The article I am looking at is a correlation between cryptocurrency and general market environments (<https://cointelegraph.com/news/so-is-there-a-correlation-between-bitcoin-and-stock-market-yes-but-no>). The author looks at the factors the lead to volatility within the cryptocurrency marketplace namely sensationalized news articles. When Bitcoin (BTC) hit $20k per coin in February, BTC and a large chunk of other coins dropped violently soon thereafter. The tipping point came from a number of anti-crypto articles published. The first was from a article stating that South Korea was going to ban cryptocurrencies, the second hit was from China stating they were going to block foreign crypto trading, and the third was from India stating another trading ban. All of these were proven false, but the damage was done and BTC was now at $6k.

This article was printed in the middle of February and the crypto-market has still not recovered to even close to where began at the beginning of the year. One thing that people forget is that a lot of markets are cyclic and that beta works in both directions. The global market tends to follow six-year cyclical behavior before shifting regimes. For example, recently we have moved from a pure bull market to a more volatile market. There is still money to be made, but it’s more difficult to pick winners. Sentiment of the market is fragile, people have seen nothing but green the past couple years, so any bad news about a trade war or something of the sort is very detrimental to short term performance. Crypto currency is even more sensitive. There are no breakers (example being China, where if a security price moves +/- 10%, they will halt trading on that name), there are no government regulations (except for having to declare gains on taxes), FDIC insurance, or even brick and mortar locations where one can store cryptocurrency. This makes for a very sensitive market because the fear of a meltdown is a very real threat. As mentioned above beta is two ways, if BTC wants to have a 10 beta with S&P 500, then when the S&P is down 1%, it is statistically likely that BTC will be down 10%.

The article then looks at the correlation of individual cryptocurrencies to the S&P 500 and the VIX. As one would expect, there are strong corrections to the S&P 500 and negative correlation to the VIX. I believe there is one certain thing you encounter in the macro market—people panic sell, they don’t panic buy. When VIX spikes, people panic sell making a down market a self-fulfilling wish. This is confirmed by a strong negative correlation of S&P 500 an VIX performance. The correlation of cryptos with the S&P 500 is interesting and gets back to where we can see that heavy beta exposures, but it leaves a bit more to be desired. The S&P 500 is a market cap weighted index of the 500 largest names. The graph in the link is similar to comparing single stocks to the S&P 500. Although the comparison is important, it does not show the general health of the crypto marketplace. As far as I know, there is no market cap weighted cryptocurrency “index” which shows general market health. Another issue is how far down you can realistically go down the market cap ladder in the crypto-universe. I think an index of the top 100 market cap cryptos using similar weighting methodologies could be a good comparison for analysis, but the variance in market cap is very dramatic. For comparison, the 100th largest cryptocurrency (at writing is Gifto at $91MM), is only 0.08% the size of BTC. For comparison, the smallest constituent of the S&P 500, NWS, is 0.96% the market cap of AAPL, the largest constituent.