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# Cryptocurrency Research

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## Is the Bitcoin Bottom In?

**Several indicators suggest we are at a local bottom.**

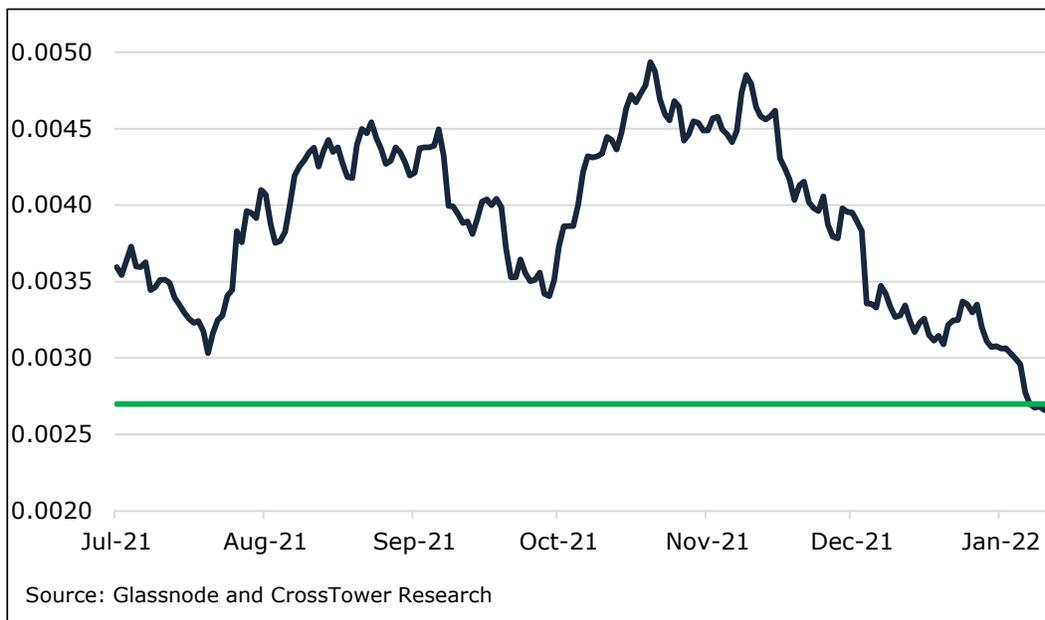
The global crypto market has been falling since around November 10<sup>th</sup>, the day on which Bitcoin hit its all-time high of approximately \$69,000. There has been steady selling since then, although it did not feel like it – impressive gains in various Layer 1 and Metaverse tokens masked the overall weakness. Yet with the Fed's hawkish comments in the new year leading to pain for equities as well, nearly all of crypto has been pummeled. Bitcoin has managed to hold around the \$40,000 level after briefly falling through. Now, two weeks into 2022, there are several on-chain metrics that suggest BTC, and the broader crypto market, may be past their bottom.

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### Reserve Risk Flashes Buy

Reserve risk, a measure of the confidence of long-term BTC holders, has declined to levels that indicate attractive risk/rewards and have coincided with troughs in the price in the past. This coincides with low readings on the Crypto Fear & Greed Index, which read 21 (Extreme Fear) on January 11, 2022.

**Exhibit 1. Reserve Risk**



Notably, reserve risk is lower than it was at the last bottom in July 2021. At that time, reserve risk never hit the "buy" threshold (attractive risk/reward) then, but it has now. Moreover, reserve risk did not hit the "sell" zone (unattractive risk/reward) as we hovered in the high \$50,000/low \$60,000 range in Spring 2021, nor did it do so when we hit all-time highs in November 2021. Hence, the fact that it is in the buy zone now gives more weight to the indication that this is a bottom.

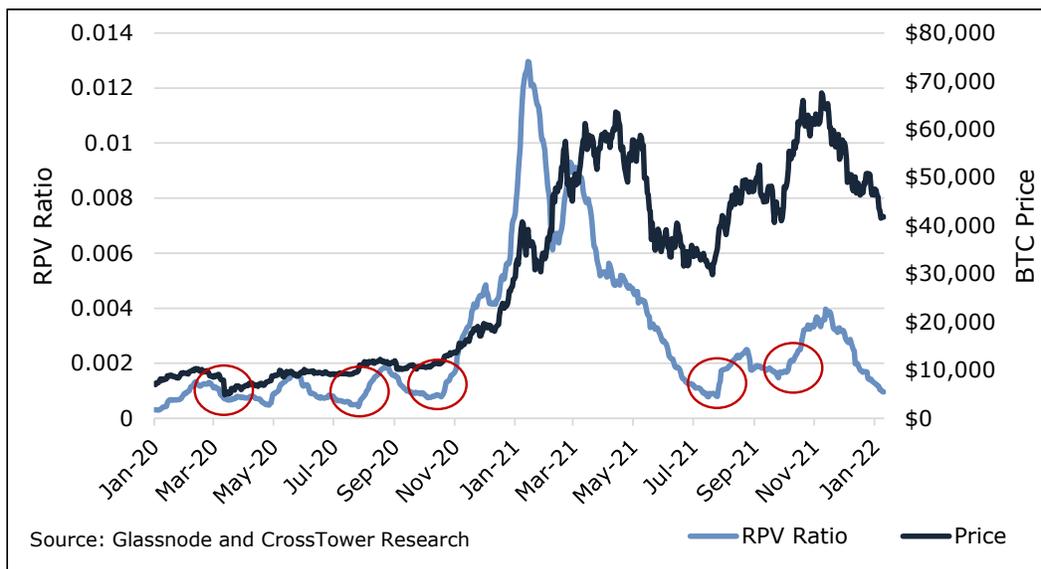
We note that reserve risk can indicate attractive levels for several months, as it last did from September 2019 to November 2020 (14 months), so it may best be a signal for those with long time horizons. Nevertheless, we take this as a strong sign we could be bottoming, and a sustained increase out from the buy range would confirm that.

### RPV Ratio Heading to Levels That Historically Mark Troughs

The realized profits-to-value ratio (RPV) is also very telling on a 30D SMA basis. RPV gauges profit taking in the market with its cost basis and is defined as realized profits over realized cap. An RPV reading of approximately .0008 or below has historically coincided with local market bottoms, as shown in Exhibit 2. As of January 10, 2021, this metric stood at .00095 on a 30D SMA basis, nearing levels that marked past local bottoms, such as in July 2021 and October 2020. If this value plateaus or begins to increase again, we would take this as confirmation that the price has likely bottomed.

This metric has consistently coincided with local BTC lows historically, especially within the past two years. Specifically, this included March 2020 Covid-19 crash as well as the July and September 2021 lows.

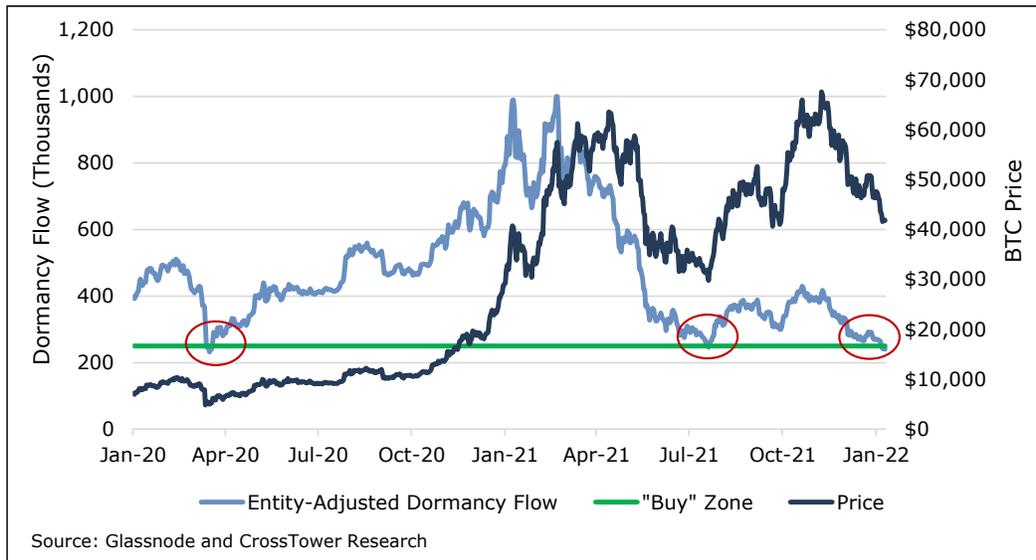
**Exhibit 2. Realized Profits-to-Value (RPV) Ratio (30d Moving Average)**



## Key Metric Points to Market Bottom

Dormancy flow, a measure of Bitcoin's current market cap and coin dormancy (spending patterns), has flashed a very rare buy signal. According to [Glassnode](#), low readings such as the ones we are seeing in the last several days "indicate moments where market cap is undervalued relative to the yearly sum of realized Dormancy".

### Exhibit 3. Entity-Adjusted Dormancy Flow



On an entity-adjusted basis, dormancy flow has only hit the "buy" threshold 4 times in the past 5 years, and has marked market bottoms in each instance, making it a compelling gauge that the worst of this selloff is behind us:

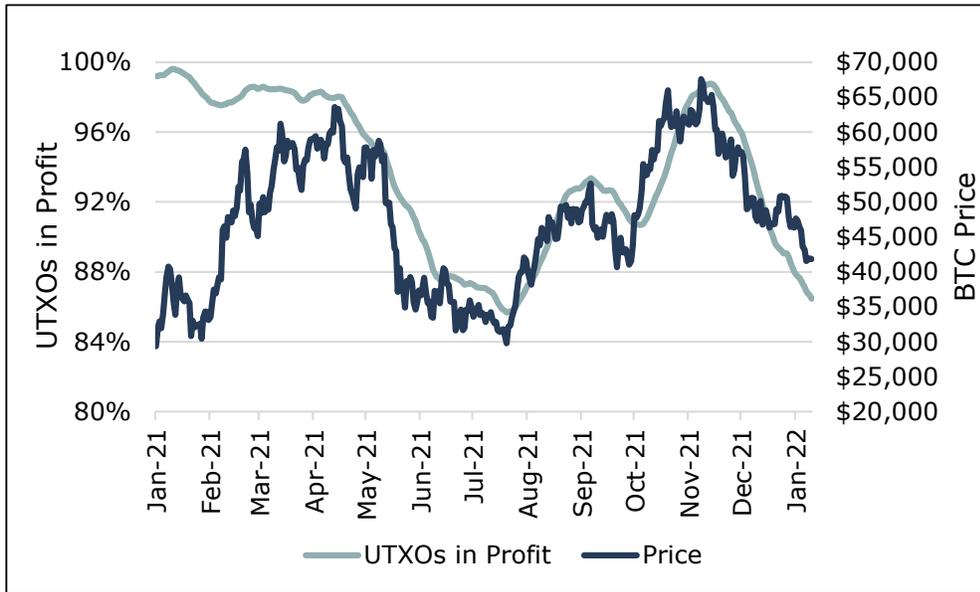
- January 2022: Right now (pullback from Nov. 2021 ATH/Fed's hawkish remarks)
- July 2021: Bottom of market pullback from China BTC miner crackdown
- March 2020: Bottom of covid-19 crash
- December 2018: Bottom of 2018 crypto bear market

## UTXOs in Profit Nearing July's Bottom Levels

Unspent transaction outputs (a proxy for BTC users/addresses) in profit has declined to around 86% as of January 10, 2022, down from nearly 99% in November 2021, on a 30D SMA basis. This metric is a good indication of froth in the market, as measures above 95% typically precede a shakeout in the coming weeks.

The readings for this metric are currently approaching levels that coincided with the July 2021 BTC bottom as well as the lull in prices in October 2020. If the recent pullback is actually a continuation of a bull market, then such levels could suggest we have bottomed out.

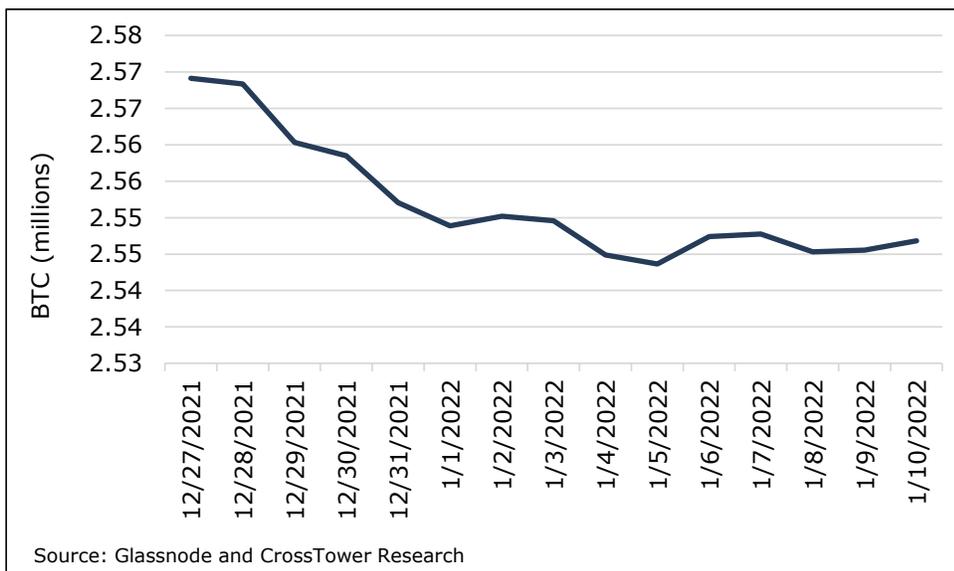
**Exhibit 4. UTXOs in Profit (30D SMA)**



**Exchange Balance Down Slightly in January, Flat since September**

As of January 10, 2021, the number of BTC on exchanges has declined by approximately 22,000 BTC (\$1 billion equivalent) since late December 2021, indicating the worst of the near-term selling pressure may be over. In periods of market weakness like the one we have been experiencing the last few weeks, we would ideally like to see BTC on exchanges flat or down, as that indicates users are not sending BTC to exchanges with the likely intention of selling.

**Exhibit 5. BTC Balance on Exchanges**



## **Conclusion**

With several of these metrics strongly indicating a bottom, we think it is more likely than not that Bitcoin has hit a local low this week. Bitcoin's price has already begun to steady itself, climbing back up to \$43,000 from \$40,000 over the last several days. If both the RPV ratio and entity-adjusted dormancy flow indicators are accurate now as in the past, then we could see a significant rally in the coming weeks.

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