Harry's Take

January 5, 2020

Digital Gold Yet or Not? Big Questions in This Third Bitcoin Bubble

There's a lot of talk about Bitcoin and cryptocurrencies becoming the new "digital gold." I think that is a distinct likelihood down the road as cryptocurrencies develop. Even at recent high values, cryptocurrencies, dominated by Bitcoin, are worth about $884 billion, whereas gold investments are worth $3 trillion or about 3.4 times as much. Global stocks are worth $103 trillion. The value of Bitcoin alone would have to go up to around $400,000 a coin to equal all gold above ground, which is about $8 trillion worldwide today.

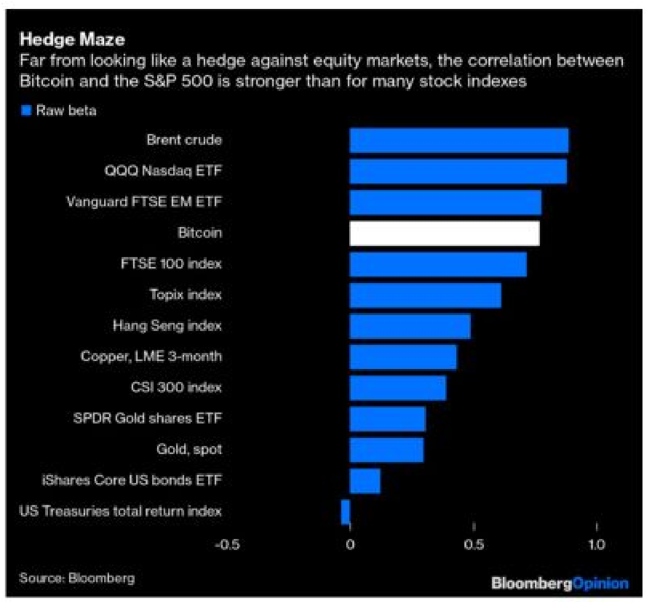
The adoption rate of Bitcoin is about 2% ownership in the U.S. and 1% globally—so it's far from becoming a new standard of money. But that could change rapidly in the coming years at the rate Bitcoin is growing, with institutions now finally entering the arena on a classic S-curve acceleration.

But here are my big questions for now: Is Bitcoin acting like gold? Is it moving like an inflationary hedge and/or a safe haven? I am one of the few warning that gold is NOT a safe haven in a deflationary environment. We saw only a brief glimpse of that in mid-to late 2008 when gold suddenly crashed 33% before central banks turned on the monetary hoses, which shot out massive QE. But more recently, big-time smart-money traders like Paul Tudor Jones II have been buying Bitcoin as an inflationary hedge in place of gold in the late stages of this bubble and money printing spree….

So, is Bitcoin's role shifting?

This table shows that Bitcoin correlates highly with stocks; only oil correlates as much or more. Gold has bubbled since 2005, but more often not at the same times as stocks. This table shows that gold correlates only weakly with stocks; only U.S. Treasury bonds correlated less. (And remember that Treasuries are my best safe haven pick for a deflationary downturn.)

Bitcoin Has Correlated With Stocks, not Gold!



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This chart actually shows Bitcoin since 2012 vs. stocks. Bitcoin has surged to dramatic peaks every four years on a lag to the halving process that keeps limiting its supply. The first major peak was in late 2013, but that peak was relatively small. The second major peak correlated very closely with the first bubblelike peak in stocks in early January 2018 after the strongest surge in stocks until that point, in 2017.

Thus Far, Bitcoin Has Bubbled Up With Stocks, Just Much More So!

That peak came just a few weeks before that dramatic stock peak, but of course, the Bitcoin peak was way more dramatic, as it is much like the dot-com surge that came in the late years of the first tech bubble that peaked in early 2000. Look at the third major surge, going on right now. It is correlating directly with the recent, most-dramatic-ever, and final stock bubble!

Stocks look to me like they are finally in a peaking process, subsequent to one dramatic stimulus surge after the next…. After all, what could top the $3.6 trillion in QE and $3.9 trillion+ in fiscal stimulus that we got in the last year?

And Bitcoin just hit the trend line through these major peaks in 2013 and 2017, at the target I showed in my December newsletter, $34,500. (The actual top, on Sunday, was $34,609.)

Hence, it is possible that Bitcoin is peaking here just ahead of or right with stocks again.

Two big questions are important to consider in the coming weeks or months:

1. **Will Bitcoin peak with stocks in its cycle here, or will it peak on its own 4-year bubble cycle at the end of 2021?**
2. **Will Bitcoin diverge from stocks as they start to crash and then rally more with gold into the early stages of the great crash ahead, or will it follow stocks down?**

The evidence still favors a continued correlation with stocks, but leading-edge institutional traders like Paul Tudor Jones II may be starting a new trend. We'll see, and I will cover this topic more in the February issue of the *HS Dent Forecast*.

Harry

Got a question or comment? You can reach us at info@hsdent.com.