INSTITUTIONAL ADVISORS
original independent financial market forecasting since 1980

BOB HOYE

PUBLISHED BY INSTITUTIONAL ADVISORS

DECEMBER 21, 2017

Exceptional Speculations

As we have been noting in these pages as well as in many interviews, the Bitcoin/Blockchain phenomenon could become the mechanism that can meet the eventual public demand for sound money. One that cannot be corrupted by even the most charismatic of economists. Or the most compelling of federal budget failures. This will be a vehicle of relatively constant purchasing power.

As the gold standard has been when used.

In the meantime, Bitcoin has become one of the great speculations in history. These have concluded in going "straight up" until participants exhaust themselves. Typically, this pushes up short-dated market rates of interest. Since the decline to 1.00% in August, the US T-Bill yield has increased by almost 40 percentage points to 1.39%.

A widely circulated chart shows that the Bitcoin rise is the greatest since "Tulips" in 1637. We have reviewed that example and would not attempt to put together a representative price chart on tulips.

As the South Sea Bubble became irresistible in the first half of 1720, the British government noticed the soaring number of "new issues" and passed the "Bubble Act" in June. But it was too late, too much money was flowing into other stocks and the South Sea Company lost momentum in that fateful June.

Today's leading Bitcoin stocks do not enjoy government protection and the number of new names are soaring. Potentially diffusing the buying power and enthusiasm.

On December 11, The *ChartWorks* contrasted the action in Bitcoin and Qualcomm in 1999. This compared one "stock" against one entity now. Depending upon the lows, QCOM made gains of 42 times and 250 times. The correction in the fall was to 18 and the high was 77, on January 3rd, 2000. On a similar time-frame, Bitcoin jumped from 601 to 3523.

Percent gains in the Bitcoin play are huge.

However, speculative furies can hit any price series and we should look to the "friction" that accompanies any great play.

Generations of academics have discussed the burden of "compound interest". On one side, it is the income being missed. On the other side, it is the cost of carrying a leveraged position. For the formula of leverage to be successful the rise in prices has to be relatively consistent. At least until the last speculator is in and the last short-seller has been forced to cover. Of course, the peak is then defined by a set of lower-lows and lower highs.

In the Bitcoin game, some of the “friction” beyond compounding interest is the cost of “mining”, or just holding positions. No problem when the price is soaring. Unfortunately, leverage and friction still represent gravity when momentum runs out.

The question is “When?”.

Our October 4th comment on bubbles, the one that noted that even the DJIA would be bubbled, noted that the mania runs until it fails. Also noted was that a number of outstanding speculations had completed close to the turn of the year.

OK, so we have a mania into the right time window, which is the first half of the forecast.

The second half of the forecast, the tested reversal, has yet to be realized. However, for the first time since the zoom started two years ago the action in Bitcoin has registered a Sequential (13) Sell, on the Weekly.