



Here's How We Called Bitcoin's Upswing This Month

Highlights From October's Alpha Bites

Welcome to the new version of Filtered.

For those of you who don't know, Espresso isn't the only place where our rotating crew of writers (including yours truly) share their insights. They also get the chance to dive even deeper on their favorite topics (and offer some trade ideas) on our podcast Alpha Bites.

And while it started out as a once-a-week show, we're starting to publish more often with more diverse content. So we thought we'd start regularly sharing the highlights of each episode here in Espresso.

And you can find links to each episode published since the last Filtered post at the bottom.

Enjoy.

If you listen closely, you can hear them.

Those chants of "we're so back" are getting louder. And the calls of "it's so over" are getting quieter.

In October, it seemed like that light at the end of the tunnel looked less and less like an oncoming train...and more like the daylight flooding in to scare away the naysayers.

Yes, there were a few hacks and legal developments that gave crypto another black eye or two. I don't mean to discount the impact of those events.

But overall, it seems like the hopium seeds are starting to bear fruit.

For one thing, the regulatory picture is starting to brighten, at least in the U.S. The SEC suffered some more setbacks in its pursuit of Ripple (XRP) this month. You may remember that previously a judge ruled that some sales of XRP didn't count as securities offerings. That same judge threw out the SEC's appeal in October. And later, the agency dropped its civil case against the Ripple founders.

Meanwhile, anticipation is building for a spot Bitcoin ETF to be approved ([perhaps too much anticipation](#), as we'll get into below). More companies are jumping into the fray and filing applications for one. Wall Street is confident we'll get one next year.

We'll see. But the hopium was enough to propel Bitcoin (BTC) back above \$35,000 at the end of the month, a level it hasn't seen since before the LUNA debacle of May 2022 that kicked off this bear market in earnest.

Did any of you see this coming so soon?

Turns out, one of our own from the xChanging Good team did.

Many of you are probably familiar with our resident janitor, J.J., being a whiz when it comes to spotting technical patterns in crypto. And thanks to his familiarity with the options markets, this move popped up on his radar almost a week before it played out.

It started on October 16 with BTC's move from below \$28,000 to above \$30,000 in just minutes, thanks to a tweet that a spot ETF had been approved (which later turned out to be false).

But as J.J. explained on the October 18 episode of *Alpha Bites* (which you can listen to on YouTube [right here](#)), this event triggered another catalyst in the options market known as a "gamma squeeze" that helped fuel BTC's rise.

Here's how he laid it out:

[Traders] were selling call options out-of-the-money. So say they were selling October calls [with strike prices from \$28,000–\$35,000], and they were short those calls, which means if the calls expired worthless, they get to keep all that premium. It's basically a short position on a derivative.

So as price moved up, they had to hedge that position, because as Bitcoin moves up...your losses accelerate.

So in order to hedge that, they have to buy the actual [spot] Bitcoin back to cover their losses [in case the buyers exercised their options]. So that's what we saw. Everybody was trying to hedge in mass, and it was like yelling “fire” in a crowded building.

Everybody's aiming for the same exit. They couldn't get in fast enough, and it basically caused price to accelerate.

...

The market was obviously aware of this, and they pulled a lot of the ask liquidity, which forces people to buy higher, because all of a sudden, the person you thought was going to sell to you at \$29,000 is no longer there. They're waiting to sell to you for higher because they know you have to buy.

So it's kind of this game theory of markets: When people know somebody is vulnerable, they kind of press on that pain point.

In that episode, J.J. said that BTC “could be nearing a major breakout and reversal here.”

A week later, his prediction came true. BTC wicked above \$35,000, and another group of traders who were shorting the crypto got wrecked.

J.J. knew what to expect because he's been tracking these trends all year, as he explained on the [next episode of Alpha Bites](#):

Basically, every time BTC was ramping up after the March rally, every time it was kind of encroaching on \$30,000, we saw implied volatility levels [how volatile people expect BTC to be] drop.

And that was mainly due to people coming in and selling the upside, because they felt like, “Okay, Bitcoin's already doubled for the year, it's kind of safe for now. I don't really expect it to continue on much further.” So there were many catalysts piled up against it.

But obviously not factored into that was Grayscale winning the SEC case. [With the market repricing itself for the spot BTC ETF, which it didn't seem to have, there were people under-allocated, right?

So as they start making buys, it pushes the price up. And then those people that were short calls find themselves extremely offside, because the volatility levels were not accurate of what it should have been reflecting if a spot ETF is coming to life next year.

You'll want to give a full listen to that episode to hear J.J.'s prediction on where we could go next. (I even throw in some extra analysis on a key metric of spot demand that I've talked about before.)

Now, it seems like the ETF narrative has taken over the crypto market. But we shouldn't be so quick to assume that it will be the only catalyst we need to send us back into the bull market.

[On the October 27 episode of Alpha Bites](#), independent analyst Ray highlighted what he thinks will be the true shift that brings about retail adoption of BTC:

So we all know that the ETF is kind of that gateway that creates that new liquidity and allows everyone to invest in Bitcoin safely and send its price to the moon. But that still involves retail investors to a certain extent. And the ETF's only half the story. So my view is that there's going to be an ideological shift among the American consumer...

There are different cohorts of people that find Bitcoin attractive for a variety of reasons. And the realization is going to be when the Fed kind of capitulates on inflation by revising what its targets are.

[And] when some of the things Ben talks about as being ways to unlock liquidity through national debt and through Treasuries, when those things happen, when people realize that there's no solution to dollar devaluation, when quarterly earnings begin to take a hit and when the Fed begins to pull back rates and cut them, yet inflation continues to impact people on the daily – then the appeal of a supply-capped, low-emission, portfolio-protecting asset such as Bitcoin becomes more attractive.

So the big tell is ... the Fed is not able to meet any of its objectives and inflation continues to hurt people and the 60-40 portfolio is no longer putting people on track for a path to retirement.

When people realize that there will be an ideological shift which makes assets like Bitcoin attractive, I think that's when you'll begin to see more sustained inflows into Bitcoin from the retail side. And who's going to define that narrative? The same people that are having the ETFs approved will be pushing and peddling that narrative, and I think it'll sell and it'll be attractive.

Meanwhile, if you're curious about what trades the team is looking at now, be sure to listen to the latest [Alpha Bites episode which dropped yesterday](#).

And be sure to subscribe to the channel [here](#), so you don't miss today's episode on the latest Beta Play... and check out the most recent handful of episodes linked below.

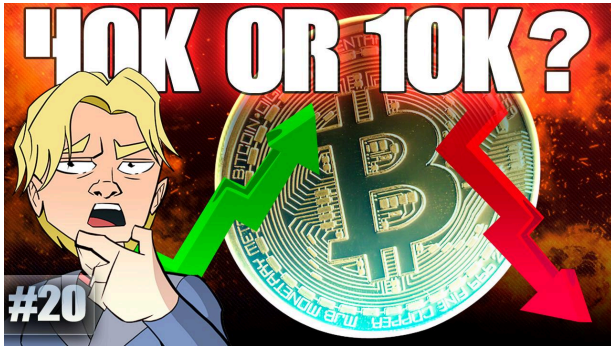
That's all from me. Enjoy the weekend.

Your Pulse on Crypto,

Ben Lilly

Alpha Bites:

- [Don't Gamble on Bitcoin's Next Move](#) (Oct. 4)



- [Your Chainlink Bet Beats Ethereum. No Contest](#) (Oct. 12)



- [BlackRock Wrong on Bitcoin ETF News](#) (Oct. 18)



- [How to Play Bitcoin's Market Change Breakout](#) (Oct. 25)
- [Your Bitcoin Hits \\$2.5 Million When This Happens](#) (Oct. 27)
- [Bitcoin Arbitrage: How You Profit on BTC November High Volatility](#) (Nov. 2)

