



Opinion Bitcoin Institutional

Eric's November Thoughts

\$16,236.40 per bitcoin.

Nov 16th 2020



Eric Wall



It feels like the question on everyone's mind right now is whether this is the beginning of another monstrous bitcoin bull run. But at the same time, I'm not sure who would think that it isn't. Why wouldn't it be? In this moment, it's as if all of our wishes are coming true.

If you cannot clearly see why that is, let's jog our memory together.

Let me make clear that I'm not writing this to incite hype. \$16,236.40 per bitcoin isn't only the price bitcoin is trading at right now, it is also the exact price point at which I once shorted bitcoin almost 3 years ago. In the article titled "Shorting the Great Bitcoin Bull" I laid out my arguments for why I thought the market was penetratingly overheated and why the assumptions people were making were off. I'd have no trouble writing a similar article today if the circumstances were the same. But that simply isn't the case.

The year 2020 has been a two-sided coin for bitcoin. On the one hand, we're witnessing the greatest monetary expansion in the history of the developed world—an absolute dream scenario for bitcoin. On the other hand, bitcoin not only suffered tremendously (BTCUSD -60%) during the coronavirus crash, but it also traded like a leveraged S&P 500 ETF for substantial periods of time after that.

Throughout this turmoil, we've all been waiting for the right pieces to come together so that bitcoin could break free from those shackles. The first thing we needed was for the looming threat of a total market collapse to dissipate. With the S&P 500 trading at its all-time high even while the much-dreaded winter surge of coronavirus cases is upon us, it's unclear if the market is rallying because of the Pfizer vaccine optimism, or because the game is rigged either way (virus = QE, no virus = good).

A symphony of positivity

With that out of the way, a symphony of positivity has been coming together for bitcoin. In this ensemble, PTJ sounded the trumpet in May and the first violin. The corporate treasury narrative following the announcements by MicroStrategy Inc. and Square came in like unsuspecting bassoons in August and September. The acknowledgements from other renowned investors in November (Bill Miller, Druckenmiller) were the basset horns, accompanying PTJ's tune. And not to forget PayPal, the October clarinet.

While the orchestra has been playing, bitcoin has effectively decoupled from the S&P 500. During the last 30 days, bitcoin is up +40% while the S&P is flat at +1.26%. And as you may know, looking at *where* the volumes are coming from paints an even more interesting picture. Retail volumes are still a far cry from their 2017 high, but open interest on institutional venues (CME, Bakkt) are at all-time highs—the number of large traders at the CME even doubling this year alone.

What's important to understand here is that these are not FOMO-driven investments by random schmucks hoping to make a fast buck—these are signals that indicate that bitcoin is at last emerging as something belonging in serious allocators' portfolios. That's why bitcoin is demonstrating its longest streak above \$10,000 with such confidence this time around (113 days and counting, almost twice the previous record)—because it's not about some speculative craze that could falter on a whim,

these are calculated investments underbuilding a price that the market now thinks is fair and valid.

Psychological warfare

What this symphony amounts to is a form of psychological warfare on nocoiners. It was easy to dismiss bitcoin in 2017/18—if you wanted to be negative, there were plenty of reasons to choose from. Bitcoin was “internet drug money gone tulip bulb” that you had to scan your driver’s license for and send off to some website to acquire. In 2017, Ray Dalio called bitcoin a bubble while Jamie Dimon called it a fraud. The next year, Warren Buffet called it “rat poison squared” while Bill Gates said that he’d short it if he could. And by the end of 2018, it had crashed to \$3,200.

Surely, if you wanted to find an excuse to spend your mental energy on something else than understanding what “a computer network solving complex mathematical puzzles” really meant, it was not hard to rationalize that decision.

However, it’s when bitcoin comes back at you for a second time that something uncomfortable starts to happen in your head.

If you really were right about bitcoin, then why is it coming back?

Why would a bubble pop and inflate again after it has popped?

Why is Paul Tudor Jones talking about *bitcoin* as if it’s a “hedge against the great monetary inflation”? Why is Druckenmiller claiming that it’s likely to be a better bet than gold? Why is Bill Miller predicting that it’s soon going to be a ubiquitous part of every major bank and investment firm’s portfolio?

Somewhere deep inside yourself you know that something is amiss with the world. Let’s be real. Bond yields are zero. Equities’ P/E ratios make no sense. The fiat money stock chart (M2) looks like it’s been drawn by a child with a crayon. Even if bitcoin is rat poison squared, at least the supply is finite.

Among all the people that I’ve met that were skeptical of bitcoin, they share one trait. You don’t change your mind on the first encounter. While you may pick up one or two good arguments in favor of bitcoin over a dinner conversation at some point, those arguments take time until they have a real impact on your frame of mind. Good arguments need to marinate in your brain for an extended period before they start to seep in and challenge your understanding.

It takes *two* nudges to convert a nocoiner. The vast majority of people got their very first nudge in 2017. These people are now primed for that second nudge, which is coming in roaring. The amount of actual nocoiner conversion that will happen this time around will be vastly different from three years ago if bitcoin becomes a dinner table topic once again.

Meanwhile, during these last three years, the builders of this industry have been carefully preparing for this moment, putting the infrastructure in place to accommodate the demands of our newly converts.

Zooming out

It's interesting to note that both Arthur Hayes and Mike Novogratz predicted in March and April that we'd see \$20,000 by the end of the year. Zooming out, it may be comforting to learn that what's currently playing out was entirely predictable. The matter of the fact is that it's simply a reasonable price for bitcoin in this environment.

\$16,236.40 is not a high valuation. A \$300 billion market cap is 3 percent of gold's \$10 trillion. That may have felt unsubstantiated in 2017, but it isn't now.

It's a perfectly reasonable valuation. And the orchestra has just started playing.

Opinion Bitcoin Institutional



Related articles



Opinion Bitcoin DeFi