**Weekly Update – Week 179**

Nice correction in the cryptocurrency market. This is now in the vein of the fastest observed in the history of the industry. For the week ending yesterday, BTC was down nearly 25%. It is down almost exactly the same today alone, at least at the time of writing. Altcoins are not doing much better.

Before elaborating on the causes that may explain such action, let's answer the burning question that is certainly on the Fund investors' lips. How was the capital managed during this fall? The active management we advocate has paid off strongly this week. Part of our ETH position was liquidated between $3,500 USD and $3,800 USD. All of our BTC positions were liquidated between $53,000 USD and $55,000 USD. In short, while it is obviously not possible to make a profit in a bear market, the losses incurred by the Fund holders will be a fraction of those experienced by passive investors.

The Fund is also currently in an enviable position to take advantage of any reversal in the trend without having experienced the worst of the decline. Needless to say, with the speed at which the markets are moving right now, we are more on the lookout than ever.

So what is behind this massive correction? Several conditions have come together to create a perfect storm. While the price of bitcoin has been in a zone of uncertainty for several weeks, we first saw a rise in inflation creating downward pressure on the markets last Tuesday. Our assumption about the effect of such news (shared in our letter last week) on prices was quickly proven correct. Taking us to a technically important low, it was then Elon Musk's completely unexpected words that broke the price out of its important channel. Musk announced that he was reversing his decision to allow bitcoin payments for Tesla vehicles, citing the polluting effects of mining due to the high energy demand of the network.

There is no doubt that Musk was already aware of the energy footprint of bitcoin. Last April, he argued that bitcoin's energy footprint was encouraging innovation towards lower-cost green energy. The most logical scenario is possibly that he was pressured by shareholders to align Tesla's green stance as an electric vehicle manufacturer with its recent decisions on cryptocurrencies.

However, the cryptocurrency market should not rely on idols, especially when those idols are billionaires with outsized egos. Stung by the criticism abounding in his direction, rather than attempt to protect his own investment in BTC, Musk persisted and signed off, going on a rant defending his point. He dealt another blow to the market by letting believe that he had sold the bitcoin positions in Tesla's treasury, before clarifying that this was not the case after all.

Nevertheless, the latter seems to want to take some control on the market, claiming that he was now looking to innovate DOGE - of any possible cryptocurrency - with technical proposals that have brought him a lot of criticism from crypto experts. In short, Musk has gone from hero to villain. Above all, we are witnessing a costly lesson reminding us that cryptocurrencies are about communities, not spokespeople. A spokesperson is a type of centralization. Musk has shown us the dangers of giving so much importance or influence to one man. We are suffering the consequences.

We were talking about a perfect storm. Indeed, other bearish news struck in the same vein, increasing the selling pressure by another level. First, the U.S. dollar bounced off its multi-month low. As we said recently, investing in bitcoin is often seen as betting against the dollar. The consequence of a rise in the dollar is therefore clearly negative for BTC. Moreover, the inverse correlation between the US dollar index (DXY) and the price of bitcoin is quite obvious.

The stock markets are also struggling this week, still in the spirit of rising inflation and a presumed tax increase in the US. The technology sector, which is highly correlated to the cryptocurrency sector, is being hit hard.

Finally, there is no full correction for bitcoin without a little fear coming from China. The National Internet Finance Association of China, the China Banking Association and the Payment and Clearing Association of China reiterated their stance on banning crypto services. The three entities published a note Tuesday confirming bans originally implemented in 2013 and 2017 that bar financial and payment institutions from providing any services related to cryptocurrency transactions and saying that initial coin offerings remain illegal.

Why not revisit what was the spark plug for the correction, Elon Musk's comments about the environmental impact of bitcoin mining? There is no doubt that the network is energy intensive and that with a concentration of miners in China using coal for electrical fuel, the environmental impact is real. It is, however, somewhat disingenuous to associate bitcoin with pollution. In reality, the association is between bitcoin and energy. It takes energy to secure the network. That is by design. This is not a shortcoming, it is one of the central elements of the protocol and indeed one that brings fundamental value to the bitcoins so created.

But here's the thing. Bitcoin doesn't care about the energy that powers its network. Hydroelectric, solar, nuclear, wind, it's all the same. The problem is the accessibility and cost of green energy versus what is currently the most competitive according to market forces. This is not a problem exclusive to bitcoin. Bitcoin is just a major innovation, an important one at that, which like most innovations requires its share of energy. To reduce bitcoin to the energy that currently powers it misses the whole point of stimulating green energy innovation so that it becomes preferable. That's why it seems so advantageous to push this industry here in Quebec, where hydroelectric power and a cold climate allow for a low-cost approach while greatly reducing the polluting footprint. Imagine a competitive low-cost green energy for the bitcoin network. There's a fortune to be made in developing it!

How much energy does bitcoin really consume? Does it justify the innovation? What energy sources can the network use? What about the energy needed to trade on the network versus the energy needed for mining? If you are interested in digging deeper into the question beyond the half-truths conveyed in the media, we warmly suggest this analysis by Nic Carter for the Harvard Business Review. It puts it all in perspective!

In these tumultuous times, the most convinced see it as an opportunity. What stronger advocate for Bitcoin than Michael Taylor and MicroStrategy? It is worth noting that the company has just purchased an additional 229 BTC for $10M, at an average price of $43,663 each. MicroStrategy now holds 92,079 BTC purchased for a total of $2.251 billion at an average price of about $24,450 per bitcoin.

Technically speaking, not much holds after what appears to be a capitulation candle down to $30,000 this morning. Such candles are often reversal points in hindsight, however. It will be most interesting to see if the 200-day moving average, currently at $39,800, can be taken over and used as support. Should it become resistance, the bearish scenario could then continue with a retest of the important $30,000 support.

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