

# Profitable INVESTING Tips

## Stock Market Investing Tips, Techniques, and Resources



### Crypto and the Coming Recession

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Cryptocurrencies had a tough time of it in 2022 losing three-fourths of their value from November 2021 to November 2022. Inflation surged to levels not seen in forty years and the US Federal Reserve raised interest rates aggressively, not only driving crypto down, but the stock market as well. Those who held on through the cold [crypto winter](#) have been encouraged by the recent rise of Bitcoin and the rest by nearly 50% since December. Measures of inflation, it turns out, are not doing as well as expected and the Fed is likely to keep raising rates rather aggressively. It may well be time to consider crypto and the coming recession.

### Why Will Crypto Have to Endure a Recession?

Unfortunately for crypto enthusiasts, much of the recent crypto price surge seems to have been based on the assumption that the Federal Reserve was making headway fighting inflation and would not be raising interest rates so aggressively in 2023. Something that became clear as crypto prices fell throughout 2022 is that Bitcoin and other cryptocurrencies trade up and down in concert with the Nasdaq stock market. The only times when there is a variation in this routine have been when there is a shock to the crypto world as another [crypto exchange goes bankrupt](#) or more [charges of fraud](#) emerge after a crypto collapse. When a recession hits full force the stock market goes down and, as it turns out, so will cryptocurrencies.

### Is a Recession a Sure Thing for the Crypto World?

When inflation is eating away at the value of the dollar, and people's savings, the US Federal Reserve acts according to its [mandate to bring inflation down](#). It does this by reducing its balance sheet and by raising interest rates. Their goal is to slow the economy enough to stop the upward surges in consumer prices and wages. What we are concerned about is that roughly as often as not, the [Fed causes a recession](#) before it is able to reduce inflation to a tolerable level.

### How Bad Might a Recession Be for Crypto?

The last time that inflation was as high as it is now, the Fed under chairman Volcker raised rates briefly to 20% because of how high and how stubborn inflation was. This caused a recession and drove up unemployment for seven years. Assuming that crypto follows its previous course of tracking the Nasdaq and the Nasdaq responds as expected to a severe economic slowdown, both the Nasdaq (and the Dow and the S&P 500) and crypto currencies will fall significantly.

### A Market That Has Fallen Has Less Room to Fall

When the economy slows and markets fall there are three things to consider. First, less money running around the economy means lower profits and this means that stocks and other investable assets like cryptocurrencies fall proportionally in value.

The second issue is just how overpriced the market was before the fall. After the Financial Crisis the Federal

Reserve lowered interest rates to near zero. This drove investments away from things like US Treasuries and corporate bonds and into stocks. Low interest rates helped reduce the cost of doing business and corporate profits soared. While the big tech companies that comprise most of the value of the Nasdaq rose beyond their fundamental long term value, so did crypto currencies. The first hit in a world of higher interest rates was to take away excess valuation and the second, which is still going on, is to bring valuations down to levels supported by fundamental or [intrinsic factors](#).

The third factor that drives prices of stocks, crypto currencies, foreign exchange, real estate, and the rest is [market sentiment](#). When prices fall markets panic. When prices rise markets get greedy. Another fall in crypto prices brought on by a recession will likely cause the sort of panic the led to [bank failures](#) in the early days of the Great Depression and another wave of [crypto business bankruptcies](#).

### What Happens to Crypto After a Recession?

A useful example of what happens to businesses after market crashes and a recession is Amazon.com. Amazon was, for many, just another “dot com” in the late 1990s when people were investing in any company with “dot com” or .com after their name. Because of positive investor sentiment one could not determine which were good investments and which were the pits into which people were throwing money just by watching stock prices rise. The point is the dot com bubble burst, the market crashed, and among the dot com stocks, 99% of equity evaporated.

### Who Survives a Crypto Crash?

The only companies that survived the dot com crash were the ones that had real businesses generating real profits and one of them was Amazon.com. Today Amazon.com has a [market cap](#) of just under \$1 trillion. When we apply this thinking to the crypto world we look for companies that can make money in NFTs, the Metaverse, decentralized finance, and other blockchain applications like [gaming](#). Those are likely the ones that will emulate Amazon.com in the years ahead.

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