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Déjà Vu Season: 2 Forces From Rallies Past Signal Another This Fall

by Juan Villaverde, with Bruce Ng

Non-fungible tokens (NFTs) have become one of the hottest things in crypto.

Speculation is rampant. Traders are throwing money around almost indiscriminately, hoping some of it lands on the next red-hot issue.

Don't get me wrong: NFTs represent one of the seismic paradigm shifts the crypto revolution is famous for.

This will be the way millions of people certify and prove ownership of unique physical and especially digital properties in the decades ahead.

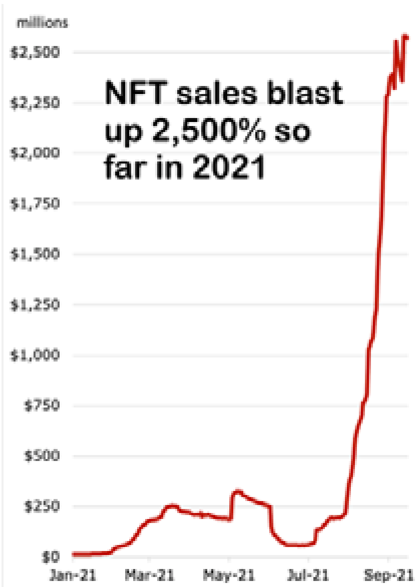

Figure 1. Rolling 30-day sales of NFTs. Source: nonfungible.com

However, back in 2017, initial coin offerings (ICOs) were also thought to be the future of crypto. These were going to revolutionize and democratize raising capital. Maybe even replace new stock offerings.

But as often happens with breakthrough technologies, speculation runs ahead of reality.

Overly optimistic speculators underestimate how long it'll take to implement these fantastic new ideas in the real world … and that's why bubbles develop.

Looking back, this happened with railroads ... with the internet ... and with ICOs. And, recently, it looks like it could be happening with NFTs:

- **The possibility of a speculative NFT bubble is not necessarily a bad thing.**
- **The heat, energy and enthusiasm it generates will attract hordes of new investors to crypto.**

The tsunami of cash they bring with them will be rocket fuel for the approaching parabolic phase of this multi-year bull market.

How long do we have to wait for this?

Inside This Issue...

Well, in 2017, the early second half of the year was all about which ICO tokens would shoot to the moon faster than others. And it didn't take long for this mania to pour over to all things crypto.

That's exactly what happened in the fourth quarter of 2017, when the parabolic phase of the last bull market finally got underway.

What the ICOs did in 2017 could be what NFTs do in 2021.

Anatomy of a Typical Bull Market

What most investors think of as a "crypto bull market" is actually a four-year cycle.

Why four years?

Because of **Bitcoin (BTC, Tech/Adoption Grade "A-")**'s halving cycle, which periodically cuts by 50% the rate at which new coins are produced. This seismic event takes place roughly every four years. (The last one was May 2020.)

Our Timing Model then subdivides the halving cycle into four 320-day cycles. These 320-day cycles don't quite add up to four years for two reasons: Bitcoin's halving cycle isn't exactly four years. (It's actually a bit shorter.) Plus, these cycles can and do vary in their duration — 320 days is simply the average length.

1] The *first* of the four 320-day cycles, we call "bearish."

This is a period of correction for crypto assets, where we generally see lower lows and lower highs. The period between December 2017 and December 2018 perfectly demonstrates a "bearish" cycle.

2] The *second* of the four 320-day cycles, we call "neutral" or "sideways."

This is because crypto assets typically experience a substantial rally in the first half of this cycle, followed by an equally substantial sell-off in the second half. Result: At the end of this cycle, prices generally wind up near where they started.

What happened between December 2018 and March 2020 provides an excellent real-world example of …

What a Neutral 320-Day Cycle Looks Like

Figure 2. We use Bitcoin as a market benchmark the same way stock analysts use the Dow or S&P 500. For cryptocurrencies, it's the longest-running market bellwether available. Data source: BraveNewCoin Bitcoin Liquidity Index (BLX).

As you can see, Bitcoin began this neutral 320-day cycle on Dec. 15, 2018 and ended March 12, 2020 — very close in price to where it began.

This cycle was also quite a bit longer than 320 days. That was probably a reflection of the pandemic panic sell-off in March 2020 that rocked investment markets across the board.

Big news and shocking events can alter the duration of a cycle and sometimes its amplitude. But they can't eliminate the cycle itself.

That's why the next 320-day cycle started right after the epic crash that ended the first, or "neutral," 320-day cycle.

3] The *third* of the four 320-day cycles we call "bullish."

That's because prices typically break above the highs established in the prior, neutral 320-day cycle.

As you can see in the chart (above), Bitcoin hit its neutral 320-day cycle peak on June 26, 2019, around $13,000. It tested this level again the following August.

But it didn't really blast off until October 2020, which is what officially confirmed as the second, or bullish, 320-day cycle.

And that's when things really got interesting, because the same rally that lifted Bitcoin above and beyond $13,000 … took it all the way up to nearly $65,000 on April 14 — a whopping 500% rally — before any meaningful pullback appeared.

What a Bullish 320-Day Cycle Looks Like

Figure 3. Using Bitcoin again as the crypto market benchmark, this chart illustrates the second of the four 320-day cycles, the bullish cycle.

We highlighted above what occurred after Bitcoin hit its April 14 high (see the second and third blue arrows), because we're quite sure it still lingers in your mind.

Bitcoin plunged more than 50% in the space of a few weeks, dragging down the entire crypto market with it. In fact, the epicenter of this correction (May 19) was the single worst day for crypto markets since the pandemic panic crash of March 12, 2020.

This makes perfect sense from a timing perspective, because March 2020 is when the first or neutral 320-day cycle ended, and the second or bullish 320-day cycle began.

4] The *fourth* of the four 320-day cycles we call crypto's "parabolic" phase.

This is where the most money will be made (and lost) depending on how well you time the surges and the sell-offs.

May 2020 is when the second or bullish 320-day cycle ended, and when the third or "parabolic" 320-day cycle likely began.

We say "likely" because this can only be confirmed, beyond a shadow of a doubt, in hindsight. That is, once Bitcoin blasts above its high from the previous bullish cycle ($65,000 on April 14).

As we write, this is the most important level to watch out of the entire crypto market.

So far, only a few cryptos have exceeded their highs of the previous bullish 320-day cycle. But most still languish just beneath their prior bullish cycle highs.

Both Bitcoin and **Ethereum (ETH, Tech/Adoption Grade "A-")** must break out before we can officially declare the start of crypto's parabolic, fourth 320-day cycle.

The Next Parabolic Surge Approaches

We say this because we observe a distinct shift in market psychology. Specifically, we refer to “funding rates,” the level of interest traders are willing to pay for leveraged positions.

The only reason they would pony up for leveraged long positions in Bitcoin is because they expect BTC to go up more than what it costs them in interest. Thus, funding rates can contain unique insights into what traders and investors expect to happen.

If the funding rates are near zero, it means market participants are not bullish, and so they’re unwilling to incur the extra cost of financing their crypto purchases.

And if funding when rates dip down into negative territory, it means traders expect prices to collapse.

What Funding Rates Say Now

Currently, funding rates show that traders are fearful of Bitcoin — as indicated by a negative funding rate — but “neutral to a bit bullish” on altcoins — as evidenced by slightly positive funding rates. This is because of the dip on Sept. 20 that liquidated lots of traders and brought fear to others.

But we’re not worried about this. Why? Because this fear will not last long. And funding rates will rise.

That’s exactly what happened last October, during the “bullish” phase. And remember, the “parabolic” phase is the bullish phase on steroids.

Back in October 2020, crypto markets were just coming out of what was the year’s second-worst correction, which ended Sept. 23. After a brief period of consolidation, prices began to recover in early October. Yet caution still prevailed.

However, by mid-October, something began to shift that wasn’t yet visible in price action: Funding rates started quietly moving up!

Bit by bit, traders and investors became more willing to pony up for long-side leverage, heralding a major bullish shift in the underlying psychology of the market.

Remember what happened next? A few weeks later, a furious crypto rally took Ethereum from $400 to $3,000.

Look at the following chart:

Will the Next Surge Be Like October 2020?
Or Even More Explosive?

Figure 4. We use Ethereum as a crypto market proxy, because it was a speculative favorite back then, and its trading patterns were very clear.

To the left of this chart, you see the September 2020 correction. Ethereum plunged 30% in 20 days.

The middle blue arrow points to the totally unremarkable rally that occurred in mid-October. Absolutely nothing to write home about.

But underneath the otherwise placid surface of this tepid price action … funding rates were going crazy, because traders were gearing up for an explosive move up.

And they were not disappointed. Prices began to surge continuing well into February. This rally was so impressive, we can't even show it on the chart ... because it makes everything that came before seem like a blip!

We bring all this up because … right here, right now … we could be looking at a replay of October 2020.

We're also coming out of a September correction. Long-term fundamentals are still strong. If funding rates follow the 2020 pattern and turn positive with conviction in October, that means serious position-building is going on behind the scenes. And another truly explosive move up is drawing near.

Coinbase Global (Nasdaq: COIN) Hits Our Limit Buy Price

Coinbase Global is a great stock for investors who want exposure to the crypto revolution, but don't want to have to guess which crypto will be the next Bitcoin. By providing a centralized exchange (and ecosystem) for all cryptos, it wins no matter which one comes out on top.

In this respect, it reminds us of the enterprising folks who sold picks and shovels to the 49ers during the California Gold Rush. It was a far safer way of making money than prospecting for the next big strike.

In the previous issue, we urged you to put in a limit order to buy COIN at $241.00 or better. That should've gotten filled on Sept. 13 when it traded as low as $239.60.

A couple days later, junk-bond investors gave crypto their biggest roar of approval yet. Coinbase came to market with a debt offering. And $7 billion worth of orders poured in to buy $2 billion of seven- and 10-year bonds.

The proceeds combined with the company's robust cash flows give COIN the financial firepower to dominate the huge North American crypto market — just as crypto finally goes mainstream.

Hold on to your stock. You're going to make a pile of money.

Weiss Crypto Investor Portfolio Update

Aave (AAVE) — A DeFi Blue-Chip With 6-to-1 Profit Potential

Aave is the biggest money market protocol in DeFi, where users can lend and borrow in 20 different cryptos.

They include **Dai (DAI)**, **Uniswap (UNI)**, **Yearn.finance (YFI)**, **Tether (USDT)**, **Chainlink (LINK)**, **Basic Attention Token (BAT)** and **Gemini Dollar (GUSD)**.

Unlike traditional banks, AAVE is "non-custodial." This means your assets are deposited in a pool governed by an immutable smart contract.

In return, you get a receipt redeemable for your deposit amount plus accumulated interest. No middleman or intermediaries necessary.

One of the things that sets AAVE apart from other lending and borrowing protocols: It offers a choice of floating or fixed rates. (Fixed rates are still very rare in DeFi.)

Riding the meteoric growth of DeFi, AAVE has already gone from $40 to $300 in the last 12 months — which is why we urged you to buy it. So far, however, we're slightly down due to this past week's correction.

But as the parabolic phase of the crypto bull gets going, AAVE could pile up as much as six-to-one gains over the next 12 months. So, hold tight to your position.

Polygon (MATIC) — Also a Good Time to Buy

Polygon aims to solve one of the biggest problems in crypto: the chronically overloaded Ethereum, which has been driving investors crazy for with slow processing and sky-high transaction fees.

MATIC runs on top of Ethereum (that is, Layer 2), with only summaries of its transactions actually settling on Ethereum's (Layer 1) blockchain. This enables it to scale far beyond anything Ethereum itself can do.

For example, network fees on Polygon run only about one-thousandth of a cent per transaction. But they can easily run as high as $10, $25 or higher on Ethereum, depending on network congestion.

Plus, it processes transactions in two seconds — compared to minutes on Ethereum. That makes it excellent for online gaming, which is one of crypto's fastest growing sectors.

The problem is that another second layer scaling solution, Arbitrum, recently went live. It stole some of Polygon's thunder, causing prices to lag. Indeed, MATIC is the only crypto in the Weiss Crypto Investor Portfolio that's not comfortably in black ink.

But this is only temporary. If you already own Polygon, hold your position. But if you're new to this newsletter, or for some other reason haven't been able to get it … now would be a good time to get your feet wet.

Cardano (ADA) — Up 4,426% as Alonzo Hard Fork Deploys

ADA's grand ambition is to knock Ethereum off its perch as the world's No. 1 smart-contract platform. And the Alonzo upgrade rolls out Cardano's smart contract capability for the first time.

Not surprisingly, investors bid the price up to new all-time highs (above $3) in anticipation of this key upgrade. Now, the question will be how well Alonzo performs going forward. A successful implementation should be very bullish indeed.

In the first 24 hours, the update saw over 100 new smart contracts-based decentralized apps (dApps) deployed on the Cardano blockchain. So far, so good. Hold with confidence.

Bitcoin (BTC) — Up 454% as Key Support Comes Into View

Bitcoin's Sept. 7 low is now being re-tested. Meanwhile, its previous cycle high — $52,700 — is the key technical level to watch going forward. That's because a daily close above this level will open the door to a fresh run at new, all-time highs.

And where Bitcoin leads, others will follow. Stay patient and hold. Ditto for your shares in **Grayscale Bitcoin Trust (OTCPK: GBTC)**.

Ethereum (ETH) — Up 1,634% as Arbitrum Takes Off

Just two weeks ago, Ethereum's hot new scaling solution, Arbitrum, went live with current $1.5-$3.5 transaction fees.

And almost immediately, its total value locked (TVL) across various dApps skyrocketed to $1.32 billion!

But hold on a minute! Almost $1.2 billion of that locked ETH were whales farming one new project (called Nyan). Indeed, some of the biggest whales doing liquidity mining may have actually helped create this project in the first place.

This moved some observers to allege Nyan is a Ponzi scheme. However, at the same time large numbers of DeFi yield-farmers aped into it, attracted by the yields on offer.

Ponzi or no Ponzi, all that locked ETH started moving to other projects on Arbitrum. And current TVL on Arbitrum has grown to $2.1 billion. Moreover, the amazing size of Ethereum's addressable TVL market — over $103 billion — gives Arbitrum a lot of space to grow.

We're now waiting for more deployed dApps and more bridged tokens. But as it seems, Arbitrum might become a force to reckon with faster than expected.

Figure 5. Source: Arbiscan. Click to enlarge.

When farming started on Sept. 11, Arbitrum's daily transaction volume skyrocketed to over 106,000 with 17,000 new users. Right now, the situation has calmed a bit, with 66,000 new transactions per day and around 5,000-10,000 new users.

Remember, Arbitrum doesn't have its own token — it uses ETH for transaction fees. This is very bullish going forward. Not only for Ethereum, but also for **Grayscale Ethereum Trust (OTCPK: ETHE)**.

Recommendation: Hold.

Chainlink (LINK) — Up 439% and Rising

Chainlink is the oracle network we like to call the Bloomberg Terminal of smart contracts.

It's the No. 1 supplier of the real-world information streams — asset prices, interest rates, exchange rates, etc. — which smart contracts need to function.

Smart contracts are the vanguard of the cryptocurrency revolution today. Decentralized finance (DeFi) is the hottest sector in crypto. Chainlink occupies the sweet spot where they intersect.

Because of this, long-term usage trends are extremely bullish.

Recommendation: Hold.

Synthetix (SNX) — Stocks Without Brokers

Synthetix is a decentralized exchange (DEX) that allows you to trade synthetic assets like crypto, stocks, commodities, forex and more.

But unlike traditional trading channels, there's no broker, banker or custodian standing in the middle of every transaction taking a slice out of it.

If you acted on our original recommendation, you should now be up around 54%. Hang on for even larger gains ahead.

Monero (XMR) and Zcash (ZEC): Up 77% and 44%, Respectively

Edward Snowden's bombshell revelations of illegal domestic spying by U.S. intelligence agencies not only shocked lots of people ... they also jump-started an active niche market for legal ways to fight back against an ever more intrusive surveillance state.

Monero and Zcash are the world's No. 1 and No. 2 privacy cryptos, respectively. Basically, they are encrypted versons of Bitcoin. XMR encrypts every transaction by default. With ZEC, you can choose whether to encrypt or not.

Zcash also copied Bitcoin's maximum supply cap of 21 million coins. That scarcity is likely to factor into prices going forward. We think both coins belong in any well-diversified crypto portfolio.

Hold on for further gains.

Weiss Crypto Investor Portfolio Table

Average Open Gain: 564%

Recommendation	Reco Date	$ Cost	Current Quote ($) as of 09/16/21	Total % Gain
Crypto Positions				
Cardano (ADA/USD) **	9/12/18	$0.05368758	$2.430000	4426.2%
Bitcoin (BTC/USD)*	4/26/19	$8,629.30	$47,879.00	454.8%
Ethereum (ETH/USD)***	8/7/19	$206.04	$3,573.31	1634.3%
Chainlink (LINK/USD)	6/26/20	$4.72	$29.92	539.3%
Synthetix (SNX/USD)	8/28/20	$6.89	$14.59	114.6%
Monero (XMR)	1/29/21	$141.94	$264.70	86.7%
Zcash (ZEC)	1/29/21	$86.78	$138.35	59.4%
AAVE (AAVE)	3/26/21	$355.61	$384.35	8.1%
Polygon (MATIC)	5/29/21	$1.69	$1.38	-18.3%
Stock Positions				
Grayscale BTC Trust (GBTC)	3/26/21	$46.43	$38.00	-18.5%
Grayscale BTC Trust (GBTC)	5/13/21	$33.50	$38.00	-13.4%
Grayscale Ethereum Trust (ETHE)	6/8/21	$24.85	$34.50	38.8%
Coinbase (COIN)	9/13/21	$241.00	$243.21	0.9%

* Bitcoin's $ Cost and Total % Gain columns reflect average of initial purchase 4/26/19 ($5,217.25) and subsequent buys 8/7/19 ($11,901.45), 8/30/19 ($9,584.37), 10/2/19 ($8,266.70), 11/1/19 ($9255.15), 4/24/20, ($7,550.90)

*** Ethereum $ Cost and Total % Gain columns reflect average of initial purchase 8/7/19 ($224.51) and subsequent buys on 4/24/20 ($187.57)

** Cardano $ Cost and Total % Gain columns reflect average of initial purchase 9/12/18 ($0.06840000) and subsequent buy 11/27/19 ($0.03897516).