

645,464 views | Sep 25, 2019, 10:43am

Bitcoin Has Crashed--What Now?



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Bitcoin (BTC) has crashed. No one really knows why but in my model we should be in for "good" news on the China trade war or some such China-related information that is strong for the Chinese currency.

This is only a theory but if it is correct, bitcoin will either rally vertically if no news breaks or the news will appear very soon. This is being written at 12 p.m. GMT September 25 and the news ought to be out there by no later than the end of the week. If I'm wrong and there is no such news and the price stays down or falls more still with no positive trade war news then my bitcoin theory, which has served so well, will be severely challenged.

In any event, bitcoin has crashed. The dreaded flag has broken to the downside and the bottom is anyone's guess.

The decision what to do next comes back to the schism between believing BTC will be worth \$100,000-plus a coin or \$0 a coin. You have to pick your side.

Way back before this year's rally, I stated there is another way of looking at this price action. In commodities a big bubble is followed by a series of smaller and smaller echoes of the initial price shock which erupt over time as the years pass. Each new price eruption is smaller than the last until the original bubble is all forgotten about. If this is your model, this BTC bubble echo is now dead and BTC will fall back to the \$2,000-\$3,000 range or even lower. Then after a year or two there will be another small vertical and on this pattern will go, until bitcoin is all but forgotten.

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The alternate model is the tech boom, where the original bubble was replaced by another bigger rally, one we have still not seen the end of.

Is bitcoin a commodity or a value added instrument? Bitcoin isn't like gold or copper, where price rise creates a glut. Or is it? For me this is a very tempting model because I experienced as a youngster and saw it play out all the while everyone continued to wish for the return of the moment when copper or gold went to the moon. However, bitcoin is not going to flood the market as miners pour resources into a race to over produce. Bitcoin protects itself from exactly the economic reason why high prices are the solution to high prices.

The choice is clear for players in this game of speculation, steer clear or buy the dip.

I'll be buying the dip but not in a hurry.

This is the chart of what has happened:



Bitcoin has crashed CREDIT: ADVFN

The flag got broken to the downside and it's clear as day that a lot of people took this as a cue to get out, causing a panic. I've put some levels equivalent to some zones where the price might settle. I will be buying a little in the coming days and more if we hit \$6,000 and a lot if we see \$4,000.

Meanwhile, there was been a strange crash in hash rate before this price fall, so everyone is free to link that up with this fall. There may have been a BTC miner who needed to sell a big chunk of BTC and in this fragile market with everyone staring at the same delicate chart pattern, it doesn't take much to create an avalanche. I must admit to staring at this chart before it crashed thinking I should sell. This would have been a good move but experience has taught me that you can win on the exit but lose on the reentry. It's great missing a fall but you can also miss the rally which can end up even more painful. This is the basic lesson of the randomness of markets. Back the direction you believe is the long-term outcome and buy the dips or don't play at all.

Bitcoin is like backing Apple when it was on the edge of going bust: do you believe in the future or not? If you do, you hold forever and buy the dips. The only thing you mustn't do with the position is let that put your finances at risk or hurt your sanity.

As a believer I will buy this dip, in the same way as I bought the last, little and often. For those who don't believe in the long term you should stay well clear.