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Bitcoin Performance Versus Other Investments

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In the world of investing it is always wise to review the performance of your investment portfolio. Which assets did well and which assets do you now wish you would have never purchased? In the depths of the crypto winter many have bailed out of Bitcoin and others are staying the course. We have watched Bitcoin lose two-thirds of its value since November 2021, the stock market plummet and then partially recover, and the bond market see its best days in well over a decade. It is time to consider Bitcoin performance versus other investments and chart a course forward.

How Bitcoin Price Correlates with Other Investments

As Bitcoin and other cryptocurrencies lost value throughout 2022 investors looked for ways to predict what the crypto world would do next. Inflation soared, the Federal Reserve raised interest rates, Russia's war in Ukraine disrupted commodity markets, and Chinese zero-tolerance Covid lockdowns further diminished supplies of goods out of that nation. How could one predict where crypto would go next? What became apparent was that over the last few years the price of Bitcoin had developed a close correlation with the [Nasdaq stock market](#). The relationship that developed between Bitcoin and the Nasdaq was that when one went up the other went up and that when one went down the other went down. However, the peaks and valleys of Bitcoin were always more dramatic than the Nasdaq.

When Has Bitcoin Diverged from Its Nasdaq Correlation?

We noted last summer that Bitcoin was falling to lower and lower [price plateaus](#). There was a late summer Nasdaq recovery that was mimicked to a lower degree by Bitcoin. What we noticed as a wave of business collapses and bankruptcy filings swept through the crypto world was that [Bitcoin would fall independently](#) of Nasdaq at those times. What we have also noticed is that while Bitcoin and the Nasdaq generally follow each other up and down, there is not a day by day relationship in the ups and downs. The day we wrote this article, February 13, 2023, the Nasdaq traded up by 1% while Bitcoin fell 1%.

Why Is There a Bitcoin to Nasdaq Relationship?

As Bitcoin and other cryptocurrencies came out of nowhere and created fortunes, Bitcoin promoters continually predicted new highs. Crypto, the story went, was a way to store value when currencies like the dollar fell. Bitcoin was a hedge against inflation and a safe refuge in times of social unrest, [war](#), and plunging markets. Then the world saw the worst inflation in four decades. The Federal Reserve and other central banks began to raise interest rates and cut back their balance sheets. When they do this the goal is always to cool down the economy and bring prices down. Invariably they cause a recession, stocks suffer, and unemployment peaks. It would appear that many who invested in Bitcoin and the rest along the way were treating Bitcoin like another stock in their portfolio, buying and selling in response to the same cues that were driving stock [market sentiment](#).

Will Bitcoin Recover Along with Nasdaq and to What Degree?

The Federal Reserve has made progress in reducing inflation but is not done yet. The best guess is that they will quit raising rates late in 2023 and a [recession](#), if there is one, will be called around the same time. Because saying there is a recession means that the preceding quarters of GDP have been negative, the stock market is typically ready to recover just as an official recession is announced. That is when the market, always looking forward, will start to price on economic recovery and company profits. It is when we would expect big tech companies in the Nasdaq, like Alphabet, Microsoft, Apple, and Amazon.com to see their stocks start to go up. Unlike the recovery after the Financial Crisis, this time around there will not be historically low interest rates for years on end. Thus, the strength of the Nasdaq recovery will likely be weaker. For Bitcoin the issue will be two-fold. One is that regulation is taking hold and things like widespread [Bitcoin wash trading](#) will probably stop. The other is that the mystique of crypto as an asset that “always” goes up has pretty much vanished. Bitcoin will recover but, going forward, we do not expect to see the same sort of amplitude to its price spikes or valleys as in prior years.

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