



Down 50% From All-Time Highs, Is Ethereum a Buy?

Description

Ethereum ([CRYPTO:ETH](#)) is the second-largest [cryptocurrency](#) in the world and is valued at a market cap of US\$286 billion. While the ETH token has generated exponential gains to long-term investors, it's also down 50% from all-time highs. Let's see if Ethereum has bottomed out, making it a top bet at current prices, or if the digital token will continue to decline in 2022.

Net unrealized profit/loss

One of the key metrics to analyze while looking at cryptocurrency prices is the [net unrealized profit/loss](#), or NUPL. The NUPL lets you calculate the percentage of tokens that are in a state of unrealized profit or loss. At the time of writing, the NUPL ratio for ETH is 0.36, which suggests 36% of the total market cap is held as an unrealized profit and the rest is held at an unrealized loss.

Comparatively, the NUPL ratio was close to 0.71 in November 2021 when ETH was trading at record highs.

MVRV-Z ratio

Another popular technical indicator for valuing cryptocurrencies is the MVRV ratio, which is the ratio of a token's market cap versus its realized capitalization. So, the MVRV ratio can be used to evaluate if a digital asset is trading above or below its fair value.

Generally, an MVRV ratio of over 3.5 indicates a late-stage bull cycle, while a ratio of less than one might suggest tepid demand or undervaluation. Right now, the MVRV-Z ratio for Ethereum is 0.57. The ratio stood at more than six times during the bull market of May 2021.

Percent supply in profits

The percent supply in profits is a ratio that indicates the percentage of the total supply of the token

which is in profits. The multiple allows us to analyze the market sentiment for the particular digital asset. Generally, a multiple of over 90% suggests a market high, and a value of 30% or lower can be considered a market low.

Right now, the percent supply in profits ratio for ETH is closer to 70% and stood at 99% at the end of October 2021.

The Foolish takeaway

Looking at historical trends, Ethereum prices might move lower in the next few months. However, it's almost impossible to time the market, and you need to use the indicators as guidelines to support your investment strategy. If you are bullish on the long-term prospects of cryptocurrencies in general, you can allocate a small portion of your savings towards buying ETH at the current price.

Unlike equities, it's difficult to value cryptocurrencies, but you can dissect the utility of a particular blockchain network. Ideally, a network should be cheap and scalable and have the ability to onboard a variety of projects on its platform, which, in turn, will positively impact the demand of the underlying token.

Right now, Ethereum is not the cheapest or fastest blockchain network in the world. However, regular network updates by developers improve transaction processing times and the scalability of a blockchain over time. The upcoming [network upgrade](#) of Ethereum will be a major driver of its token price in 2022.

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