# Market Cycles

Understanding the dynamics and cycles of a market is crucial for success. If you know where the market stands in its cycle, you can determine the opportune moments to sell or buy without falling into traps.

## Buy low & sell high

The figure below represents, in a very simplified way, a market cycle. It usually fluctuates, printing a succession of highs and lows.

In crypto, a market cycle lasts around 3 to 4 years, paced by the mathematical dynamics of Bitcoin and the macro events. This means that we are likely to see a bottom but also a top during the cycle.

Don’t believe you can buy the perfect top and bottom as no one is able to predict the future.The goal is to buy when prices are low and sell when prices are high.


The amplitude between the bottom and the top depends on many factors. In the context of crypto, there are three main reasons:

1. It's a young market. Hence, it’s still hard to give a fair value to the industry. That creates a lot of volatility.

2. A lot of retail investors. Thus, it's a market largely influenced by ordinary people, who do not necessarily have a lot of expertise and experience in trading or investing.

3. It's not (yet) a regulated market. Therefore, political uncertainties or new laws can have significant consequences on your portfolio (taxes, privacy…).

In crypto, we often encounter the words bears and bulls. This comes straight from Wall Street. A bearish market behaviour means it's in decline. Conversely, a bullish market behaviour means it's on the rise.

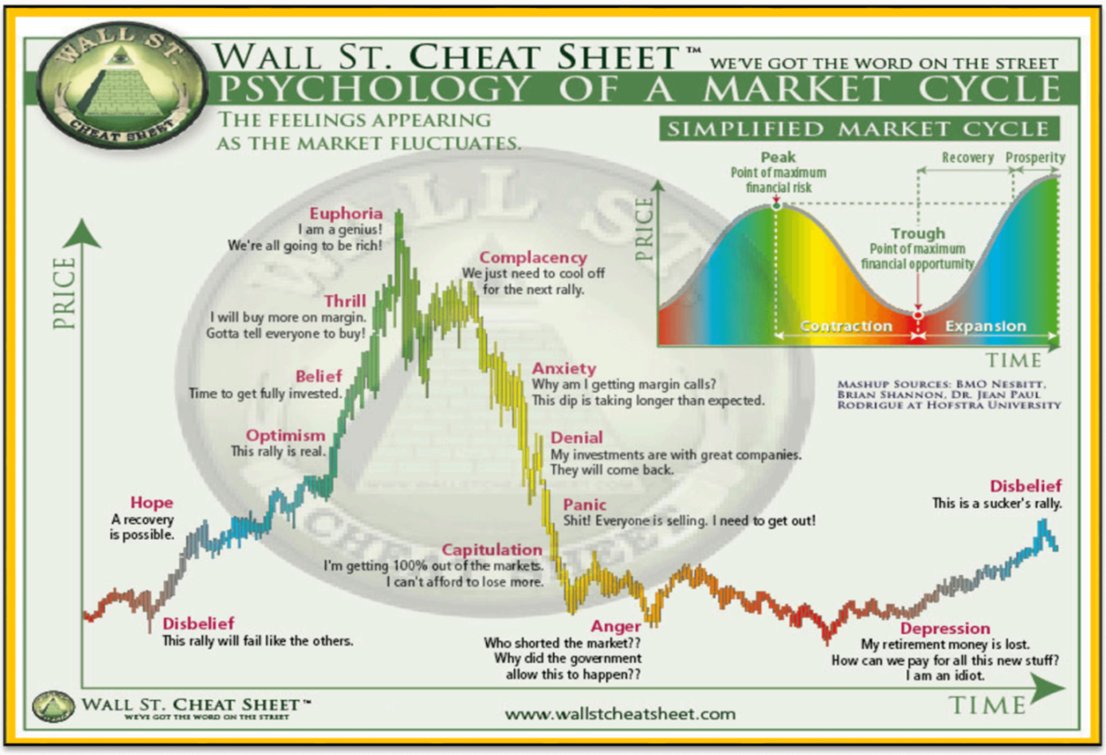
*(source: providencecapital)*

As an investor, you want to position yourself during the bear market and take profit during the bull market, when prices are high.

This may seem obvious, but statistics show that the majority of people do the opposite. During a bear market, few people are interested in crypto, although it is certainly the most important phase for building a portfolio.

## Psychology of a market cycle

To go further, we can rely on this extremely well-known chart, which accurately illustrates the different phases of a cycle. It illustrated the relation between the price actions and human psychology. Let's detail the main phases.



**Hope**
Hope is the first step after a bear market. It is a crucial phase because it demonstrates a global change in sentiment. Investors start believing that better days are coming.

**Optimism**
The price increases gradually until the stage of optimism. From this step, investors start rushing into the market. The price rises rapidly. That's usually when retailers start entering the market.

**Euphoria**
Quite quickly, we arrive at the Euphoria phase, which marks the top of the cycle. Logically, this is the moment to sell. But the vast majority don't, convinced that prices will climb higher.

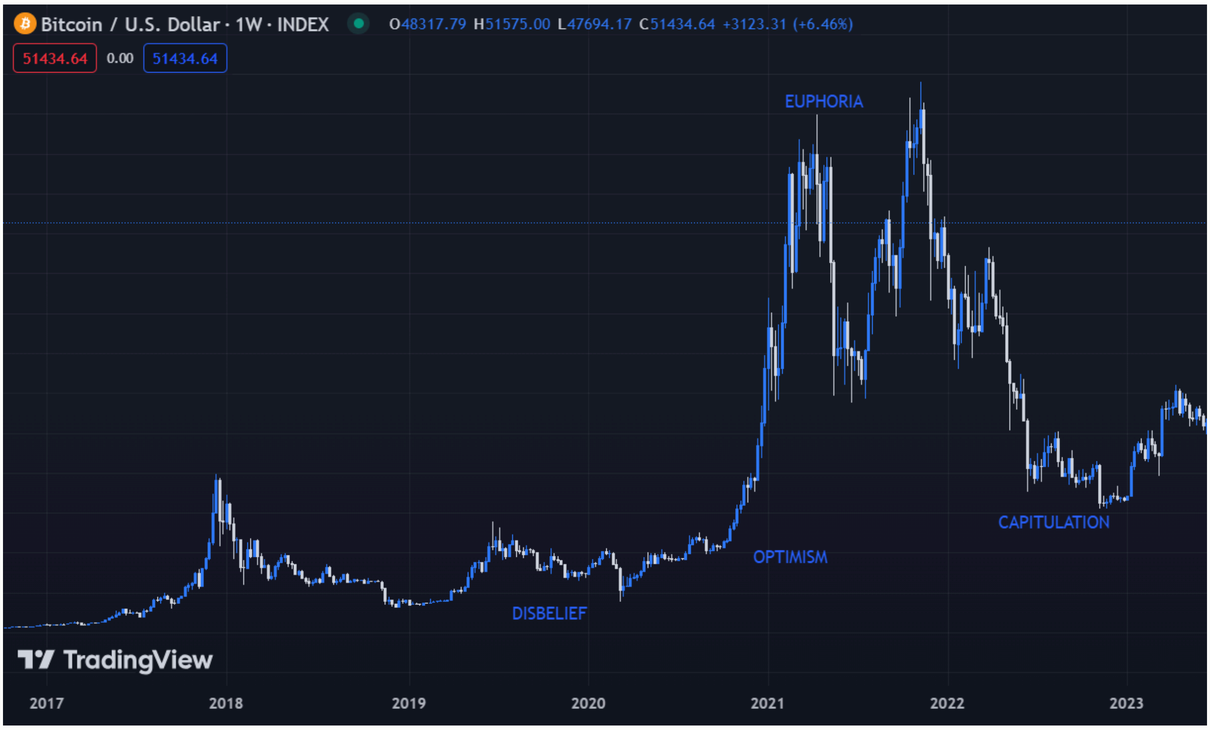
**Complacency**
As there are no more buyers, the market begins a major correction phase. The price falls and bounces. Many people got trapped at this stage: the ones who have not sold before and the late comers. This is the complacency phase, where investors think the bull trend will resume.

**Capitulation**
Unfortunately for them, this is not the case, and the fall becomes brutal, often triggered by bad news. Investors panic and sell, often at a loss. This is the capitulation phase.

**Anger and depression**
The market is psychologically marked by such a crash and will stagnate for weeks or even months. That's the bear market. The bottom is marked by multiple sentiments like despair or anger. Investors think that it's over, and those with poor convictions leave the market.

**Disbelief**
As we see less and less sellers on the market, things gradually pick up. Prices increase, good news comes back, and investors make a timid return. This phase is often long with many "traps" that easily shake the less mentally prepared investors (disbelief). But slowly, the market returns to the "Hope" phase.

The two graphs below present the price of Bitcoin during the 2017 and 2021 cycles. We can clearly identify the different stages of the market.




## Why do people fail and what can you do to avoid the traps?

The theory seems easy: buy when we are at the bottom and sell when we are at the top. But, if it's that simple, why do so many people fail?

1. Human psychology
2. Poor convictions
3. No strategy
4. Bad sources of information

**Psychology**

Psychology plays a very important role in the market dynamics and our behaviour. Near the tops, greed takes over and pressing the “sell” button becomes impossible for many of us.

We think that the market can go up only. This sentiment is amplified by the herd effect, when our friends and social media are also bullish on the market. We then think that the majority is right and we do not secure our profits.

In the worst case, greed and herd behaviour can push people to FOMO (Fear Of Missing Out), a sensation of absolute urgency to buy leading to entering the market at the top.

Conversely, during the market depression phase, feelings of despair and the desire to give up are strong. We think we were wrong and see our peers selling. Bad news, like the bankruptcy of a platform, amplifies this feeling. Worse, fake news and over-mediatisation of bad events can lead to FUD (Fear, Uncertainty, and Doubt), a sensation where doubt and fear settle in. That’s when most people sell.

**Convictions**

This brings us to conviction. It will be extremely difficult to make money if you do not understand what you invest in.

Often, investors will follow the advice of a friend or an “expert” and invest in a token without really understanding it. A few weeks later, things are not going that well and what should you do ? Sell? But? Maintain the position?

This is where conviction comes into play. Because if you understand the causes of a sudden drop in price, you will be able to make the right decisions. Even better, you may sometimes anticipate and sell or buy at the right time.

It is therefore crucial to understand and stay informed about the tokens you own, which we do daily within our community.

**Strategy**

We then come to strategy, another key element of success. The first step of a strategy is to establish a goal. A goal must be quantified and timed. Of course, it must be reasoned and achievable. Having a goal of "x1000 in 2 weeks" is a fantasy.

- "I want to make money in crypto" is not a goal.
- "I want to quadruple my initial investment within a 4-year horizon" is a goal.

Once the main goal is defined, it becomes easier to establish an action plan and position yourself. Investors seeking to double their investment over a cycle will certainly position themselves on known tokens like Bitcoin, Ethereum, or Solana. While investors with little capital, ready to risk everything for a x20, will look for small capitalisations.

Here again, Alpha Hunt helps you daily to build a portfolio and a strategy that suits you.

**Trustworthy sources of information**

Finally, you need to find good sources of information. This is often very difficult, especially during the growth phase as influencers and mass media, without expertise, come into play.

Filtering and finding reliable sources is time-consuming. Be critical of the content you watch or read. Analyse the history (results, presence during the bear market) and try to understand if the content is using you to enrich itself).

Our team has already done this work, and we are here to reduce the noise coming from the market and the media.

## Conclusion

To conclude, a good investor remains humble and takes what the market has to offer. They know how to step back when necessary and how to control their emotions.

With a good strategy, strong convictions, and a very good understanding of the market, they are capable of generating significant profits from cycle to cycle.

We'll end with these two meaningful quotes from Warren Buffett:

- “Be humble with the market, or it will humble you."
- “Be fearful when others are greedy. Be greedy when others are fearful."