



Bitcoin Crash: Should You Buy the Dip?

Description

Bitcoin ([CRYPTO:BTC](#)) dropped 6% yesterday and is down roughly 20% year-to-date. It's now trading at roughly the same level it was in early January 2021, which means it has wiped out all the gains from the past year.

Investors must now consider whether this is a temporary bump or the start of a prolonged [crypto winter](#). Here's a closer look.

Bitcoin's metrics

Bitcoin's 40% drop from its all-time high in November puts it firmly in bear market territory. It's worth noting that this trend is aligned with growth and tech stocks. Major tech companies have seen similar declines over the past few months, which indicates that BTC is still closely correlated with risk assets and equities in particular.

This means that BTC probably won't recover unless tech and growth are back in vogue. It also means that investors should measure the success of this digital asset like they would any other tech product – based on usage and utility. Over the past year, the number of active BTC addresses has declined slightly from 1.1 million to 1.05 million, according to data published by Glassnode. The last time this happened was in 2018 – the start of a multiyear crypto winter.

Crypto winter

Crypto winter is a period of time when the price and popularity of digital assets are rangebound. In other words, it's the bust phase of the cryptocurrency boom-bust cycle. We've seen multiple instances of this in the past. One of the earliest winters was triggered by the collapse of cryptocurrency exchange Mt.Gox in 2014.

The event pulled BTC down from US\$1,000 to US\$100. The price wouldn't recover for four long years, until 2017. Bitcoin hit another high at US\$20,000 during this boom, but quickly dropped below

US\$10,000 by the end of 2018. The price wouldn't recover until the pandemic triggered another boom in 2020.

It seems we're at the end of that boom cycle. Search traffic for cryptocurrencies has declined substantially and the industry faces a wave of new regulations that could pull more steam out. Another crypto winter is bad news for traders, but good news for investors who are willing to make a long-term bet and hold onto their assets.

Buying opportunities

An extended period of low prices isn't exciting if you day trade. But if your time horizon is multiple years, this environment is extremely favourable. I entered the crypto market during the 2018 crypto winter, which allowed me to buy BTC at roughly US\$6,000 and **Ether** ([CRYPTO:ETH](#)) at US\$150. Those investments took several years to pay off and exposed my portfolio to plenty of volatility. But the capital gains have now covered this risk.

In this cycle, I'm looking to add more exposure to niche cryptocurrencies that could benefit me over the long term. Bitcoin could certainly be on that list if it declines further. If this strategy fits your risk appetite, I recommend you take a closer look at this sector.

Bottom line

Bitcoin's usage and popularity seem to have waned. It could be entering another crypto winter. Long-term investors should consider adding some exposure over the course of this year.

CATEGORY

1. Cryptocurrency
2. Investing

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. jguest
2. vraisinghani

Category

1. Cryptocurrency
2. Investing

Date

2025/07/06

Date Created

2022/01/23

Author

vraisinghani

default watermark

default watermark