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Stock Market Investing Tips, Techniques, and Resources



Crypto and Permanently Higher Interest Rates

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There is a curious thing about people who invest in cryptocurrencies or stocks for that matter. They all too often are trying to invest in the market that they fantasize about rather than the market that they have. Well over a year ago Chairman Powell of the Federal Reserve warned that there could be some pain along the way as they raised interest rates. He, and pretty much all of the regional central bank presidents, have said again and again that they will keep raising interest rates until they get the rate of inflation down to 2%. They are not there yet but markets keep hoping, until they suddenly realize that someone like Powell means what he says. The issue is crypto and permanently higher interest rates.

Shattering the Bitcoin Calm

We are seeing [mass liquidations](#) of Bitcoin positions as part of a broad-based swing away from risky assets. Bitcoin had been trading in the \$29,000 range and fell into the \$25,000 range over three days. Its fall was reminiscent of how Bitcoin fell from one [price plateau](#) to the next during crypto winter. The issue is not just cryptocurrencies. Much like during crypto winter, markets are responding to the prospect of higher interest rates for longer than many had hoped. In addition the economy of the second largest economy, China, is weak. And, crypto is not done with the regulatory storm that has descended on it over the last year or so.

Does Bitcoin Have More Room to Fall?

Over the long term, fundamentals drive markets. Over the short term market sentiment sends prices up or down. The only fundamental for Bitcoin is that we know how many there will be in the end, unlike US dollars, Euros, and the rest of the fiat currencies. Stock markets are driven by the financials of their various stocks. Something that became apparent a few years ago is the Bitcoin goes up and down with the Nasdaq stock market. Nasdaq fell over the last few days like Bitcoin did but started its fall more than a week before that. Where the Nasdaq goes will depend on the economy and how it affects the tech heavy market.

What Do Bitcoin Futures Options Tell Us?

Bitcoin open interest went up at the same time that everyone decided to sell. Open interest refers to the number of contracts to buy or sell options on Bitcoin futures. These are essentially bets on where Bitcoin will go next. The more open interest there is the more likely it is that Bitcoin will go up (or down) in the near future. The bulk of the options market is following current market sentiment. However, some are looking at longer term fundamentals, worrying about how China's troubled economy will spill over into the rest of the world or how interest rates staying a lot higher for a lot longer than many hoped will affect the economy and the markets.

This Time Around Bitcoin Did Not Start by Being Overpriced

Looking back at 2021 Bitcoin had two peaks above \$60,000. In retrospect, it was overpriced. What was commonly expected and what did not happen was a fall in price followed by a third peak. That was because we were seeing the worst inflation in forty years and the Federal Reserve told us they were going to raise rates. They did and they kept raising rates as stocks and cryptocurrencies plummeted. Although Bitcoin has made a comeback from the depths of crypto winter it has not gone up to stratospheric levels. Out take on the recent mass exits from Bitcoin is that this is people rotating their investments away from sectors that they find currently unattractive and into areas where there is lower risk and/or more opportunity. In our opinion, this is not spelling the demise of Bitcoin. It is however, telling us that the stresses of higher rates are nowhere near done.

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