By Manuel Blay, Editor of TheDowTheory.com

The anticipated correction arrived. What next?

You subscribe to this service for my independent perspective, not a regurgitation of popular sentiment. So, what’s my take on Bitcoin right now? Frankly, I see excessive exuberance. Take, for example, the uproar over Microsoft shareholders voting against investing excess cash in Bitcoin. Social media exploded, with critics hurling insults like "retards" and "morons." This kind of near-unanimous condemnation signals an overcrowded trade.

I approach all assets with agnosticism. Bitcoin has a compelling logic: a fixed supply immune to inflationary printing, resistance to confiscation (as “portable wealth”), proof of work that deters counterfeiting, and an established network effect. It’s an attractive narrative. However, I’ve been in the game long enough to know that betting everything on a single asset is a fool’s errand, no matter how persuasive the story.

Investing is a marathon, not a sprint. My goal is consistent annual returns of about 15% with controlled drawdowns, achieved through reasonable diversification. This approach ensures no single asset can sink the portfolio. I trust price action over personal judgment—trends don’t lie. The objective isn’t to triple your net worth in a year by chasing the next Bitcoin but to survive and steadily grow wealth. Believe me, you'll achieve substantial wealth if you survive and compound at 15% over the long term.

That said, exceeding 15% annually without increasing risk is possible but requires significant effort. For instance, trading individual stocks instead of ETFs and shortening holding periods can yield much higher returns. However, this turns you into a trader—a role I understand well as one myself. Just know that trading demands full-time dedication. While skilled traders can target annual performance exceeding 20%, the time and energy investment grows exponentially. There’s no free lunch in markets.

While social and mainstream media overflow with Bitcoin bullishness, let me highlight two significant risks often overlooked:

Quantum Computing

Some optimists claim Bitcoin's algorithms can be made quantum-resistant and argue that Satoshi Nakamoto anticipated quantum computing (read more HERE). A well-balanced article by Alexander Osipovich (WSJ, likely behind a paywall) offers a more cautious view. The reality? I don't know.

Government meddling

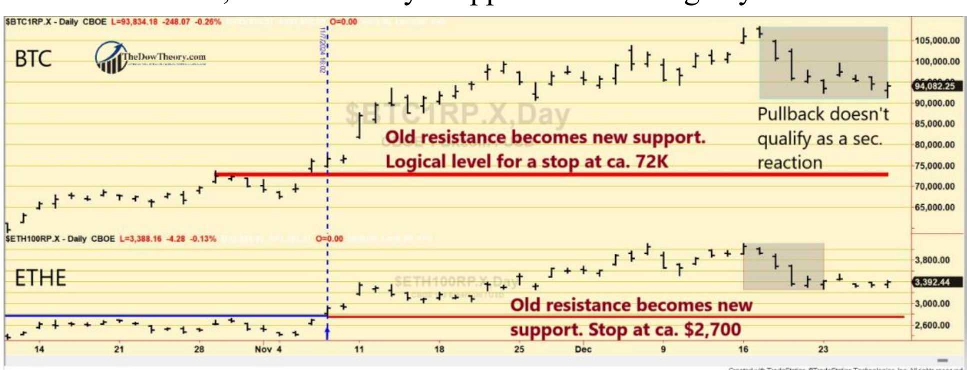
The second one is the risk of being destroyed by governments. Bitcoin was created as a peer-to-peer medium of exchange to bypass fiat currencies. Its primary goal wasn't enriching holders but escaping the clutches of fiat money and government intervention. If, in the process of becoming a substitute for cash, Bitcoin gained value much better, but this was not the original objective. Much less, of course, that governments (foxes guarding henhouses) would constitute strategic reserves. If governments hoard Bitcoin, it could be weaponized. Some experts suggest governments already have the means to produce 51% of blocks, potentially undermining Bitcoin's entire framework, and rendering it worthless. For further exploration, see HERE.

I'm not taking sides, as I am no tech expert. I follow trends. If the asset goes up, it is good. One needn't understand an asset to profit from it. I'd argue less knowledge is better. However, I feel obligated to present alternative views for your judgment.

So, what do the charts say now?

I see a **bull market that is correcting**. If I follow Global M2 as a tool to gauge the more likely short-term direction, we should conclude that the correction still has room to continue. By the way, many Subscribers have asked me where one can find Global M2. Here is one link.

Bitcoin peaked on 12/17/24 at 108,367.65 (according to my TradeStation® data feed) and Ethereum on 12/16/24 at 4,108.44. Following such highs, BTC dropped until 12/30/24 (at 91,293.73) and ETHE until 12/23/24 (at 3,265.69). The **time requirement** for a secondary reaction has not been met, as ETHE only dropped for 5 trading days.



The left chart shows the most recent price action. The grey rectangles highlight the current pullback, which does not yet qualify as a secondary reaction. The red lines show a logical stop-loss level (more about it in the December 1st Crypto Report).

The pullback is manifest across the crypto world. Cardano, Solana, the miners, and Blok are all correcting, some of them strongly. While this doesn't necessarily signal the onset of a crypto winter, it seems to be a healthy adjustment to temper excessive enthusiasm. You know I am a staunch believer in the **principle of confirmation,** which has served us well with Bitcoin and other assets (stocks, bonds) in the past. Bitcoin will not be ready to take off until the rest of the crypto universe regains some strength; not necessarily stronger than Bitcoin but, at least, arresting their declines and taking out a previous high.

See you next month.

With my best investment wishes,

Manuel Blay

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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