The Bridge

"Currency Wars & Cryptos"

12-14-18 - The *Currency Wars* continue, though more subtle at present, with a three-way battle between paper, hard & digital. It is almost like the game of rock (metals or hard currency), paper (debt-based or fiat currency), scissors (digital or crypto-currency)… *except there is no winner*.

Paper covers rock (fiat covers metals), although that doesn't really mean it defeats it… just covers it from view and tries to distract users from its debt-based reality.

Scissors cut paper (digital outdoes fiat), a currency option that finally outpaces the convenience and mobility of fiat currency.

And rock crushes scissors, at least in a battle of tangible (hard) alternatives. At the moment, that is the case - with Gold gaining as Bitcoin and cryptos collapse - but who knows where that will end up. *As soon as one round is won, it is off to the next.*

As this triumvirate governs the currency space, each individual one is constantly battling for domination as the other two struggle to find their way - sometimes battling each other to remain pertinent.

One way of viewing this was described earlier this year and attempted to illustrate how the strength or conviction of the leader is often divided between the other two. Since both Gold & Bitcoin are a type of anti-Dollar, they are the two factors that multiply to equal the product (the Dollar).

In a situation like the present, the Dollar remains strong and Gold is steadily gaining ground (since its mid-August low), leaving no room for cryptocurrency. As a result, they are in the weakest position and the sharpest declines - bringing them right back to where they belong - the 'blast-off' point for the late-2017 parabolic surge (and subsequent crash).

One intriguing aspect of Bitcoin's movement is its relationship to the Dollar. In any market, there is a certain percentage of its value that is intrinsic or inherent to its governing fundamentals. In heavily speculated markets, like cryptocurrency, that percentage is often a small minority.

Then there is the remaining portion of that value that can be attributed to speculation and/or investment. In Bitcoin, et al, that percentage is a large majority (that often expands during a parabolic move as *'Johnny-come-latelys'* rush to get in at any cost).

In late-2013 - Jan. 2017, Bitcoin remained in a trading range between roughly \$200 - \$1,100. For all intents and purposes, that was a fairly rational trading range and trend movement.

From a wave perspective, that was a textbook advance (into early-Dec. '13), pullback (into Jan. '15), and start of a new and larger-magnitude advance.

The Bridge Publications: In an effort to provide a more comprehensive, balanced & holistic perspective on the markets, and to add necessary context to cyclic and technical outlooks, I will be periodically adding additional publications to *bridge* current events with prior analysis, to *bridge* fundamental events with technical patterns, or to simply add related analysis to markets that do not normally receive primary coverage in other publications. *The Bridge* Publications are currently provided to ***Weekly Re-Lay*** subscribers as an added bonus even though that is not part of the package of publications in a paid subscription. If that were to change, subscribers would be notified in advance.

Please Note: Currently, there is not a specific publication schedule. That allows *The Bridge* publications to be compiled at any time - when markets or current events warrant additional coverage. Also, markets addressed in *The Bridge* are not signaling the beginning of regular coverage. In some cases, a particular market might only be addressed one time - due to a unique set of circumstances.

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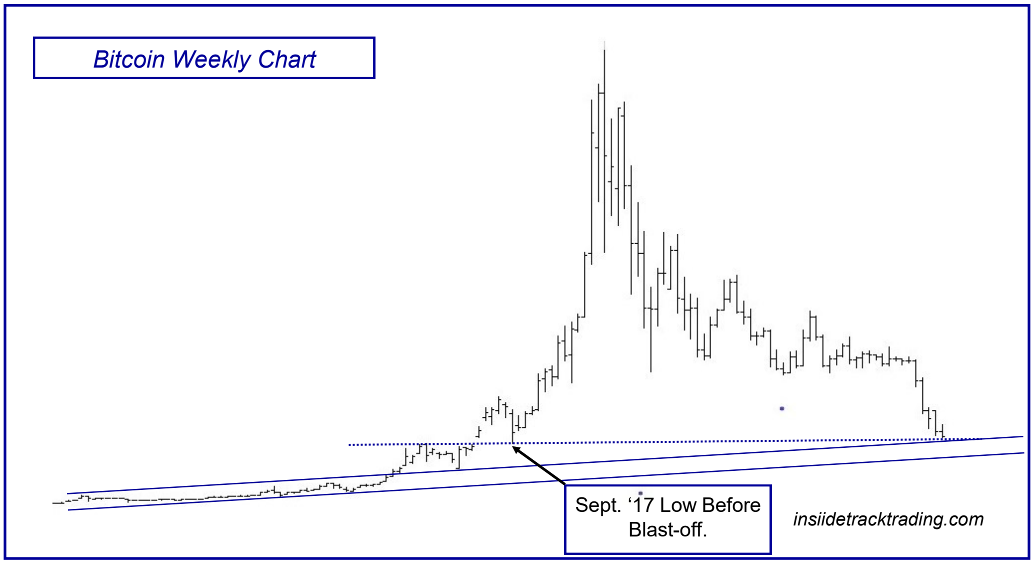

Bitcoin was heading back to the upper end of that trading range in Jan. 2017, having experienced a steady increase in perceived value. It was advancing on its own merits, or perceived merits, even as the US Dollar was gaining in value. *Then, it happened…*

The Dollar entered a sharp correction - dropping about 15% from Jan. '17 into Jan. '18. It was its largest decline in over 7 years… opening the floodgates.

As the stability in the Dollar eroded, and with it - the faith of many investors and speculators, the appeal of cryptocurrency increased exponentially. *A bubble was born*. Bitcoin exploded and inversely moved in lockstep with the Dollar - surging to stratospheric levels as the Dollar dropped.

The speculative value of Bitcoin created a bubble that lasted until the Dollar's descent was nearly complete. *And then it happened again… in reverse…*

The Dollar bottomed and stabilized and Bitcoin - and the entire cryptocurrency arena - plummeted. In a reinforcement to this principle, Bitcoin has now returned to the trendlines (an upward sloping trend channel) that constrained it from 2014 - early-2017.

In other words, the speculative portion of its value has almost completely evaporated - leaving it with just its perceived 'intrinsic' value (for lack of a better term, since all of these currencies only hold value based on perception).

For the first 6 - 9 months of 2018, Bitcoin had the same primary downside objective. That was expected to hold until (at least) cycles turned negative in late-Sept. 2018 - after which they would remain bearish into Dec. '18. In the July 13, 2018 *The Bridge*, the following assessment was published with regard to Bitcoin:

> *"Bitcoin has fulfilled its 3 - 6 month downside price objective - attacking the critical **5,500 - 5,800** support level multiple times… Bitcoin has also fulfilled multiple cycles - daily, weekly & monthly - that have anticipated a low in late-June - mid-July 2018…*
>
> *From a time and price perspective, Bitcoin is in the*

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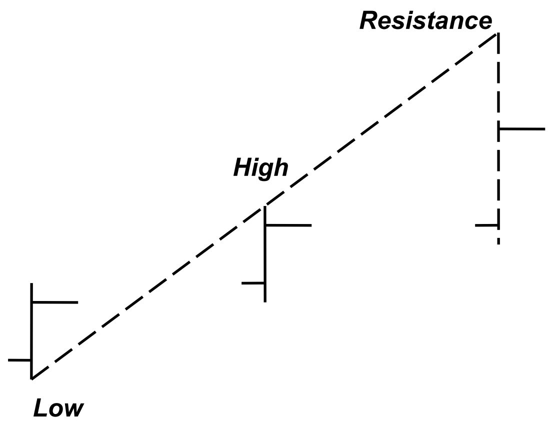

LHR

LHR (and its inverse - the *HLS*) is an effective means of measuring an extreme** in any market. This often culminates a dynamic '3' or 'C' wave rally and warns of an impending top. A weekly *LHR* is often tested within 1 - 3 *weeks* of a final peak. A daily *LHR* is often tested within 1 - 3 *days* of a final peak, etc.

[**'Extreme' is relative/proportional. A daily extreme does not compare to the magnitude of a monthly extreme and would only indicate a trend, acceleration and/or a reversal on a short-term basis. *Do not mix apples with bigger apples.* This indicator is limited in scope and should be used in conjunction with others.]

ideal range for a multi-month bottom to take hold. The first confirmation of that would be a rally above - and daily close above - 6,800. That would then project a rally back to ~7,800, the second level of pivotal resistance…

*The risk? If Bitcoin convincingly breaks below **5,500**, it would reflect an even more bearish structure and could trigger a blow-off decline to ~**3,200**."*

That **3,200** target (the price range actually extends down to **2950**), in Elliott Wave terms, is the *'start of the extension'* in Bitcoin's overall uptrend (see chart on page 2). When Bitcoin was trading around ~**3,000**, that was the last time that somewhat-rational or cooler heads prevailed.

After that, the speculative fervor intensified to a fevered pitch as all the *Beanie Baby* buyers were sure they had found the 'secret' route to *Easy Street* and an early retirement.

Another corroborating factor is the principle of *'resistance turned into support'*. Until late-July '17, **3,000** was decisive *resistance* in Bitcoin. It had rallied right to that level - in mid-June '17 - and then consolidated below it, dropping back as far as ~1900.

In early-August, Bitcoin blew through that resistance and quickly surged to ~5,000.

A breakout like that often results in a retest of the breakout level (*'resistance turned into support'*) before a parabolic advance ensues. Bitcoin dropped back to ~**3,000**, testing & affirming that *support* in Sept. '17, and then began its frothy ascent.

Markets seek equilibrium. And that **~3,000** level is a type of equilibrium between a reasonable uptrend (which was returning 50 - 100% per year or more during that 2014 - 2016 period) and a parabolic mania that inevitably leads to a resultant crash. (There is a third potential downside target - around **1,900** - that represents a more conservative point of equilibrium and 1 - 2 year support.)

It is similar to what the Nasdaq 100 experienced after its 1998 - 2000 (*dot-com*) bubble. That index exited a rational uptrend, went parabolic from Oct. '98 into early-2000, and then crashed into late-2002.

Its extended uptrend began from its early-1997 low around 800. And by late-2002, the Nasdaq 100 had returned to that same point of equilibrium - bottoming

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around 800. It surged from mid-1997 to early-2000 (about 2.75 years) and then plummeted for the same amount of time, into 4Q '02.

And when it crashed, the Nasdaq-100 returned to the uptrending channels in which it had traded during the middle half of the 1990's.

Extremes

Another reason the current time frame is becoming important has to do with extremes. In late-July, Bitcoin attacked its weekly *LHR* (weekly extreme upside target) - projecting a 1 - 2 month peak within 1 - 3 weeks. A week later, it spiked up to its monthly extreme upside target (July *LHR* at **8,482**) - signaling an impending 3 - 6 month peak. (Bitcoin was also attacking its weekly *21 Low MARC* at **8,370**.)

Once that peak is set, a market then needs to ultimately make it back down to an opposing *HLS* (extreme downside target) that will signal an impending bottom. Bitcoin finally did that in late-Nov., but did not hold it. So, although it has fulfilled that extreme target, it has not yet signaled a bottom. A test of ~**3,000** is likely before then.

From a timing perspective, Bitcoin continues to move in ~5-month trends and ~5-month cycles. In late-2017, mid-Dec. 2017 was the timing target for a major top - the fulfillment of the 4th consecutive rally of 5 months' duration. *That is when it peaked*. Ensuring (descending) peaks were expected in May & Sept. '18, with sharp declines to follow each.

At the same time, Bitcoin has set a series of lows at ~5-month intervals - in late-March '17, early-Sept. '17, early-Feb. '18 & late-June/early-July '18. The next phase of that ~5-month cycle is in the first half of December, which is now unfolding.

While it could easily stretch its decline a week or two beyond that cycle, the point is that Bitcoin's decline is nearing another important juncture - like it did in late-June/early-July - when a 3 - 6 month low could take hold. It is also 360 degrees from its major, mid-Dec. 2017 peak. If/when it begins to show signs of a bottom, that will be addressed in future publications.

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