



Harry's Take

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A Break in the Bitcoin Wedge Pattern Could End the Long Stock Bounce

After a series of peaks between early November 2021 and January 4, 2022, the markets finally got the 30%+ crash necessary to end the second tech bubble, yet the still-likely second-wave bounce off of that crash low has lasted longer than normal. In a similar pattern back in late 1929, that second-wave bounce from the first-wave crash lasted only five months before the crash continued in an even stronger third wave down. This time, the second-wave bounce on the Nasdaq has lasted eight months and has gotten within 11% of the all-time high. On the S&P 500, it has gotten within 5%!

Hence, stocks are ripe to turn downward anytime now, if this crash is to be the “crash of a lifetime” that I expect and the markets would choose if governments didn’t prefer otherwise. It is also possible that the S&P 500 will make a slight new high but the Nasdaq and Russell 2000 small caps indexes will not, and that would create a major divergence that suggests a long-term top.

I consider Bitcoin and crypto the leading segment of the stock rally and crash to come. Here’s a pattern in Bitcoin that may give us more clarity near term.

Bitcoin: Fourth-Wave Top Likely if Second Wedge Pattern Breaks \$28,000



Source: Investing.com

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The first wedge in this chart broke upward out of the pattern. The second wedge could go either way. If it breaks to the upside above \$30,000, then Bitcoin is likely to reach a new high of \$32,000 to \$33,000 before the fourth-wave bounce peaks and we get a final, fifth wave down into late 2023 or early 2024. If the wedge pattern instead breaks downward below \$28,000 just ahead, then the fourth-wave bounce is very likely over and Bitcoin could be heading toward much lower lows into late 2023 or early 2024+. The minimum target is \$10,000-\$11,000, but the ultimate target, which I still favor, could be as low as the \$3,250 low in early 2019.

But note that this also would signal a third-wave-down move in stocks, as opposed to a fifth wave down in Bitcoin. Stocks overall are likely to peak a bit lower and later in their fifth wave than Bitcoin in its fifth wave that would be starting. Here's my point: this crash is at a critical stage. Will it follow market preferences, now that the Fed has been forced to overtighten after overstimulating in response to COVID, or will the Fed react fast enough and move back to aggressive stimulus soon enough to stop the crash if stocks start to break downward aggressively again?

You know my preference. I want the markets to win here, by shaking out the bad debts and zombie companies so that the Millennial generation can get the boom they deserve from 2024 into 2037.

I think we will get more clarity soon with this pattern. A break of \$28,000 just ahead obviously would create a further sell or short signal for Bitcoin, crypto, and stocks, leading stocks to fall to their COVID lows from early 2020 soon... and that will still leave another wave down for them to follow after a final bounce.

Harry

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