By Manuel Blay, Editor of TheDowTheory.com

The correction is not over yet

As a regular reader of this Report, you're likely aware of my measured stance on Bitcoin. I'm neither an adversary nor an enthusiastic proponent heralding it as the next revolutionary breakthrough. However, I firmly reject the notion that Bitcoin lacks value simply because it's intangible or inedible.

In its present implementation, Bitcoin serves a crucial function: it acts as a **store of value**. Its potential as a medium of exchange remains uncertain, primarily due to its limited bandwidth, which hinders widespread adoption as a currency.

The value of assets like paintings and gold stems not from their intrinsic properties but from their **scarcity and durability**. Even fiat currency, devoid of intrinsic value, retains its worth through its ability to purchase goods and services, provided governments don’t inflate too much.

Dismissing Bitcoin as worthless merely because it exists in digital form is fundamentally flawed. Like other assets, its value is derived from its scarcity and utility.

The underlying rationale for Bitcoin's value is sound, mirroring the logic applied to gold, antiques, and artwork. Its digital nature does not negate its potential worth or utility in the modern financial landscape.

If Bitcoin were to fail, it would likely be due to the emergence of a superior competitor, technological vulnerabilities (e.g., quantum computing advancements), or network attacks by sovereign entities.

However, the final arbiter of truth is price action. So, **what are the charts telling us now?**

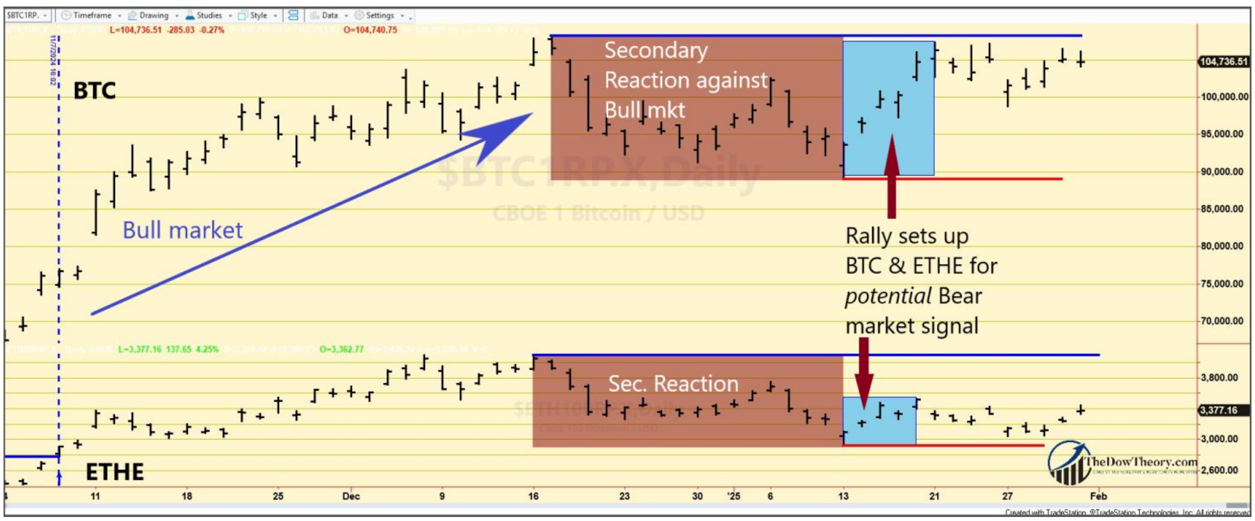
Bitcoin peaked on 12/17/24 at 108,367.65 (according to my TradeStation® data feed) and Ethereum on 12/16/24 at 4,108.44. The drop stopped on 1/13/25 at 89,258.66 (BTC) and 2,918.93 (ETHE) and lasted 16 trading days. **The pullback qualifies as a secondary reaction against the bull market**.

Following the 1/13/25 lows, there was a rally until 1/21/25 (BTC @107,280) and 1/17/25 (ETHE @3,527.07) that, according to the Dow Theory, completed the setup for a *potential* Bear market signal.

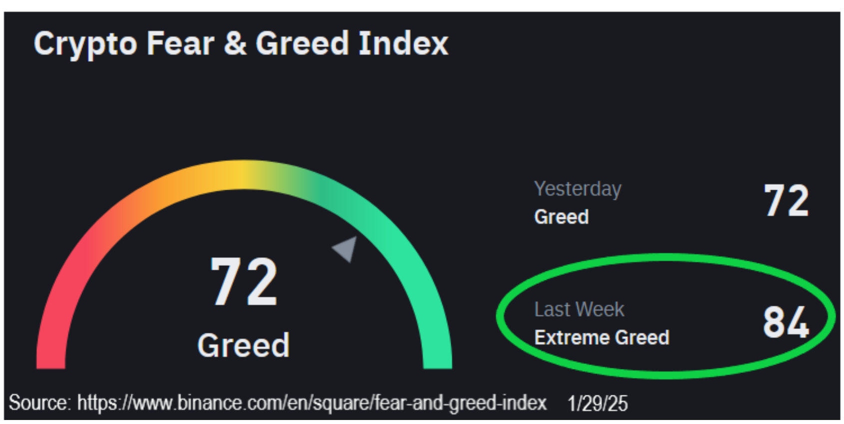
So, **if BTC and ETHE jointly pierced their 1/21/25 and 1/17/25 lows, a Bear market would be signaled.**

Conversely, if BTC and ETHE jointly surpassed their 12/17/24 and 12/16/24 highs, the bull market would be reconfirmed, and the secondary reaction canceled.

The charts below illustrate the latest price movements. Brown rectangles demarcate the secondary (bearish) pullback within the ongoing bull market, while blue rectangles highlight the subsequent rally that completed the setup for a *potential* bear market. I marked key levels with horizontal lines: red lines indicate secondary reaction lows, where a confirmed breach below would signal the onset of a bear market. In contrast, blue lines represent the last bull market highs whose breakup would reaffirm the bull market and cancel the secondary reaction.



Despite the recent pullback, sentiment for Bitcoin and the broader cryptocurrency market remains bullish, as evidenced by the Greed and Fear Index. Based on experience, the predictive timeframe for sentiment typically spans from a few weeks to approximately three months. This makes it a valuable tool for identifying local tops and bottoms.



Currently, the sentiment indicators are not signaling a market bottom, suggesting that the bullish trend is not yet prepared to resume its upward trajectory. This implies that the current pullback may continue for some time before a potential reversal occurs. The avalanche of positive news for Bitcoin and the crypto industry appears to have been more than fully discounted in the market.

Furthermore, BTC will not be ready to make a significant upward move until the rest of the crypto world gathers some strength. Such strength is absent if one peruses their charts.

The chart below confirms that crypto is now at a crossroads. **BLOK (Amplify Transformational Data Sharing ETF)** primarily invests in companies developing and utilizing blockchain technologies. Naturally, if the crypto space performs well, BLOK's chart should reflect that strength.

BLOK also has a **strong correlation with Bitcoin**, making it a useful indicator of broader crypto trends. Looking at the chart, you'll notice that the **upward trendline** from the **8/5/24 lows** was broken on **12/30/24**. While this breakdown suggests a mildly bearish outlook, it's important to note that not all such moves result in prolonged downturns. In some cases, these breakdowns prove to be false signals, or "fakeouts," that do not lead to sustained price declines.

What happens next is key. The **final lows after the breakdown (marked by the grey horizontal line)** must hold. If they are breached, I would turn **bearish on BLOK**—and, by extension, on the broader crypto market. Of course, if BTC and ETHE also pierced their 1/21/25 and 1/17/25 lows, then all hell could break loose.

On the other hand, if BLOK surpassed the upper horizontal grey line (top right side of the chart), I would turn mildly bullish. When would I turn totally bullish? When BLOK breaks up its 12/16/24 highs (green horizontal line).

And what about Global M2 liquidity? Well, if the correlation between global liquidity and Bitcoin's price action that I explained in our [December 1st crypto report](#) continues to hold, I still see lower prices ahead. This relationship is visually represented in the chart below. On a positive note, there are indications of an uptick in liquidity. However, it's important to note that the effects of this increase may not be immediately apparent in the market. So, I suspect the coming weeks may be characterized by, at best, choppy market conditions.

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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