Why Is Buying the Crypto Dip Not Working in 2022?

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From its inception in 2008 Bitcoin defied critics and rebounded after every correction, leading the world of cryptocurrencies higher and higher. It did that until it didn't. From November of 2021 at $67,000 to the end of September of 2022 in the $19,000 range Bitcoin and the rest have been in a downward spiral. Why is buying the crypto dip not working in 2022? We went looking for answers and found some help in an article by *The Wall Street Journal* about why **buying the dip** in the stock market has been so defeating in 2022.

Comparing the 2022 Markets to 1931

As we have written, the 1929 stock market crash was not only the worst ever, but it also lasted until 1933 and in the end took away 90% of market value that existed in the summer of 1929. 2022 has been the worst year for buying the stock-market dip since the early 1930s. As *The Journal* notes the S&P 500 this year has followed one percent one day losses with another drop of 1.2% on average over the following week. Thus, virtually every time that someone jumped into the market to buy the dip, they simply suffered more losses. This metric is important for the crypto world because crypto has followed the ups and mostly the downs of the market ever since November of 2021. Bitcoin has tracked the Nasdaq almost without fail. Why is the market acting like the 1929 to 1933 market crash? Since the depths of the Financial Crisis sentiment has gotten far ahead of fundamentals and, like the 1929 to 1933 time frame, the market is purging excess value until current prices come down to fundamental value.

Markets Are Looking for a Bottom

Markets, whether we are looking at the stock market, commodities market, foreign currency market, or crypto market, eventually arrive at prices determined by **fundamental factors**. But along the way they respond to variations in **market sentiment**. When the stock and housing markets collapsed in the Financial Crisis in 2008, Bitcoin was being born. The US Federal Reserve bailed out the economy, helped maintain credit, and avoided a market crash and a recession like the 1929 to 1933 crash and Great Depression. They did this by dropping interest rates to near-zero and buying bonds to the tune of trillions of dollars. Their balance sheet (printed money) soared and the economy was saved. Then all markets, crypto included, lived in a world where **real interest rates** were negative even with low inflation. The stock market kept going up and the crypto market rose from non-existence to be a way to make a fortune in a short time. It is easy to see how the crypto world, and everyone else, came to believe that crypto was going to keep going up forever, was a hedge against inflation, and was a store of value in times of chaos and unrest. The last ten months have shown those beliefs to be wrong and have totally changed market sentiment. Now investors in crypto as well as stocks are looking for a bottom and have not found it yet.

Factors Sucking the Life Out of the Markets

Chair Powell of the US Federal Reserve said that the economy has a **new normal** with the worst inflation in four decades, war in Ukraine, Covid shutdowns in China that gum up the supply chain coming out of Asia, shortages of food and strategic materials, and a looming and prolonged recession. The Fed is raising interest rates at a steady clip and Chair Powell says the Fed is going to bring inflation down to its two percent target even though doing so will result in a recession and unemployment. This is all happening at the same time that it has become apparent to the crypto world that buying the dip has not worked this year, crypto is not a refuge during difficult economic times, and the dollar is steadily getting stronger with steadily higher interest rates.

Going forward we expect to see investors return to the principles that emerged after the 1929 crash where one looks at intrinsic stock value and buys when the market has taken a stock down to levels far below what is supported by forward looking cash flow. This approach may be seen as buying the dip but, on a months-long or even years-long time frame instead of expecting a bounce back within a week.

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