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## Summary

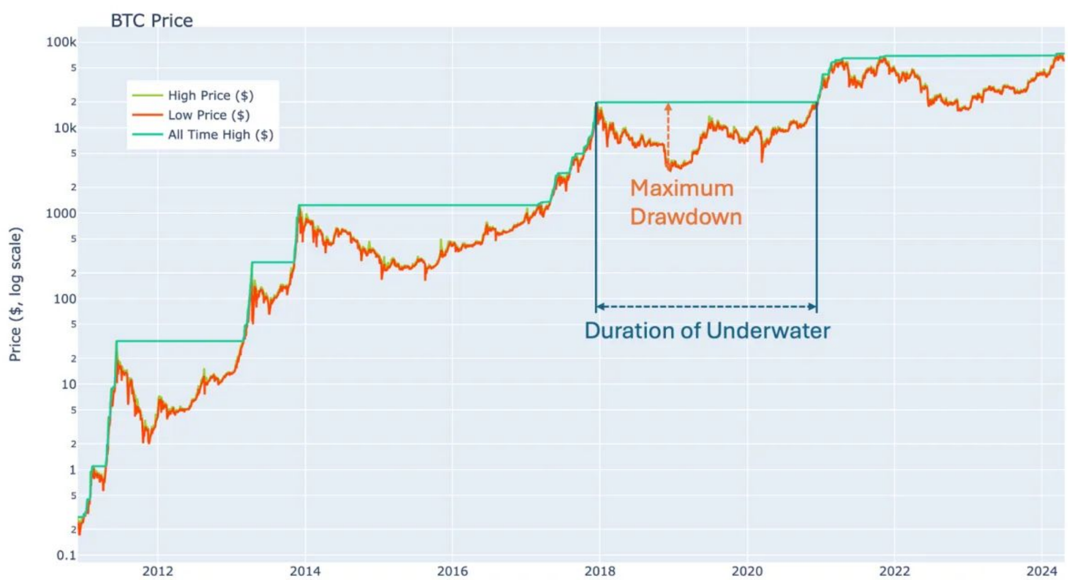

- With BTC at $63,000-65,000 range post-halving, it's still -19% from the March 2024 all-time-high. We look into the histories of maximum drawdowns and underwater durations to put the current drawdown into perspective.
- We conclude 1) that the current drawdown is well within the boundaries of norms during bull runs and 2) that it may have almost run its course, with institutional demand serving as a floor. The largest drawdown experienced in the current bull cycle was 23%, only 4% apart.


"Ninety percent of any great trader is going to be the risk control."
- Paul Tudor Jones -

Drawdowns are hard on any traders but especially so for BTC traders given its higher volatility. After the successful completion of its 4th halving on April 19th(UTC), BTC trades at $63,000-65,000 range, still some 19% down from its peak. In this report, we analyze the current drawdown in terms of its magnitude and duration and compare it to the past episodes to put it into perspective.

**Figure 1: Illustration of MDD and the duration of underwater period**

Source: TradingView, Presto Research



## Drawdown 101

A drawdown refers to how much a trading strategy is down from the peak, typically quoted as a percentage. MDD measures the largest loss from peak to trough before a new all-time high(ATH) is achieved, as illustrated in Figure 1. Underwater duration measures the length of time a strategy remains below its peak P&L before recovering. These are important metrics for risk management, performance evaluation, and psychological readiness.

## Brief history of BTC drawdowns

Putting the current drawdown into perspective requires zooming out and studying how past drawdowns have fared. As can be seen in Figure 2, BTC has undergone brutal corrections following parabolic rallies, resulting in MDDs that are approximately 80% or more. Here's a detailed look:

1. **Early Days and Initial Volatility (2009-2011)**:
    - The first major peak occurred in June 2011 when BTC hit $31. However, by November 2011, it had plummeted to $2, marking a staggering 94% drawdown amid security breaches and market uncertainty.
2. **Recovery and New Peaks (2012-2013)**:
    - BTC gradually recovered, reaching $266 in April 2013, driven by increased attention and the Cyprus banking crisis. A subsequent drawdown saw it fall to around $50, an 81% decline.
    - By the end of 2013, BTC soared to around $1,150, only to face another severe drawdown to approximately $200 by early 2015—a decline of about 87%.
3. **Stabilization and Slow Build (2014-2016)**:
    - This period was marked by relative stability but lower prices following the Mt. Gox exchange collapse and ensuing trust issues.
4. **Explosive Growth and Sharp Corrections (2017-2018)**:
    - In 2017, BTC experienced unprecedented growth, reaching nearly $20,000 by December. The bubble burst shortly thereafter, leading to a sharp 84% drawdown throughout 2018, bottoming out near $3,200 by December.

5. **Market Recovery and Institutional Interest (2019-2020)**:
    - BTC recovered to around $13,800 in mid-2019 but faced another significant drawdown to $4,000 in March 2020, driven by the COVID-19 pandemic market panic, a drop of about 71%.
6. **Pandemic Bull Run and New ATHs (2020-2021)**:
    - The price surged in late 2020 and 2021, culminating in an all-time high near $69,000 in November 2021. However, regulatory concerns, China's crackdown on crypto activities, and shifting investor sentiments led to a new drawdown phase, with prices slashing back to about $16,000 in 2022, marking about 78% drop.
7. **Recent Trends and Ongoing Recovery (2022-2024)**:
    - BTC's value continued to be influenced by broader economic conditions, regulatory news, and the crypto market's cyclical nature. After hitting the lows in 2022, it has been on a recovery path, reflecting a complex interplay of investor sentiment, technological advancements, and macroeconomic factors. By early 2024, BTC has approached the $70,000 mark again, showing signs of a potential return to form.

These past episodes highlight the inherent volatility and risks associated with BTC investment, reflecting its sensitivity to regulatory news, macroeconomic conditions, and shifts in investor sentiment. Despite these challenges, BTC has shown remarkable resilience and growth, evidencing its evolving role in the global financial landscape.

**Figure 2: History of BTC price and drawdowns**

Source: TradingView, Presto Research

## Honing in on the current drawdown

After the new ATH of US$73,757.39 on Mar. 14, 2024, BTC has undergone a correction ahead of the fourth halving on Apr. 19, 2024. This is in line with the trends seen in the previous cycles where long-term BTC holders offload their holdings in part ahead of the halving (for more, refer to The 2024 BTC Halving PreviBullish but is it tradeable?).

**Figure 3: BTC price and drawdowns in 2024**

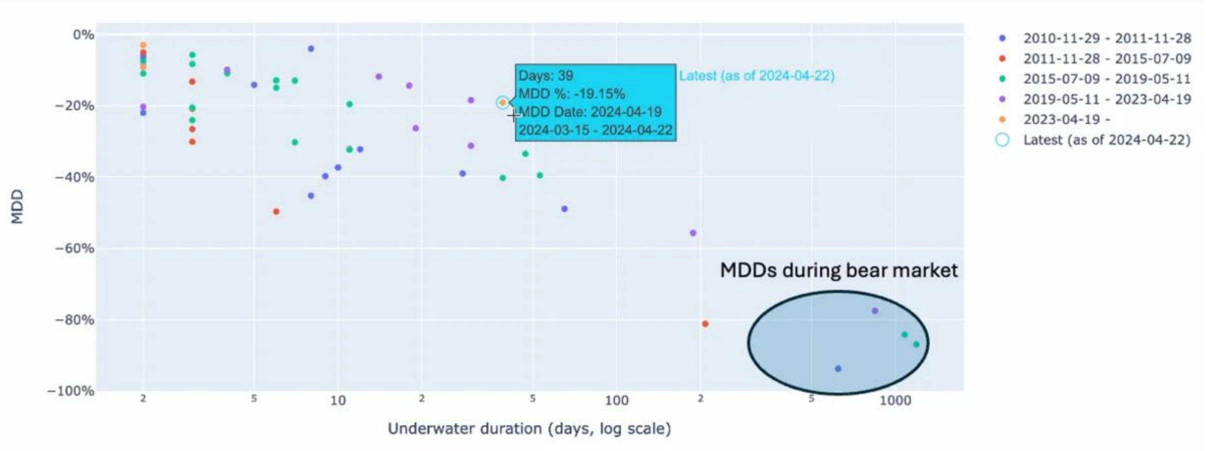
Source: TradingView, Presto Research


## MDD vs Duration

Given a drawdown is characterized by both its depth and duration, we compare key historical drawdowns on a distribution map to see where the current drawdown stands in relation to the others in Figure 4 and Figure 5. We can observe that the maximum depth of the current drawdown is about 19%, which is within the boundary of norms. The scale of the MDD does not particularly stand out compared to other histories of MDDs that we have seen during bull runs. That said, the underwater duration of the correction appears lengthy for an MDD of this scale.

**Figure 4: MDD vs underwater duration**

Source: TradingView, Presto Research

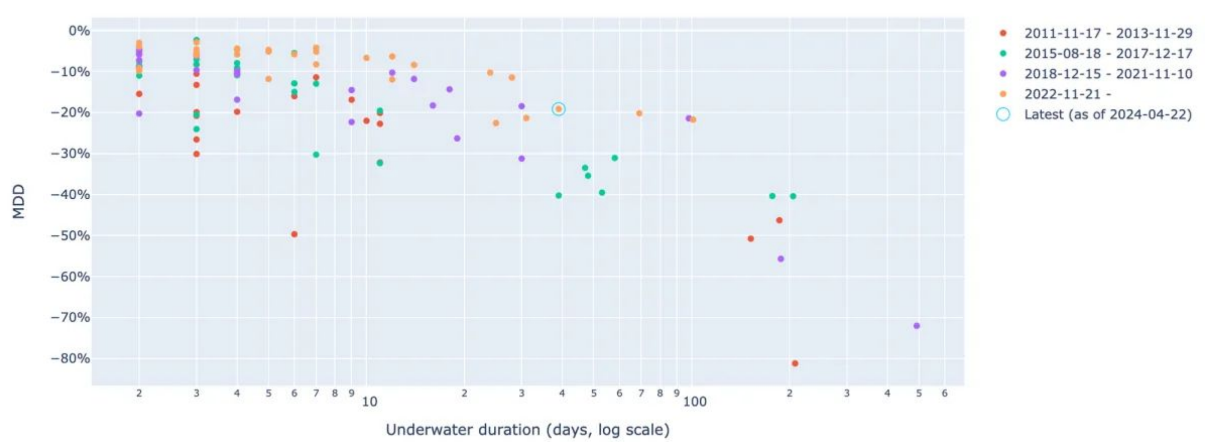



Note: Dates are split into ranges starting from one year before n-th halving to one year before the subsequent halving.

Given we are currently in the bull market drawdown, narrowing down the field to include only the bull market drawdowns can yield more relevant comparison. Therefore, to zoom in on the MDDs and the underwater duration during the recovery phase, we have run the similar study excluding bear market data in Figure 5.

**Figure 5: MDD vs underwater duration in bull runs**

Source: TradingView, Presto Research




Note: Each date range starts from the MDD date to the ATH date of the cycle.

Noteworthy finding here is that the scale of the MDDs during bull market cycles have gradually decreased with the passing of each cycle. This supports the view that BTC is slowly but surely on its way to becoming a more mature asset, as mainstream acceptance as a store of value expands. The listing of BTC spot ETFs in the US, and potentially in other major financial centers around the world, goes a long way in accelerating that trend. Furthermore, the chart implies that, at least in terms of its scale, the current drawdown may have almost run its course, with the institutional demand serving as a floor. The biggest drawdown experienced in the current bull cycle was 23%, a mere 4% apart.

## Conclusion

Drawdowns are an inevitable part of trading. Asset prices don't move in a straight line, after all. It's an occurrence that a successful trader must embrace, learn to deal with, and become comfortable with. More importantly, drawdowns can represent a window of opportunity for those who approach them with the right mindset, and having historical context can be immensely valuable in this process. Never let a good drawdown go to waste.

## About Presto

Preso Labs is a quantitative trading firm, established in Singapore in 2014. We are a team of competition-winning researchers, engineers and finance professionals who enjoy solving most challenging real-world problems in finance. Trading around $3 billion daily, we are one of the most active cryptocurrency traders globally. We provide liquidity provisioning and OTC execution services to blockchain projects, in addition to proprietary trading. Presto Research is a research unit within Presto Labs, providing crypto market intelligence drawn from the collection of Preso Lab's world-class experts in quant trading, web3, and TradFi.

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