Thus, there are **two alternative outcomes**:

1. If BTC and ETHE break above their 8/23/24 (ETHE) and 8/26/24 (BTC) highs, a new bull market will be signaled.
2. The bearish trend will be confirmed if BTC and ETHE break below their 8/5/24 lows.

While I am not a big fan of seasonals, it's worth remembering that August and September are bad months for Bitcoin. August has been negative, and September is likely to be a lackluster month, as only 3 times in the last 11 years managed to deliver positive results with an average return of minus 4.78%.

While I acknowledge that BTC is hard money, even harder than gold, I am keenly aware that for BTC to exist, we need the miners. And the miners are not faring well.

Miners are facing significant financial challenges due to increasing costs and decreasing rewards. Core Scientific reported a Q2 net loss of \$805 million, while Hut 8 lost nearly \$72 million. The cost of producing a single Bitcoin has more than doubled year-over-year for many miners. CleanSpark and Iris Energy are also struggling with production costs exceeding revenue. MARA produced 30% fewer BTC tokens despite a 78% increase in hash rate. Other miners like Bitfarms, Bitdeer, and Cipher Mining reported losses as well. The situation is expected to worsen, with daily mining revenue hitting new year-to-date lows and mining difficulty reaching all-time highs. These challenges are forcing miners to reassess their business models and explore alternative revenue streams like providing services to AI centers. It remains to be seen whether such diversification attempts will be successful. The charts below regarding two top miners are bearish, which is a headwind for Bitcoin.



Satoshi Nakamoto designed Bitcoin's block reward subsidy to decrease over time, intending for transaction fees to initially supplement and eventually replace this revenue. However, the constraints imposed

on Bitcoin in 2017 by not expanding block size prevent the BTC network from handling enough transactions to achieve Satoshi’s vision, hence the miners' struggling performance. Ultimately, this will lead to BTC’s already concentrated hash rate being controlled by one or two mining groups, which would defeat the original intent of BTC to avoid centralization.

Another bearish chart of a miner:



The chart for cryptocurrency exchanges, such as Coinbase (COIN), also appears unpromising. It reveals the harsh reality of declining revenues and earnings, which comes as no surprise to me. I have previously warned in this report that the introduction of Crypto ETFs would lead to a decrease in transactions for these exchanges.



Conclusions:

- BTC and ETHE must jointly break topside their 8/23/24 (ETHE) and 8/26/24 (BTC highs for the trend to shift from bearish to bullish.
- If BTC and ETHE break below their 8/5/24 lows, the bearish trend will be reaffirmed.
- The charts and financial health of miners and exchanges are bearish.

See you next month.

With my best investment wishes,



DISCLAIMER

These monthly updates on crypto are meant to provide 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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