100k Bitcoin - RIA

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Turn on CNBC, and you will notice a bright green box permanently affixed to the bottom right corner with the ever-changing price of Bitcoin. Bitcoin is all the rage as market speculation across crypto and other assets is robust. Moreover, with Donald Trump putting Bitcoin-friendly appointees in key financial regulatory jobs, the price surge has some fundamental basis. The breaking of 100k on Wednesday night will further fuel the price. Markets frequently gravitate to round numbers. Therefore,100k is an important milestone that should fuel more buying. For now, 100k and the additional speculation it generates will provide a base for the price. However, the rally in Bitcoin is getting overbought and could likely be in for a consolidation or decline soon.

The graph below shows the recent price spurt to get over 100k. In March 2024, Bitcoin had a similar surge, which pushed prices to overbought levels. The current MACD is slightly higher than in March, as highlighted in the circle. Furthermore, despite the excellent price action and eclipsing 100k, it appears to trigger a sell signal. Bitcoin will likely consolidate, but the big question is when and, equally importantly, how much higher it will go before taking a breather.

What To Watch Today

Earnings

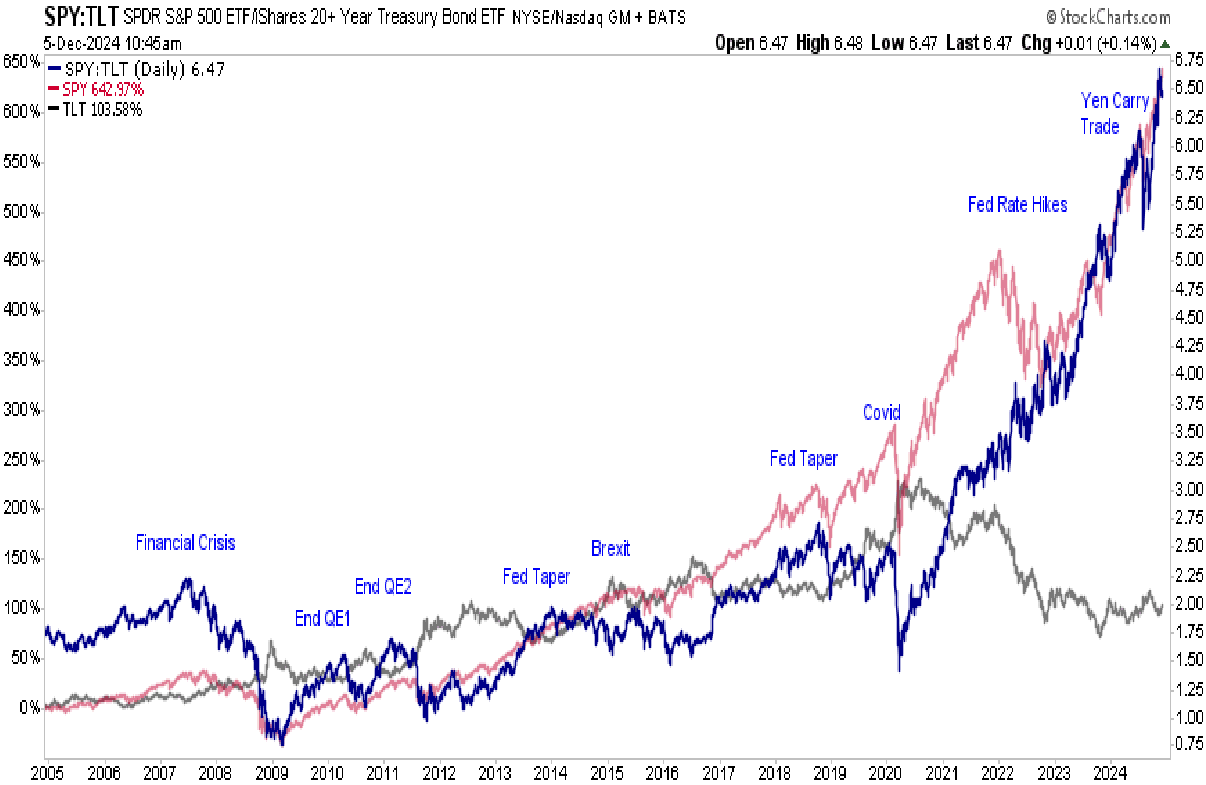
- *No Earnings Releases Today*

Economy

Friday December 06 2024			Actual	Previous	Consensus	Forecast
08:30 AM	US	Non Farm Payrolls NOV		12K	200K	194.0K
08:30 AM	US	Unemployment Rate NOV		4.1%	4.2%	4.1%
08:30 AM	US	Average Hourly Earnings MoM NOV		0.4%	0.3%	0.3%
08:30 AM	US	Average Hourly Earnings YoY NOV		4%	3.9%	4%
08:30 AM	US	Participation Rate NOV		62.6%		62.6%
08:30 AM	US	Average Weekly Hours NOV		34.3	34.3	34.3
08:30 AM	US	Government Payrolls NOV		40K		30K
08:30 AM	US	Manufacturing Payrolls NOV		-46K	28K	15K
08:30 AM	US	Nonfarm Payrolls Private NOV		-28K	200K	164K
08:30 AM	US	U-6 Unemployment Rate		7.7%		7.7%
09:15 AM	US	Fed Bowman Speech				
10:00 AM	US	Michigan Consumer Sentiment Prel DEC		71.8	73	72.5
10:00 AM	US	Michigan 5 Year Inflation Expectations Prel DEC		3.2%		3.2%
10:00 AM	US	Michigan Consumer Expectations Prel DEC		76.9		77.3
10:00 AM	US	Michigan Current Conditions Prel DEC		63.9		64.1
10:00 AM	US	Michigan Inflation Expectations Prel DEC		2.6%		2.9%
10:30 AM	US	Fed Golsbee Speech				
12:00 PM	US	Fed Hammack Speech				
01:00 PM	US	Fed Daly Speech				

Market Trading Update

In ***yesterday?s discussion***, we laid out the market?s historical performance during the second and third weeks of December as mutual funds make annual distributions and rebalance portfolios. While we expect any pullbacks to be mild, there is an unappreciated risk that a correction in equity prices could be larger. As we head into year-end, any portfolio manager that runs a balanced portfolio of stocks and bonds will need to rebalance. As shown in the chart below, the appreciation in stocks has been significant this year, while bonds have dragged, suggesting that fund managers are likely heavily overweight stocks and underweight bonds.



Historically, the stock/bond ratio remained in a range between roughly 1:1 to 2.5:1. Today, that ratio has skyrocketed since the flood of liquidity following the pandemic as money chased risk assets over safety. At a ratio of 6.5:1, we suspect that, at some point, a reversion will take place. In the short term, given the outsized performance of stocks versus bonds in 2024, there is likely an unappreciated risk that portfolio rebalancing by managers could add a layer of selling pressure over the next couple of weeks.

While we certainly cannot discount the more extreme bullishness in the markets that could keep prices elevated, there seems to be very little harm in managing risk exposures between today and the end of the year.

Stock Versus Bonds

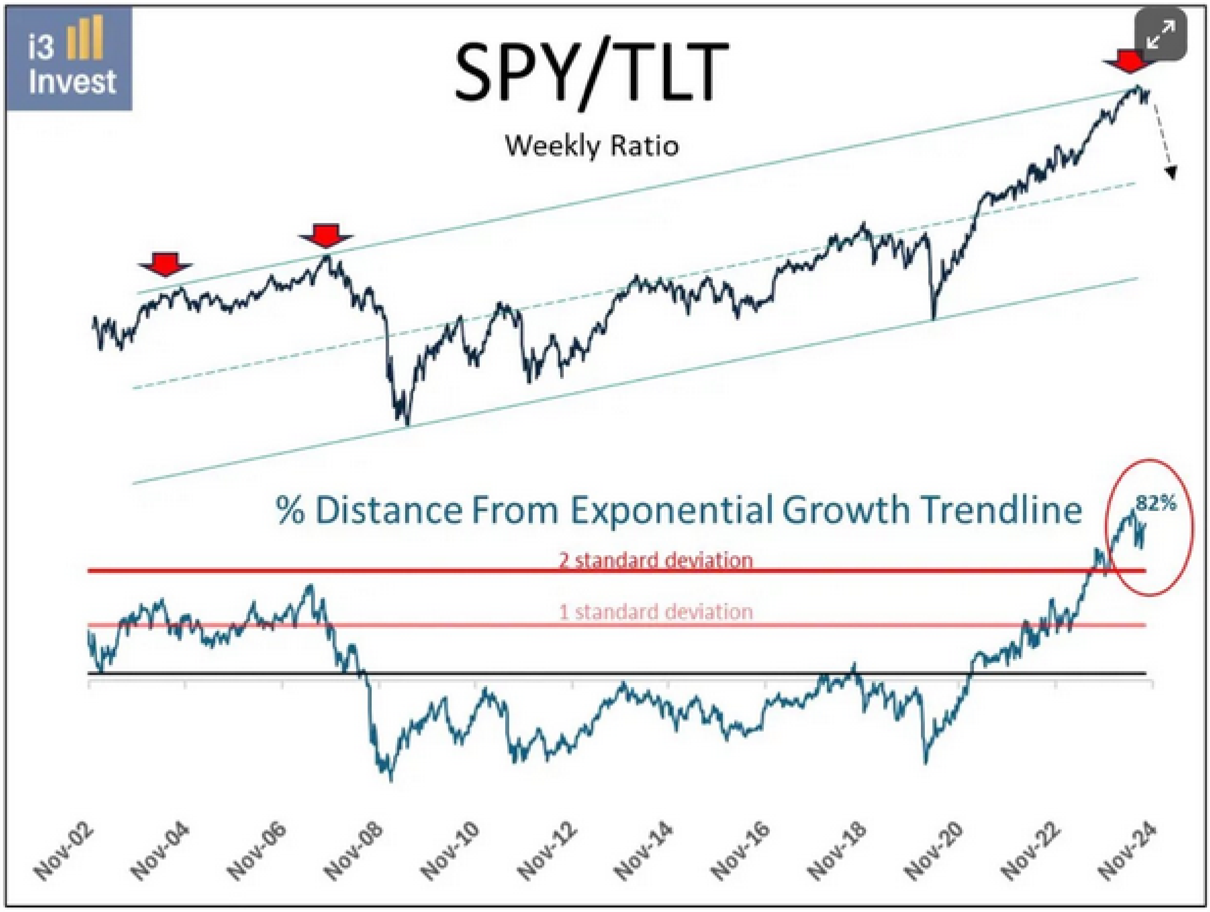
Many investors hold diversified portfolios, including stocks and bonds. Accordingly, actively managing the allocation between stocks and bonds can be fruitful for active investors.

Currently, the price ratio between stocks and bonds is at an extreme level. Such is not surprising given that investor sentiment clearly leans toward higher stock prices and lower bond prices. The graph below, courtesy of Callum Thomas and @i3_invest, shows that the price ratio of the S&P 500 (SPY) and long-term Treasury bonds (TLT) have been in a well-defined channel for the last twenty years. Contrarian investors, willing to go against popular sentiment, are indeed aware of the situation and licking their chops.

Even if you are a diehard contrarian investor, relying solely on the graph below is not a reason to shift allocations to bonds from stocks. As experienced in 2003-2006, the price ratio can ride along the upper channel line. Such could easily be the case again for the next few years. However, when the macroeconomic environment changes and the Fed starts aggressively cutting rates, those allocating between stocks and bonds should be mindful that bonds can significantly outperform stocks in the short run.

We remind you of a few of Bob Farrell?s investment rules to emphasize the graph?s importance.

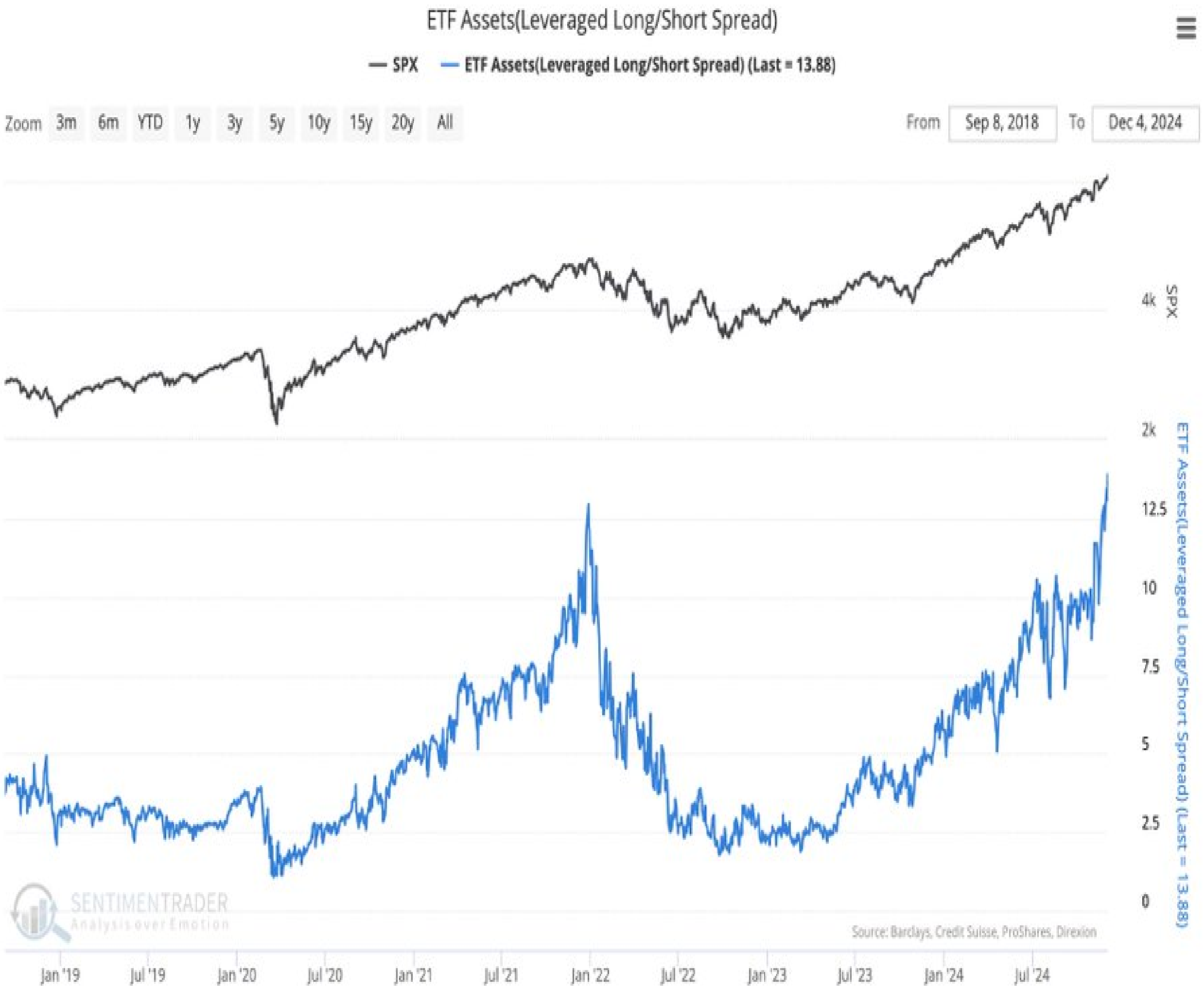
- Markets tend to return to the mean over time.
- Excess moves in one direction will lead to an excess move in the opposite direction.
- When all the experts and forecasts agree, something else is going to happen.



Another Market Warning

Over the last few weeks, we have shared evidence that markets are becoming very speculative. Similar to our lead thoughts on Bitcoin eclipsing 100k, speculation can drive speculation. While the circular feeding frenzy can continue for a while, we must be aware that when prices grow much faster than their fundamental basis, they become unstable.

The graph below, courtesy of Sentimentrader, is another example of speculative fever. It shows the ratio of leveraged long ETFs to short ETFs is surging to its highest level in five years. There is now approximately $14 invested in leveraged long ETFs to every dollar in a short ETF. The ratio has grown by over 50% in just the last month.



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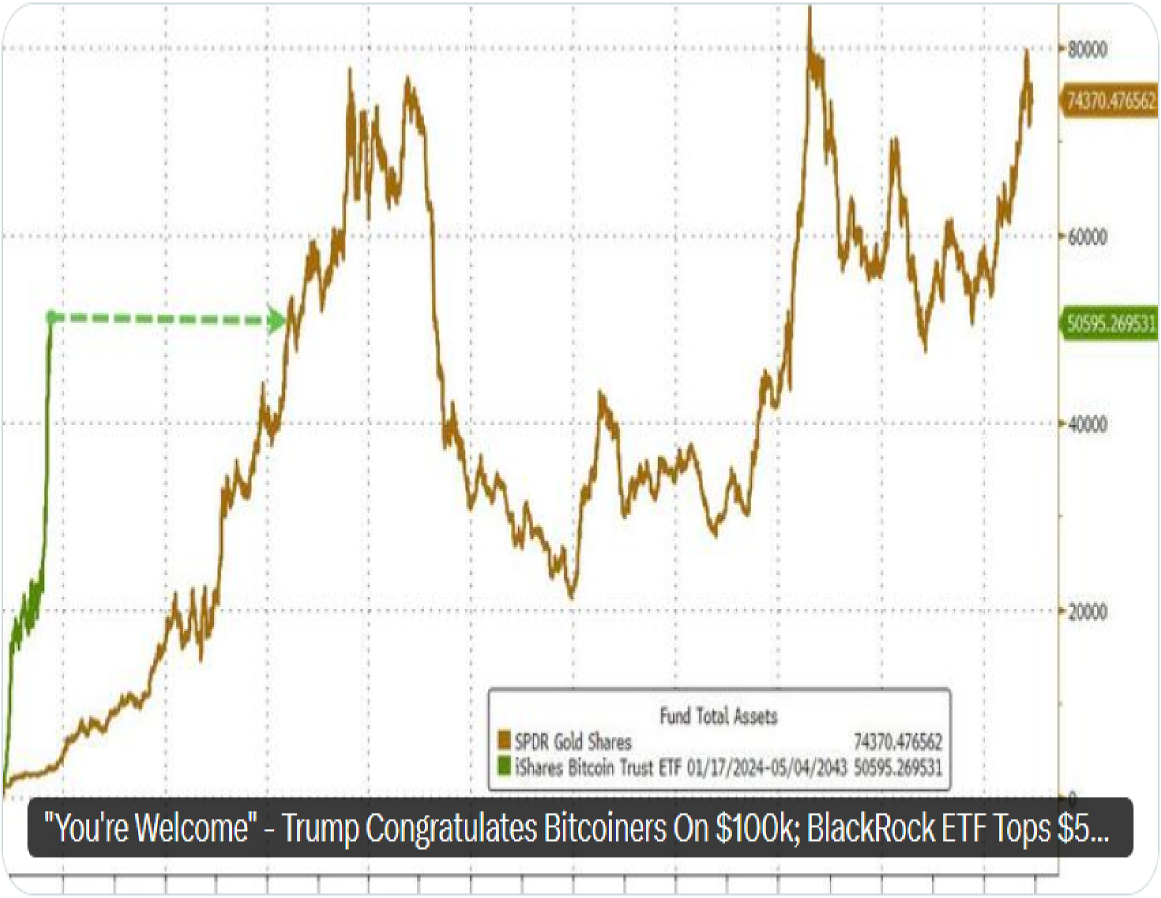
"You're Welcome" - Trump Congratulates Bitcoiners On $100k; BlackRock ETF Tops $50BN In Record Time



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