

DELPHI DIGITAL

Bitcoin Holder Analysis Through Cycles February Update



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85 Broad Street
New York, NY, 10004
www.delphidigital.io



Introduction

This write-up serves as an update of the [UTXO Analysis](#) from the short term outlook we provided within "[The State of Bitcoin](#)". As we mentioned before, we utilize this analysis to identify when selling pressures will likely wane to forecast the timing of upcoming market cycles. Below, you can find the key takeaways we provide rationale and support for throughout this packet.

Function of UTXOs In Our Analysis

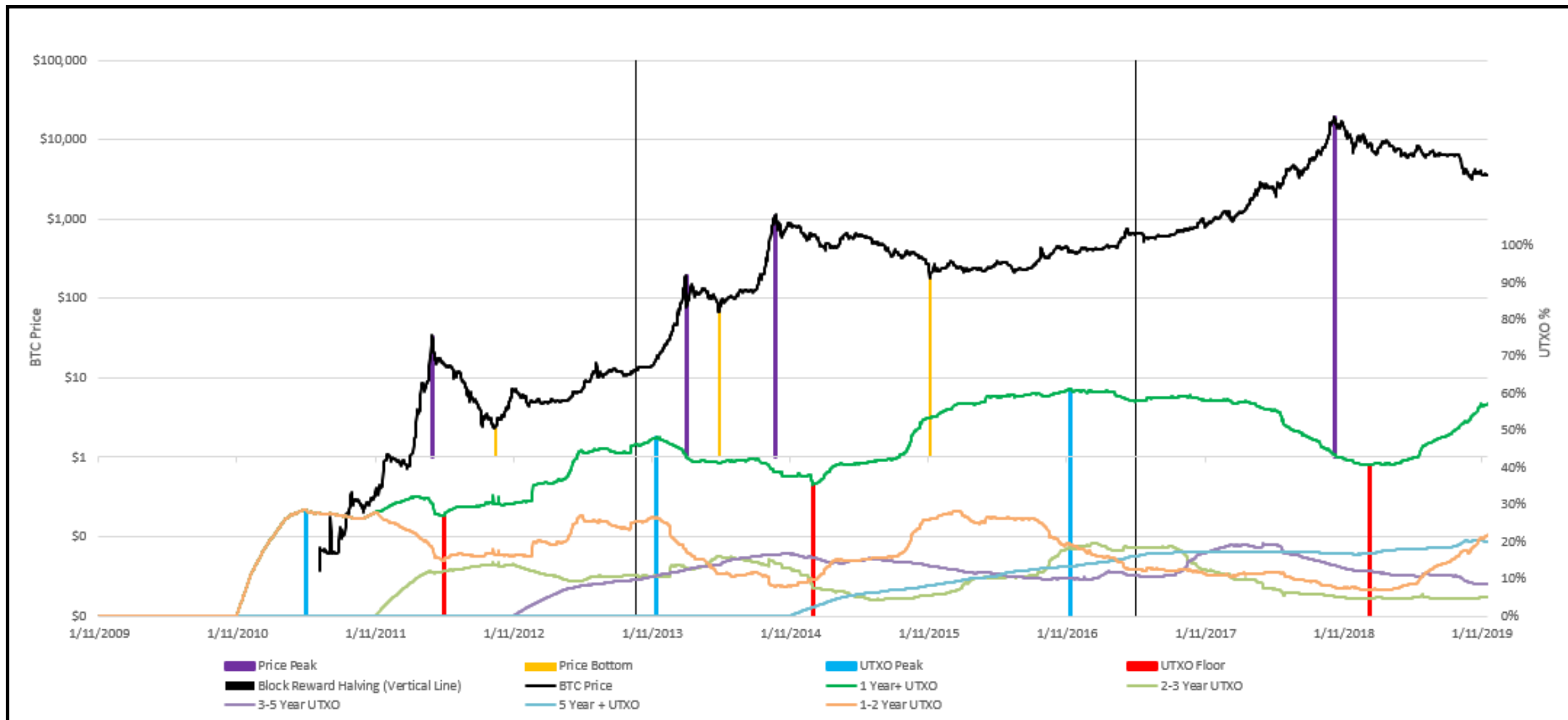
UTXO stands for the unspent output from bitcoin transactions. Every transaction creates a new UTXO, and the age of the UTXO indicates the block that it was first included in. In other words, the UTXO age indicates the last time bitcoin was moved. Analyzing Bitcoin's aggregate UTXO age distribution over time provides insight into the buying and selling patterns of previous market cycles. This allows us to forecast where we are in relation to prior cycles and what we can likely expect going forward.

Update Overview

Our first refresh of the UTXO analysis wouldn't truly be complete without a hiccup caused by Coinbase (through no fault of their own). In early December 2018 there were several concerns surrounding the intentions of a large holder that was moving 856,000 bitcoin, a valid concern given this was ~5% of the total circulating supply. It turns out this large holder was likely Coinbase, based on a handful of factors, one of which being a scheduled maintenance announcement they issued on November 29th. Coinbase indicated the maintenance may cause movement on all Coinbase-supported blockchains over the next seven days. The issue is that a large portion of this movement came from UTXOs that haven't been moved in at least 1 year, with a concentration in UTXOs that haven't moved in 3-5 years, hence the aforementioned hiccup. One silver lining is we're able to adjust for most of the shift, allowing the analysis to continue to function in its intended form. The other benefit of the maintenance driven UTXO shift is that lost coins will make up a larger percent of the 5 year+ band, making the analysis more accurate in the long run.

UTXO Analysis & Market Cycles

Since the initial analysis, which included data up until the end of November, UTXO holder dynamics have continued to trend mostly as expected. The 1 year+ UTXO holding rate has climbed from ~52% to ~57% despite a decrease in 3-5 year holders from ~9% to ~8%. Aside from this slight decline, there hasn't been much selling from long term holders as prices have temporarily leveled off over the past two months. The proportion of 2-3 year holders continues to stay flat and low, with those individuals likely having mostly sold or continuing to hold. We'll be able to extract more information from that band in May as the 1-2 year owners begin to shift over. It's difficult to pinpoint a precise bottom for the 3-5 year holders, but because there isn't much upcoming spillover from the 2-3 band, the 3-5 year band doesn't have a large amount of selling capacity in our view. We continue to believe a bulk of the selling pressure from long term holders is behind us.

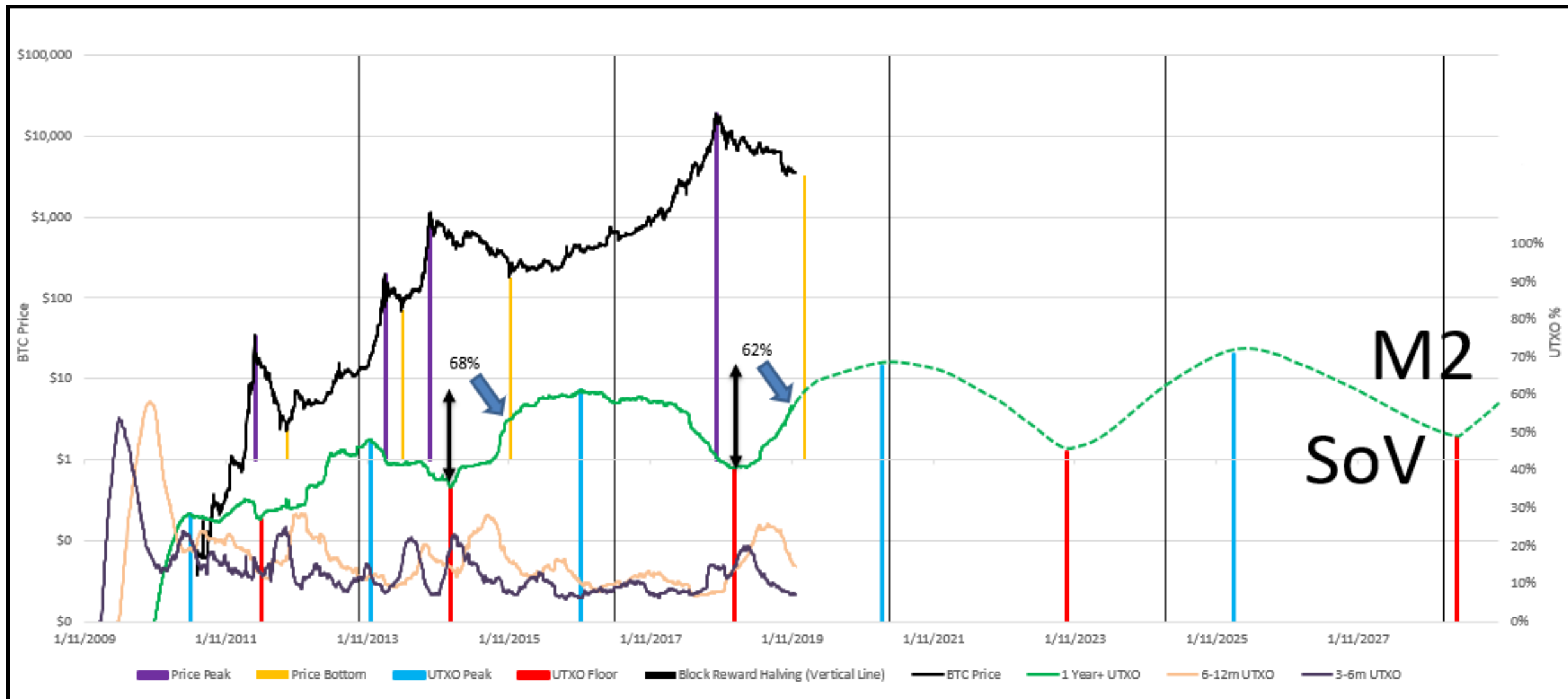


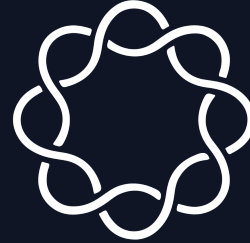
Data as of January 27th, 2019

Sources: [Unchained Capital](#)

UTXO Analysis & Market Cycles

Looking forward, we still believe the bottom will occur by the end of Q1. For some additional context, the price bottom from the previous cycle occurred 68% of the way up from the 1-year holder bottom to the holder top. We're currently 62% of the way to our forecasted holder top. A continued rise in this metric represents less overall selling pressure, implying the incremental demand necessary for price to bottom also decreases. A bottom by the end of Q1 is further supported by trends in valuation multiples (i.e. the rapidly declining NVTs) and infrastructure tailwinds, notably the upcoming launch of Bakkt and Fidelity's institutional custody solution. In addition, the upcoming halvening that's expected in May 2020 also functions as an intermediate catalyst for a reduction in selling pressure. For reference, prices stabilized and began rising ~18 months before the halvening in 2016.





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85 Broad Street
New York, NY, 10004
www.delphidigital.io



team@delphidigital.io

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