The Bitcoin Bull

It is no secret that the younger generation of investors prefer the thrill and high-risk, high reward that comes with digital asset investments. With a global pandemic and geopolitical destabilization, a global recession is undoubtedly on the horizon. The rising costs of living and the devaluation of fiat currency mean that investors looking to preserve their wealth must look to more sustainable investments. These factors provide us with unique once-in-a-lifetime opportunities that we fully plan on utilizing. In our second TBG signal, we will deconstruct Bitcoin, the four-year cycle, what solutions Bitcoin presents, Bitcoin's relation to Gold, its drawbacks, competition, and risks in order to develop your understanding and benefit from it. Our research team believes Bitcoin's price is currently on sale and is bound to reach new all-time highs. Through our in-depth analysis, this signal provides a substantial case for an upcoming bull market in these respective assets and the immense gains that are to be made.

Disclaimer: Not financial advice. Please conduct thorough research before making investment decisions.

Why Bitcoin?

Bitcoin, launched in 2009, was created with the purpose of providing an alternative solution to centralized banking, which monopolized the "money sector". Fractional reserve banking, the current system used by central banks, relies on debasing the currency over and over to keep itself afloat. Unlike the ever-inflating fiat currencies used by central banks, Bitcoin uses a deflationary monetary policy by setting a hard limit on how many Bitcoins can exist in the world (21,000,000 Bitcoins), thus creating a limited supply and virtually unlimited demand. Just like the Dollar can be denominated as 100 cents, each Bitcoin can be denominated as 100,000,000 Sats, allowing it to be used in smaller transactions. A major advantage of Bitcoin compared to traditional banking is that it allows anyone around the world with an electronic device and internet connection to have a "mobile bank" granting the person full control over their finances and allowing billions of unbanked people access to financial tools. Bitcoin's transaction costs, while varying depending on network congestion, allow for extremely cheap transactions as compared to banks. Similarly, Bitcoin's transactions do not require authorization or permission from any entity to transact and are generally confirmed in 20 minutes no matter where in the world the receiver of the Bitcoin is, unlike a bank's general 2-4 working days for international transfers.

The Problems Bitcoin Solve

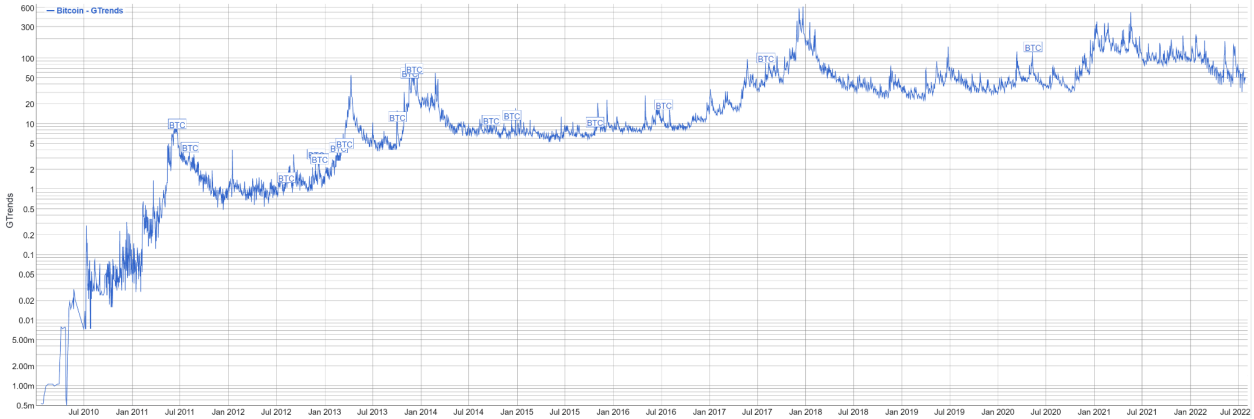
Bitcoin solves the problem of having to **trust** third party financial institutions for electronic payments. When transacting online, a merchant always faces the problem of fraud in the form of chargebacks, which is presented due to the "reversibility" of electronic payments. Bitcoin solves this issue by acting as a verifiable cryptographic proof, thus eliminating the middleman while preventing transaction reversals.

Another issue Bitcoin solves is the double-spend, a common problem faced in previous attempts at creating digital money. Physical fiat currencies are not faced with this problem since you can't physically spend a $1 bill at two places at the same time. Double-spend is considered to be a technical issue that faces any digital currency developer, where the developer has to find a method of stopping a user from spending the same money at two or more places. In Bitcoin and other blockchain-based digital assets, this issue is prevented by the utilization of the Proof of Work (PoW) consensus mechanism. PoW is represented by a decentralized network of miners who not only validate the transactions on the network but also prevent double-spending.

Bitcoin is the first digital currency that has a real chance at mass adoption, allowing anyone in the world with a mobile device & internet connection to use a borderless, permissionless, apolitical financial system. Bitcoin is, more likely than not, the answer to banking of the unbanked.

Adoption Rate

Google Trends Chart Logarithmic



Source: BitInfoCharts (2022)

Bitcoin's adoption has been in a constant upwards trend and has gone through many milestones, which I will identify below:

- After its release in 2009, Bitcoin began to be used by cryptographers.
- It was later picked up by Libertarians such as Roger Ver in late 2010 - early 2011 since it fitted their ideology of less government regulation and free trade and was used amongst themselves in their communities.
- In January 2011, Ross Ulbricht created the infamous deep-web marketplace known as The Silk Road, which allowed for the unregulated sale of goods online while using the Tor network to access it. The Silk Road operated with Bitcoin as its currency, and after it gained a reputation for allowing merchants to sell illegal goods, it was shut down by authorities in October 2013. Ulbricht is currently serving two life sentences plus 40 years without the possibility of parole and was fined over $180M for creating the marketplace. The Silk Road was the first of many markets that were created with Bitcoin as the currency in the deep web. Shortly after Silk Road's success, Bitcoin became the deep web's preferred choice of currency and was the most widely accepted form of payment.

- In 2014, venture capitalist Tim Draper purchased around 30,000 Bitcoins confiscated by U.S. marshals from The Silk Road for $18.7M. This move by Draper started the waves of institutional investors flocking into Bitcoin.
- The 2014-17 cycle was the first to include mass retail investment in Bitcoin and large institutional interest in the broad cryptocurrency space in the form of ICOs.
- In August 2020, Micheal Saylor, the CEO of Microstrategy, borrowed $2.4B using three different bond offerings and a margin loan to buy Bitcoin. Saylor also used most of Microstrategy's cash and the company's free cash flow to buy more. Saylor has set himself on a mission to "Orange Pill," giving presentations to CEOs teaching them about Bitcoin.
- In January 2021, Tesla, led by Elon Musk, announced the purchase of $1.5B worth of Bitcoin, sparking a fresh rally in Bitcoin's price.
- In September 2021, El Salvador became the first country to make Bitcoin legal tender.
- In April 2022, the Central African Republic announced the adoption of Bitcoin and cryptocurrencies as legal tender.
- Throughout 2022, retailers, airlines, and real estate developers started accepting Bitcoin and other cryptocurrencies as a payment method across the United Arab Emirates.
- Countries experiencing extremely high inflation figures, such as Venezuela and Lebanon, became peer-to-peer cryptocurrency hub spots.

Bitcoin's Network Effect

Network effects are variables that positively influence a product (in this case, Bitcoin) as more users join the network. In a sense, every new Bitcoin adopter makes Bitcoin more valuable to everyone else. This might sound a bit similar to Ponzi schemes, where you require new users to pay older ones, but the difference here is that Bitcoin does not require new users to fulfill its intended functions. Bitcoin's network effect is experienced when a new user adopts Bitcoin, so every other network participant benefits as they have an extra place to spend it. Bitcoin is currently fighting the network effect advantage of older fiat currencies. As an example, the U.S. dollar has the strongest network effect since it is the most widely accepted currency worldwide. Another network effect of Bitcoin has come from Bitcoin mining, where competition for Bitcoin's security is incentivized in the form of block rewards. Each new miner that enters the Bitcoin network lowers the mining share of everyone else, which is a negative network effect for miners themselves and a positive one for Bitcoin as it increases its security. The negative Bitcoin mining network effect on miners is counteracted by Bitcoin's price appreciation since the miners are rewarded in Bitcoin. The two main drivers for Bitcoin's adoption are its utility as a currency and its underlying network effects.

To summarize, every new Bitcoin user adds value to every other Bitcoin user, and every new Bitcoin miner adds extra security to the Bitcoin Network.

Bitcoin's Relation to Gold as safe haven asset

Gold has long been considered to be a safe haven asset that outperforms traditional markets during times of financial distress. Bitcoin is considered by many maximalists to be a safe haven asset as they claim Bitcoin to be digital Gold. Whilst Gold and Bitcoin do share a few properties,

such as limited supply, and theoretically unlimited demand, this is, in my opinion, where their similarities end. In terms of war, uncertainty, or tyranny, it is definitely useful to have a digital version of gold that can't be easily confiscated at a border or checkpoint.

Why Bitcoin Is a Safe Haven Play

As far as I know, a point that hasn't been discussed before, at least not publicly, is Bitcoin's high probability of going up in price in times of financial uncertainty. No, I'm not talking about people guessing that Bitcoin would mimic gold's price action, but instead, appreciate based on fundamental reasons.

During times of high inflation, basic goods increase in price in fiat terms, including commodities, fuel, and electricity. The main focus of this paragraph is going to be the electricity price. This price hike will also hit alternative energy sources, not just fossil fuel power plants since solar, hydro, and wind turbines require rare earth metals to build; goes up in price. This translates into a higher LCOE (Levelized cost of electricity, what you pay per KW). Nuclear power would also be affected since inflation would also increase the AISC (All in Sustained Cost) of extracting uranium fuel. A rise in energy prices which we are already experiencing, should positively impact Bitcoin's price.

An increased Bitcoin mining cost to a level where miners are barely turning a profit will trigger a fight or flight response. Miners who are over-leveraged would capitulate and sell their Bitcoins, while strong crypto mining companies will have a fight response which can be holding onto their Bitcoins which would lower the selling pressure, driving up the price.

We are at a point in the Bitcoin cycle where several large-scale mining companies capitulated and sold a large portion of their Bitcoin stash. This equates to flooding the market with cheap Bitcoins by cash-strapped companies.

You might ask yourself: if we have miners capitulating, why hasn't Bitcoin's price increased from the "fight" responders? Excellent question, let me explain why:

If you have read our 1st Signal "The Gold Bull" (available in our member's area), you would have learned that a global financial disaster is underway in the form of an alarming level of inflation due to exorbitant money printing by the central banks. Another important thing to take from the previous Signal is that inflation lags, as it takes time to show its effects on everyday life.

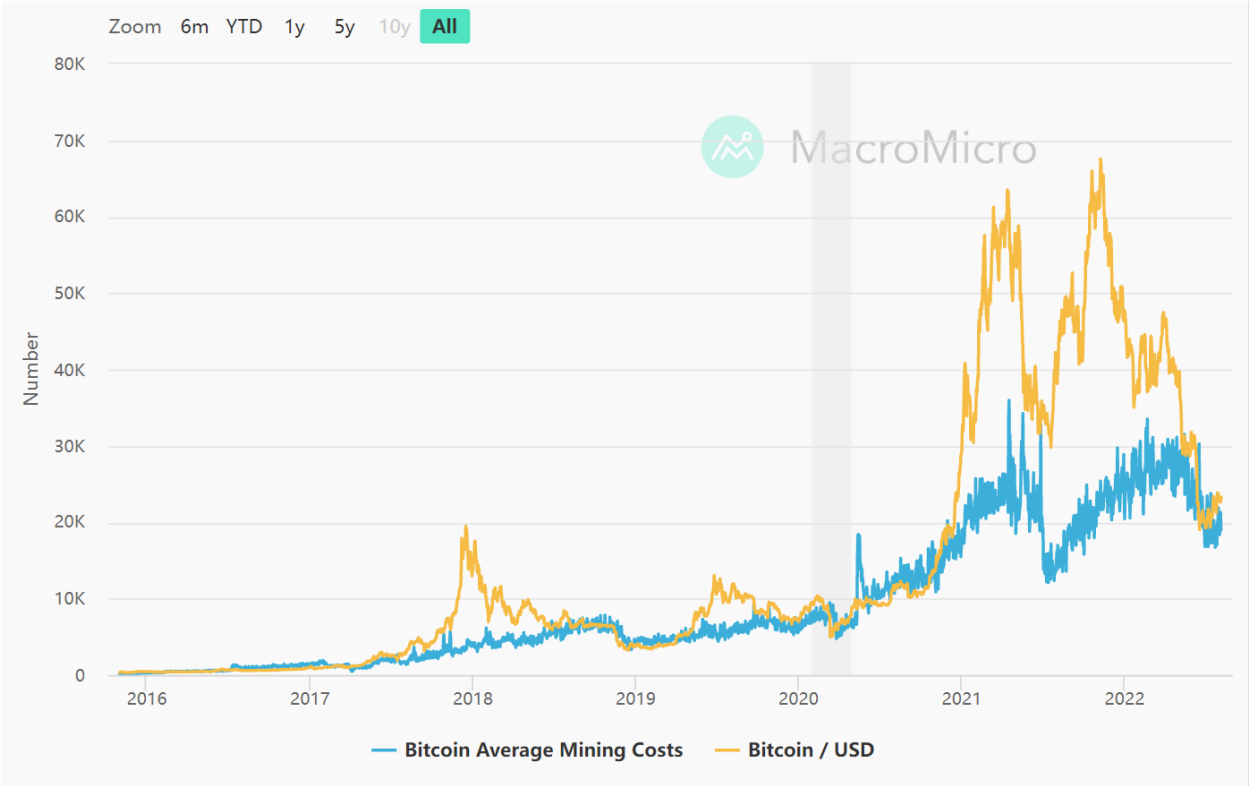
Currently, most of the world hasn't felt the inflation effect on electricity pricing except for Europe, which is considered an outlier as the electric rate increases are based on logistics and war.

According to the World Bank, energy prices are expected to increase by 50% in 2022 and 46% in 2023, the highest recorded in decades.

Bitcoin mining carries a special dynamic: when the price of Bitcoin goes higher than the cost to mine it, more miners start to mine Bitcoin, and when the price of Bitcoin goes lower than the

cost to mine it, less efficient miners shut down. This dynamic is represented by Bitcoin's difficulty, where each miner has a specific hash rate based on how powerful it is. The mining difficulty increases when the global hash rate increases, and vice versa.

Bitcoin's Average Mining Cost Chart

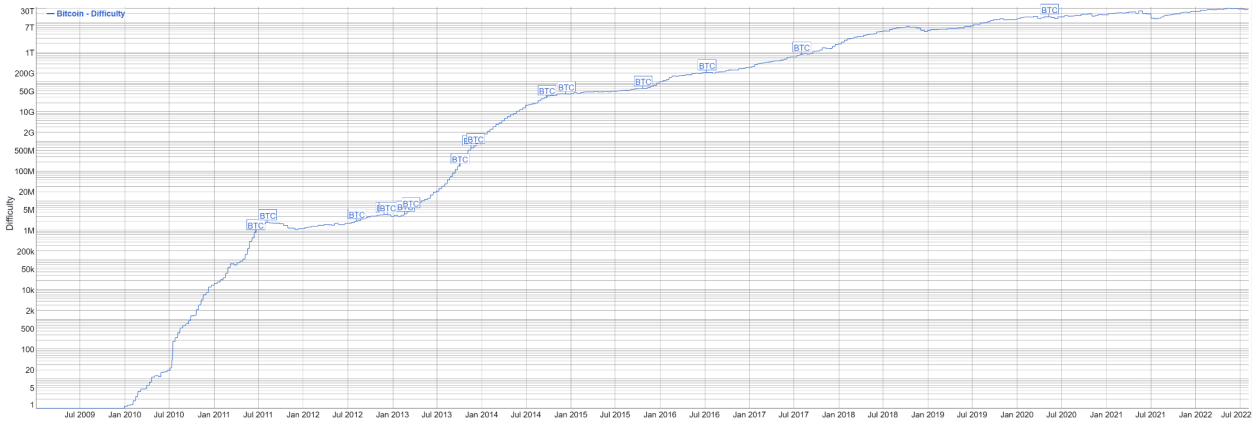


Source: MacroMicro (2022)

As you can see in the image above, Bitcoin's price is in yellow, and the average mining cost is in blue. The drop in mining costs in 2021 is actually unrelated to the drop in Bitcoin's price level; it is actually attributed to China imposing a blanket ban on cryptocurrency mining, resulting in a major mining difficulty drop as Chinese miners took their miners offline.

Keep in mind electricity price is the highest cost a Bitcoin miner has to deal with.

Bitcoin Mining Difficulty Chart Logarithmic



Source: [BitInfoCharts](#) (2022)

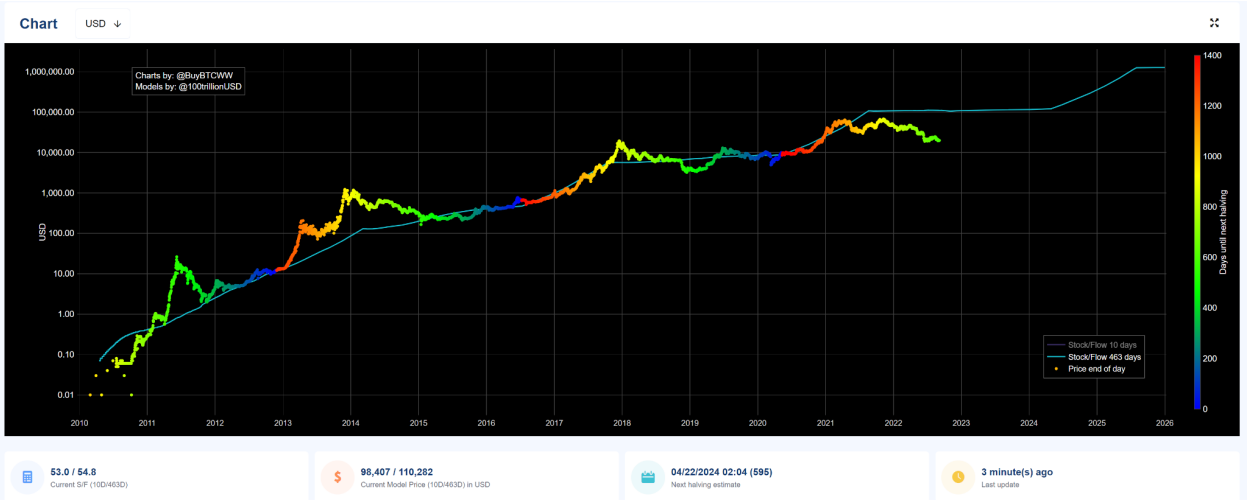
In summary,

When Bitcoin's price goes up, less energy-efficient miners are incentivized to turn on their miners, increasing the average mining cost.

When Bitcoin's price goes down, less energy-efficient miners are economically forced to turn off their miners, decreasing the average mining cost.

A different formula also applies as it is directly related to electricity prices;
When global electricity prices go up, less efficient miners shut down while simultaneously exerting upwards pressure on Bitcoin's spot price as the cost of production increases. Since Bitcoin's limited supply and unlimited demand is still in play, miners holding out Bitcoin when the price decreases cause a liquidity shortage as less Bitcoin enters circulation every day.

The Bitcoin Cycle



The Bitcoin cycle happens every 4 years due to an economic phenomenon called "Halving," where the mining reward issued to miners that secure the network is cut in half. The halving is

hardcoded into Bitcoin's code, meaning we know for a fact that the mining reward will be cut in half every 4 years till the last of the 21,000,000 Bitcoins is mined. The reason why halving affects Bitcoin's price is that newly mined Bitcoin is considered to be inflation, and unlike the traditional financial system, Bitcoin's inflation is cut by half every four years creating a supply shock. Basic economics tells us that goods and services are priced based on supply and demand. As we know from the adoption data, demand for Bitcoin has been and still is growing for the past 12 years, and the supply of new coins is dropping by half every four years, justifying a constant uptrend in Bitcoin's price and parabolic moves shortly after the halving events.

The Drawbacks

- One of Bitcoin's drawbacks is that the transaction fee is based on network activity instead of the transaction amount. This means it can cost you one dollar to transfer one million dollars worth of Bitcoin, but it would also cost you one dollar to transfer one cent of Bitcoin.
- This drawback is not really a drawback of using Bitcoin, but of having self-custody of it. Using a custodial wallet to hold your Bitcoin could potentially harm you as the saying goes, "not your keys, not your coins," which means in case anything happens to the custodian, you are more than likely to lose your coins. Using a self-custody wallet, which is what is recommended in crypto, also has drawbacks since if you lose your 12-word seed phrase and your wallet gets corrupted, deleted, or stolen, you won't be able to recover it.
- Whilst Bitcoin allows for anonymity (different from privacy), if bought peer-to-peer or using a non-KYC exchange, it lacks privacy. All of Bitcoin's transactions are public and are tracked, traced, and labeled by blockchain analytics firms such as Elliptic, Chainalysis, and CypherTrace.

Proof of Work & Climate Change

Proof of Work is the consensus method used by Bitcoin to secure its blockchain. Recently, Bitcoin has been criticized for utilizing this method as it is being touted as wasting electricity and consuming more power than entire countries. What people overlook is that Bitcoin is not a company; it's a decentralized peer-to-peer electronic payment system. A recent study by consultancy firm *Valuechain* showed that Bitcoin uses half the yearly energy that it was previously estimated to use and that Bitcoin is **56 times more efficient** than the current financial system. Banks, tellers, offices, and the Fed don't run on fairy powder; moving money requires electricity.

In addition to the above, Bitcoin mining requires the miner to look for the most efficient & cheap source of electricity which coincides with renewable energy & exotic solutions such as mining Bitcoin using the Volcano in El Salvador or from the excess flare gas from oil drilling. Bitcoin mining is considered to be one of the greenest industries as most major miners are either operating in a carbon-neutral state or aiming to do so as soon as possible. To put it into perspective, a miner's largest expense is the electricity bill; using renewable energy sources such as solar power is around 3 times cheaper than gas & coal alternatives. This means that most miners should be using clean energy by default without any legislation or pressure.

Competitors
Naturally, Bitcoin has competitors; and in this case, it is Pirate Chain and Monero. Since Bitcoin aims to be money, it has to be private, which it currently lacks as compared to Fiat cash. Pirate Chain and Monero contain privacy-enhancing features enabling them to be as private if not more than fiat cash. Bitcoin can, however, provide an anonymity layer using obscuration when used with the lightning network. Privacy-wise, it is important to note that layer 2 privacy cannot compare to a private by default chain.

What about other Digital Assets
The reason why this Signal is about Bitcoin and not digital assets, in general, is because we are currently in a bear market, and during bear markets, Bitcoin is known to depreciate more or less around 80% while the rest of the altcoin market is known to correct for over 95%. For this reason, altcoins are considered a much riskier position to have during a bear market, and generally, altcoins do not increase in price before Bitcoin. In the crypto space, Bitcoin is considered to have a mature user base, while altcoins are considered to be in the adolescent phases meaning that die-hard Bitcoin users will not stop transacting on-chain, while altcoin users or at risk of leaving at any time. Most altcoins are created with the sole purpose of "stealing your Bitcoin", where the Bitcoin price of the altcoin decreases over time, meaning that you lose value in Bitcoin terms. It takes an unfathomable amount of time and research to identify which altcoins are good out of a massive haystack of bad apples, which is something we do here at The Bull's Gazette.

Risks
Bitcoin possesses a few inherent risks, such as entering a secular bear market, the adoption rate turning negative, or the extremely rare event of experiencing a solar flare that would render all electronic devices obsolete. While a secular bear market is not out of the question, it is a cycle or two early, which leaves us enough time to benefit from Bitcoin monetarily. Bitcoin's adoption graph does not show any signs of slowing down anytime soon, as recently seen by countries starting to adopt Bitcoin as legal tender.

Bitcoin TA

Take these charts as a visual representation of the 4-year cycles, and the indicators a testimony to how history rhymes when it comes to Bitcoin.

If you consider 2011 the start of the first cycle, add 4 years to get 2015 and another 4 to get 2019. What do these years have in common? The Bitcoin price (in log terms) falls below the 100% Fibonacci Retracement line, marking the bear's end and the bull's beginning. This is the “bottoming out”. If you do the math, 2023 is next.

Somewhere in 2023, above $12k USD, Bitcoin will once again start its rally upwards. It may be near impossible to time exactly the optimal point to buy (the actual bottom), but what is important is that you know it’s coming. The same can be said for the top, crossing the 23.6% line with the Puell Multiple flashing a green and the RSI being above the 70 level (as visible in the lower part of the above graph).

Keep in mind that there is still a chance Bitcoin might never go as low as $12k, so our general recommendation is to Dollar Cost Average during the current bear market.

Methods to Acquire Bitcoin
There are several methods you can acquire Bitcoin, which I'll split into two categories below:

Custodial Services (With a custodial service, you own Bitcoin without having physical access to it, similar to a bank)

- Bakkt
- Coinbase Custody
- Fidelity Digital Assets
- Gemini Custody

Self-Custody (Self-custody means you have full control over your Bitcoin & take full responsibility if you lose them)

- LocalBitcoins.com Peer-to-peer (physically meet someone and purchase Bitcoins)
- Binance.com Centralized KYC-compliant online exchange
- Tradeogre.com Centralized Non-KYC compliant online exchange
- Bisq.network Decentralized Non-KYC compliant online exchange

Our 'Crypto Safe Storage' eBook is packed with all the essential information you need to safely store your Bitcoin and other cryptocurrencies, absolutely free of cost for TBG members. Head over to the eBook section here.

Final Remarks
So why Bitcoin, when there's many cryptocurrencies out there? Bitcoin currently dominates the cryptocurrency market with around 50% market capitalization, is the most widely used & traded against almost all other cryptocurrencies. This means people use Bitcoin to buy other cryptocurrencies, so all this traction makes altcoins rhyme with BTC. Eventually, as crypto becomes widely adapted, all related projects you have invested in will also increase in value, but only projects with strong fundamentals and developers will last.

Trying to time the Bitcoin bottom is like trying to catch a falling knife. It is extremely difficult, with a high chance of hurting yourself in the process, which is why I believe a DCA strategy at these levels during the current bear market is the best strategy going forward. Bitcoin is extremely cheap right now, and at any price below $20k should be bought for the long term, even if it isn't the absolute bottom. Even if you bought at $70k, I would say hold it since we are still so early into the greatest invention of the 21st century.

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Contributor, Researcher, and Analyst. Oussama is a miner and investor who actively manages 2 cryptocurrency-focused companies alongside having a background in managing private equity and cryptocurrency consultation. He discovered cryptocurrency in 2015 and has set on a never-ending journey conducting research on various aspects of blockchain technology and cryptocurrency projects. He holds a business degree in finance from the Lebanese American University. He is passionate about Austrian Economics, Cryptocurrency, Mining, Privacy, and Precious Metals.
