# DIGITAL ASSETS: STAGE ONE OF THE NEW PARADIGM CYCLE

21st March 2018

Issue #5

Co-authors of T3 Report

Robin Griffiths, FSTA
Head Technical Strategist

Ron William, CMT, MSTA
Senior Tactical Strategist

the technical analyst AWARDS 2016 FINALIST


Fig 1. – Bitcoin Daily Chart, with timing cycles & momentum indicator. Source: Optuma; RW Advisory LTD.

Archive Reports

Flash Crash

Known Unknowns

Is the USD dead or alive?

Market Fragility

Media Interviews

Flash Crash Bitcoin

USD

GBP/USD

## Special T3 Alert Update:

Digital assets, popularly known as ‘Cryptocurrency’, are resuming their price correction, after triggering a peak in late December 2017 and -70% crash; as correctly predicted in our T3 report and highlighted above.

The event time-stamped a **critical turning point away from the mania-fuelled linear trends of several thousand percentile, while also marking a late-stage economic cycle of speculation.** Amplified by a historic environment of low volatility and low interest rates, investors felt emboldened to chase high-risk returns, even if it meant standing in front of a proverbial bulldozer.

**The days of a one-way trade, or ‘free-lunch’ are over.** In hindsight, it should come as no surprise that around two months after the peak in Bitcoin, the financial markets were hit by a re-awakening in volatility, marked by a flash-crash, which led to a record breaking 1600-point intraday drop on the Dow Jones Industrial Average, from all-time highs. **The big rotation from greed to fear had begun.**

**Bitcoin’s peak-to-trough correction of -70%, is now within a traditional short-term negative cycle.** This bearish pattern is developing an ABC shape, in-line with our ‘Roadmap’ signature of a) the crash-fall b) recovery bounce, followed by c) the rest of the fall. The double price failure at the pivot-line around 11,000, highlights the market’s lack of upside momentum (Fig 1-panel C), which coincides with a new timing cycle (Fig 1-panel B and recent RWA media interview).

Risk management is paramount. **Avoid trying to catch the dangerous falling knife, with an average daily volatility of 20%.** Watch for a potential break of the long-term 200-day moving average line at 7,224, to unlock further losses into next key support at 3,000 (highlighted by the probability distribution indicator). **Only a sustained bullish price reversal back above 11,000 would neutralize this scenario.**

**A historic review of the last eight years of Bitcoin's price activity highlights an average volatility signature of -85%,** with the greatest drawdown of -93% (Fig 2). This simple, yet reliable statistical yardstick offers a further potential -15% downside risk, which also equates to the aforementioned price target of 3,000. **The last two-years of parabolic returns, led to an astonishing +3314%, with minimal volatility, and now marks significant asymmetric risk.** Meanwhile, sentiment measures from Google (Fig 2-lower chart panel), tell us the search term of 'Bitcoin Bubble' had once again spiked onto the minds of traders around the world. This same indicator proved a valuable lead signal ahead of three interim peaks so far.

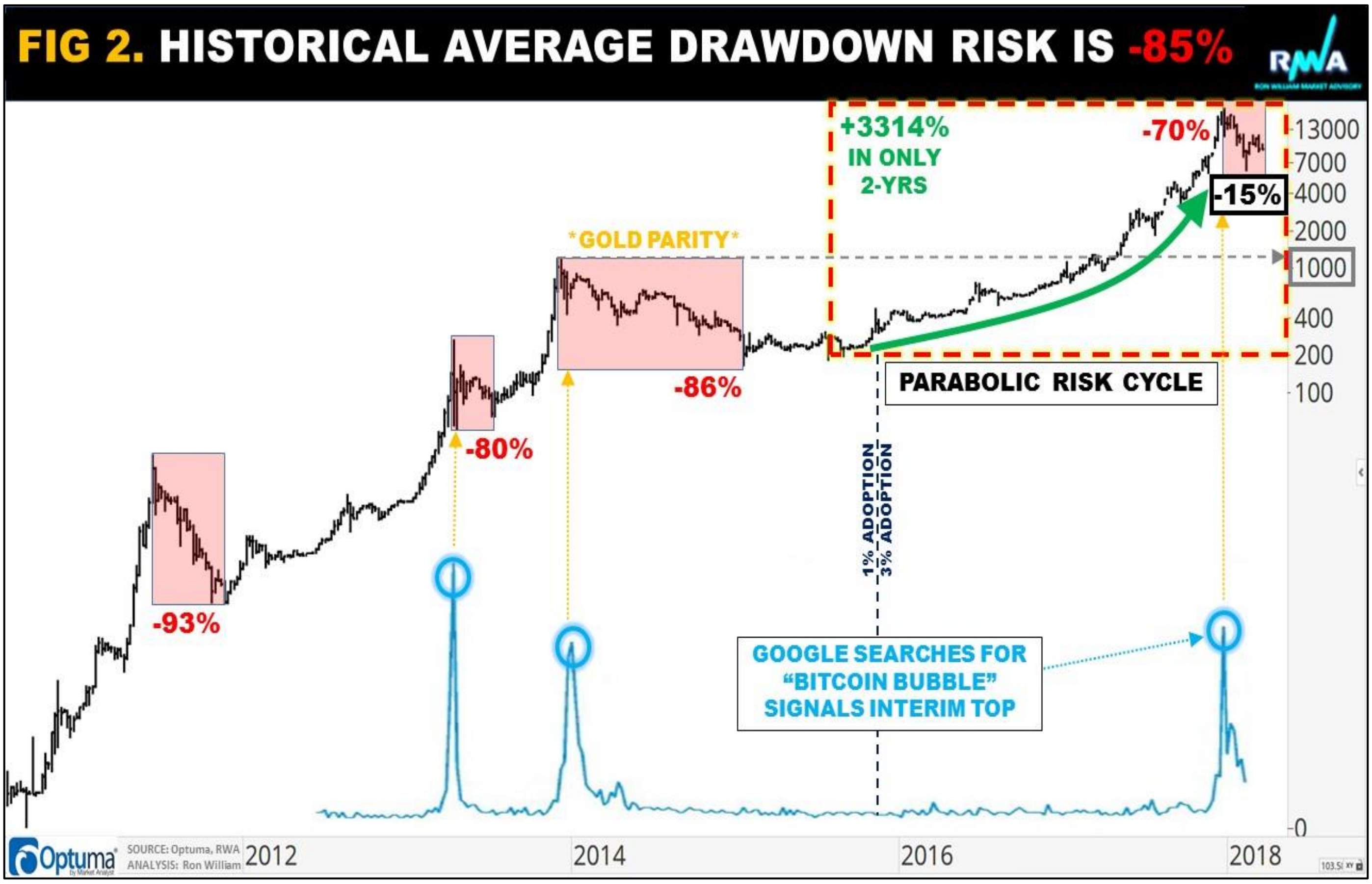


Fig 2. – Bitcoin Weekly Chart, with historical drawdowns & Google sentiment indicator. Source: Optuma; RW Advisory LTD.

However, it is **vital for the greater collective to ask themselves what an asset price 'bubble' actually means?** The term has been screamed at fever pitch levels over the years, with mixed real understanding, other than a headline grabbing soundbite or tribal group think. We believe **the digital asset mania is not a 'tulip' bubble, in the sense that it will no longer have any intrinsic value.**

In fact, contrary to popular mainstream opinion, digital currencies are only just getting started within their new paradigm cycle, as part of a greater and accelerated technological wave of economic innovation. **History teaches us, rather perversely, that all such paradigms are started, and not ended by bubbles.** This was certainly true for the technology mania of 2000, which saw internet stocks rise to stardom, only to later crash by 90%; and yet they still changed our lives many years later. This is a paradox of creative-destruction.

Currently, according to consensus estimates, **digital assets will grow to a one trillion-dollar valuation in 2018,** and yet other surveys cite only a 3% adoption of this innovative technology within traditional business transactions. The market is still in price discovery mode, and thus far, reflecting a future expectation that Bitcoin and related proxies might be used for wider payments. The **sweet spot threshold is near 20%,** for mainstream adoption of prior new technology paradigms, based on the 'diffusion of innovation theory' (DOI).

What justifies such a giant market valuation? The answer is mostly found in the power of the digital currency network's userbase. **Akin to social-media stocks like Facebook, the success of the platform is directly proportional to the number of users**; more people, more value. This is not a tulip bubble in terms of an over inflated 'bidding war' or traditional auction system. It is primarily due to the very nature of its decentralised, peer-to-peer model, that allows it to grow exponentially, on a scalable basis.

**Unfortunately, the early stages of this new digital currency model attracted plenty of hot money speculation, flaky infrastructure and bad actors to the stage.** Partly for this reason, it is arguably healthy for the market to be experiencing a shakeout within this latest bearish correction. In fact, in terms of short-term price performance, there is only one digital currency, notably Ripple, that is still flagging positive net gains, since the peak of December 2017 (Fig 3-panel A).

**In this latest short-term race to the bottom, Ripple remains one of the most relatively stable coins** (Fig 3-panel B). This is also due to its already sizeable cliff-drop from the record-breaking altitudes of +3,500%, in only 11-weeks. In behavioural psychology terms, investors may still be recovering from shell-shock, feeling a welcome relief that the worst part of the price fall might be over.

Meanwhile, **Ethereum's price action is warning of great mean-reversion risk,** as it verges on the edge of a multi-month breakout pattern (Fig 3-panel C). A sustained break under 600 will unlock sharp losses into a price vacuum (with little price support), towards a lower target at 300. We must remind our readers that **none of this analysis is due to fundamentals, or underline techie speak** about one coin's competitive advantage versus another. These observations are based on tangible chart facts, or price-based dynamics.

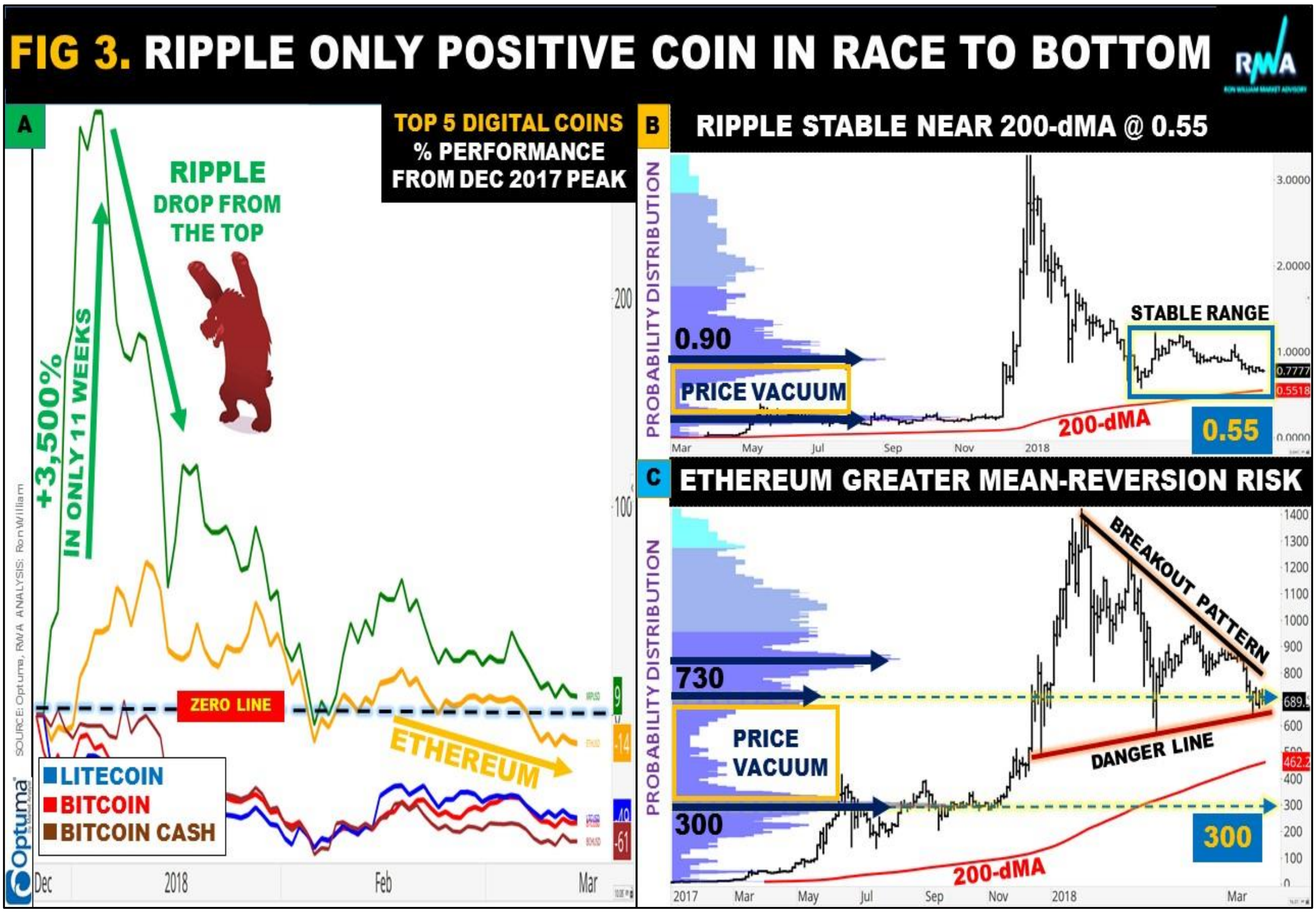


Fig 3. – Top 5 digital coins % performance from Dec 2017 peak, technical chart of Ripple & Ethereum. Source: Optuma; RW Advisory LTD.

From a big picture perspective, digital assets remain in stage one of the new paradigm cycle (Fig 4). A long-term chart of NASDAQ technology stocks helps to visualize the historical rhyme or déjà vu with the internet bubble of 2000. **The Y2K technology mania offers an indispensable price analogue with our latest digital asset wave, as part of a three-stage cycle process.**

Follow the traffic lights 🚦 **Stage 1) RED- Bubble mania hype.** Hot money. Speculation frenzy, inexperienced retail trading, often with mainstream herding, blindly singing 'buy now, think later'. This is followed by a loud crescendo bubble burst, which triggers a violent corrective wave, fuelled by a 'race to the bottom'.

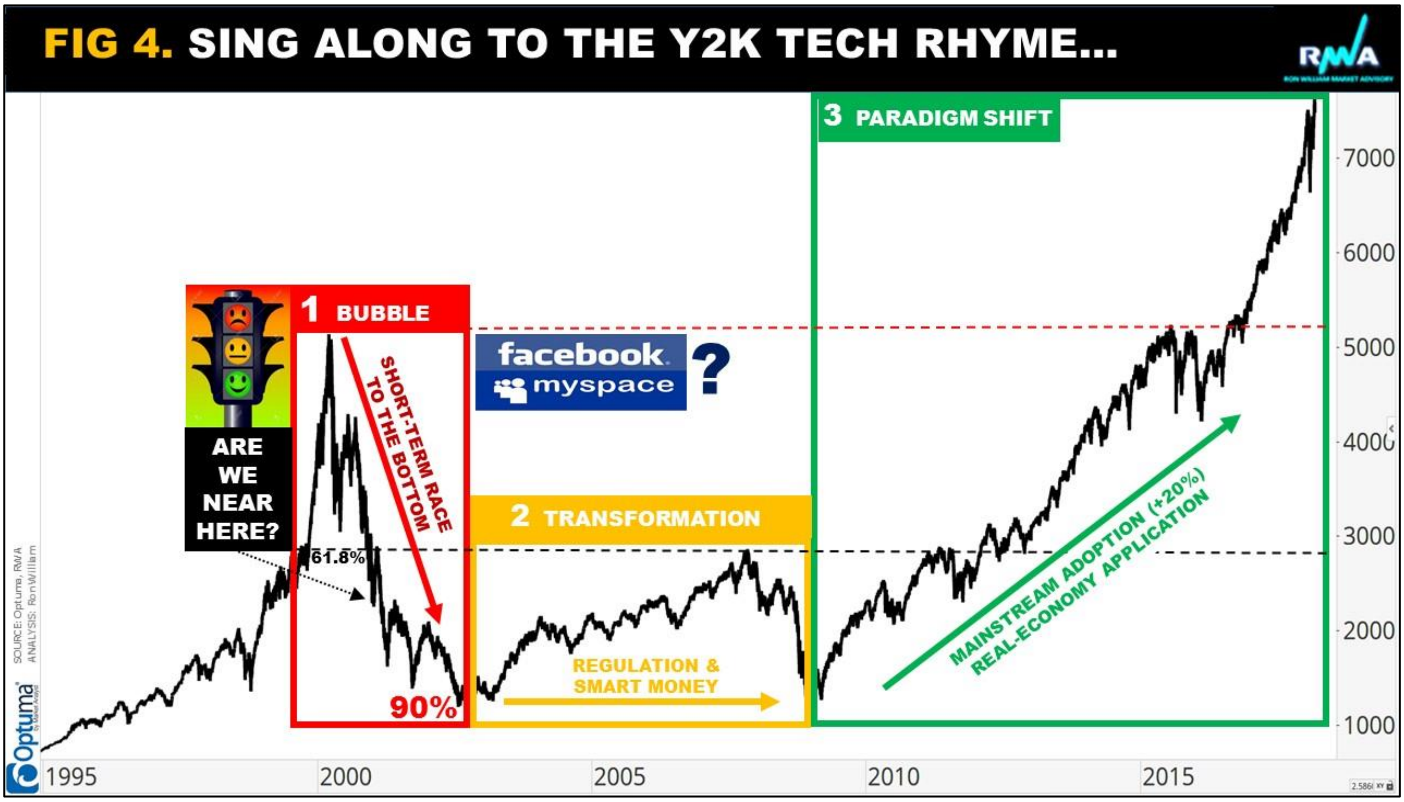


Fig 4. – NASDAQ Historical Chart, with 3-stage cycle schema. Source: Optuma; RW Advisory LTD.

**Stage 2: AMBER-Transformation,** where hard lessons are learnt, and new structures are built. Regulation and government related initiatives, pave the way for smart money products, which in return increases broader volume and reduces wild swings in volatility. Team colleague, Ron William, already experienced the very early stages of a push to engage and standardize the market in the UK, having just been invited to the House of Commons, to join an industry guidance team, following the official launch of an All Party Parliamentary Group (APPG), in Digital Currencies. This was only a few weeks after Bank of England Governor Carney announced a need for regulation within the industry, a call that was simultaneously echoed in the USA.

Inevitably, this becomes an evolution-revolution period where only the winners survive, and famous rotations between poster child leaders like Facebook & My Space are made. Here and now, **out of over 1500 digital currencies, only 30% are likely to survive. Selectivity remains key in the longer-term race to the top.**

**Stage 3: GREEN-New Paradigm Shift,** where mainstream adoption finally takes place and real economy application is achieved, grounded by sustainable real money investments. We are likely only completing stage 1, with further downside scope to come. **Traditional asset-classes tend to experience a multi-year recovery process, but the accelerated nature of this latest technological wave will likely compress the cycle.** See Atlas Pulse interview hosted by Charlie Morris, CIO of Newscape Group, with Danny Masters, Chairman of Global Advisors, for a more in-depth perspective on the future of this evolving digital asset class.

***Disclaimer & Disclosures:***