

CRYPTOCURRENCIES – YOU GOTTA KNOW WHEN TO HODL ‘EM AND WHEN TO FODL ‘EM



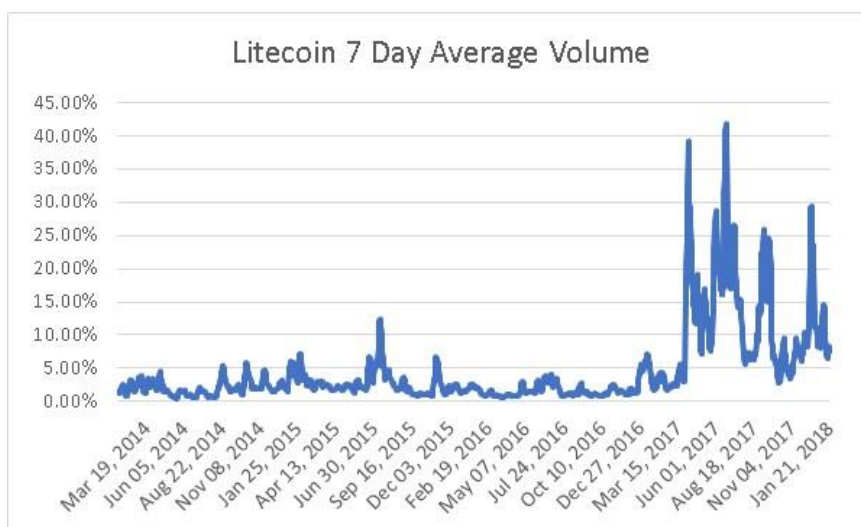
Russell Clark's
Market Views

“Whilst there is no doubt that blockchain technology has huge potential, it is hard to not recognise the similarities to the dot.com boom in the late 1990s. Even stocks that went on to prosper saw their market cap fall by up to 95%, making many people forced sellers.”

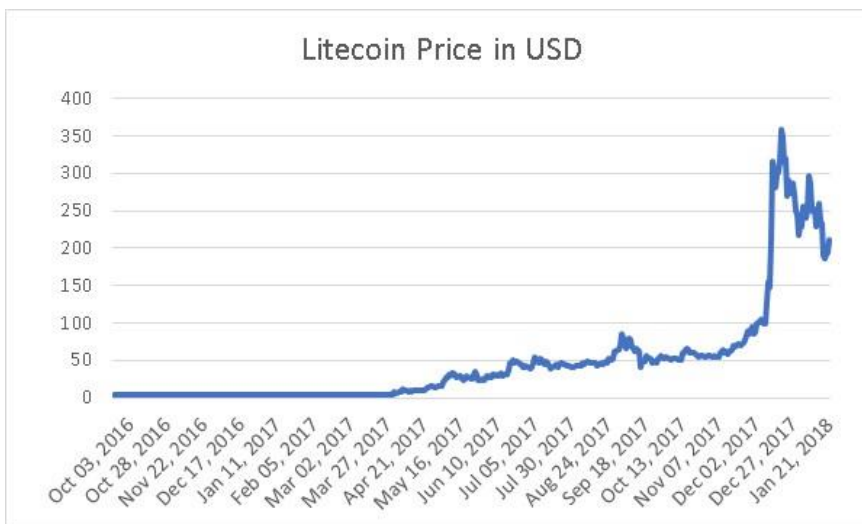


Cryptocurrencies are many things to many people. There is no doubt that the underlying blockchain technology offers the potential to change many industries. Against the promise of technological innovation, it is also hard to not recognise the similarities to the dot.com boom on the late 1990s. While some stocks like Amazon went on to prosper, the bursting of the dot.com bubble did cause the share price of Amazon fall 95%. Like the dot.com bubble, much of the price appreciation was caused by the limited float of the stocks, meaning that prices would skyrocket and then plummet as money flowed in and out. In the dot.com bubble the end of post-IPO lock up periods enabled investors to sell, which was the catalyst for prices to fall.

If the dot.com bubble offers a template for the trading of cryptocurrencies, then one sign of a potential top would be significant increase in trading volume and signs of potential insider selling. A text book example of a potential top would be Litecoin – a top 10 cryptocurrency according to coinmarketcap.com. Using data from coinmarketcap.com, we can track the percentage of float traded each day; that is, the volume of litecoin traded as percent of litecoin outstanding. We can see that volume tended to stay below 5% until the summer of 2017, when it exploded to up to 40%.

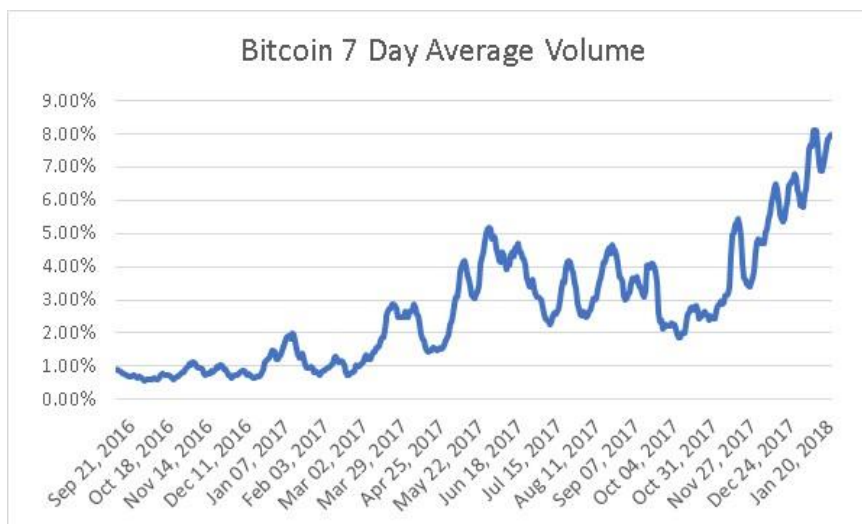
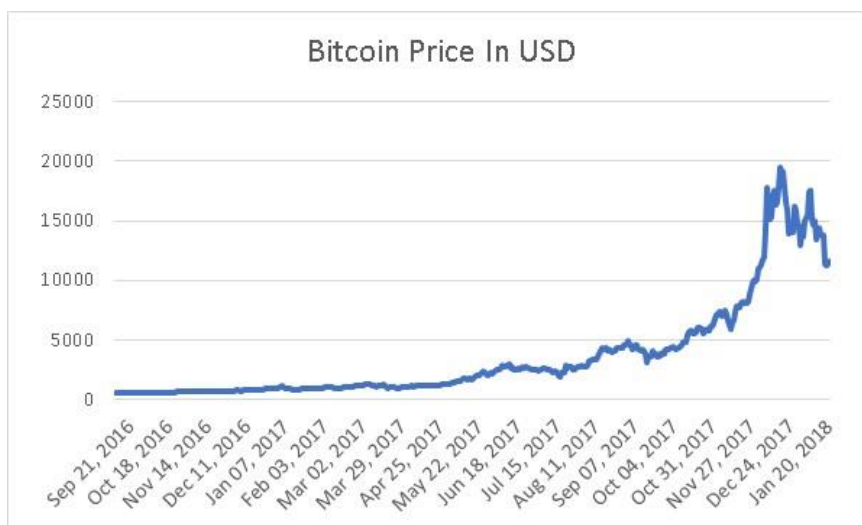


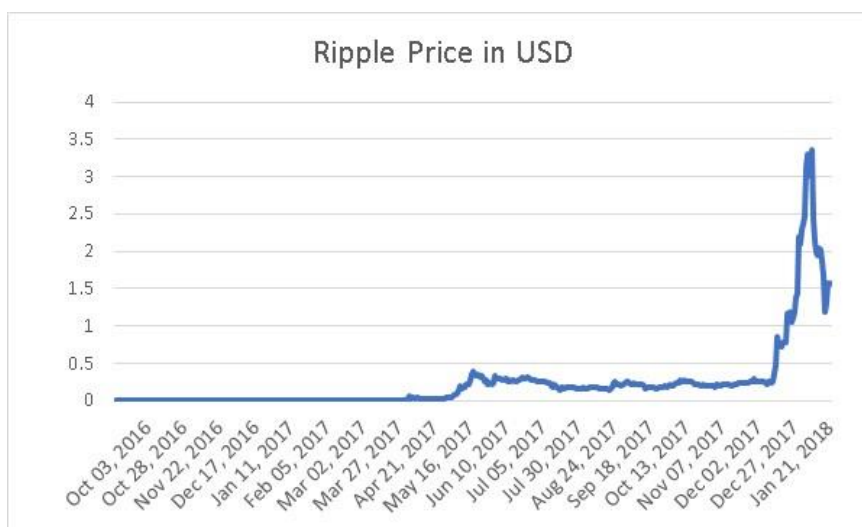
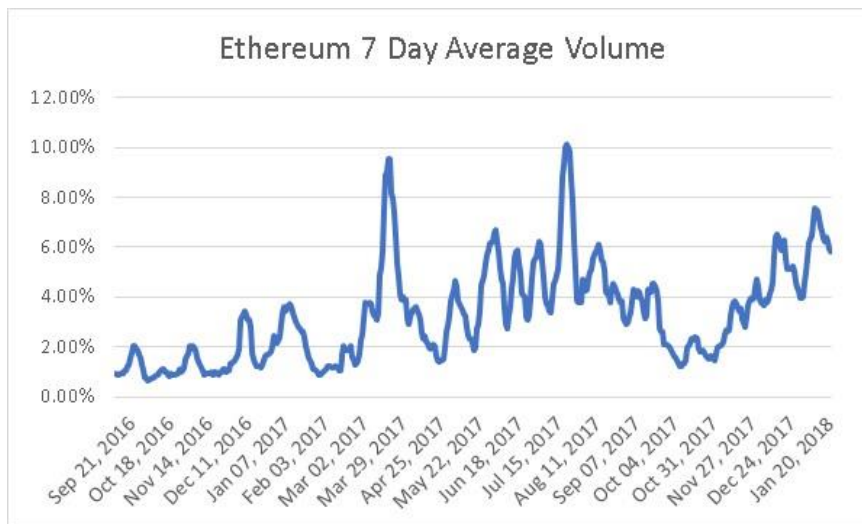
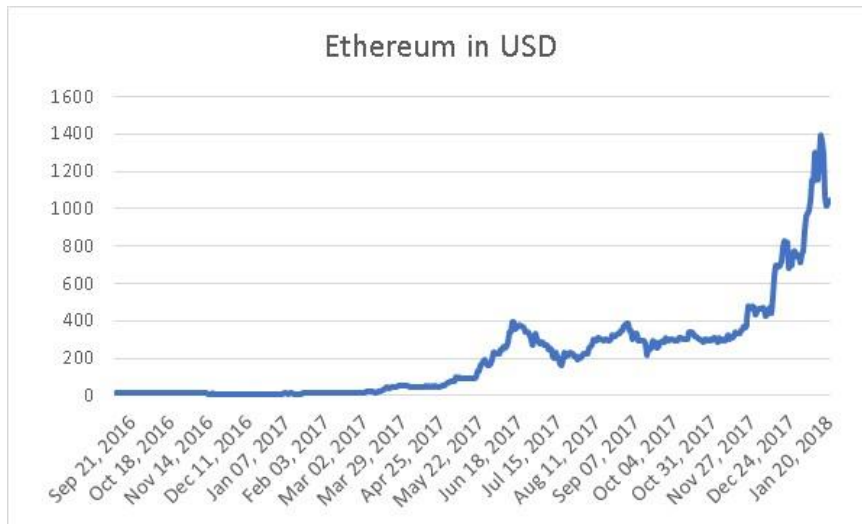
According to Wikipedia, Litecoin has many of the same technical details as Bitcoin. However, it has one big difference. Whereas the founder of Bitcoin remains anonymous and goes by the pseudonym of Satoshi Nakamoto, the founder of Litecoin is Charlie Lee, a former Google employee. Charlie Lee publicly disclosed on 20 December 2017 that he had disposed of all his Litecoin. It is notable that he sold his last holdings of Litecoin at a period of high prices and high volume.

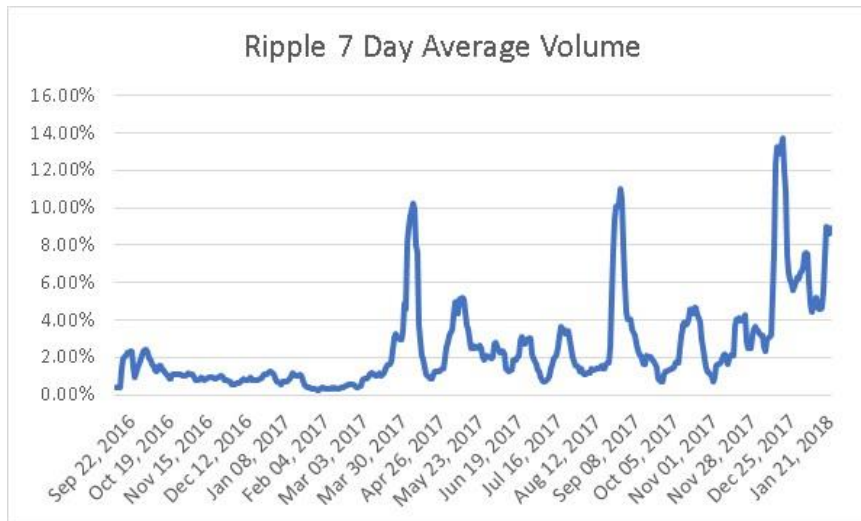


Traders have a concept of weak hand and strong hands. In essence it describes an owner of a financial asset who is in profit on their position and those who are in a loss on their position. Financial asset owners who are in a loss on their position are considered a weak hand, as they may well become a forced seller, particularly if they have bought an asset on margin. For traders in Litecoin, the selloff in September 2017, was large, but only took 7 days to find a bottom. The current sell off in Litecoin is now over 30 days, with over 160% of volume turned over in the 7 days prior to the top. Litecoin would likely have significant number of investors with weak hands.

Other cryptocurrencies are not so transparent with the dealings of their founder and creators, but their 7-day average volume and prices in USD are presented below.







For long term investors, changes in volume traded will make no difference to intrinsic value of cryptocurrencies. But for traders and speculators, the big increase in volume traded plus a potential for insider selling raises some red flags. To paraphrase an old poker saying, “You need to know when to hodl ‘em or to fodl ‘em.”

INFORMATION

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