

The Bull Bear Ethereum Strategy

Motivation

The motivation behind the Bull Bear Ethereum strategy is to participate in Ethereum 's potential for immense growth but at the same time cut down on the significant risk of holding Ethereum. As an extra bonus, the strategy uses DAI in place of cash so it is easy to switch to compound DAI (or equivalent) and earn a high interest on idle cash, currently at 7% (1/1/2020).



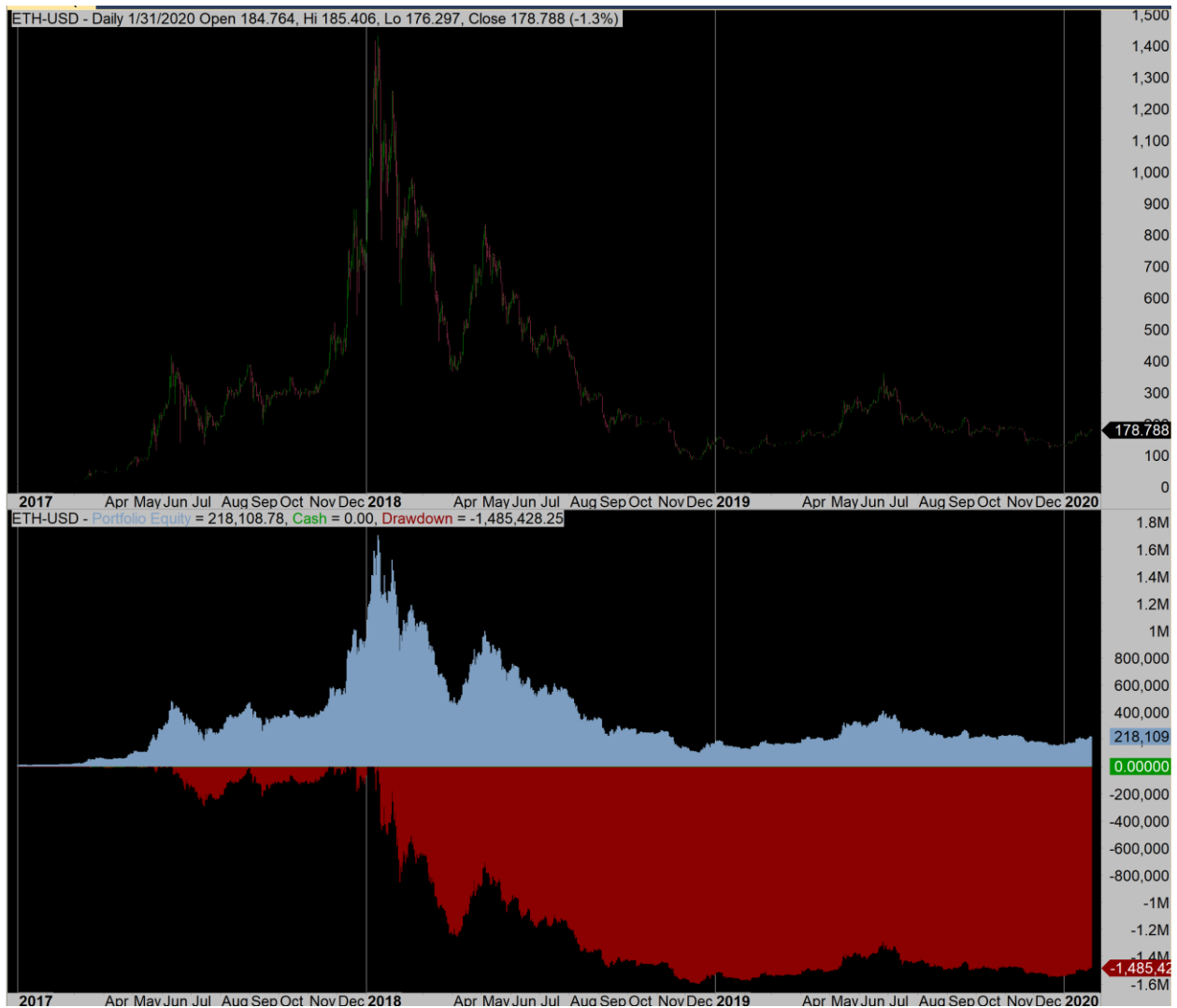
Looking at the above chart it is not easy to decide whether ETH will burst into a new bear market surpassing the previously set record of \$1,400 or whether it will keep moving sideways indefinitely. And if it does go on a run similar to the one in 2017, how do we know when to exit so we do not end up right back to were we started, missing out on collecting the huge profits of 2017. The strategy attempts to solve these two problems.

1. If Ethereum keeps going sideways, we may lose some money by trying to enter and exit (what is called whipsaw) but at least we will be getting a 7% (or similar) interest on DAI as a reward for waiting.
2. If Ethereum goes off on a bull run, the strategy will participate.

3. If Ethereum goes in a bull run and reached new high, the strategy will exit early on sign of weakness. Some profits will be lost but not nearly as much as if holding through the bear market.

Buy and Hold

If you bought \$10,000 worth of Ethereum in January 2017 you would now have around \$218,000. Not bad? What we need to look at is the path to that 200K. The chart below shows the equity and drawdown of holding ETH:

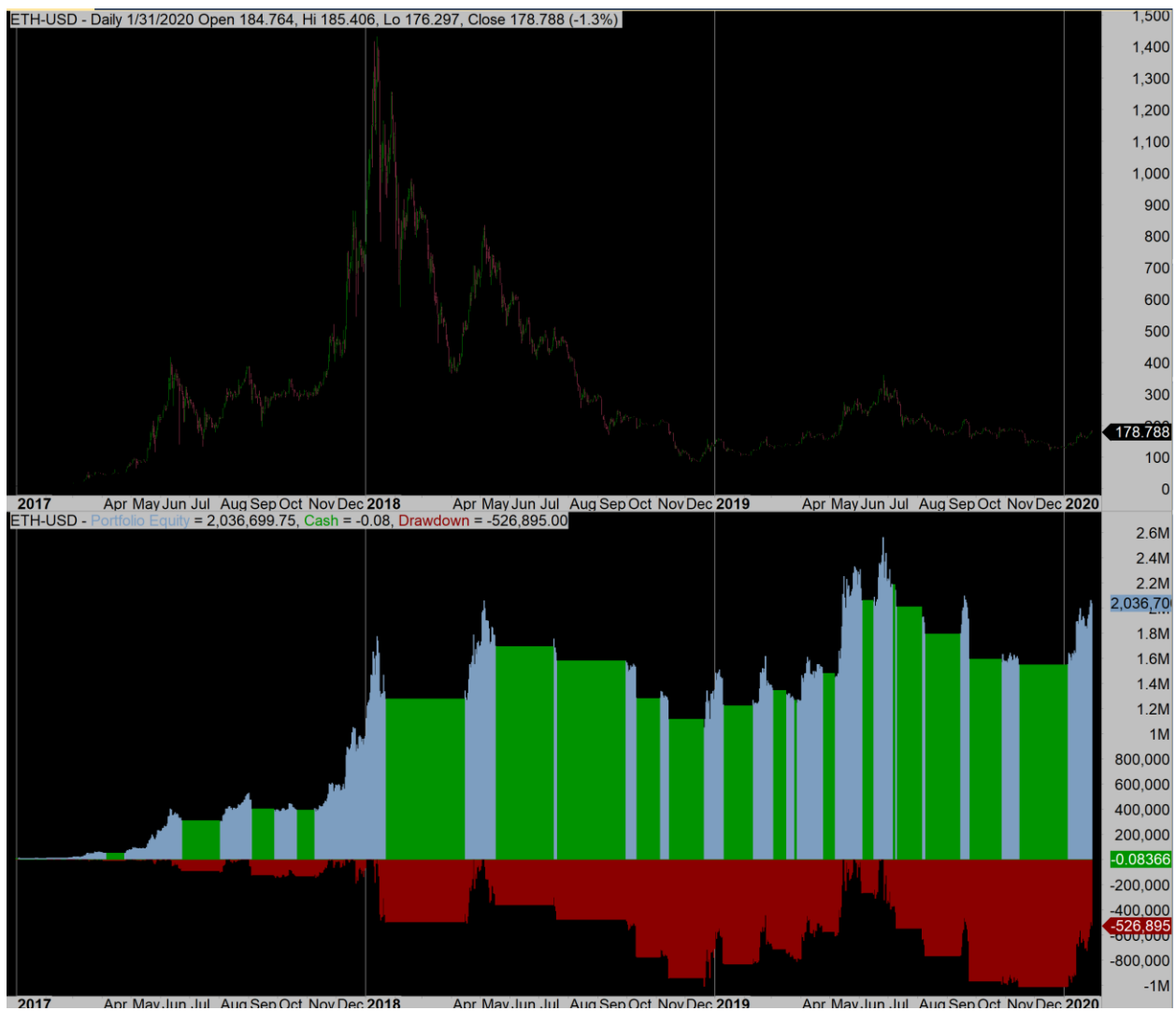


At one point in January 2018, you would have been a millionaire at around 1.6 million. You would then go on to lose 1.4 million and end up at 200K. All this assuming you would have been able to weather the loss.

Using the Bull Bear Ethereum Strategy (BBE)

Assumptions are:

Start 1/1/2017. Starting capital: \$10,000. 0.35% Slippage on every trade. 0% Interest on cash.



The green area under the equity curve signifies that the system is in cash while the grey area signifies that the system holds Ethereum.

Loses are significant but much lower than holding. Also notice the strategy is successful at keeping most of the gains accumulated during the 2017 run. Admittedly the equity is not ideal, i.e., steadily going up but you will notice it does 3 things well: 1. Make money on Bull runs 2. keep part of the money during bear markets and 3. Tirelessly try to enter a possible next bull market and exit if it does not work out. This is almost impossible to do manually as it requires discipline and patience.

BBE Stats 2017-2020:

	BBE Strategy	Buy&Hold (ETH-USD)
Initial capital	10000.00	10000.00
Ending capital	2036699.77	218108.78
Net Profit	2026699.77	208108.78
Net Profit %	20267.00%	2081.09%
Exposure %	47.78%	100.00%
Net Risk Adjusted Return %	42417.55%	2081.09%
Annual Return %	458.63%	171.13%
Risk Adjusted Return %	959.89%	171.13%
Transaction costs	179680.29	800.94
Max. system % drawdown	-49.09%	-93.96%
Recovery Factor	2.00	0.13
CAR/MaxDD	9.34	1.82
RAR/MaxDD	19.56	1.82
Profit Factor	2.55	inf
Payoff Ratio	2.09	nan
Standard Error	343749.02	293942.72
Risk-Reward Ratio	1.83	-0.15
Ulcer Index	25.87	65.83
Ulcer Performance Index	17.52	2.52
Sharpe Ratio of trades	1.56	inf
K-Ratio	0.05	-0.00

What about the worst years: 2018-2020:

For this we will assume a 7% interest on DAI.

The main statis are:

BBE backtests with 96% profit vs -77% loss of Buy and Hold.

Max Drawdown is -48% vs -93% of Buy and Hold

Total Interest paid is \$1267

BBE Stats 2018-2020

	All trades	Buy&Hold (ETH-USD)
Initial capital	10000.00	10000.00
Ending capital	19640.39	2297.84
Net Profit	9640.39	-7702.16
Net Profit %	96.40%	-77.02%
Exposure %	35.61%	100.00%
Net Risk Adjusted Return %	270.71%	-77.02%
Annual Return %	38.11%	-50.52%
Risk Adjusted Return %	107.03%	-50.52%
Transaction costs	1633.95	42.95
Interest earned	1267.63	0.00
Interest charged	-0.00	0.00

	All trades	Buy&Hold (ETH-USD)
Max. trade drawdown	-4787.07	-16863.70
Max. trade % drawdown	-28.15	-93.96
Max. system drawdown	-9252.36	-16863.70
Max. system % drawdown	-47.25%	-93.96%



ETH Price above, BBE Equity below

Conclusion:

The Bull Bear Strategy is a pure DeFi strategy using Ether and DAI. It speculates on the potential of the price of Ethereum to reach new highs. It does so by tirelessly entering and exiting, trying to ride a possible new bull phase while collecting a very respectable interest. It is a high-risk strategy, meant for smaller accounts that can withstand losses in excess of 50%. It is best used when someone believes in the potential of Ethereum but would rather automate the process to gain some protection as well as some interest while he/she waits.

Please do your own due diligence. Past performances does not guarantee future returns. Only invest money you can afford to lose.

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