Monthly Musings-Edition 1

August 28th, 2023

It's not about 'timing the market' rather your time 'in the market'

Crypto markets go through recurring cycles and phases just as any other financial market. By understanding these patterns, investors can make more informed decisions and avoid costly emotional reactions. This month we help our clients understand “**Market Structures**”

There are 3 primary market structures:

1. **BULLISH**- Prices are in an upward trend over a prolonged period. Demand exceeds supply and buyers are in control.
2. **BEARISH**- Prices are in a downward trend over an extended period. Supply outweighs demand and sellers are in control.
3. **Neutral**- Prices are moving sideways and trading within a range. Supply/demand is balanced and neither buyers or sellers have a clear advantage.

Understanding whether we are in a bullish, bearish, or neutral structure based on factors such as fundamentals, technical indicators, and the news helps investors set appropriate expectations.

Markets cycle through 4 repeating phases:

1. **Accumulation Phase**: This occurs after a major downtrend where prices have fallen significantly. Smart money slowly starts to accumulate assets, while everyday (retail) investors may lose interest with what they feel is a ‘BORING’ market. Lower volumes may result in increased volatility.
2. **Mark-Up Phase**: The breakout from accumulation where prices start a clear upward trend. Positive news generates renewed interest and brings fresh capital from new investors, inducing a sense of FOMO for those not *in* the market. This accelerates the uptrend.
3. **Distribution Phase:** Following a sustained uptrend, smart money begins to sell and take profit on their positions. Demand starts to weaken with a decrease in buy pressure. Lower volumes may result in increased volatility.
4. **Mark-Down Phase:** The loss of key support levels indicate the start of a new downtrend. Many late participants get trapped buying right before a period of sustained decline in price.

It is incredibly important to understand the importance of **HIGH TIME FRAMES**. Rather than reacting to temporary price volatility, investors should focus on weekly and monthly structures of the market. Strong ongoing uptrends often see pullbacks as part of the cycle, while short periods of price consolidation don't necessarily indicate a shift from the current trend. Avoid panic selling and 'fomo' induced buying by ***zooming out and understanding the bigger picture***.

By doing this and understanding broader market cycles, investors can avoid common traps. For example, a **bull trap** occurs when prices breakout and have a swift rally, triggering excessive bullish sentiment, but then reverse sharply as the uptrend stalls. This traps buyers who bought the rally while ignoring the structure on a high time frame. Likewise, a **bear trap** happens when prices break key support and ‘flash crash’ , fueling bearish sentiment, only to rebound swiftly back up. This traps sellers who sold off while price was trending down while ignoring the structure on a high time frame.

Awareness of market structures and phases will help investors identify these potential traps. Consider where we are in the cycle, and make your decisions based on logic not emotions. Patience and perspective are the key to long-term success as an investor.

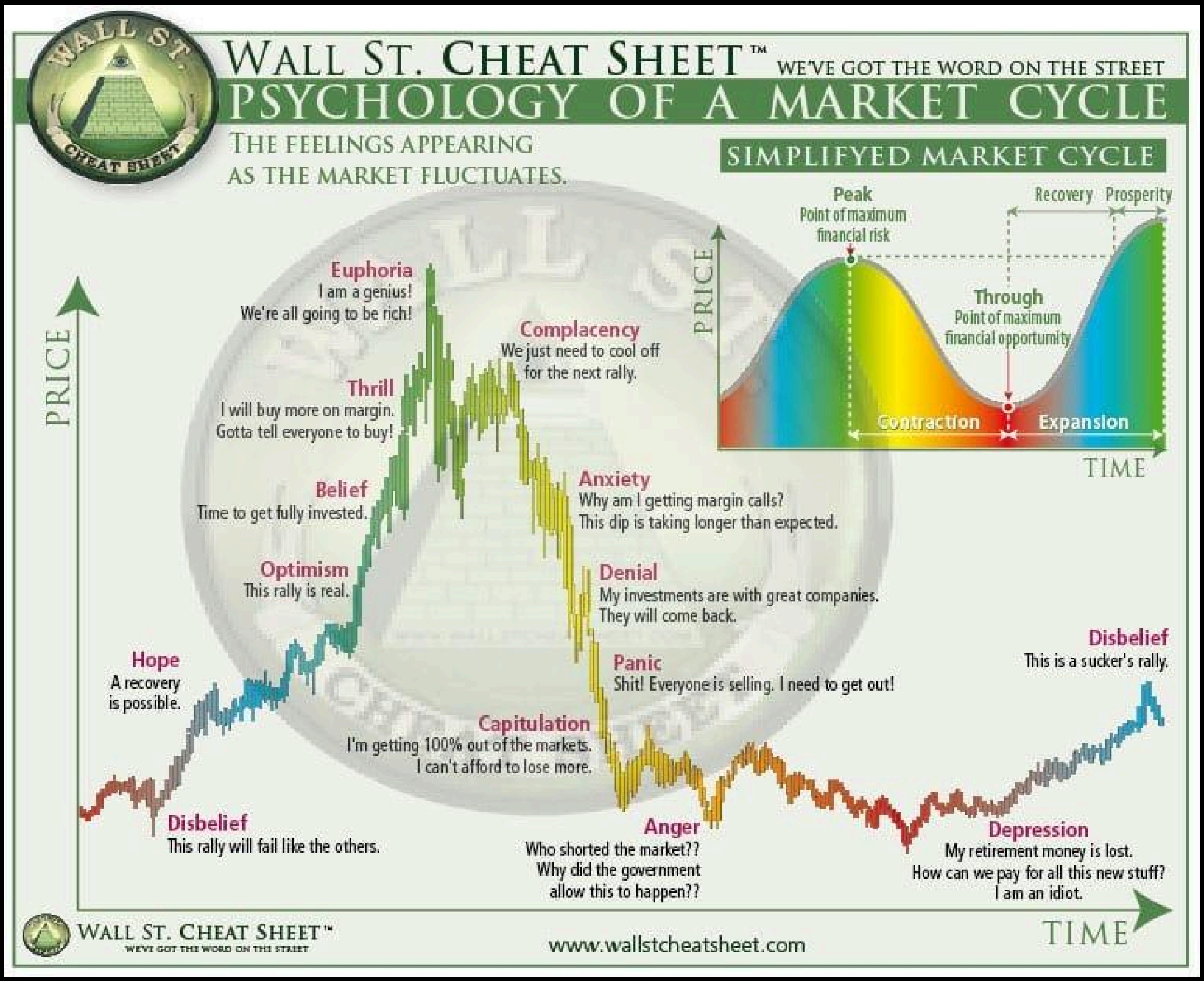
Thoughts on the Current Market:

This month has been a volatile one across most asset classes. We saw **BTC** drop from a high of **$31,850** to a low of **$25,376**. Levels of uncertainty and fear were heightened due to the Feds’ desire to continue with rate hikes. Our strategy at BlockBytes this month has been to remain patient and wait for the market to give us a signal for the short term. Having said that, accumulation of assets we have strong conviction in over the long term has continued through this period of consolidation. There are 2 potential outcomes over the next 1-2 months:

1. We lose the support at **$25,000** and **BTC** trades closer to the demand zone between **$22,000** and **$24,000**. This is a key level to watch for continued accumulation.
2. The more likely scenario is price recovers to the initial breakdown level between **$28,000** and **$29,000**. This would provide, at the very least, a relief rally across the entire market and present a great opportunity to take some short-term trades.

Overall, with the Bitcoin halving due in 2024 and Feds taking a somewhat lighter approach to their policies in regards to inflation we, at BlockBytes Capital, are incredibly bullish for the opportunities this space will provide **over the next 3-5 years**.

The chart pictured below is a great visualization of how the psychology of a market evolves through highs, lows, and periods of accumulation. We are past the ‘anger’ stage for the crypto markets, and with a spot ETF on the horizon, the ‘depression’ will quickly turn to ‘optimism’. Stay tuned.

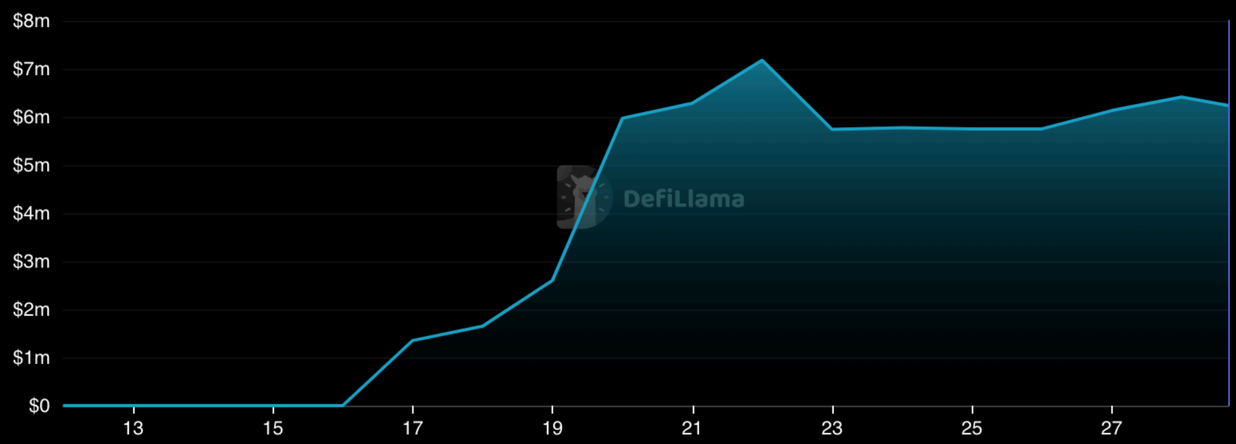


Friend.Tech: 🤝

Friend.Tech has been one of the hottest topics of discussion over the past month. It was launched on Base, a Layer-two solution built by Coinbase to help scale Ethereum. It brings '***social tokenization***' to the forefront enabling users to purchase and trade shares ("**keys**") of other individuals.

Buyers of these social keys are afforded a direct line of communication with the person whose shares they hold. The possibilities are intriguing—imagine purchasing a key to engage your favorite athlete, artist, or business leader in personal conversations.

At BlockBytes, we believe Friend.Tech taps into the strong demand for connection, access, and exclusivity. As the chart (***tha***) below shows, total value locked has already surged past $6 million since the beta was launched. User growth is an absolute certainty as this application moves beyond beta.



By unlocking a new avenue for users to interact and engage on the blockchain, Friend.Tech will help to onboard a new wave of crypto users. If this wasn't enough, there is a buzz building around a potential airdrop reward for early adopters of Friend.Tech.

We are thrilled to share that ***5 of our clients at BlockBytes***

***Capital** have secured exclusive invitation codes to join and use Friend.Tech in its limited beta stage*. Check your Email, and congratulations if you secured one of the invites. Many more rewards and surprises await all our clients over the coming months!

Thank you for taking the time to read our first, of many, newsletters. We hope it has provided you with a valuable perspective on market cycles, common investor 'traps' to avoid, and our thoughts on the possible trends this market will take over the next 1-2 months.

As legendary investor Shelby Davis said ***"You make most of your money in a bear market, you just don't realize it at the time"***