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De-Coding Crypto



Enigma Weekly

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Our Market View

May you live in interesting times. An explosive Christmas followed by a somehow more explosive new year, as BTC continually forges new all-time highs and aggregate crypto markets find themselves in touching distance of the trillion-dollar mark.

To reiterate our general message re: this eventuality all along: the biggest thing from here on out is 'don't get caught short'. Our research this week discusses it from more of a risk management standpoint, but it applies directionally too; moves of the scope of e.g. what we saw on Monday are close to the limits of what we'd expect in an intact bull trend, and the potential is constantly there for BTC to rip more quickly and higher than even the most bullish predictions would have it. Enjoy the ride.

On alts: overall, most alts are up on the week in both BTC and USD terms, with ETH leading the pack as it trends closer and closer to its all-time high at \$1400. In a lot of cases, this feels like recovered ground more than the heralding of a laggard period for BTC (e.g. ADA, one of the biggest gainers, is at the moment still only testing a medium/long-term resistance level at 900 sats in BTC terms); still, any further ETH breakout could be fuel for more across the board.

XRP up, but clearly lagging the pack still; our previous weekly came out before the securities case announcement and ensuing crash so we haven't had a chance to talk about it yet. In short: we have been bearish on XRP for a long, long time, and clearly, the threat of total extinction (make no mistake, a legitimate scenario here – if there was going to be an EOS-style soft settlement, it wouldn't have come to what it's come to already) makes it essentially uninvestable at this point.

Please direct all enquiries about this week's research to jedwards@enigma-securities.io.

Major

Ticker	Price	7D	1M	6M	12M	Cap
BTC	34868	24.1%	82.7%	279.4%	337.0%	648.3B
ETH	1178.20	59.1%	98.1%	390.8%	723.2%	134.5B
XRP	0.24715	13.2%	-59.1%	23.7%	17.6%	11.23B
BCH	453.89	27.2%	57.1%	87.9%	70.3%	8.45B
LTC	167.82	34.2%	102.1%	277.1%	241.7%	11.12B
EOS	3.330	28.4%	12.2%	26.1%	10.5%	3.15B

Selected

Ticker	Price	7D	1M	6M	12M	Cap
LINK	16.80	49.6%	29.2%	176.7%	640.3%	6.71B
ADA	0.30441	69.8%	99.7%	145.3%	735.0%	9.47B
XTZ	2.595	30.7%	15.1%	-2.3%	100.9%	1.96B

BTC, momentum, and drawdown risk

So. An eventful period for BTC, to say the least:



When we last put out the weekly (on 16th December), BTC had just barely broken the old all-time high, and all bets were off:

As I write this, BTC has just broken through \$20,000, and while there is some slight uncertainty with how it ends up settling above here (it should be an invalidation of the bear case re: a potential 'Grey Christmas' scenario), it does seem likely now that we end the year on a high, cleanly breaking the 2017 numbers and setting up for a historic uptrend in 2021.

As we expressed back in November after the \$13,500 break:

The potential here is for this trend to build and build, through \$20k and beyond; our long-range estimates have tended to see a run on those terms reaching towards \$30k and potentially beyond, and we still tend to think that's possible, even probable/conservative, with regards to how this trend plays out medium-term.

For reference, the last print on the year was just under \$29,000, breaking up further and through \$30,000 on January 2nd and topping at \$34,810 the next day (we have since recorded a higher intra-day high as of today) for a 74% move. This all is not (purely) for the purposes of patting ourselves on the back, but to illustrate something: to some degree, this was always likely to happen once we broke through \$20,000, and broke the psychological (albeit, crucially, not technical) barrier presented by that old 2017 all-time high. Momentum breeds momentum in markets, and highs beget new highs; with plenty of buyers, and very few sellers, we have just kept going and going.

So far, so good, and to preface this whole thing: it seems to us extremely unlikely that there is anything other than a long way to go from here. As we have mentioned in content elsewhere ([see our LinkedIn page for more](#)), we don't think that price targets are a particularly helpful mechanism for understanding this market, but suffice to say, we feel confident that capacity is significant (i.e. well into the six digits) and that ultimately this sort of run will go as far as demand ends up taking it.

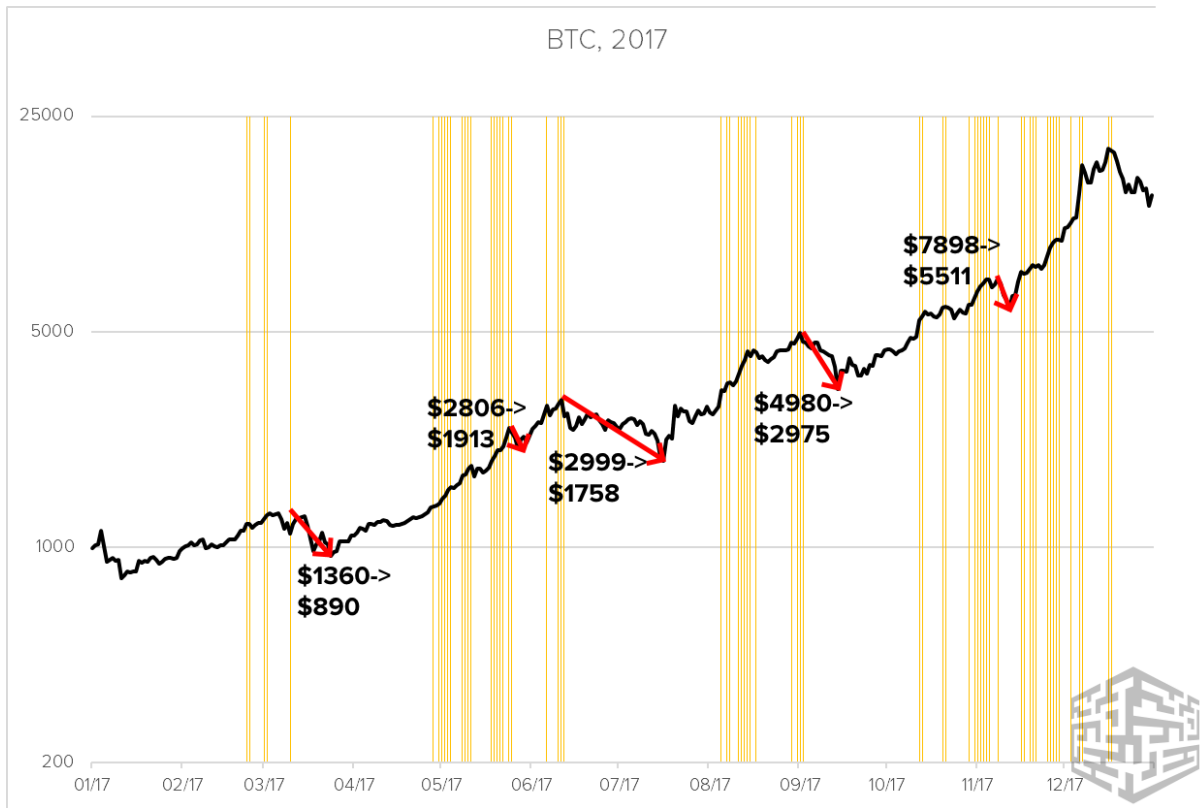
However, by the same note: judging the point at which the music stops playing, and adjusting risk and positioning accordingly, is going to be crucial to making the most out of this run from both a trading and investment standpoint. With that in mind, let's talk drawdowns.

One of the refrains that you will likely hear over and over in coming months - and, most likely, have heard over and over already - is some variation on: "BTC is extremely volatile, and massive drawdowns are part and parcel of a bull run". This has indeed been the case on all previous runs, with multiple significant bumps along the way in 2017 in particular. BTC broke \$1000 on most venues for the first time since the Mt. Gox era on January 2nd; ten days later, price had dropped by 37%:



Data via Tradingview. BTCUSD, Coinbase

After breaking the Mt. Gox high (\$1242) on March 2nd, BTC went on to record an all-time high intraday (by Coinbase numbers) on 63 days in the ensuing 10 months of 2017. Excluding days which would lead on to consecutive highs (i.e. instances where the next day's high was above the day in question's high), we can identify 23 such 'local highs'. Some were minimal - a drop of a few percent and a one-day break from the overall trend - but 15 weighed in at least -10%, and 5 at -30%:



Data via Tradingview. BTCUSD, Coinbase. Log scale.

Let's zoom in on those 5 in particular:

Date	Intra-day high	Drawdown	Days	Date	Intra-day low
10/03/2017	1360	-35%	15	25/03/2017	890
25/05/2017	2806	-32%	2	27/05/2017	1913
12/06/2017	3000	-41%	34	16/07/2017	1758
02/09/2017	4980	-40%	13	15/09/2017	2975
08/11/2017	7898	-30%	4	12/11/2017	5511

Data via Tradingview. BTCUSD, Coinbase.

When we talk about the potential for BTC drawdown, and why it's something to weather above all else, it's principally in reference to these. Markets faltered five times, but on all five occasions, came back stronger within weeks or days, and price would end up peaking afterwards and ultimately December 2017 at a multiple of said high; it's why, when we did reach the phase of an outright bubble, and markets did finally reach their medium-term peak and crashed severely, you had so many willing to stick it in there for the echo bubble:



Data via Tradingview. BTCUSD, Coinbase.

So: same again for 2021? Yes and no. If we run a similar comparison for the last couple of months (starting at the break of the 2019 high rather than the all-time high, this is what we get:

Date	Intra-day high	Local low	Drawdown
31/10/2020	14099	13215	-7%
06/11/2020	15978	14310	-12%
13/11/2020	16492	15708	-5%
18/11/2020	18488	17205	-7%
21/11/2020	18980	17611	-8%
25/11/2020	19500	16200	-20%
01/12/2020	19915	17580	-13%
17/12/2020	23777	21252	-12%
20/12/2020	24300	21914	-11%
27/12/2020	28387	25773	-10%
03/01/2021	34810	29891	-16%

Data via Tradingview. BTCUSD, Coinbase.

The largest move downwards we've had was from \$19,500 to \$16,200 at just over 20%; there has been no correction as deep as even the early-stage ones in 2017. (for reference, the same was broadly true in the brief 2019 run, which saw two 20% drawdowns of \$8388->\$6600 and \$9090->\$7427 but nothing more severe than that).



Those hoping for one reason or another for 2017-level corrections are broadly likely to be disappointed; far more mature market infrastructure, the elevated importance of spot markets over derivatives (for now), and the simple fact that we are talking about an asset with a market cap in the hundreds of billions this time around are all serving to curb the absolute worst tendencies from back then. We hence tend to see the keeping of one eye on that 20%+ area at any given time to be crucially important with regards to riding the momentum here as risklessly as possible.

To reiterate: we are the furthest thing from bearish right now, and for the most part, tend to see excessive tinkering with positions as a mistake, especially from an investment perspective. However, as much as we are convinced of BTC in the medium- and long-term, the reality is that the nature of any speculative investment means that we are not on course for a permanently high plateau. There will, inevitably, be a trend high; and, while it's completely true that investors will need to sit through the dips that don't break trend, it's equally true that it is vital not to miss the one that ultimately will.

Until next week – thank you for reading.



ABOUT US

Enigma Securities is a leading, regulated liquidity provider, offering its clients bespoke liquidity solutions through the use of a proprietary electronic trading platform and API access.

The firm was founded in 2017 as a subsidiary of Makor Partners Limited (UK), amid growing institutional demand for digital asset trading. Looking to seize the new, exciting opportunities presented by cryptocurrencies and blockchain technology, Enigma became one of the first regulated brokerage firms to set up banking relationships and custody solutions to meet institutional standards.

Since its launch, the firm has expanded its capabilities to the broader Fintech arena, leading innovation while working to bridge the gap between the traditional financial services industry and cryptocurrency markets.

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