

Negative Divergences Often Warn of Impending Declines: Bitcoin Highlighted.... is Gold Next?

By Louise Yamada

Negative divergences, occurring in a variety of indicators, often [warn of impending price consolidations / declines](#). There are different implications with *short-* term, *intermediate-* term or *longer-term* (more *structural*) divergences observed versus price action in an uptrending stock, commodity, index, etc.

[A divergence occurs when price moves to a new reaction high but the indicator does not, rather failing at a lower high](#), creating a negative divergence to price, suggesting the momentum is waning.

Referencing here the MACD (moving average convergence divergence) indicator as an example, short-term (*daily*) divergences can indicate the potential for either a period of [consolidation](#), or of a short-term pull back in an ongoing uptrend. A *weekly* divergence might suggest a [more sustained consolidation / pullback](#), and even a reversal of trend, particularly if support is violated, offering an opportunity to lighten positions.

The *monthly* (more structural) divergences generally cover an extended period of time and [should be taken more seriously](#) for the *potential of a more sustained decline*; even an eventual end to an uptrend. These can offer a warning / opportunity to continue lightening / selling positions.

The [event of a Sell signal](#) in the MACD (the upper line crossing below the lower line), or a broken critical price support level, offer technical viability of the divergence. Monthly divergences need not always occur, but a *monthly* MACD *Sell* signal, even without a divergence, offers a more structural warning to sell.

We were watching the [developing negative divergence in BITCOIN](#) into Q1 of 2022, in all timeframes with a MACD divergence: The *daily*, *the weekly* price pattern (**Fig. F-1**) and also in the *monthly*.

Fig. F-1 Grayscale Bitcoin Trust (GBTC) (Top) & MACD (Bottom) (Weekly)

Source: Bloomberg and LY Advisors

The *weekly* price high in March 2021 was followed by an equal rally price high in November 2021. But the *weekly* MACD momentum (lower panel) was at a significantly lower high (see lower arrow), **suggesting upward momentum was losing strength.**

One can also note on the primary rally price high, the *weekly* MACD offered an **initial Sell signal in April 2021** (as the upper line crossed below the lower line), worthy of acting defensively (lighten / sell positions) and from which **price carried from 50 to 24**, establishing an initial support level.

A *weekly* MACD Buy (lower line crossing up over the upper line), occurred in September 2021, carrying price toward the former high near 50, from which price declined again in February 2022 to the support established in July 2021 at 24. But the MACD **did not rally to its prior high** (see declining arrow, lower panel), offering the negative momentum divergence, suggesting further risk might lie ahead.

The MACD itself also offered an early December 2021 *Sell* signal, suggesting one could lighten positions as **price again retreated from 50 to the prior 24** support. (These *weekly* *Sell* signals offered participants 2 opportunities to capture rally profits.)

After a multi-week consolidation into March-April 2022, price gave up and broke the 24 support in mid-May 2022 (see horizontal red line). The MACD is still declining, suggesting the price depreciation may not be over, notwithstanding interim rallies. One ought to allow for evidence of stabilization at a low and the gradual reversal of the daily, weekly and eventually, monthly MACDs.

As a quick short-term 2022 reference, one can note even on the daily profile (Fig. F-2) that there is a divergence on the second MACD rally peak (see red arrow), which can offer a first alert to a possible similar development on the weekly and possibly eventually, the more structural monthly patterns.

Fig. F-2 Grayscale Bitcoin Trust (GBTC) (Top) & MACD (Bottom) (Daily)

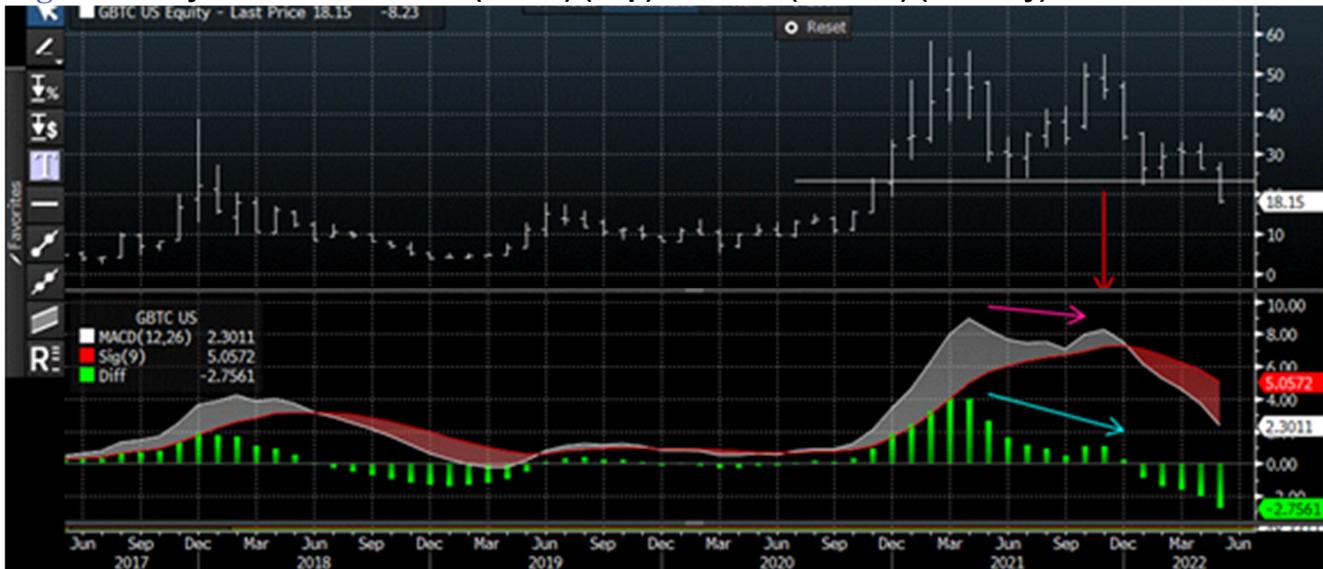


Source: Bloomberg and LY Advisors

The monthly profile (Fig. F-3) depicts the equal price highs with a less obvious, but still diverging pattern in the momentum (see vertical and declining red arrows). Notice that on the second price high, the monthly MACD had not yet slipped to a Sell, but was beginning to flatten / roll over. The second price high was met with a slightly lower level in that flattening MACD period.

One can also see the falling histogram, as the MACD narrows (blue arrow), and the divergence progresses, until the December 31 2021 MACD Sell signal, at which point one should consider being fully defensive.

Fig. F-3 Grayscale Bitcoin Trust (GBTC) (Top) & MACD (Bottom) (Monthly)



Source: Bloomberg and LY Advisors

Price had yet to fall to the support at 24, and after doing so, **lingered above 24 for several months**, offering additional time, at a stable price, to lighten / sell before the May 2022 price breakdown.

The **momentum is still declining**, suggesting it is too soon to consider re-entry, *notwithstanding interim rallies* which can carry into resistance, formerly support.

Fig. F-4 Grayscale Bitcoin Trust (GBTC) (Top) & Relative Strength to S&P 500 (Bottom) (Monthly)



Source: Bloomberg and LY Advisors

Interestingly, one can also note a similar warning in the *weekly* Relative Strength (RS) negative divergence (**Fig. F-4**), demonstrating evidence that [multiple indicators can offer divergences](#); in this case the RS for **BITCOIN** was also suggesting a change of status, one of *underperformance*.

Is GOLD Next?

Recently, we have been [questioning the somewhat similar behavior of GOLD](#):

The May 2020 price high achieving 2,000, versus the 2022 price peaks also achieving 2,000, as well as the relationship between the *two* 2022 price peaks with regard to their momentum readings.

The *daily* MACD divergence to **GOLD** price is quite visible (**Fig. F-5**), by the time the 2022 price rallies to 2,000, equating to the 2020 price high, but with the 2022 [MACD at a much lower level](#) (see aqua line, lower panel) than that of 2020. (Note: A MACD *Sell* signal occurred after the 2020 peak, [alerting to the possible price decline](#), which eventually carried to the March 2021 low near 1,700.)

The lower March 2022 MACD peak [also registered a March *Sell* signal](#), suggesting one might lighten positions.

Fig. F-5 Gold (GOLDS) (Top) and MACD (Bottom) (Daily)



Source: Bloomberg and LY Advisors

In addition to the *daily* MACD wide divergence between the 2020 and 2022 price rally peaks, there is **also a shorter-term negative MACD divergence** between the 2 peaks in the 2022 March and April rallies to 2,000 (declining red arrow, lower panel).

This divergence followed the March 2022 MACD *Sell* signal, and **barely recognized the April price rally** (declining red arrow, lower panel). The ultimate price decline broke the support at 1,900 (flat aqua line, top panel), broke the short-term uptrend, and slipped below 1,800 before rebounding slightly.

Fig. F-6 Gold (GOLDS) (Top) and MACD (Bottom) (Monthly)



Source: Bloomberg and LY Advisors

The *monthly* profile (**Fig. F-6**) depicts a **multi-year MACD negative divergence to price** (see declining arrow, lower panel) from as far back as the 2012 price peak near 2,000, versus the minimally higher 2022 price peak.

(In 2012, the *monthly* MACD *Sell* offered protection from the price collapse toward 1,100, had one followed that structural *Sell* signal.)

In March 2022, the MACD, registered another major *monthly Sell* and **barely rallied** on the secondary 2022 price peak back to 2,000; the MACD now **remaining negative and poised to perhaps continue down**.

This suggests technically, that **Gold may be in danger of a potentially larger decline** ahead, especially *if support* at 1,700 is broken. Such a breach could bring next support at 1,400 into view (horizontal red line) ... returning to the breakout level from the 2013 to 2019 basing pattern (see saucer).

It is possible, however, that although GOLD has broken out in many other currencies, the extraordinary current **strength in the US dollar may be contributing to the GOLD disappointment.**

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