By Manuel Blay, Editor of TheDowTheory.com

The trend shifted to bearish

You subscribe to this service because I hold nothing back—I share what I believe to be the unvarnished truth. While I don't claim a monopoly on truth, what follows is worth considering. It may sound far-fetched or even conspiratorial, but I feel compelled to share it.

What if both Western and Eastern governments are actively encouraging enthusiasm for Bitcoin to divert retail investors away from buying gold?

While gold prices have steadily climbed in the last few months, gold ETFs have faced outflows, meaning retail investors have been selling. This suggests gold's strength isn't fueled by widespread participation but by strategic accumulation from Eastern central banks. Countries like China and other Eastern nations have quietly stockpiled gold, while smaller investors have funneled cash into Bitcoin and cryptocurrencies. Could governments be deliberately dampening retail demand for gold to keep its price in check before they complete redistributing it according to set quotas?

The recent surge in Bitcoin ETF inflows until February reflects strong demand from retail investors, as institutional players like MicroStrategy (MSTR) prefer to buy Bitcoin directly rather than through ETFs. This raises a provocative question: have retail investors been subtly influenced by powerful entities to invest in intangible assets like Bitcoin? If so, this could leave physical gold untouched and readily available for governments in case of a sudden revaluation.

Signs of strain in the physical gold market are already emerging. Due to shortages, Swiss refineries such as Metalor have introduced per-ounce surcharges on all their gold products. At the same time, Argor-Heraeus has suspended orders for certain minted bars (specifically 50-gram and 100-gram bars). Even the Bank of England is reportedly facing challenges with gold deliveries. These developments suggest growing pressure on the physical gold supply chain.

From a pragmatic perspective**, I believe in diversification and avoiding overcommitment to any single idea—no matter how compelling it may seem**. Personally, I hold both Bitcoin and gold, and I feel comfortable with this balanced approach. My strategy involves maintaining a core position in both that is never traded while actively trading another portion of my portfolio.

By holding both assets, I ensure that I'm never entirely wrong while also benefiting from diversification. The goal isn't to get rich overnight but to grow my portfolio steadily—targeting significant annual returns with minimal drawdowns.

You will never do too bad if you have stocks, gold, crypto, and real estate. If, in addition to that, you have good market timing, then, with patience, you can get significantly wealthy.

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

In the February 1st Report, I gave you the price levels and chart that showed the price levels whose confirmed breakdown would signal a new bear market: 89,258.66 (BTC) and 2,918.93 (ETHE).

On 2/3/25, ETHE pierced with conviction its 1/13/25 secondary reaction lows. However, BTC did not confirm.

On 2/25/25, BTC finally capitulated and broke below its 1/13/25 secondary reaction lows. BTC's confirmation means that the **trend has shifted from bullish to bearish.**

At the current juncture, we need **BTC and ETHE to jointly surpass their respective 12/17/24 (at 108,367.65, according to my TradeStation® data feed) and 12/16/24 (at 4,108.44) highs for a new bull market to be triggered.**

The breakup level for a new bullish trend will likely change and be lower as we get more price action, but this is not on the horizon now.

The charts below illustrate the latest price movements. Brown rectangles demarcate the secondary (bearish) pullback within the then-existing 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, whose confirmed breach signaled the onset of a bear market. In contrast, the blue horizontal lines represent the last bull market highs whose breakup would signal a new bull market.

In the February 1st Report, I warned of pervasive weakness across the crypto world—never a good omen. That weakness has since worsened, and the crypto space is now so oversold that a bounce wouldn't be surprising. Hopefully, it won't be just a dead-cat bounce.

I also highlighted **BLOK** (Amplify Transformational Data Sharing ETF) in that report. BLOK serves as a barometer for the broader crypto market—when crypto performs well, its chart should reflect that strength. The correlation between BLOK and BTC remains high.

Well, BLOK has now broken below what I considered the **line in the sand**. Technically, the chart looks very bearish, as you can see. A breakup of the blue trend line would be constructive but not enough to shift the trend to bullish.

There's no solace in the miners either. The crypto miners are taking a big hit with a peak-to-trough drawdown of roughly 50% in just three months. It doesn't take a seasoned technician to see the significant unwinding happening, so I give you the MARA chart "as is."

The chart for MSTR (MicroStrategy) also doesn't look good—it suggests a deflating bubble.

The **only silver lining for MSTR holders** is that most of its decline has come from a reduction in the premium it trades above Bitcoin—from ≈ 3.4x to 1.57x mNAV. If Bitcoin were to drop to $40,000—a scenario not outlandish given that past Bitcoin winters have seen 70–80% drawdowns—MSTR's holdings would be worth approximately $20 billion. That's still above its debt but with a **razor-thin buffer**. Any forced sales could accelerate a **death spiral**. There is minor support at $200. If it is pierced, then fasten your seatbelts.

One potential saving grace? **Global M2 liquidity** could offer support soon (see the chart in our March 1st, 2025 Letter and the December 1st 2024 Crypto Report for more on liquidity and Bitcoin). However, historically, there's been a **10-week lag** between a liquidity bottom and a Bitcoin bottom—suggesting Bitcoin may have further to fall until mid-March. But liquidity alone doesn't lift an asset. It's a **tailwind**, not the full equation—**investor sentiment must also play its part**.

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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