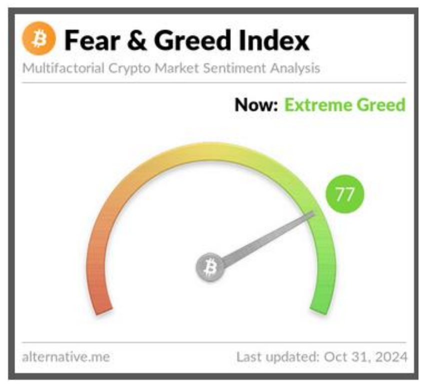
By Manuel Blay, Editor of TheDowTheory.com

The Risks of Debt-Driven Bitcoin “hodling”: A House of Cards Strategy?

Call me a skeptic, but I’m not convinced this BTC rally will last until Ethereum joins the parade and makes higher highs. Optimism feels excessive on social media, and the Crypto Fear and Greed Index has reached 77, signaling extreme greed (right chart). Like in the stock market, Bitcoin has been boosted by the 'Trump trade,' but I suspect this is already 'old' news, fully priced in.



Since mining revenue and transaction fees alone aren’t sufficient for profitability, some miners have adopted a strategy similar to MicroStrategy (MSTR): withholding coins and taking on debt to fund operations. In my view, this approach is unsustainable. It’s like a gold miner refusing to sell their gold, hoping that limiting supply will drive prices high enough to offset their debt. This ‘House of Cards’ strategy might work temporarily if Bitcoin’s price rises faster than the accumulating debt, but ultimately, it’s a risky gamble. While restricting supply may have short-term effects, I believe this tactic will end badly for many.

Furthermore, if Bitcoin experiences a significant drop and loses value as collateral, leveraged players might be forced to sell their Bitcoin to pay down debt at the worst possible moment, further exacerbating the decline. It would be similar to a margin call in the stock market, amplifying the downward pressure.

I understand why a company with excess cash and limited reinvestment opportunities in its core operations might choose to buy Bitcoin. However, I find it perplexing that many companies are leveraging themselves to acquire it or to mask their lack of profitability in their core business. Investing in a Bitcoin-holding ETF is one thing, but companies are meant to generate profits by creating quality products and services—not by acting as a stand-in for an investment fund.

However, all fundamental narratives, mine included, may be wrong, so, what would make me bullish on Bitcoin?

As the October 1st Crypto Report explains, **Ethereum must break above the 8/23/24 high** and confirm Bitcoin's higher highs. The chart below shows Bitcoin breaking above its 9/24/24 highs, while Ethereum could not confirm. The blue rectangles show the secondary reaction that started in August against the bearish trend. The blue horizontal lines highlight the secondary reaction highs, which are the relevant prices to be taken out. When Ethereum confirms, I will consider the trend as bullish. Until then, I still consider the trend to be bearish.

What if Bitcoin continues to climb while Ethereum fails to confirm? **If BTC breaks above its all-time high from 3/13/24, I would turn bullish on Bitcoin even without Ethereum's confirmation**. Since Bitcoin trades 24/7, the exact price level may vary depending on the data source; my TradeStation® feed lists the all-time high at 73,536.14.

If Ethereum (ETHE) continues not to confirm and Bitcoin surpasses its all-time highs, I would also **look for strength/confirmation from alternative indicators, such as the hash rate**. I prefer to be slightly late and ensure we're not just experiencing an extended bear market rally. After all, since the 3/13/24 highs, every previous breakout without confirmation from ETHE has turned out to be a false one.

Coinbase (COIN) delivered disappointing Q3 results, with a significant earnings miss—yet another indication of weakness in the crypto market, where Bitcoin appears to be the only strong player.

See you next month.

With my best investment wishes,

Manuel Blay

DISCLAIMER

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