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Staying Versatile

TLDR

- Post-ETF, we are faced with two scenarios - (i) BTC recovers from the drop and continues soaring, or (ii) BTC distributes while alts have limited time to put in some big moves.
- If we are entering a downtrend, look for the alts that are strongest on the big long-liquidation days. These alts will put in the biggest short-term bounces, and compounding gains from such trades add up quickly.
- If looking for shorts, primarily focus on alts that had a lacklustre 2023 in comparison to others. For example, ADA had a weak 2023 compared to other L1s, such as SOL.
- SOL will be our main focus for additions to long-term spot holdings if we continue to get large pullbacks.
- If the up-only BTC rally resumes and makes new highs, it is not the end of the world to be under-allocated. Playing defensively is fine, the low-mid cap market has great opportunities even **after** BTC puts in large rallies.

Markets Trend Both Ways

Trading crypto markets and withstanding its volatility will toughen up anyone. There are periods to go risk-on and periods to be more defensive or even short. Traders who make incredible gains in strong uptrends tend to give it all back when that trend reverses. It is imperative to adjust to a shift in trend when trading altcoins, but this is easier said than done, and execution is always less slick than crypto Twitter traders make it seem.

Navigating Narratives believes that price action post-ETF has given us a clear signal - either BTC just wiped out some late longs, and we can now continue, or BTC is simply exhausted and alts have a window to put in moves before the market collectively goes to goblin town. Should we long? Should we short? How do we avoid giving back our 2023 gains? What do we do if the market suddenly continues trending upward? Let's discuss it all!

Longing Strength

The Bitcoin ETF was a sell-the-news event, the question is - what now? The market uptrend broke, but does it immediately reverse again and start a vertical rise to new highs? Not highly likely. The Bitcoin rally is probably done for now, and if the trend is shifting, that will take time to play out.

Typically, when BTC has exhausted major rallies and the trend starts to shift, we have a “short-term” window of a few days or weeks where some alts put in major runs. SOL looks decent in this regard, with some clear areas for selling:



If SOL continues this rally, we have two areas for taking profit/selling

When BTC wipes out leveraged longs and prints a big red candle, the majority of alts follow suit. However, there are always some tokens fighting to stay green - these are the altcoins that will bounce the hardest once BTC rallies. One coin has run hard since BTC wiped out late longs last week - SUI, an L1 competitor that missed out on the L1 rotations of Q4 '23 but is making up for it now:



Indeed, the tell-tale sign for which altcoins will lead a bounce after a big wipeout of levered longs is clear - they are the coins that are green on big BTC long liquidation days. This might sound obvious, but it truly is that straightforward. The “leaders out of the hole” tend to keep leading. The important thing to consider is that this does not stretch out over longer timeframes. This is simply a straightforward and profitable way to play the short-term bounces after big forced liquidation events. To reiterate, longing those leaders is usually a short-term trade, as the coins leading out of the hole are not always the ones we wish to hold for months. However, this is a great way to compound gains if BTC continues to trend down and has these long liquidation days.

Shorting Weakness

Just as we look to long strength, we look to short weakness. You do not *have to* short at all to make money in crypto, but there are opportunities to trade both ways. From the perspective of looking for weakness, there are three ways to approach shorts:

- Preferred Option 1 (Lower Risk): Shorting coins that have put in lacklustre rallies in 2023 - the so-called “unpopular” coins. Such coins have failed to garner attention from buyers, and this likely continues. These short candidates are less likely to put in big moves that stop you out because they failed to put in big moves when the wider markets were at their most bullish. A good example of this would be Cardano’s ADA, which put in a relatively weak rally in comparison to other L1s:



Look for a reaction in the red area to enter a short (swift move up, but price stalling)

- Delicate Option 2 (Higher Risk): Shorting coins that have been strong but are showing signs of exhaustion. This carries more risk, as their rallies can have more in the tank before finally buckling. **The risk is greater**, but the reward is also greater. Complacent longs build up as they try to keep the party going, but if the price drops and a liquidation cascade sets in, the move down is much greater than the “unpopular” coins with relatively little open interest. Revisiting SUI, [Laevitas](#) tells us there is over \$230m in OI at the time of writing, ranking SUI at 11th in OI among all crypto assets, making it a decent candidate in this category **if the price begins to stall and show some weakness**. For instance, if SUI stalls here and loses a previous high:



- Straightforward Option 3: Ignore alts and short BTC. Looking for weakness from BTC on this bounce as it makes its way into the ~44k region would be a decent short opportunity, as that would be the last stop before a run at the highs:



NN maintains that you need not have many shorts in your arsenal to make great returns in altcoin trading. However, the market will offer some attractive opportunities to short from a risk/reward perspective, as well as some points where you may wish to hedge. It is important to remember how much more volatile altcoins are than BTC or ETH and to maintain proper risk management with isolated margin and/or stop losses.

Buying Deeper Pullbacks

The previous point bears repeating with a slightly different framing - altcoins are essentially levered BTC. This is the primary thing to consider when eyeing up large dips where you wish to add to long-term spot positions. The danger for dip buying, when we are possibly in the process of a major trend reversal, is the dip “keeps on dipping”. With this in mind, you want to reserve the bulk of your buys on pullbacks for coins you have high conviction on for the long term. More specifically than that - reserve the bulk of your buys for *large* caps that you have high conviction in for the long term. Traders become conditioned to buy low-mid caps with a significant portion of their portfolio when times are good, which is their downfall when the trend reverses. What could have been a bad portfolio drawdown of 30% instead becomes a brutal collapse of >80%.

With that, NN is focusing primarily on buying SOL if the market provides opportunities to buy lower. In our eyes, SOL has solidified its place in the market as one of the market leaders, and we believe its outperformance of ETH will be a continuing theme in this cycle. On-chain activity continues to flourish, and its narrative as the premier ETH competitor remains intact. **If** the market gives deeper pullbacks for SOL, NN is eyeing up some areas for buying:



SOL buy zones, the lowest of which would require a March '20 style crash to be filled (not expected)

What If Up-Only Continues?

The spot ETF narrative fueled a major rally in 2023. BTC rode upwards for 12 months, if we are reversing that trend here, it will take some time for a pullback to play out. Given the high timeframe chart and context of an ETF narrative coming to an end, it would not be surprising:



BTC would look similar to other major tops if the monthly closes <43k

But what if BTC is only getting started? What if we find ourselves with more stables/cash than we would like, and price begins soaring to new highs? The simple answer is that we will be happy with our spot position gains and get comfortable buying coins higher. Getting used to buying higher, averaging up, adding to winners, cutting losers... these are all part of the game of trading crypto. Buying bottoms and selling tops is nice when it happens, but it simply is not how things usually work in practice. It can be frustrating to be under-allocated for some moves here and there, but this is the reality of trading.

In addition to this, particularly as Navigating Narratives is concerned, new narratives and protocols pop up after BTC has put in a major move upward and begins to consolidate. If BTC can manage to shake off the sell-the-news event and start to ramp things up again, then we will soon have favourable conditions in the low-mid cap altcoin market, which will have major opportunities for upside. If BTC signals that the game is on again, we can simply readjust.

It is not all about defensive plays and looking for shorts, far from it. There are still plenty of opportunities to look for longs, provided we stick with the coins that are showing strength. There are more green days than red days, even if we find ourselves in a downtrend. But it is OK to play defensively for some stretches and preserve gains. More than that, it is necessary for survival. Traders who are not versatile, do not last.

The Cheat Sheet

Playing Defensively ≠ "The Big Short"	
When BTC Liquidates Longs	<p><u>Long Strength From The Hole</u></p> <ul style="list-style-type: none"> • Focus on the alts that managed to stay green while BTC is wiping out longs and printing a >5% red ID • These alts will lead the bounce as BTC rallies, dragging the market up with it <p><u>Short Weakness On The Bounce</u></p> <ul style="list-style-type: none"> • If looking for shorts, primarily focus on the alts that underperformed on the bounce (especially those that also underperformed in 2023)
If BTC Trends Down	<p>Keep dry powder for pullbacks. The profit you took on rallies should not be redeployed after price drops 10%, but primarily 30%-50%.</p> <p>Keep looking for opportunities to long strength on BTC liquidation days as outlined above</p>
If BTC Chops and Alts Soar	<p>We maintain our focus on longing strength and taking profit on long term spot positions that <i>may</i> put in big moves e.g. SOL</p>
If BTC returns to "Up-Only"	<p>Long term spot positions do well while the low-mid cap market will continue to produce narratives, giving new opportunities for attractive trades!</p>