Bitcoin Could Have Further to Fall as Speculative Frenzy Fades

Description

The speculative frenzy has come to a grinding halt over the past several months, with cryptocurrencies like **Bitcoin** (CRYPTO:BTC) and **Ether** taking several steps back and high-multiple growth stocks also taking a one-two punch straight on the chin. What the next move remains to be seen. Regardless, I can't say I'm a huge fan of the technical picture with Bitcoin at this juncture, nor do I think the speculative frenzy will reignite in the same way it did in the early days of 2021, when meme stocks and all the sort were red hot. Further, Bitcoin has demonstrated a positive correlation to stocks, especially the riskiest "sexy" stocks during tough times.

Volatility ahead for Bitcoin and the like?

Now, Bitcoin, **Dogecoin**, **XRP**, **Solana** and all the sort have always been really volatile. Big dips have preceded even larger rallies. But one must remember that it's impossible to value Bitcoin. Indeed, it's exciting when you hear about Cathie Wood or some raging bull putting a sky-high price target on a token. Given potential headwinds, most notably regulation, and the cyclical nature of cryptocurrencies, I'd argue that investors should be cautious going against the grain on this latest dip, especially with a double-top pattern that could come to fruition by the summertime.

While some may view Bitcoin as a gold-like substitute, I'd argue that you're more likely to face amplified downside if this speculative tech correction were to drag into the spring and summer months. Why? It all comes down to supply and demand. When there's a lot of liquidity and risk-taking in the system, you're going to see asset prices surge.

Indeed, the increased adoption among tech titans (think Elon Musk and Jack Dorsey, who can't seem to stop talking about crypto) and acceptance among big-league investors as well as merchants have helped propel Bitcoin above and beyond over the past two years.

A 40% drop in Bitcoin isn't as scary as past drops!

This isn't the first time Bitcoin has plunged so violently. And arguably, a 40% plunge is really less remarkable in the grander scheme of things! Long-time Bitcoin investors have seen this all before. In fact, a 40% drop may be considered mild! Indeed, Bitcoin is capable of so much more downside.

Remember back in 2017 and 2018, when Bitcoin collapsed from just shy of US$20,000 to as low as US$3,000-4,000 per coin? Yes, it's been a while, but such 85% drops are to be expected from time to time. And if you can't stomach such drops, you may wish to reconsider investing in Bitcoin, as the curtains come up and fewer folks in the financial media talk about it. Of course, that would be the time to be a buyer if you believe in the future of the asset.

What am I doing amid Bitcoin's tumble?

Personally, I'm staying on the sidelines and will continue to until the asset can experience a 2017-18 type of painful crash. While I could be waiting a long time, I can't say I'm too much in a rush to nibble on the asset that really could go either way.

There are headwinds, and the technicals could be better. That's why I'd be patient, even if it means risking missing out on a move towards US$100,000. I just can't stomach the downside risk if Bitcoin were to face 2017-18 all over again. Indeed, there are safer places to be as an investor in this horrifically choppy year, where avoiding volatility may be a wiser strategy rather than seeking to add beta.

I think taking chances on fast-falling assets that you can't value is a dangerous game. Valuation matters now more than ever.

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