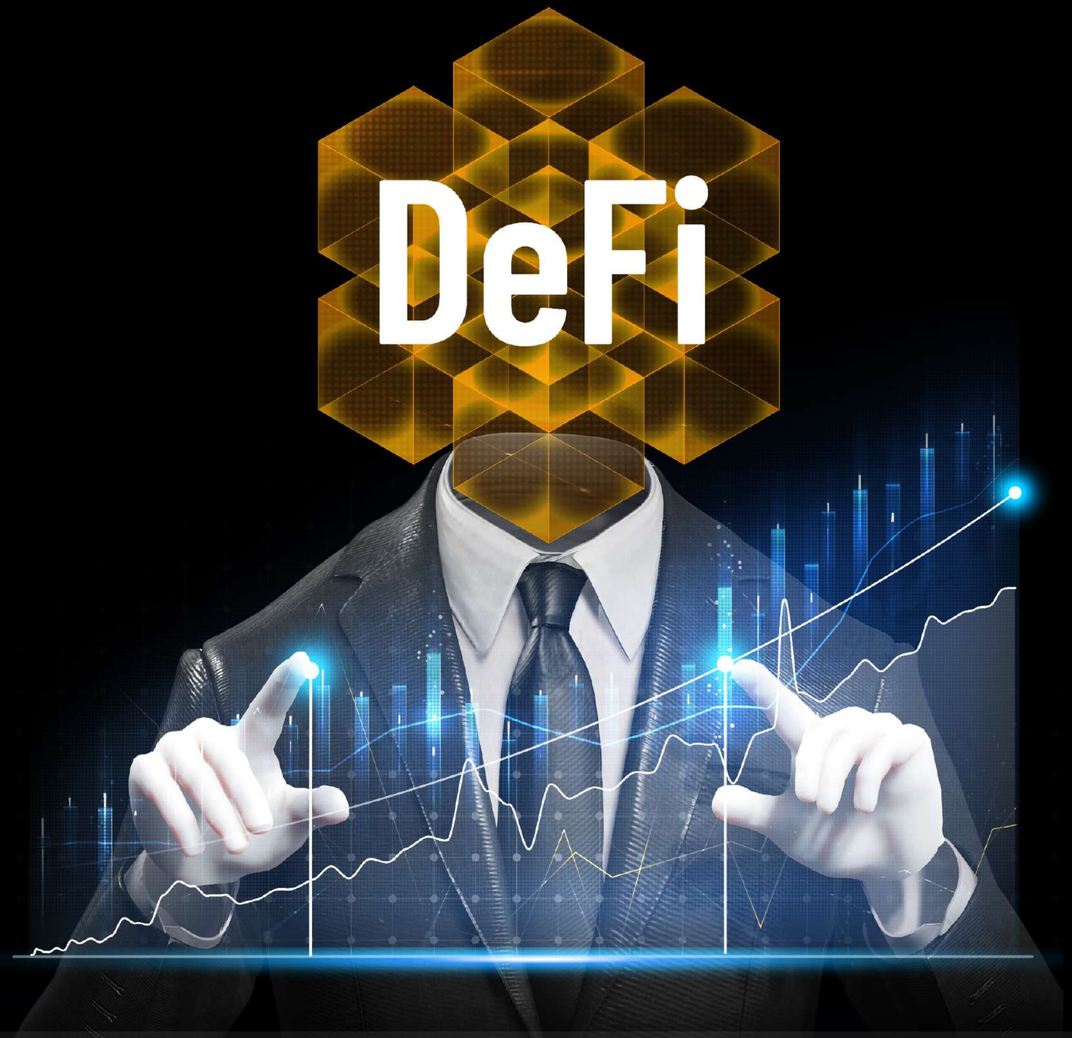
INVESTING IN DEFI

A Comprehensive Guide / June 2023



Cointelegraph
Research

Polkadex. Beamer Allnodes DEFI LAND currnt PRETIUM ventures xGO MARKETS PRO by COINTELEGRAPH



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IS DEFI POISED FOR A RESURGENCE?

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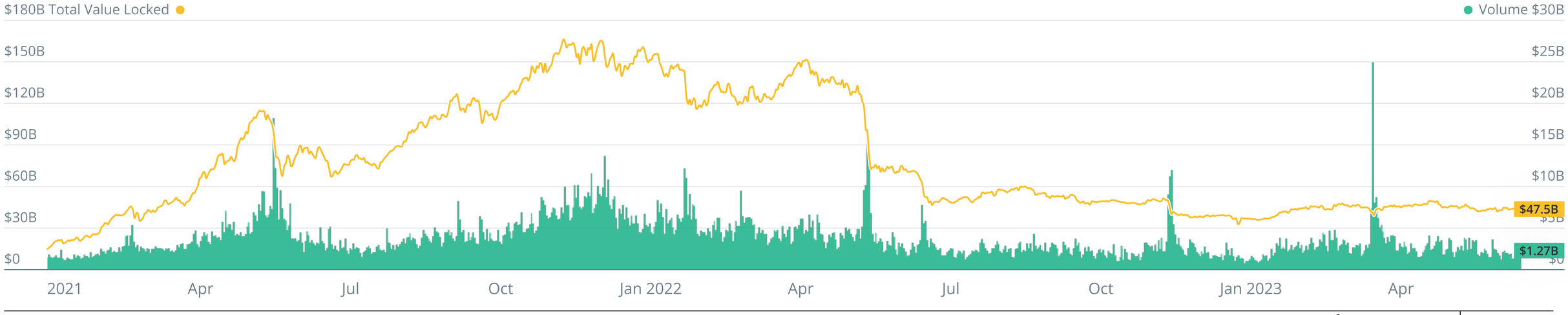
Since the 2021 DeFi summer, the all-time high (ATH) for the total value locked (TVL) in decentralized finance (DeFi) reached $178.79 billion at the same time that Bitcoin (BTC) reached its peak in November 2021 of around $69,000 for the 2020–2024 halving cycle.[1] Since that time, DeFi has seen a dramatic reduction in TVL and trading volume, but it did not vanish. In June 2023, the volume levels on DeFi protocols ranges between $1 billion and $2 billion daily, led by Lido DAO, which provides liquid staking, accounting for around 28% of the DeFi sector according to DefiLlama. The majority of cryptocurrency adoption is not happening in the United States, but often from emerging markets.[2] From South East Asia countries such as Vietnam and the Philippines, and Indonesia, to South American countries such as Brazil, Argentina, Colombia and Ecuador, it could be said that a DeFi play is akin to an emerging market stock strategy in TradFi.[3]

It is not that emerging markets will move DeFi — necessity is what drives adoption of any new technology and innovation. In stabilized first-world counties, the adoption of an alternative currency or means of transacting with others without an intermediary is not needed to function in day-to-day life. However, this may not always be the case, as we have seen in the first half of 2023, with several American banks collapsing.[4]

DeFi could find a new resurgence as banks around the world consolidate into larger conglomerates. This would force everyday people who never thought they would look in the direction of a decentralized exchange (DEX) and own their own cold and hot wallets to be able to enter the world of Web3 and participate in DeFi.

Total Value Locked in DeFi From January 2021 to Early June 2023

Figure 1



Source: *DefiLama*

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Data as of
June 3, 2023

1 *Historical Cointelegraph article depicting the rise during this period can be read here*
2 *For more information on adoption rates of cryptocurrencies, read this articles from Cointelegraph and Chainalysis*
3 *To learn more about emerging markets and it definition, click here*
4 *For more information on the banking collapses in the first half of 2023, read this article*

FOREWORD

One of the greatest use cases that has brought adoption of cryptocurrencies and blockchain technology is decentralized finance (DeFi). The summer of 2021 was nicknamed “DeFi Summer,” as the total value locked (TVL) had reached over $111 billion by July, led by decentralized exchanges (DEXs), such as Uniswap and SushiSwap, and popular DeFi protocols, such as Aave.[5] There should be no doubt that one of the impetuses of Bitcoin was a reaction to the bank bailouts during the Great Recession, which started in late 2007.[6] On Jan. 3, 2009, the Bitcoin Genesis Block was created and inscribed in it the headline in the British newspaper The Times, “Chancellor on brink of second bailout for banks,” hinting at Bitcoin’s reactionary intentions.[3]

As it is money that moves the world, it should be no surprise that the generations of modern cryptocurrencies afterward would try to improve the user experience and eat not just the medium of exchange and store of value propositions laid out by Bitcoin but enhance trading experiences and begin to branch out into all financial instruments from derivatives, insurance, lending and borrowing, and other types of yield-farming activities. Staking activities secure the network, and as such, participants gain rewards for being part of the consensus mechanism, helping the entire community sustain itself.

DeFi is a way that knocks down the barriers in order to reach the goal of “banking the unbanked.” While all use cases for cryptocurrencies and blockchain technology are important and are needed to revolutionize almost every industry in existence, DeFi will likely always be one of the leading sectors because it is the only way for many to have access to these financial instruments only enjoyed by those who are allowed by the traditional finance (TradFi) world. But, as macroeconomic events of the early 21st century seem to confirm the old Mark Twain saying that “history does not repeat, but it rhymes,” there may be many people who are allowed to participate in the TradFi world today who may need to look for these options in the future. This report, “Investing in DeFi: A Comprehensive Guide,” is meant to give hard-won insights from analyzing data of different indicators as well as best practices.

Cointelegraph Research continues to bring up-to-date reports on the cryptoverse and helps blockchain companies communicate their cutting-edge research to the world by writing, designing and publishing professional reports. We help companies gain wider audiences by developing educational materials in the form of in-depth reports. Our team of academics and seasoned blockchain technologists can cover a diverse range of topics, including tokenomics, macroeconomics, legal, tax, central bank digital currencies, decentralized finance, supply chain logistics and venture capital. To work with Cointelegraph Research’s team on creating a one-of-a-kind report, contact us at research@cointelegraph.com.



Michael Tabone
Deputy Director of Research
and Sr. Economist at Cointelegraph Research

5 Historical article from Cointelegraph on DeFi Summer 2.0, click here to read the article
6 For a brief history on the banking crisis and the great recession, see the HBR article here
7 Why did Satoshi use that phrase? Read more in this article

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KEY HIGHLIGHTS

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- The current state of DeFi is similar to the early days of computers. DeFi and the overall blockchain ecosystem provide an opportunity to build and innovate in multiple areas: finance, data management, gaming, digital art, etc. At the time of this writing, the DeFi market capitalization is at **$46.21 billion**,[8] calling the attention of institutions, governments and the mainstream public. However, **similar to early-day computers and devices, we are in the speculative era**, trying to figure out what we can do with this technology and how to leverage its potential in all industries.

- Users should understand the risks of DeFi and apply the best safety practices before investing and interacting with DeFi protocols. This includes understanding the risk associated with market volatility, the lack of regulatory and legal frameworks within the industry, and complex products and services, such as yield farming. To assess long-term viability, it's essential to thoroughly investigate a project's structure regarding tokenomics and governance structure. These practices are recommended for all users, from beginners to advanced, before jumping into protocols offering complex products and mechanisms — AMMs, yield aggregators, lending platforms, synthetic assets and DEXs offering derivatives trading.

- The DeFi industry is becoming less dependent on BTC and its extreme price movements. The main factors causing the decoupling are a broader scope of applications for DApps and diversification of digital assets, interoperability between blockchain networks, and institutional interest beyond Bitcoin. This last point is essential, highlighting how institutions, not retailers, influence Bitcoin and DeFi prices the most.



- Dollar-cost averaging and value averaging are investment strategies that offer different approaches depending on individual preferences and goals. The choice between the two strategies should consider factors such as risk tolerance, investment horizon and the desired level of involvement in portfolio management, no matter how greater potential for return may be found using a value-averaging strategy.

- During bear markets, investors tend to flee to risk-off environments, investing in low-risk assets — bonds, cash and gold. A return to risk-on conditions is expected over the next six to 24 months, which will drive capital investment into riskier assets, including crypto and DeFi, and investing in new chains and projects during alt seasons offer the biggest ROI.

- Several dominant narratives have surfaced in the DeFi space. These narratives contribute to the expansion and advancement of this quickly developing field by illuminating the various motivations and aspirations of participants in the DeFi ecosystem.

- In terms of the market, DeFi cannot be reduced to only a few tech-savvy traders and investors. New protocols marketing their upcoming launches with complicated, poorly-optimized content and education for users is a big hurtle hurting adoption. Complex UX that make products/services hard to understand and use are providing a terrible user experience that the industry needs to tackle as a whole.

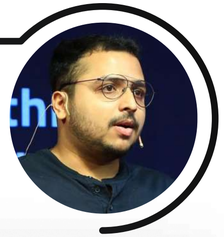
8 As of June 3, 2023 from CoinMarketCap.com

INSIDER INSIGHTS

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Gautham J.

CEO of Polkadex



Crypto traders are currently stuck with imperfect solutions.

Centralized exchanges (CEXs) remain the best option for traders who prioritize speed, interoperability, and efficiency. However, CEXs hold custody of user funds. This single point of failure makes them particularly vulnerable to hacks and operator malpractice.

Decentralized exchanges (DEXs) were created to solve this problem. The solution, while successful, has come with its own tradeoffs, namely high fees, inefficient markets plagued with frontrunning and slippage, siloed liquidity, and limited trading functionality.

We have created an exchange that combines the noncustodial nature of DEXs with the ultimate trading experience CEX users are accustomed to.

On paper, Polkadex Orderbook is an interoperable, noncustodial, order book-based cryptocurrency exchange capable of high-frequency-trading — we like to call it the CEXier DEX.

We're currently opening XCM channels to other parachains to enable DotSama listing pairs and gradually expanding support for other networks and tokens this year!

Frederik Lührs

Tech Lead at Beamer



Crypto traders are currently stuck with imperfect solutions.

Beamer Bridge is a protocol that currently enables ERC-20 transfers between Ethereum L1 and rollups.

It has a strong focus on security and simplicity and embodies the core values I personally believe in: open and public access, permissionless, and censorship-resistance.

I believe that infrastructures in crypto need to follow these values. It will help solve a key problem created by scaling — fragmentation.

While our bridge is currently supporting asset transfers only, we are also working on implementing arbitrary messaging in parallel. Our vision for Beamer is to become a leading bridge solution, seamlessly connecting the increasingly fragmented blockchain ecosystem and ensuring its accessibility, security and interoperability.

Beamer aims to empower users, projects and platforms by enabling efficient and secure asset transfers across different rollups, blockchain networks and layer-2 solutions.

We want to achieve this while delivering the smoothest user experience and the same security as Ethereum L1.

INSIDER INSIGHTS

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DFL Erwin

Founder & Team Lead at DeFi Land



Why does DeFi Land focus on the gamification of decentralized finance?

Blockchain technology has the potential to revolutionize finance, but DeFi protocols are often complex, and their advantages can appear subtle to the average user. Our goal at DeFi Land is to leverage gamification and top-tier educational content to help the masses unleash the profound benefits of DeFi.

Gamification wraps meaningful technologies into enjoyable user experiences. Instead of facing overwhelming trading interfaces, you can navigate the DeFi space from the comfort of a 3D village. In your village, you will find a marketplace that is actually an aggregator working to get you the best value for your token swaps, a seed lab that guides you through liquidity provision, MoonPay integration that helps onboard users from fiat currency to the blockchain within minutes, and our full suite of NFT play-and-earn games. However, creating an enjoyable experience is only half the puzzle. We are committed to responsible onboarding to the DeFi space. Each feature in DeFi Land is paired with educational content that explains to our users how the technology works. For example, on our Liquidity Provider Staking interface, we outline exactly how staking works, where the rewards actually come from, and how to distinguish terms like APY and APR. Our users are encouraged to develop a holistic knowledge of the space, understanding both the mechanisms of DeFi and its role in transforming the future.

Our users understand that the foundation of DeFi is not high-yield investments and overnight wealth. We are creating a technology that increases the accessibility of financial opportunity, unites digital communities, and claims independence from centralized financial institutions. By combining gamification and education, we are inviting high-quality users who will be instrumental in supporting the future of our technology.

Konstantin Boyko-Romanovsky

Founder & CEO of Allnodes



What's the biggest problem with blockchain staking?

The primary issue with blockchain staking stems from the complexity and time consumption of establishing and maintaining nodes and staking across diverse protocols. This poses a considerable technical hurdle for both individuals and institutions. Further, entrusting CeFi or third-party solutions with custodial control over asset staking presents an inherent security risk. Indeed, the industry has faced significant challenges regarding this aspect in recent years.

How does Allnodes solve this problem?

As a prominent noncustodial platform in the blockchain sector, Allnodes offers an extensive and user-friendly selection of services for over 70 protocols. Our platform is studded with many distinctive and practical tools that simplify the process for users to host, monitor and manage nodes and stake digital assets. There are over 37,000 nodes on Allnodes, with a total value exceeding $1.8 billion. We consistently strive for innovation, adapting to the changing needs of our diverse clientele, which includes both individual and institutional clients.

WHY DEFI?

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Decentralized finance (DeFi) exists because there are issues with the traditional finance (TradFi) system. TradFi created the turbulent situations that led to the Great Recession in the late 2000s, the effects of which have carried over into the 2020s. To start, there is an artificially controlled rate of interest on capital allowed to be set by central banking systems that does not allow for the cost of capital (set by market forces of supply and demand) and creates cycles of booms and busts in the economy. The implementation of fractional reserve banking making greater circulating money supplies in the economy, or rehypothecation of assets to multiple claimees, or financial instruments to hide by way of packaging higher risk debt with lower risk debt to make it more attractive, are just a few of the key reasons that gave rise to the creation of Bitcoin.

On top of all this, the financial industry purposefully created complicated jargon and overly intricate formulas to create a bifurcation of "sophisticated investors" to be seen as the only ones allowed to meddle in the realms of capital, while all others sit idly confused on the sidelines. Bitcoin was just a response to this, which is why Bitcoin has a deflationary issuance that halves about every four years and a hard-cap total supply of 21 million. With an asset that can be used as a medium of exchange and store of value and is easily verifiable and divisible, the history of DeFi could start to be written.



Where TradFi has created barriers to entry, DeFi has extremely low barriers to entry. TradFi has gone through a process to perpetuate the need for those in TradFi are needed by the rest of society to navigate through the complex web of financial instruments, and use governmental regulatory policies to limit access to these financial tools. DeFi removes these artificial conditions and allows anyone to participate at the level or activity of their choosing. The other side of the coin: Now DeFi gives the individual control over their own use of these tools, and that also means complete responsibility is on that DeFi participant.

Where TradFi is often geographically restricted, DeFi is global. There is a saying that "crypto never sleeps." While the TradFi world has hours of operation, the "cryptoverse" is 24/7 and is not restricted by geographical borders or divisional separations of sociopolitical factors.

Where TradFi requires gatekeepers to allow individuals to participate in different financial tools, DeFi is permissionless. There are no intermediaries standing between two or more individuals voluntarily participating in a transaction. This peer-to-peer (P2P) transaction gives power back to individuals instead of middlemen.

Beamer

Bridge your assets across EVM-compatible rollups with certainty, speed and security.

Strong Traction

+8x Growth from Q4 ‘22 to Q1 ‘23

+11K Unique Wallet Users

Bridge across EVM-compatible rollups

Beamer Bridge connects rollups and ensures seamless asset transfers between different networks, reducing the risk of ecosystem fragmentation and providing users with a unified experience.

Coming soon: ABM Compatibility including token, message and data transfers!

As fast as a ray

Bridge with Beamer **takes as little as 2.5 seconds and always under 20 seconds, making us the fastest bridge in the L2 ecosystem!**

Furthermore, by leveraging optimistic proofs, lock periods and decentralized liquidity provision, **Beamer managed to eliminate the seven-day holding period when bridging assets from rollups back to Ethereum.**

Simple fee structure

Get access to a cutting-edge bridge experience with a dynamic fee structure typically ranging between $1 to 0.30% of a transfer.

With a dual focus on speed and security, our fee structure helps to ensure protective measures against protocol spamming.

Security is our priority

Our decentralized bridge leverages the security of blockchain technology, reducing the risk of single points of failure and malicious attacks.

We mitigate risk associated with relying on a new chains or vulnerable exploits. We are as secure as Ethereum L1.

Bridge across your favorite chains

Start Beaming

@BeamerBridge

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DeFi Market Guide

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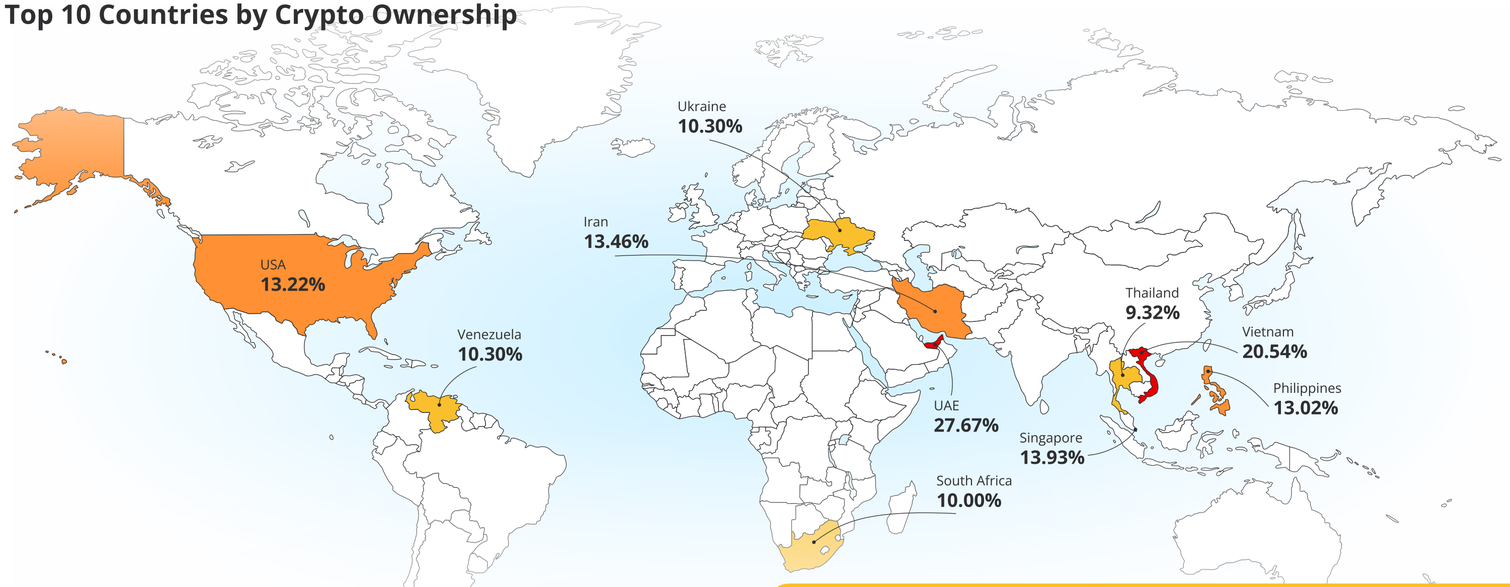
KEY TAKEAWAYS

- Holding (or "hodling," which means "holding on for dear life") digital assets such as Bitcoin are one part of DeFi. However, to understand borrowing, lending and other more complex subjects other than simply holding, knowledge of Bitcoin's impact on the market is crucial.

- Both internal factors impact crypto markets as well as external factors. External factors, such as increases in interest rates by the United States Federal Reserve, can have a chain reaction that starts an avalanche of collapses in both the TradFi and crypto space. This happened as centralized crypto exchanges such as FTX and Celsius had an impact on fiat price valuations in the crypto market.

- In the TradFi space, there is a risk-free rate that is typically assumed to be U.S. Treasury bills, as this is seen as the safest asset because they are "backed by the full faith and credit of the Unites States government." However, it would be an irrational recency bias to believe this will always be the case as we move into the future. When looking at DeFi and asset investment, the risk-free rate should be denominated in Bitcoin not fiat dollars. If an asset is worth more in Bitcoin than the reverse, it has beat the risk-free rate of DeFi. It is likely that investing in this asset class that most things will not hold up against Bitcoin valuations over time. It is important to keep in mind the distinction between holding assets and trading assets.

Top 10 Countries by Crypto Ownership



Rank	Country	Population	Crypto ownership
1	UAE	9,516,871	27.67%
2	Vietnam	98,858,950	20.54%
3	Singapore	6,014,723	13.93%
4	Iran	89,172,767	13.46%
5	United States	339,996,563	13.22%
6	Philippines	117,337,368	13.02%
7	Ukraine	36,744,634	10.30%
8	Venezuela	28,838,499	10.30%
9	South Africa	60,414,495	10.00%
10	Thailand	71,801,279	9.32%

Crypto Is a Global Phenomenon

What happens in the U.S. market does play a role in global affairs as the U.S. dollar is the world reserve currency. And while the United States makes up 24.15% of global gross domestic product (Global GDP),[43] it is not the greatest adopter of Bitcoin and other cryptocurrencies. Adoption of these technologies is a way for emerging countries to reduce the use of the U.S. dollar in an economy, otherwise known as de-dollarization, which is a growing trend.[44]

Source: *Triple-a.io*

UNDER & OVERVALUATION ON THE MARKET

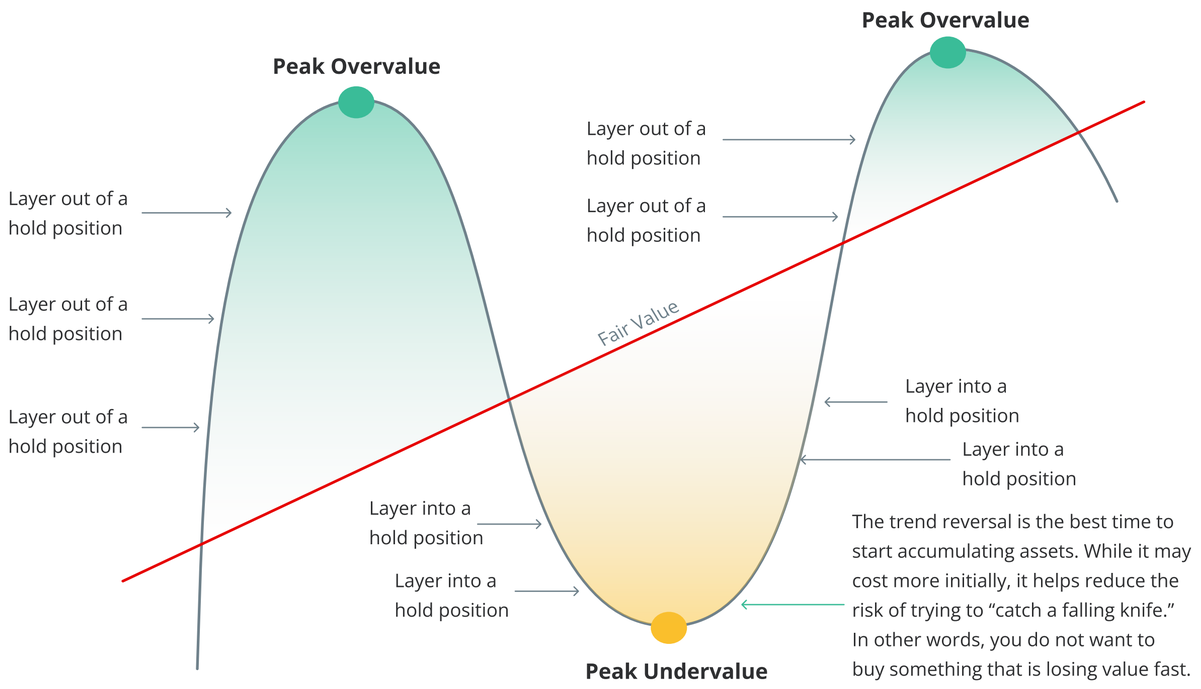
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Owning Bitcoin and other digital assets is one way to participate in DeFi. The hope is that arbitrage between these assets will yield greater gains than simply holding the underlying asset. One of the reasons for the volatility in the crypto markets is the constant cycle of undervaluation and overvaluation in each asset. DeFi traders' objective is to identify a great asset, and when the rest of the market is undervaluing the asset, layer into the asset through either dollar-cost averaging (DCA) or value-cost averaging (VCA). This report goes into more detail on these concepts on page 37. By layering into an asset while it is undervalued, risk is mitigated of the asset sliding lower in its fiat value, meaning that more could have been purchased with the same amount. In reverse, when the market overvalues an asset, selling at different layers means that gains are locked in while mitigating the risk of selling all too early and missing out on potential gains. There is an old saying, "no one went broke taking profits." All of this is easier said than done, however. Therefore, a disciplined approach needs to be kept or else either fear of missing out (FOMO) or greed will kick in and emotions will wreak havoc.

There are several factors that are needed to be taken into consideration when evaluating a crypto asset, including:

- **Technology —** Is the coin or token pushing the envelope of new technology and adopting it or is it capable of adopting it in the future?
- **Decentralization —** How decentralized are the tokens distributed? All with a handful of whales? Is the consensus mechanism centralized or widely spread? Is it poised for greater decentralization over time?
- **Tokenomics —** Along with decentralized distribution of the starting supply, what is the inflation and/or deflation rate? Does it have utility? Is it a better substitute for something on the market in Web2 or Web3?
- **"Pumpamentals" —** Besides fundamentals, does it have the "juice" to be exciting enough to be invested in by a large group of people?

Simplification of Overvalued and Undervalued Market Cycles Figure 2



Source: *Cointelegraph Research*

Cointelegraph Research | ***Data as of*** *June 3, 2023*

The above is an oversimplification, but it demonstrates the idea, which is rather tricky to pull off in practice, of identifying when an asset is undervalued so that you can begin accumulation. To mitigate risk, layering into an asset over time to build up a position allows investors to be exposed to an asset while giving time to pivot in case the market changes. When an asset is overvalued, it is also time to layer out of a position to lock in profits. The rest of this report is to try and help inform the discernment when it is a good idea to begin doing both.

RISK ON OR RISK OFF?

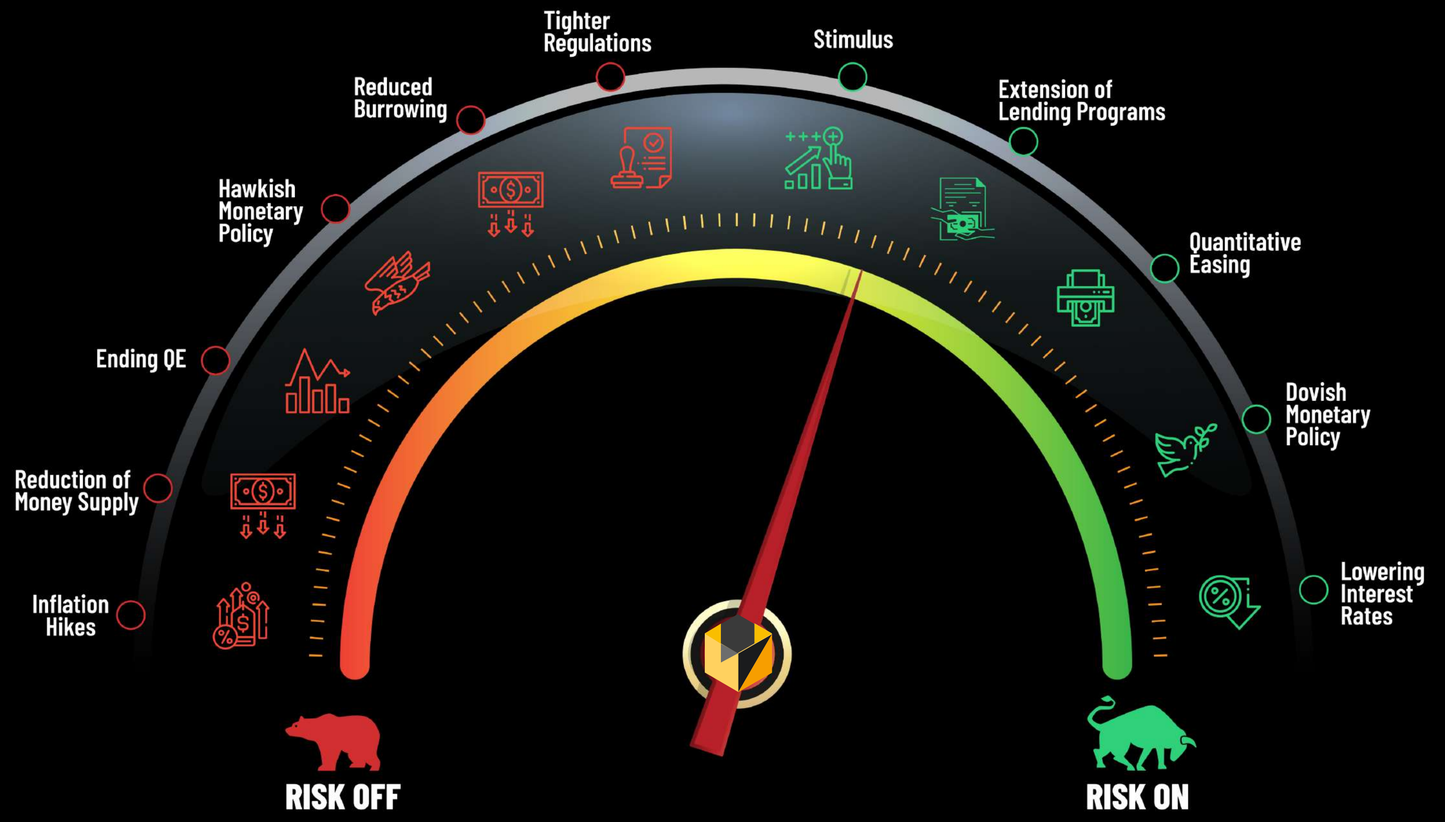
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A DeFi expert understands the importance of macroeconomic factors in the crypto market. They monitor key indicators such as interest rates, monetary policies, geopolitical events, and economic trends to gauge the overall health and direction of the global economy. By analyzing these factors, they gain insights into how they can strategically position themselves within the DeFi space.

The cryptocurrency market is far to the right of the risk spectrum.

The asset classification on the risk spectrum flows from risk-off to risk-on as follows:

Cash & Cash equivalent > Gold > Bonds > Real Estate > Equity > Emerging Markets > Alternative Investment > Futures and Derivatives > Cryptocurrency > NFTs.



Within DeFi, the risk spectrum ranges from conservative to aggressive strategies. A macro expert carefully assesses their risk appetite and adjusts their investment approach accordingly. They consider factors such as market volatility, liquidity, asset valuations, and regulatory developments to determine the level of risk they are willing to undertake.

By staying well-informed about macroeconomic trends, a macro expert can make informed decisions about when to increase or decrease risk exposure in the DeFi space. Their ability to navigate the risk spectrum based on macro indicators enhances their chances of capitalizing on favorable market conditions and mitigating potential downsides.

HOW WILL MACROECONOMIC EVENTS IMPACT DEFI?

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Risk-On Events: When investors are willing to take on more risk, they tend to invest more money in riskier assets, such as cryptocurrencies.

- **Technological Advancements:** The acceleration of technological innovation and adoption, particularly in fields like artificial intelligence (AI) and digital transformation, leads to higher output and faster economic expansion. AI can also add value to DeFi by automating financial procedures and enabling more precise market trend predictions.[9] As AI continues its advancements, one of the ways to mitigate threats AI holds and increase transparency, traceability and trustworthiness is the use of blockchain technology.[10]
- **Regulatory Clarity:** Local government actions can have an impact on cryptocurrencies. For example, governments can change citizens' desire to use them by passing laws or offering incentives and disincentives. Introducing regulatory clarity would provide a boon and pathway for investors and builders alike to operate legally.
- **Interest Rate Decreases:** Risk asset prices tend to fall when interest rates increase. An end to the extended period of quantitative tightening and hawkish monetary policy would signal a shift to risk-on conditions again. Investors could then confidently move their parked capital from stablecoins (or fiat) into riskier markets.

When investors are risk-off, money tends to flow into less risky assets. When everything turns red, investors will rebalance their portfolios into the safest assets to protect themselves. Some investors prefer risk-off periods to gain greater exposure to riskier markets at lower prices. Paying attention to the macroeconomic environment is crucial as it helps you gauge whether or not to enter the market.[11]

Note: *Barring an extended recession or unforeseen circumstances, the Federal Reserve is expected to begin shifting toward a period of monetary easing sometime in 2024, signaling the return of risk to the crypto market.*

9 For a brief history of artificial intelligence (AI), read this report
10 Blockchain may be the answer to the problems with AI, read more in this article

Risk-Off Events: When investors are risk-off, money tends to flow into less risky assets, such as bonds.

- **Recessions:** The three major economies of the world — the U.S., the European Union and China — are all slowing down simultaneously, putting the markets in danger of an impending recession. Macroeconomic events and aggressive monetary policies can force crypto companies and DeFi projects to shut down or impede their growth.
- **Interest Rate Increases:** When interest rates increase, crypto prices drop due to a spillover effect. The factors driving this spillover effect are a slowing economy, decreased business investment and activity, and an unfavorable macroeconomic environment for all risk assets, including crypto.[3] It is recommended to move your funds into stablecoins when interest rates increase.
- **Commercial Real Estate (CRE) Crash**: In the event of a CRE crash, collateralized assets may decrease in price. This decline could lead to liquidations or margin calls, resulting in financial losses and affecting the stability of DeFi platforms. If an economy faces a real estate crash, the best solution would be to move parked capital into stablecoins or fiat. DeFi users can still generate a passive income by depositing funds into stablecoin liquidity pools. The yield is much lower than risk assets, but they are stabler options.
- **De-dollarization:** Refers to substituting the dollar for other currencies or commodities as the reserve currency. The impact of de-dollarization on crypto is uncertain, but it can foster the adoption of crypto as a store of value and a medium of exchange. However, it can also lead to increased regulation and volatility.[12]
- **Wall Street Performance**: Widespread corporate earnings downgrades, weakening or lagging economic data, a shift toward safe investments, uncertain central bank policy, and other factors can all contribute to risk-off environments.

11 What does it mean to be risk on or risk off? Check out this article by The Street
12 De-dollarization is an interesting phenomenon. Read more here

HOW INSTITUTIONAL CAPITAL CONTROLS THE DEFI MARKET

Cointelegraph Research

INFLUENCE OF INSTITUTIONAL CAPITAL ON THE MARKET

As a retail investor, it is easy to believe that the adoption of crypto by the masses is what has moved price action over the entire span of the crypto markets. This was the case in the early days of crypto, but as more institutional players entered the space, there has been large impacts on the volatility (denoted as "σ" or sigma in finance) both in stabilizing and non-stabilizing ways. In Q2 2021, institutions accounted for over 60% of all DeFi transactions, a similar pattern observed in June 2022. Institutions such as Tesla could move the price of BTC by 10% in a single day, as seen in February 2021.[13] The crypto market saw an influx of at least $17 billion worth of institutional capital in 2021. This involvement of institutional investors gives the DeFi market a sense of maturity and credibility and will likely lead the way to the next stages of adoption. However, we may see reduced volatility and outsized returns as institutions and traditional finance prefer stability with their increased involvement.[14] There are several ways that a DeFi player can look at these influences and how to use them as indicators of potential moves. All indicators, no matter the source, should be evaluated for recency bias and never taken individually, but as part of a series of indicators to help make an informed decision.

WHY DEFI TRADERS SHOULD CARE ABOUT THE INSTITUTIONAL IMPACT ON CRYPTO MARKETS

Price Stickiness: Futures contracts, such as those on the Chicago Mercantile Exchange (CME) for BTC and Ether (ETH), can close on a Friday at a particular price. Meanwhile, the cryptocurrency exchanges are open 24 hour/7 days a week and continues to trade. With open interest and contracts out in the TradFi world, it is often the case that this CME gap gets filled at some point, even for a brief moment, in order to cover some parties' hedges. Since most cryptocurrencies are paired with Bitcoin or Ether, this can impact all cryptocurrencies' relative price as well.

Position Adjustment: As future expiration dates approach, for example, traders holding open positions in CME Bitcoin futures contracts may consider modifying those positions. They may extend their contracts to subsequent months or close out their positions to avoid potential delivery obligations. Adjusting positions may lead to more trading and affect market dynamics.

Arbitrage Opportunities: The Last Friday of Every Month theory may be of particular interest to traders using arbitrage strategies. They may search for price discrepancies or divergences between the CME Bitcoin futures market and other cryptocurrency exchanges to profit from these transient pricing imbalances.

Speculative Trading: Speculative traders who believe that this event will impact Bitcoin prices may be drawn to the Last Friday of Every Month theory. They may take positions to profit from potential price swings based on the theory that the expiration of CME Bitcoin futures contracts can affect short-term price movements.

Mass Adoption Signals: As institutions begin to accumulate crypto, either for industrial or speculative use, this could signal greater adoption trends for the rest of the market. As institutions hold more and more digital assets, they are likely to influence their other investments to utilize the technology, continuing the cycle of adoption.

Follow the Money: Sophisticated traders ("smart money") are in the business of looking for the greatest returns with the capital available. There are teams of people that work at these institutions, family offices, hedge funds and financial firms that study these trends. If a large player is making moves, you should still do your own research, but its not a bad idea to keep tabs on the actions of big whales. Just keep in mind, they are wrong from time to time as well.

13 Institutional investor dominated the crypto scene in 2021: article
14 Article from Forbes explaining the "pouring" in of capital from institutions into crypto

MACD AND OTHER INDICATORS

Cointelegraph Research

Some DeFi Indicators to Keep in Mind

Moving Average Convergence Divergency (MACD): While this is considered a lagging indicator, the MACD can show shifts in momentum. The shorter the time preference, the shorter the duration of the moving average should be considered. Some of the most common are 50-, 100- and 200-day. These can show relative support and resistance areas that the market has demonstrated.[15]

Relative Strength Index (RSI): Indicates momentum of an asset and is measured on a 0–100 scale. An RSI below 30 suggests it is oversold, whereas a score above 70 indicates it is overbought. This can be used to spot trend reversals.[3]

U.S. Dollar Index (DXY): Since the U.S. dollar is the world's reserve currency, its strength is often measured against a basket of other countries' currencies. In DeFi, a stronger dollar means that it may be more attractive to the market as a way to mitigate short-term risk, usually in its fluctuation in value against other assets. While this has macroeconomic consequences, as it pertains to the crypto market, it means that individuals may exit their crypto holdings to gain access to dollars. When the DXY is weak or falling, it's a time when alternatives, like Bitcoin, can experience relative fiat price increases.[16]

BTC From June 2022 Through June 3, 2023, 50-,100- and 200-Day Moving Average (MA) With the MACD Figure 3



Source: *Glassnode, Cointelegraph Research*

Cointelegraph Research | ***Data as of*** *June 2, 2023*

15 *For more on the MACD indicator, read this Cointelegraph article*

16 *For more on how to use the DXY for your analysis, read this Cointelegraph article here*

DOES THE CME HAVE AN IMPACT ON THE CRYPTO MARKETS?

Cointelegraph Research

Since Dec. 17, 2017, the **Chicago Mercantile Exchange (CME)** has been offering futures contracts on BTC that seem to have had an impact on the price fluctuations of Bitcoin on the market — at least, in the bull market of 2021.

These **exchange-traded fund (ETF)** futures were allowed in October 2021 in the United States by the Securities and Exchange Commission, yet they are not spot Bitcoin. Canada introduced **the first physically backed BTC ETF in March 2021** by Purpose Investments and has since had other ETFs offered in Canada from **Galaxy Digital (BTCX-B.TO)** and **Evolve (EBIT)**. In Germany, **ETC Group offers a physically backed BTC ETF (BTCE)**. Other funds deal with blockchain and cryptocurrencies throughout the world as well. The first futures-linked ETF in the U.S. to be approved was the **ProShares Bitcoin Strategy ETF (BITO)**.

which saw a massive amount of interest by the market when it began trading on Oct. 19, 2021. The second futures-linked ETF quickly followed this up in the **Valkyrie Bitcoin Strategy ETF (BTF)** on Oct. 22. Several firms have filed with the SEC for spot Bitcoin ETFs, and **VanEck was the most recent to be rejected on Nov. 12, 2021**.

Figure 4 shows from July 2021 to early June 2023, with the expiration date of the CME futures contracts expiring in the horizontal lines. During the bull market, CME BTC futures expiry dates mostly produced a similar pattern: The spot price of BTC would drop prior to the last Friday of the month and rise afterward.[17] This difference in the price of Bitcoin futures can produce contango or backwardation (discussed in a bit more detail on the next page).

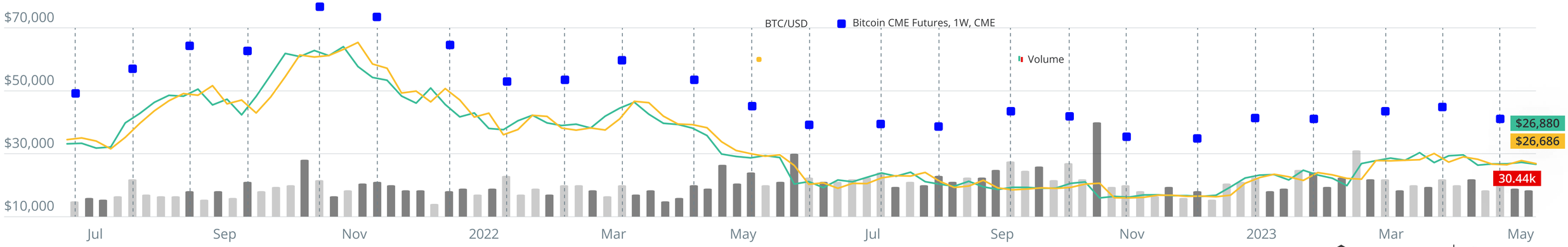
INFLUENCE ON THE NEXT BULL RUN?

The dip just before expiree dates and than subsequent rises seem to have held up through the 2021 bull run till around April 2022. While volume levels continue, it seems the influence on the market is reduced significantly. However, this may be because sophisticated traders are using options, spot price buys, derivatives, and other DeFi and TradFi instruments which influence the price of Bitcoin (and therefore the rest of the crypto market) during bull market periods.

This is only one indicator that should be kept in mind and looked at for analysis in decision making if the pattern starts to play out. While not a 100% correlation, the institutional signals may be helpful in making more informed movements in the future.

CME futures contract expiry dates from mid-2021 upto mid-2023

Figure 4



Source: *Glassnode, Cointelegraph Research*

Cointelegraph Research | ***Data as of*** *June 2, 2023*

17 *To understand how to read the CME signals in more detail, read these two articles from Cointelegraph here and here*

CONTANGO BLEED AND BACKWARDATION

The approved ETFs in the U.S. mentioned above do not own Bitcoin as the underlying asset. Instead, they manage derivatives that attempt to match the returns of Bitcoin through the use of futures contracts. This leads to a few complications over owning spot BTC, and a major one is a potential for what is called “contango bleed.”

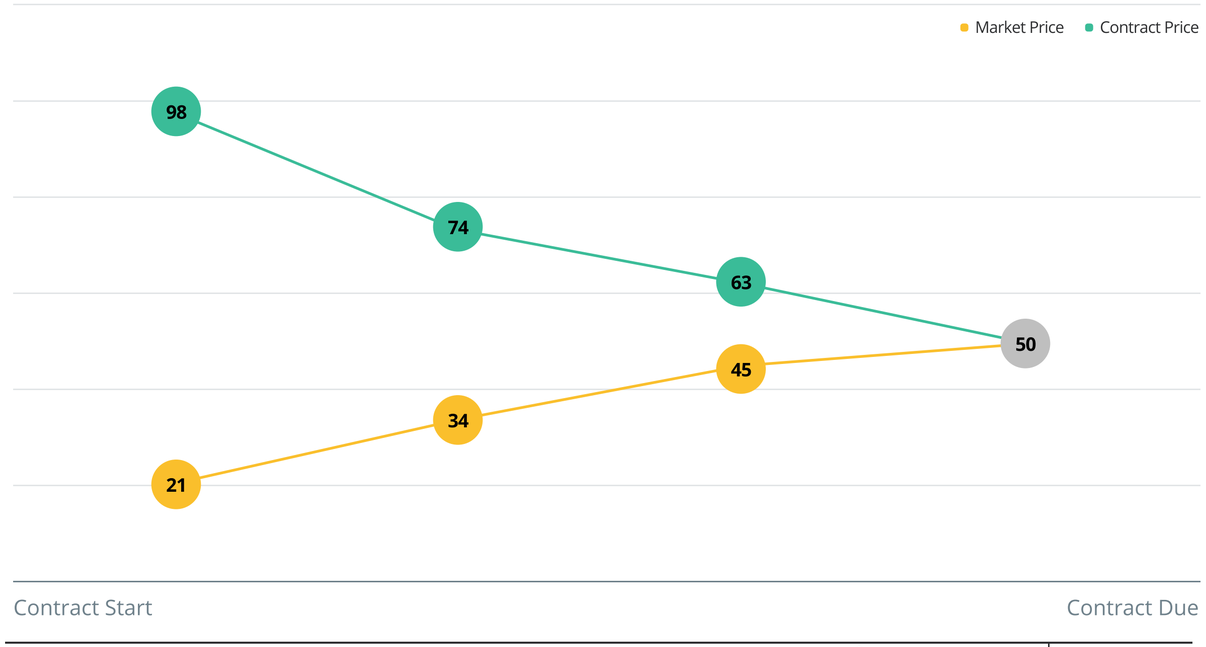
Futures contracts can be convenient as the purchasers do not have custody or otherwise worry about taking care of the assets themselves (often called the cost of carry).[18] There are times when the market price is lower than the price on a futures contract, which is called Contango. This often happens as the future prices of a given commodity do not have to rise to the expected contract price, and the price of the contract tends to converge to meet the market price as the expiration date approaches. The opposite of this is called backwardation, which is favorable to those longing a commodity. In backwardation, the market price is higher than that of the futures contract. Backwardation can “lock in” a lower price than the market rate, but this happens infrequently and is extremely short-lived.

Contracts with longer durations typically trade above shorter duration contracts. When dealing with Bitcoin, there is a bullish price expectation for a continued rise in U.S. dollar value over time. While it is possible to make a return on investment (ROI) by investing in a Bitcoin futures-linked ETF, it is possible to suffer “contango bleed” or the opportunity cost of a reduced ROI if spot Bitcoin was purchased and kept in custody directly.

Luckily, there are strategies that investors can take to avoid contango bleed and other pitfalls that are linked to such futures-linked BTC ETFs. If a firm or individual chooses to go with these funds, not being overexposed to one fund is best. Each fund has managers, employees and other third parties, which could make bad financial decisions (malicious or otherwise), endangering investors’ capital. Spreading out the exposure helps reduce the risk of wrong calls and bad decisions.

Simplified Example of Contango

Figure 5



Source: *Cointelegraph Research*

Cointelegraph Research

Data as of *June 4, 2023*

The longer the contract duration, the harder it is to pinpoint the price of BTC at the contract’s expiry. Shorter contracts likely have a greater connection to the spot price of BTC and are more agile if prices sharply decrease due to volatility. Having long-term positions in BTC futures can be risky, specifically when fluctuations can happen suddenly. This could lead to scenarios where an investor is led to believe the price of the futures contract is on track or even in continued backwardation, only to abruptly find themselves in a deep contango situation now in a losing trade.

18 *To learn more details on “cost to carry” read this Investopedia article here*

RISKS IN DEFI - HACKS

DeFi has brought many advancements and opportunities to the financial landscape, but it also has three identifiable main drawbacks that could slow down DeFi's growth and sustainability in the long term.

DEFI HACKS, SECRET BACK DOORS AND SECURITY CONCERNS:

DeFi hackers have used various sophisticated methods to steal funds. Some of the most popular practices include flash loan attacks, phishing, access control hacks, back doors and smart contract code exploitation.

2022 was one of the roughest years for DeFi security-wise. The Ronin bridge, an Ethereum sidechain built for Axie Infinity, was exploited for over $600 million after hackers compromised the majority of the validator nodes required to process transactions. Meanwhile, the Wormhole Bridge suffered $326 million in losses after a hacker exploited a vulnerability in the signature verification process.

Two critical security concerns in DeFi relate to interoperable bridges and secret back doors.

- **Interoperability bridges** can become an entry point for hackers and malicious actors if they lack proper security measures (see Ronin Bridge hack), compromising an entire protocol and its community.
- **The risk of secret back doors in smart contracts:** Back doors refer to hidden functionalities in a smart contract that allows unauthorized users to bypass security measures and perform malicious acts, such as siphoning funds from liquidity pools. The development team behind a cryptocurrency project may intentionally or unintentionally leave a back door to steal sensitive information or manipulate a smart contract's behavior.

There's a peculiar domino effect in DeFi that can have both positive and negative implications for the industry. A positive impact is a surge in user activity in DeFi protocols after a centralized exchange collapses or is compromised by hackers. On the other hand, the collapse of one DeFi protocol will likely negatively affect others due to the interdependence of protocols.

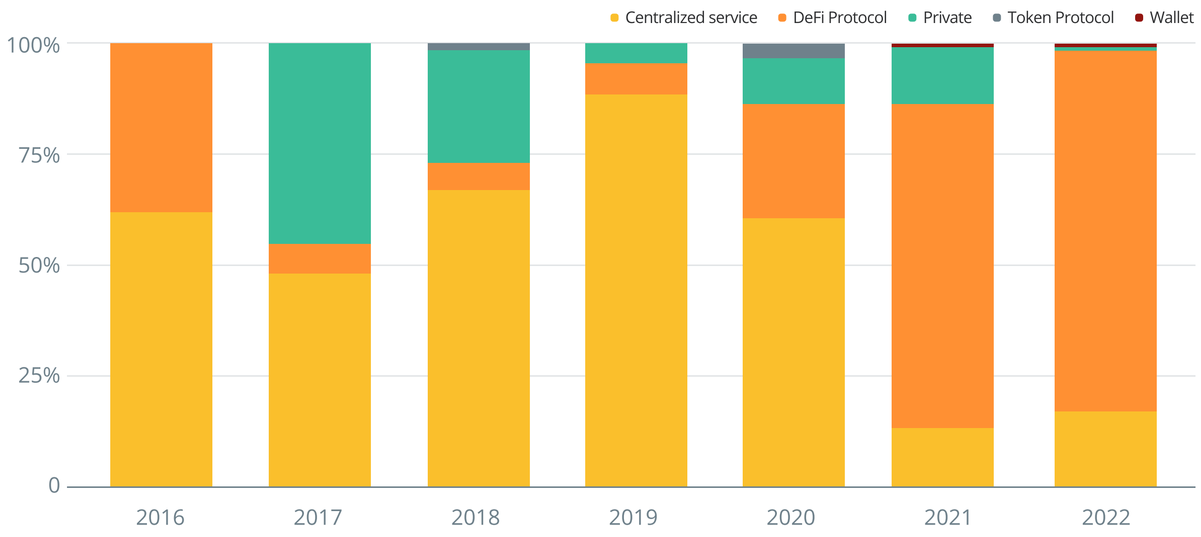
As the DeFi boom spread across the crypto industry, so did the number of DeFi hacks and scams. While 2021 and 2022 were prosperous years for DeFi, they were likewise prosperous for hackers, as DeFi protocols accounted for over 80% of all major crypto hacks, according to Chainalysis.[19]

DeFi hacks have not only caused severe financial losses but have also damaged the integrity of DeFi applications and the overall ecosystem. Chainalysis reports that over $3.5 billion was stolen in 2022, leading potential institutional investors to walk away from the industry and hindering widespread adoption.

Unfortunately, 2023 has not seen a slowdown in on-chain criminal activity. In March, Euler Finance was exploited for $197 million via a flash loan attack. In April, popular Yearn.finance suffered an $11-million loss due to a vulnerability in the protocol's smart contract.[20]

Cryptocurrency stolen in hacks by victim platform type, 2016–2022

Figure 6



Source: *Chainalysis*

Cointelegraph Research

Data as of *May 16, 2023*

19 *To learn more DeFi hacks in 2022, read this Chainalysis article*

20 *Hacks and exploits have not stopped in 2023 either. To learn more, read this Cointelegraph article*

USER EXPERIENCE IN DEFI

DeFi has brought many advancements and opportunities to the financial landscape, but it also has three identifiable main drawbacks that could slow down DeFi's growth and sustainability in the long term.

POOR USER EXPERIENCE, GOVERNANCE ISSUES AND REGULATORY CONCERNS

One major issue hindering the widespread adoption of DeFi is the poor user experience. Although DeFi apps and products have many benefits and big upside potential, education of the general user is still an area of opportunity. Key points to keep in mind:

- Interacting with most DeFi apps can be daunting, as it requires the user to learn technical jargon. Navigating DeFi apps is also complicated, as website interfaces are hardly beginner-friendly.
- Using Web3 wallets involves a lot of complexity. Regular users usually don't understand terms, such as "token standard" or "hashes," the different types of networks, and the correct usage of each. Sending and receiving funds and other digital assets, such as nonfungible tokens (NFTs), can become troublesome and can result in the loss of funds via an incorrect transaction.
- Secondly, DeFi's governance systems, while democratizing DeFi by empowering users via a DAO, are prone to voting manipulation and proposal disputes, and those with a large stake can highly influence decision-making. Even worse, hostile takeovers can occur.

Research shows that most DeFi users are young and technically proficient people who have already used crypto before as seen in Figure 7. Therefore, the copy and content are usually tailored to a highly technical audience.

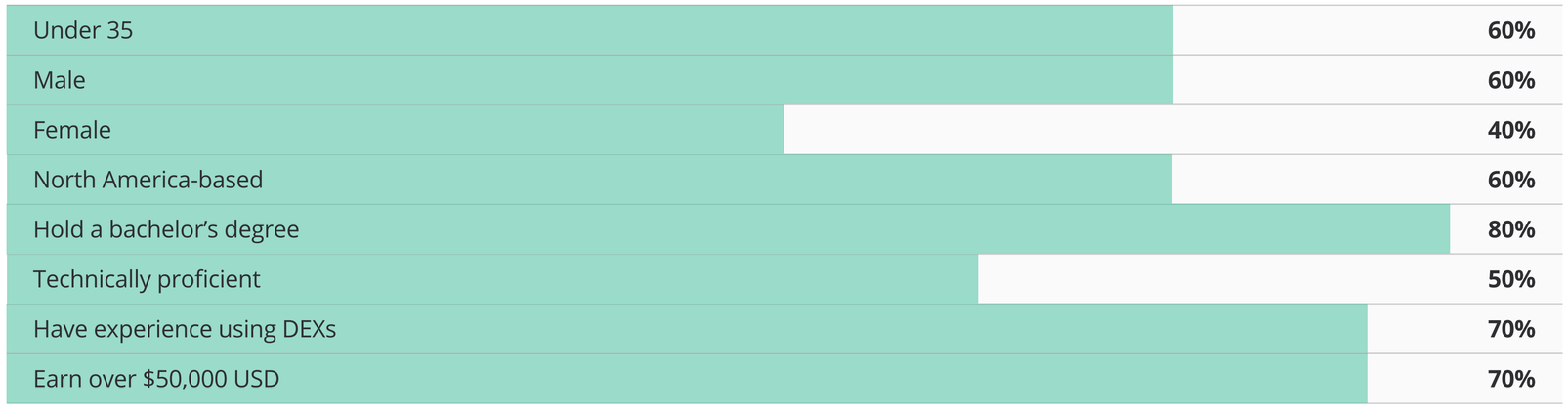
One of the obstacles preventing mainstream adoption of DeFi is the lack of clear regulatory framework to protect users and ensure fair operations. Due to its decentralized nature, it is difficult for regulators to find ways to put DeFi platforms under a legal umbrella. Custody, tax collection and coordination are among the regulatory issues that need to be resolved. The challenge is finding ways for DeFi platforms to comply with regulatory laws while keeping users' privacy and anonymity.

Decentralized identifiers (DID) and zero-knowledge proofs are two feasible solutions that have been proposed. DeFi's fast-paced and ambiguous nature also presents a challenge for existing regulatory frameworks, resulting in several regulatory gaps. However, Wyoming has managed to provide a regulatory framework for decentralized autonomous organizations (DAOs), allowing DeFi protocols to operate as limited liability companies. In March 2023, the state signed a bill that prevents the forced disclosure of private keys in an attempt to protect user privacy.

Despite regulatory concerns, bear markets, hacks and other issues hindering mainstream adoption, data shows that DeFi has sustained its user base in 2023 and is growing, albeit much slower compared to 2022.

Demographics of DeFi Users

Figure 7



Source: *ConsenSys, Chainalysis*

Cointelegraph Research

Data as of *May 16, 2023*

PRICE ORACLES - AN IMPORTANT PART OF DEFI

Cointelegraph Research

Price Oracles: Oracles are an integral part of DeFi, as they retrieve real-time data, such as token prices, for DeFi protocols. However, according to a 2023 Chainalysis report, oracle manipulation attacks accounted for over $400 million in losses in 2022.

Oracle manipulation attracted tighter scrutiny from regulators in 2023 as a form of market manipulation.

One important aspect for DeFi users to consider is the risk of using off-chain and on-chain oracles. Off-chain oracles, such as Chainlink, are slower to retrieve data and rely on third parties. They can be semi-decentralized by relying on trusted independent nodes to push reliable data on-chain. On-chain oracles do not require intermediaries to retrieve data, but this exposes the data to attackers.

Top Five Oracle Tokens by Market Capitalization

Figure 8

Chainlink (LINK)	$3.1 billion
Band Protocol (BAND)	$152.6 million
Uma (UMA)	$128.4 million
iExec RLC (RLC)	$96.8 million
API3 (API3)	$95.9 million

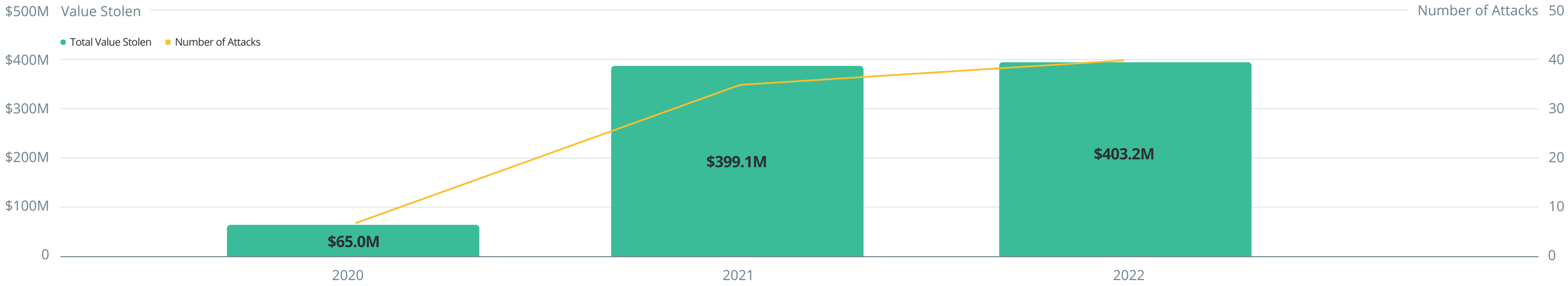
Source: *CoinMarketCap*

Cointelegraph Research

Data as of *May 16, 2023*

Oracle Manipulation Attacks: Total Value Stolen and Number of Attacks by Year, 2020–2022

Figure 9



Source: *Chainalysis*

Cointelegraph Research

Data as of *May 16, 2023*

DEFI LAND

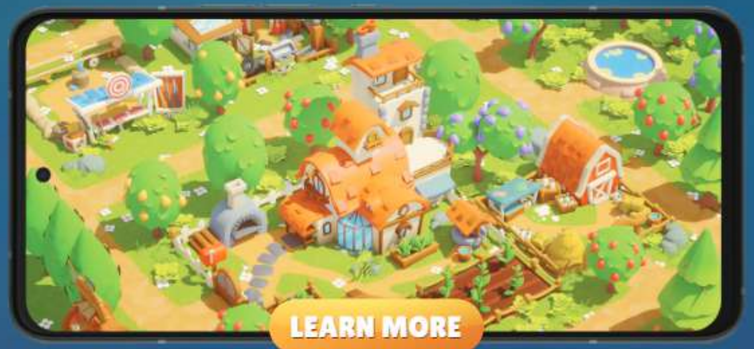
PLAY NOW





We are the heart of DeFi gamification, powered by industry-leading NFT utilities and a robust Play & Earn economy. Step into the metaverse by bringing your DeFi portfolio to life.

DeFi is the pillar of crypto that is set to change the world, but its complexity can be a roadblock for new users. DeFi Land is the premier onboarding platform for the masses, pairing a wealth of educational resources with visual representations of liquidity pools, yield farming, and staking. Watch your portfolio grow with detailed analytics, blockchain data, and tutorials.



The future of crypto will live on mobile. DeFi Land mobile will bring our best gaming and DeFi features to your fingertips, anywhere and anytime. We are partnering with Solana Mobile and building for both Mac iOS and Android.

Our utility NFT collection features harvesters, hunting guns, fishing rods, and adorable animals. These NFTs are 3D assets that unlock Play & Earn gameplay. The enduring value of DeFi Land assets are maintained by both the thrill of the game and carefully designed mechanics:

- The rarity of an NFT correlates with its in-game advantage and earning potential.
- Our NFT Forging mechanic allows players to split their NFTs into their attributes and reassemble them to build their dream NFTs.
- NFT Fusion allows players to burn unwanted attributes for a chance to increase their rarity.
- DeFi Landers upgrade their NFTs by burning our native tokens, $DFL and $GOLDY



We are the players' choice for crypto gaming. Our philosophy is to prioritize incredible gameplay before payouts to foster an enduring community of dedicated players.

ENTER GAMEFI AS PART OF THE DEFI ECOSYSTEM

Cointelegraph Research

GAME FINANCE, OR GAMEFI, IS CURRENTLY DOWN BUT NOT OUT

Game finance (GameFi) is a concatenation of gaming and finance that broadly stands for blockchain games with a financial element, yet distinct from non-gambling activity. These games require skill and determination, with a minor component of luck. Players earn currencies and materials by completing tasks or grooming their characters. Over the past few years, the industry has seen more significant investment from venture capital to back up-and-coming projects. Despite the macroeconomic downturn of 2022, which brought with it bear market sentiments and reduced participation in blockchain games, GameFi shows promise as it continues to advance.

GameFi has the numbers to peak investor interest

In 2022, GameFi made up 49% of all blockchain transactions.[21] There was an average of 1.13 million unique wallets connected to GameFi decentralized applications (DApps) that same year. Venture capital invested over $7 billion in blockchain gaming alone in 2022.[22] Currently, there are over 2,080 blockchain games. While 2023 has seen a decline in many sectors, overall, the video game industry has a total addressable market (TAM) of over $220 million, 2.8% of which blockchain gaming has penetrated. With a compound annual growth rate (CAGR) of 12.9%, the TVL in the blockchain space could reach over $22 billion by 2025.[23]

Multiple ways to participate

Participation in Web3 games can yield crypto returns and provide entertainment value for its users.[24] There is also the opportunity to look into what tokens will be in demand over the short, medium and long term.[25]



21 Top Blockchain Games — Page 84 | DappRadar
22 DappRadar x BGA Games Report — 2022 Overview
23 For more information on the projections of GameFi in the future, check out this report
24 This is a great beginners guide to the GameFi world: report
25 Cointelegraph Research recent report on the Top 20 Blockchain Games: report
26 Cointelegraph Research recent report on Blockchain Use Case and Adoption: report

CASE STUDY: DEFI LAND

DeFi Land is an agriculture-simulation game designed to gamify all aspects of decentralized finance. By integrating well-known automated market makers, decentralized exchanges and lending protocols, DeFi Land allows users to seamlessly perform DeFi actions in a gamified environment. Each in-game asset represents a real cryptocurrency. For example, Solana (**SOL**) is sunflowers, USD Coin (**USDC**) is corn, and Cope (COPE) is pumpkins. In addition to its DeFi aspects, DeFi Land offers NFTs and mini-games to enhance the user experience. Players can start playing for free and grind their way up to the play-and-earn tier. The play-and-earn model introduced by DeFi Land enables users to earn income for completing tasks or reaching certain milestones, making the game accessible and engaging for players of all skill levels. The native utility token, DFL, is used for trading in-game assets and NFTs, staking and liquidity provider incentives, game mechanics, and governance votes. A mobile version of DeFi Land is currently in development and is slated to release later this year.[26]



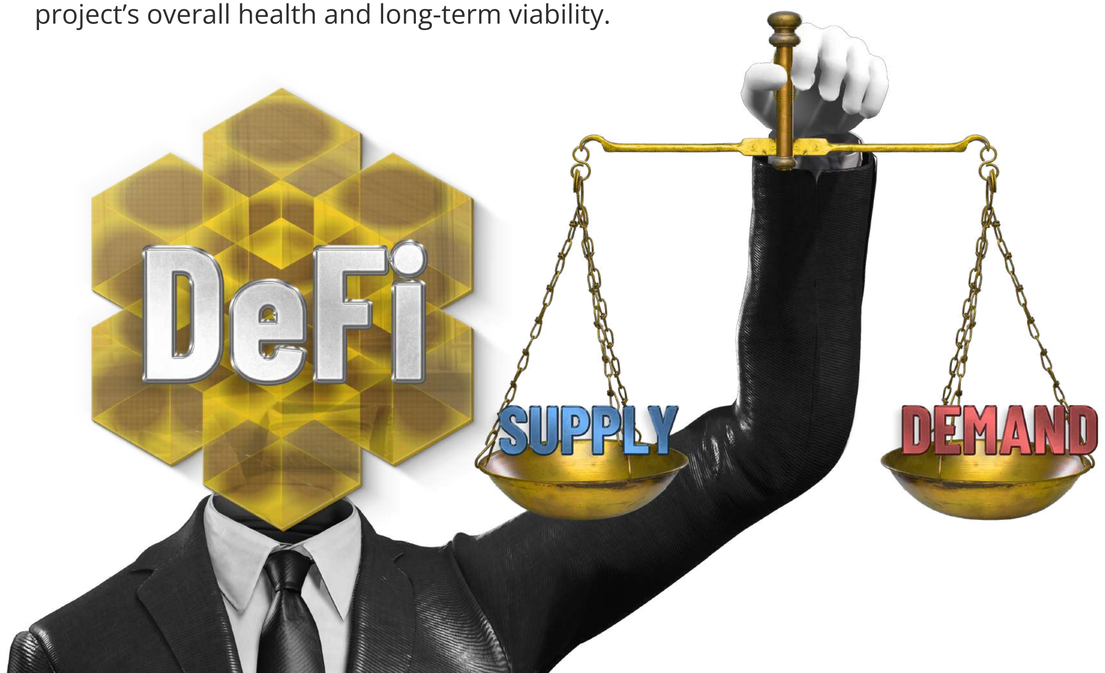
TOKENOMICS

Cointelegraph Research

Understanding a project's tokenomics is crucial for assessing its reliability and long-term viability. Tokenomics refers to the core economics of a DeFi project. The project can incentivize users to stake tokens or provide liquidity and receive rewards and other compensation in exchange. Tokenomics have several core values, including:

- Supply (total supply, circulation, inflationary or deflationary model)
- Token allocation (% to teams, investors, community, etc.)
- Monetary policy (management of token supply and circulation)
- Value capture (is the value of DeFi apps' products/services being captured by users?).

Crypto projects must find a way to balance and coordinate their tokenomics and governance structure and incentivize user participation beyond simple rewards. That is, what are the protocol's main goals? This is important, not only for obvious reasons, but also to 1) reduce the amount of internal entropy in order to increase external quality (adoption) and 2) maintain the project's overall health and long-term viability.



Tokenomics and governance are complex topics that have different impacts on various DeFi protocols. To make informed decisions about governance and token investments within the DeFi ecosystem, conduct in-depth research, seek out diverse viewpoints, and be conscious of the risks and potential rewards involved. Keep an eye on the landscape as it changes and adjust your understanding accordingly.

Developers can read a project's smart contract core code or access tokenomics data. However, regular traders, investors and users rely on multiple sources to verify a protocol's tokenomic information. A project's trust is strengthened if a reputable firm audits the core code.

There are several methods to check a project's tokenomics:

- Check the protocol's website, white paper, articles, etc. Note that this information may be outdated or unreliable.
- Analyze token metrics such as market capitalization, circulating supply, token velocity and past price trends.
- Analyze variables that could affect token price performance, such as lock-up times, vesting schedules or token release occasions.
- Use analytics tools, such as Nansen, Dappquery and DefiLlama, to help with tokenomics diligence.

An investor should have an idea of the token's value proposition and potential growth prospects. It's also good to engage in the community and discuss with stakeholders to learn about their opinions on tokenomics.

Ultimately, this will help DeFi projects move beyond their domiciled positions and expand globally, attracting more investors and regulated users.

TOKENOMICS - TYPES OF COINS AND TOKENS

Cointelegraph Research

Crypto projects should establish frameworks for their tokenomics that encourage user participation beyond simple rewards and short-term profits. By doing so, they can reduce internal entropy, increase external quality (adoption), and maintain the project's overall health and long-term viability.[27]

A Mass Market Speculation Game

One of DeFi's socioeconomic narratives is economic inclusion and greater accessibility for everyone, in contrast to TradFi. In TradFi, stakeholder capitalism refers to the concentrated power that a few shareholders have over a business. In this sense, tokenholder-centric tokenomics allow the wealthiest token holder to receive exaggerated rewards and exert massive influence over the network.

Tokens Need More Utility Beyond Governance Rights

A growing consensus in the DeFi community is that tokens should have more functional value beyond just governance rights or speculation.

Creating tokens for short-term speculation with weak fundamentals creates a chaotic environment for users. However, the main problem facing all DeFi protocols is the lack of accrued value and mechanisms to maintain value during volatile markets. DeFi projects that understand this concept have thrived in difficult crypto scenarios. This is where cash flow protocols come into play.

Revenue Sharing — A Viable Solution?

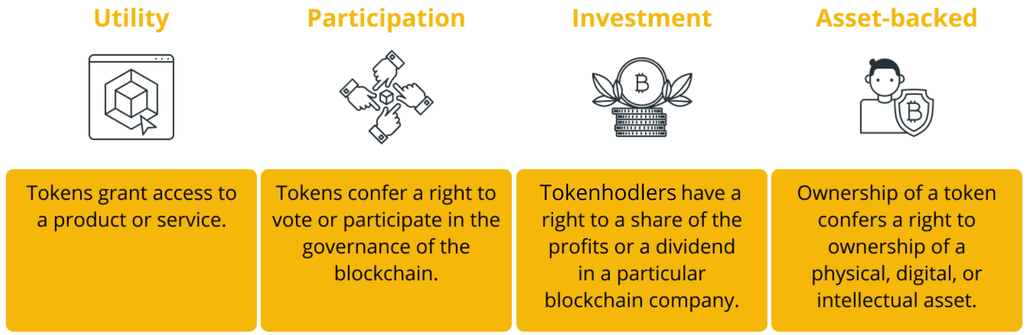
To increase long-term sustainability, it's ideal to design a tokenomics framework that encourages user participation over short-term profits and mere voting rights. One solution could be the issuance of protocol revenue shares, although some may argue that it gives protocols security-like properties.

GMX, a derivatives DEX, redistributes part of its fees to tokenholders in popular cryptocurrencies in two ways: 70% for liquidity providers and the rest for stakers, with fees paid out in ETH and Avalanche (AVAX). This approach seems to be the most viable for GMX. Thus far, it has created a sustainable model that also offers a measurable cash flow stream and allows users to reinvest in the protocol or other assets.

Other models reward loyal users with a "tax model" instead of a lockup period. This system is not new, but crypto companies are taking it a step further. Shima Capital proposed a tax system in which the user is taxed when they decide to unstake. Two-thirds of the tax collected is distributed collectively to stakers, while one-third of the tax is burned. However, a problem with this model is the dependency on protocol revenues — if the protocol isn't making money, a whale could simply unstake their tokens and send prices into the underground. Therefore, protocols must generate revenue to make tokens worthwhile.

Types of ICO Tokens

Figure 10



Source: *Cointelegraph Research*

Cointelegraph Research

27 *For a great beginners guide to tokenomics, read this article by Cointelegraph*

DeFi Trading Guide

Cointelegraph Research

KEY TAKEAWAYS

- The cryptocurrency markets go through cycles, spurred on in part by the Bitcoin halving. This cycle (seen in Figure 11), decreases the block reward for Bitcoin miners. Eventually, this creates a supply shock in the market, and historically, this caused prices of Bitcoin to rise over 220,000% since its inception in 2009 (as of the time of this reports publication in June 2023).[28]
- The Bitcoin cycle also impacts the altcoin market, as funds flow from one phase of the cryptocurrency cycle to the next. Bitcoin remains the least risky asset amongst all of the other tens of thousands of cryptocurrencies, and should be seen the "risk-free" measuring stick in the asset class.
- Dollar-cost-averaging (DCA) is a popular way to layer into a position in a cryptocurrency. There is another strategy to value average (VA) into a position, and it can yield significant more returns. VA is where someone tries to buy the lows and sell the highs of a given asset over time. In one scenario of DCA vs. VA, VA showed a 57% to 80% better rate of return over DCA. This does take more personal time dedicated to the staying on top of the market, as well as being able to time the lows and highs which can be tricky.
- Cointelegraph's MarketsPro provided 10 steps to fundamental analysis of cryptocurrencies projects. These ten steps act as a checklist for DeFi participants to go through the proper due diligence before investing any money into a cryptocurrency project. This will help provide a strategy and basis for analysis to the DeFi user to help maximize gains and reduce potential risks.

  IT IS IMPORTANT TO ALWAYS DO YOUR OWN RESEARCH

Bitcoin Halving Cycle Through 2040[29]

Figure 11

Halving # (BTC)	Date	Block Number	Block Reward	BTC % Mined
0 (BTC launch)	Jan. 3, 2009	0 (Genesis Block)	50 BTC	50%
1st halving	Nov. 28, 2012	210,000	25 BTC	75%
2nd halving	July 9, 2016	420,000	12.5 BTC	87.5%
3rd halving	May 11, 2020	630,000	6.25 BTC	93.75%
4th halving	Between Feb.–May 2024	840,000	3.125 BTC	96.875%
5th halving	Approx. 2028	1,050,000	1.5625 BTC	98.4375%
6th halving	Approx. 2032	1,260,000	0.78125 BTC	99.21875%
7th halving	Approx. 2036	1,470,000	0.390625 BTC	99.609375%
8th halving	Approx. 2040	1,680,000	0.1953125 BTC	99.8046875%

Source: *Cointelegraph Research*

Cointelegraph Research | Data as of April 11, 2023



Try to set up a strategy, such as DCA or VA, when going into a position in a volatile asset like cryptocurrency. While it is true that it may fluctuate in value to the upside tomorrow, it may very well fluctuate to the downside. Gaining exposure over time reduces potential risks, but it also helps to have a long time preference over the short term.

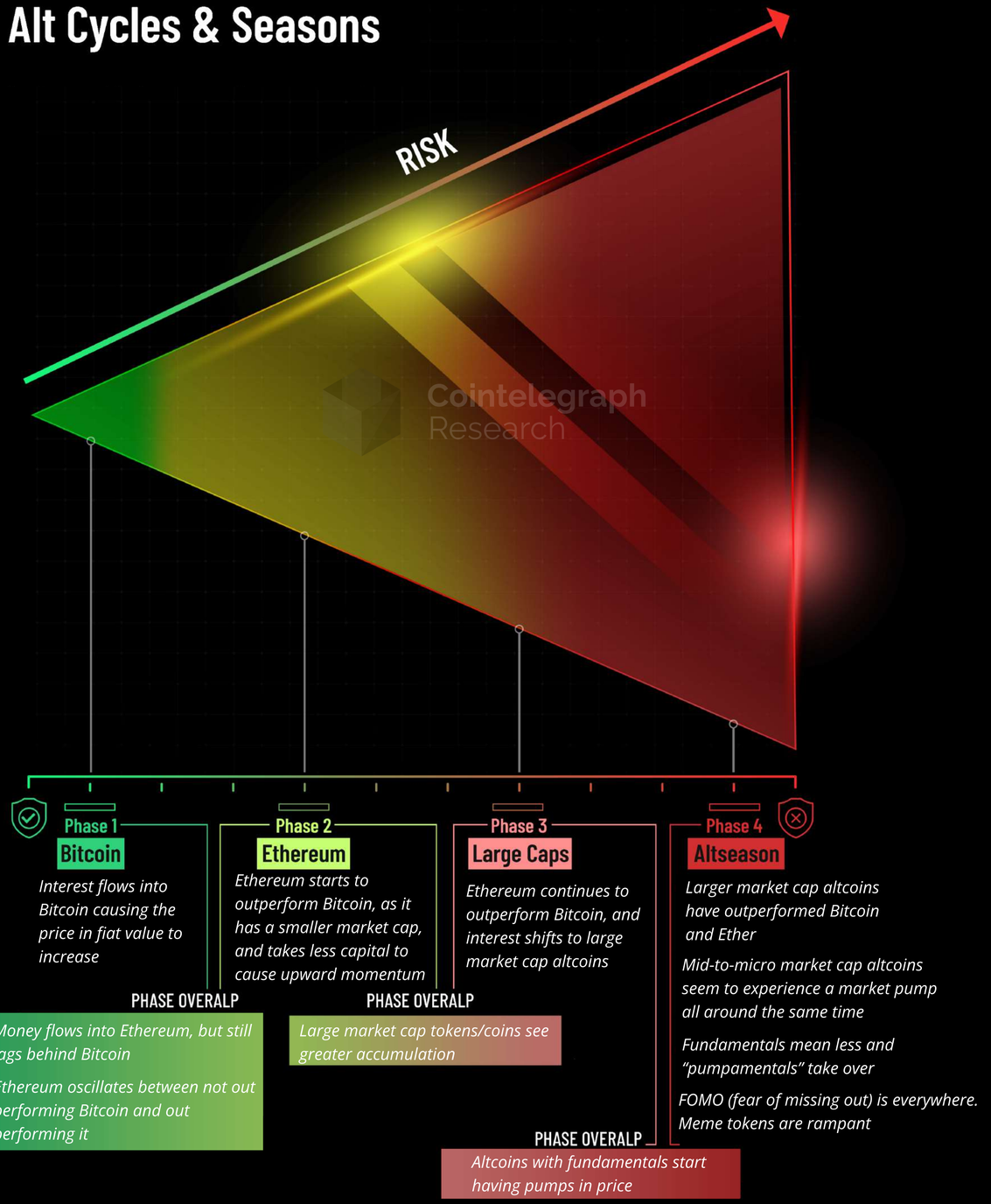
Keep an eye on liquidity, community, and potential competitors for any project which may peek interest. If it is a good idea, chances are there are competitors on the horizon or already existing. Do not be stuck in one camp or another. Research who is the best player in that particular space, and be open to change if something better comes along.

Look for DeFi options that allow you to self-custody your crypto. **"Not your keys, not your crypto"** is the old saying, and it rings truer now than ever before. With issues with third-party custodians utilizing funds for their own devices, being in control of your assets at all times is vital to lowering risks in the DeFi space.

28 *According to Coinmarketcap.com data as of June 2023*

29 *Bitcoin halves for infinity, but does get almost negligible by 2140. To look a deeper into what happens then, read these insights from mining expert Mohamed El Masri*

Alt Cycles & Seasons



Cointelegraph Research

In the world of crypto, alt seasons refer to periods when altcoins experience a surge in value and outperform Bitcoin. Understanding how alt seasons work can provide insights into the dynamics of the crypto market.

Typically, alt seasons start with a significant rise in the value of Bitcoin, the largest and most well-known crypto. Bitcoin's price rallies often attract new investors and mainstream attention to the crypto space, leading to an influx of money into the market. As Bitcoin gains momentum, it becomes a focal point for investors seeking to capitalize on the rising market sentiment.

Once Bitcoin's price reaches a certain level or stabilizes, investors often start diversifying their portfolios by exploring other cryptos, including Ethereum (ETH), the second-largest coin by market capitalization and a platform for decentralized applications.

As money flows from Bitcoin to Ethereum, the increased demand for ETH drives its price higher. This rise in Ethereum's value is often fueled by its utility and potential for innovation, as well as investor speculation on upcoming projects and developments within the Ethereum ecosystem.

After Bitcoin and Ethereum have experienced significant price appreciation, attention shifts towards altcoins, which are other cryptocurrencies beyond Bitcoin and Ethereum. During this phase, investors seek opportunities in smaller, lesser-known projects, aiming to identify the next potential breakout star. Altcoins with unique features, promising technology, or strong communities often garner attention and see substantial price increases during alt seasons.

It's important to note that alt seasons are influenced by various factors, including market sentiment, technological advancements, regulatory developments, and investor psychology. Timing alt seasons accurately can be challenging, as they are driven by market dynamics and can be unpredictable.

SEASONALITY IN DEFI

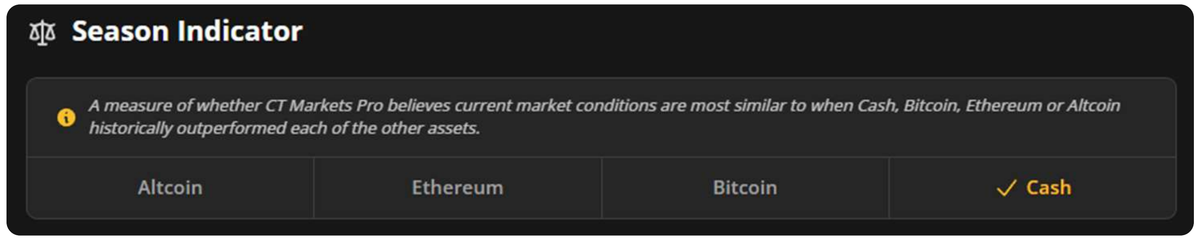
CRYPTO SEASONALITY — "WHAT COINS SHOULD I BE INVESTING IN AND WHEN?" AN INTRODUCTION TO CRYPTO SYSTEM TRADING.

Successful crypto traders focus on two key objectives to make outsized gains and keep them. First, and foremost, always accumulate as much Bitcoin as possible while protecting gains from sharp, abrupt losses during downward or sideways trends caused by volatility and/or bear markets. Second, position for even bigger gains when the market "dips." Crypto is notorious for volatility. Making and keeping maximum gains depend on knowing when to enter and exit trades.

BECAUSE TIMING IS EVERYTHING IN CRYPTO TRADING

Enter or exit at the wrong time and you're practically guaranteed to lose your shirt. On the other hand, by having a strategy for getting in, getting out or sitting on the sidelines if need be, you can sidestep market risks and continue to stockpile as much Bitcoin as possible, regardless of market conditions. Cryptocurrencies cycle in seasonal patterns. These seasons could be quite short — as little as a week. Knowing which season the market is in and what coin or coins to trade is half the battle when it comes to successful crypto trading. Most people do not blow up their crypto trading account because they picked the wrong coins. They lose their shirts by getting into the wrong sector altogether. They buy altcoins when the entire sector is crashing and don't know any better.

Figure 12



Source: *Cointelegraph Markets Pro*

Cointelegraph Research | ***Data as of*** *May 16, 2023*

THE CONCEPT OF CRYPTO SEASONALITY

The way it works is simple. In nature, you have four seasons. Well, in crypto, you also have four seasons:

1. Bitcoin
2. Ethereum
3. Altcoin
4. Cash

The new crypto seasonality indicator tells the user which season the market is in right now. It does so with pinpoint accuracy. The goal is not to end up trading the wrong sector at the wrong time.



AI-Powered Breakthrough Sends 204 Winning Alerts in 2022

A remarkable AI-powered technology is revolutionizing retail crypto investing and trading. In 2022, during one of the worst markets in recent history, those with access to this AI tech were sent up to four weekly and 17 monthly winning alerts. Some of these alerts took off by single digits; others made double-digit gains. A few became triple and even quadruple-baggers. The streak has continued into 2023, with OG skyrocketing by nearly 380% in just 24 hours, and BONK taking off by 351% in only four days. New alerts will be sent out over the next few days.

Source: *Cointelegraph Markets Pro*

Cointelegraph Research | ***Data as of*** *May 16, 2023*

BITCOIN AS THE CRYPTO RISK-FREE RATE

In DeFi lending, the challenge is the collateral itself.

Previously mentioned in the report was the concept of DeFi having a risk-free rate. The value of Bitcoin is considered to be the risk-free rate of return that any other investment in the DeFi space should be measured by. While all assets fluctuate in relative relationship to one another, if someone was going to move their fiat currency into a cryptocurrency, it would be the smartest play to move it into a currency that can perform the best. Since Bitcoin is the least risky cryptocurrency asset, measuring against its fluctuation is the best way to tell if someone's investments in altcoins or holding onto fiat for a better time to enter makes sense.

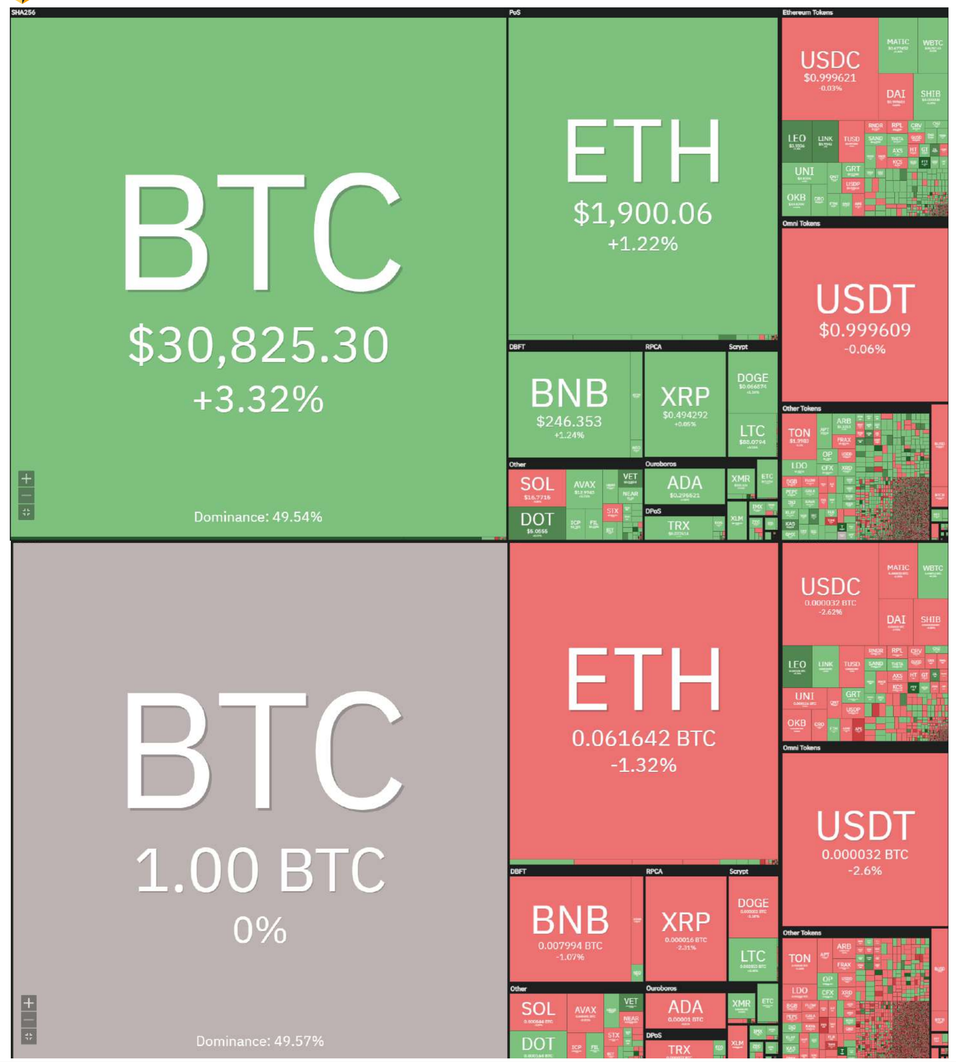
Denominating in Bitcoin (BTC) is a mindset change.

If we look at Figure 13, these screenshots show the issue with looking at the market simply by fiat measurement — in this case, USD. ETH, BNB (BNB) and XRP (XRP) all look to be doing well in the market on the day this screenshot was taken from Coin360.com. However, if the market is denominated in BTC, almost the entire market is red. This underlines the fact that in this case, if someone held the previously mentioned assets, the person has less value than if they had invested in Bitcoin. This does not mean that Bitcoin will always be the best choice, as there are different moments in the crypto cycle. Keep in mind that measuring crypto investments in Bitcoin lets an investor know if they are doing better than the risk-free rate or not. If, more often than not, someone is losing to Bitcoin, it may be a good idea to allocate more capital to acquiring Bitcoin over time than trying to continue a losing battle.

Note on risk-free rate: Electrical cost of mining Bitcoin

In the United States, as of April 2023, the average cost in to mine 1 BTC is $17,000. There are different factors that influence the fluctuation and price discovery of the Bitcoin, but hash rate is an important factor. This is because the hash rate dictates the general input costs of electricity needed to run the Bitcoin network. Knowing the general electrical cost to mine Bitcoin can help determine the range of the fair value on the market. This range can influence the range that Bitcoin's fiat price can fluctuate. It may also impact the risk-free rate of return of BTC overall.[30]

Difference Between Denominating in USD vs. BTC Figure 13



Source: *Coin360.com*

Cointelegraph Research | ***Data as of*** *June 23, 2023*

30 *For more information on the cost of cryptocurrency mining and market trends, read this Cointelegraph article here*

PROS & CONS OF MEASURING PORTFOLIO PERFORMANCE IN BTC, ETH OR USD

Cointelegraph Research

There is no one correct answer on how to measure a crypto portfolio. The decision should be based on considering the pros and cons of each strategy, as well as individual goals and risk tolerance.

Measuring in BTC: As the benchmark of crypto, the main goal of this strategy is to increase your BTC holdings and then trade for other altcoins. Starting off with only 1 BTC of valuation, the goal could be to grow that to five to 10 through multiple ways, such as investing in early-stage projects.

- *Cons of measuring with BTC:* Remember the fiat price volatility. BTC holdings may increase, but the USD value of your portfolio may experience considerable down periods. This could be a way to end up being crypto rich and cash poor. This could leave the investor with more Bitcoin, but it could potentially be worth less in USD than when the investor started.
- Fiat price can be stable relative to the time horizon of a trader. It takes an amount of conviction in an asset to hodl with a long time preference — that is, knowing that fiat is infinite and Bitcoin is finite.
- Remember: By measuring everything against potential Bitcoin holdings, an individual's portfolio uses Bitcoin as the crypto version of the risk-free rate, an important measurement given Bitcoin's dominance of the crypto markets.

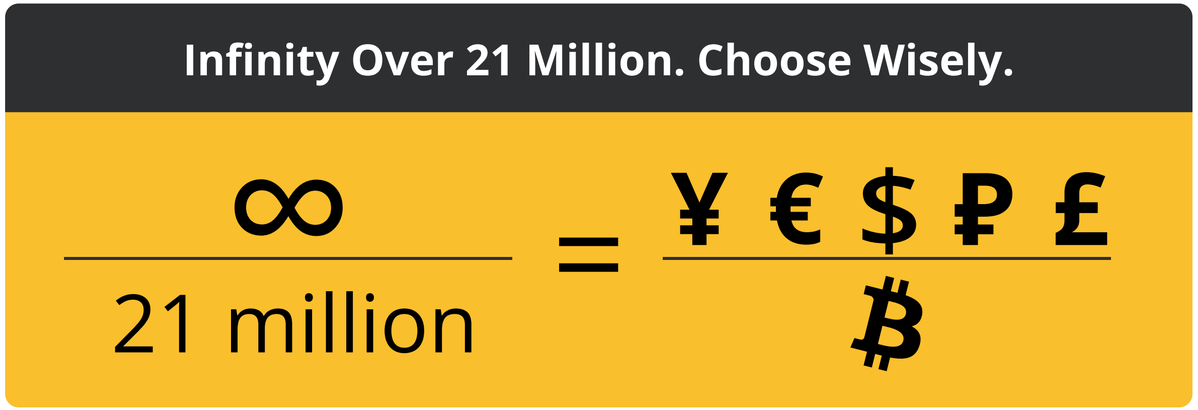
Measuring in ETH: Ethereum is a base protocol with over 2,000 native DApps. It's considered the progenitor of DeFi. Those who measure their portfolio with ETH are usually long-term bullish. Some people are "ETH maxis" and believe in the future of DeFi or decentralized apps, and their goal might be to own more ETH.

- *Cons of measuring with ETH:* Same with BTC, be careful of ending up ETH rich but cash poor.

Measuring in USD: Measuring portfolio performance in USD is appropriate for investors who value stability in the short term. This approach offers a clearer picture of gains or losses in terms of purchasing power against fiat. Fiat currencies like USD are used as the basis for tax obligations, regulatory requirements and financial reporting frameworks in many jurisdictions. Calculating taxable events, reporting capital gains or losses and meeting regulatory requirements can all be made simpler by measuring a portfolio in USD. For better or worse, the world still runs on fiat. Access to fiat is needed to be able to transact and conduct economic activity.

Takeaway: For those who are long-term bullish on the crypto market, it makes sense to own as much crypto as possible over the next two to eight years. On the other hand, some believe that crypto is a means to an end and should aim is to use crypto to continuously bring their portfolio balance to all-time highs in USD terms.

A balanced approach is to stack more crypto over the next years and eventually move those profits back to USD in the short term to consolidate an individual's portfolio.



10 TIPS TO FUNDAMENTAL ANALYSIS

Fundamental analysis is the process of finding the intrinsic value of a cryptocurrency asset. The goal is to determine whether the asset is overvalued or undervalued. That information can then be leveraged along with technical analysis to decide whether to invest in or trade a coin. In cryptocurrency fundamental analysis, the approach is somewhat different than the one typically used to evaluate legacy market assets. That's because crypto assets don't have the historical data required. You won't usually find earnings reports, profit and loss, etc. For cryptocurrency analysis, you need to look at all the available information on the coin. This includes use cases, its network, the team behind the project and so on. By looking at the right set of factors, you can determine the fundamental value of an underlying project before investing. The following pages are 10 recommendations from Cointelegraph Markets Pro.

1 READ THE WHITE PAPER

Especially for long term (buy and hold) investing, it is critical to read a token's white paper. This document gives an overview of the project.

A good white paper tells you...

- The project's goals
- Use cases and distribution
- The team's vision
- The technology behind the token
- Plans for upgrades and new features
- How the token provides value to users

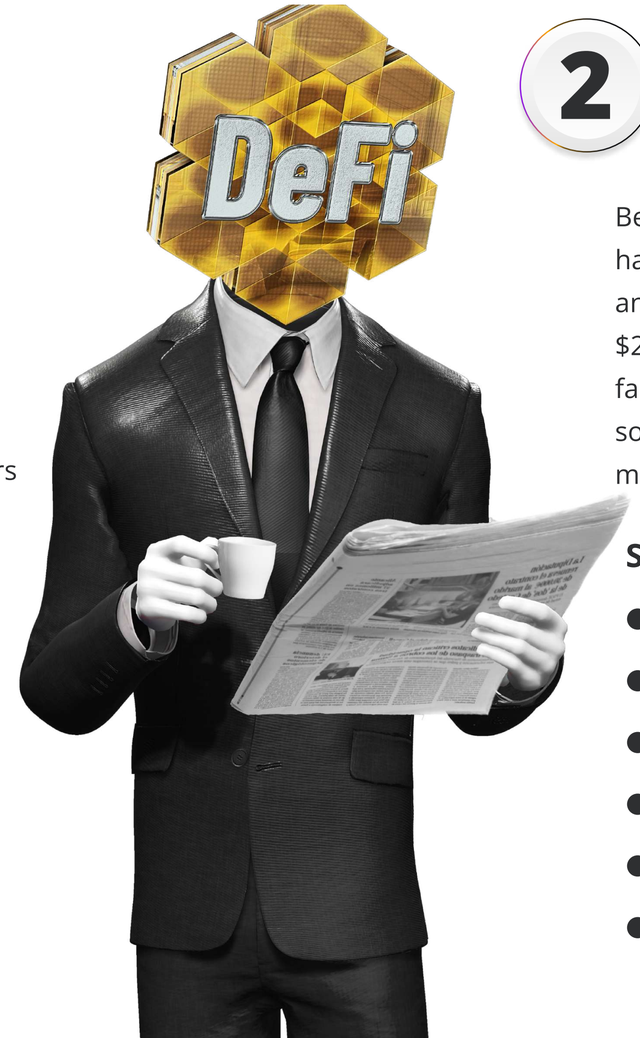
Tools For Kickstarting Whitepaper Analysis

Cointelegraph Research

MARKETS PRO by COINTELEGRAPH

COINBUREAU

COIN360



2 ASSESS THE CLAIMS OF THE WHITE PAPER

Be skeptical because the people behind projects can lie. It happens more often than you think. Michael Alan Stollery, CEO and founder of Titanium Blockchain Infrastructure Services, raised $21 million in an initial coin offering. He later admitted to falsifying parts of the project's white papers.[31] It's important to ask some hard questions (and get the answers) before putting your money into a project.

Some questions to consider...

- Are the tokens really distributed as promised?
- Are they meeting the road map's expectations?
- Are they inventing a problem just to solve it?
- What are other people saying about it?
- Are there any red flags raised?
- Do the goals seem realistic?

31 *For more information the Titanium Blockchain scandal, read here*

10 TIPS TO FUNDAMENTAL ANALYSIS

MARKETS PRO by COINTELEGRAPH

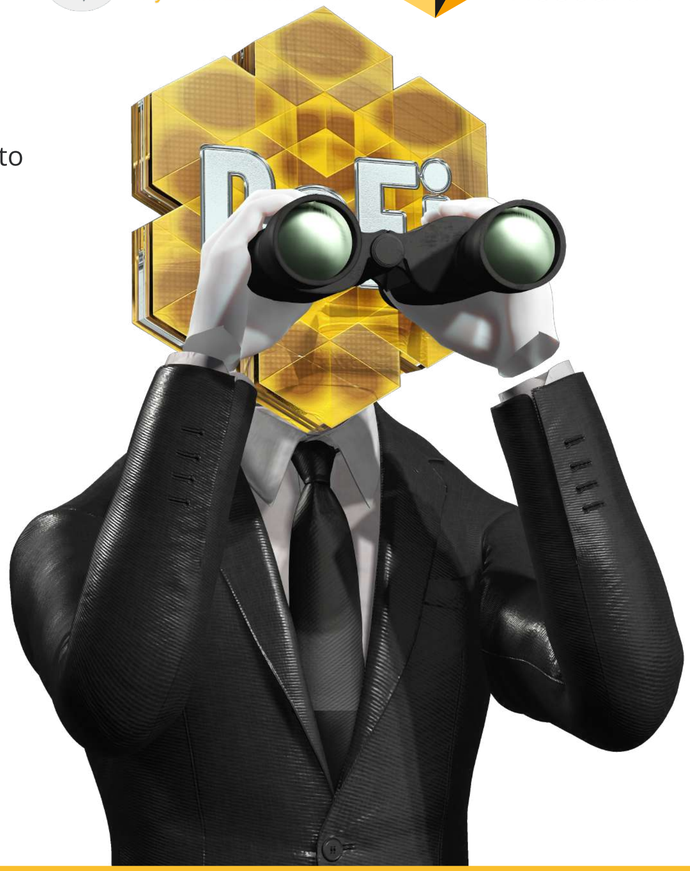
Cointelegraph Research

3 LOOK AT THE TEAM BEHIND THE PROJECT

A project is only as good as the team behind it. You need to make sure the people offering the project have the right skills to make the project work. The white paper should have information about each member of the team. But doing your own research is even better.

Some questions to consider about the team behind any project:

- Have they worked on other reputable and successful projects in the past?
- What are their credentials? Are they experienced?
- Are they reputable members of the crypto community and blockchain ecosystem?
- Have they been involved in any questionable projects or scams? What if there is no team? Then look to the developer community. You want to find out if the project has a public GitHub. Check to see the number of contributors and activity levels. The more consistent development activity on a project, the better.



4 LOOK AT COMPETITORS

Look at competitors. According to some industry sources, nearly 40% of cryptocurrencies that were listed in 2021 no longer exist. That should tell you that a lot of projects — close to half and it could be even more — fail, and fail miserably. Scrutinizing a project's white paper will tell you the use case the crypto asset is targeting. Consider whether or not that use case is, in fact, viable. Furthermore, try to identify competing projects and look at legacy projects it might replace. Bottom line: Research is needed to see whether this project is better than others.

Try to find out:

- Is someone doing the same thing?
- Are they doing it better?
- How is this project stronger than similar ones, if any?
- Is there a technology that can displace these projects?

Tools For Competitor Analysis

COIN360 · Dune Analytics · DefiLlama · DappRadar

10 TIPS TO FUNDAMENTAL ANALYSIS



Tools For On-Chain Analysis

glassnode
Dune Analytics
DefiLlama
DappRadar

5 LOOK AT ON-CHAIN METRICS

On-chain metrics are available by looking at data on the blockchain. The data can be pulled from websites or APIs — such as on-chain analysis, data charts, project reports, etc. — specifically designed to inform investment decisions.

Some of the data worth looking at:

- Transaction count: A good measure of activity taking place on a network. The more activity, the better.
- Transaction value: Tells how much value has been transacted within a period. The higher this number is, the better.
- Active addresses: Indicates how many blockchain addresses are active at any point in time. Again, the more active addresses, the better.
- Fees paid: This reveals if the demand for block space is growing or shrinking for a token.
- Hash rate: Measures the network health in proof-of-work cryptocurrencies. The higher the hash rate, the more difficult it is to successfully mount a 51% attack.
- Staking: The amount staked at a given time tells us the interest level or lack of it in the project.

6 LOOK AT TOKENOMICS

Look at the tokenomics. We want to invest in projects that create useful tokens. Otherwise, the token may not have utility in the marketplace. In addition, if the token is useful, it needs to be determined if the market will embrace it. That's the only way the token's price will ebb and flow, allowing investors profit opportunities on an on-going basis.

Some questions to consider:

- Is the token useful?
- How do people get the token?
- What is the inflation or deflation rate?
- Was it an initial coin offering (ICO)?

10 TIPS TO FUNDAMENTAL ANALYSIS

MARKETS PRO by COINTELEGRAPH | Cointelegraph Research

7 MARKET CAP & LIQUIDITY

Market cap, trading volume, liquidity are some of the most important analysis about the financial metrics of the token associated with a project.

These include:

● Market capitalization: This is the network value that tells us the hypothetical cost to buy every unit of the crypto asset. This shows the growth potential of the network. The market cap is calculated by multiplying the circulating supply with the current price.

● Trading volume: This indicator shows how much value was traded in a certain amount of time — daily, weekly, monthly, etc. trading volume. It points to whether a token has enough liquidity.

● Liquidity: This indicator measures how easily a token can be bought and sold. The more liquid a token is, the easier it is to sell it at its current trading price.



8 COMMUNITY

When a community is behind a project, it tends to help the associated token go up in value. Social media, for instance, can have a significant impact on a coin's price action. Memecoins, such as Dogecoin (DOGE) and Shiba Inu (SHIB), skyrocketed in price, in part, due to social media excitement. Just recently, Pepe (PEPE) got a huge price boost as social media activity pushed interest levels in the coin to new highs. A community that is backing a coin is a powerful catalyst.

Some questions to ask:

● Is the community active and excited?

● Are there a lot of shilling accounts?

● Is sentiment good?

● Are there plenty of developers? Remember, a token's price goes up only if there is interest and market action. The more people talking about and investing in a token, the more likely its price will go see some kind of a pump.

Tools For Market Cap And Community Analysis

MARKETS PRO by COINTELEGRAPH | The Tie | DefiLlama | CoinMarketCap

10 TIPS TO FUNDAMENTAL ANALYSIS

MARKETS PRO by COINTELEGRAPH

Cointelegraph Research

9 MARKETING

Marketing. Depending on what source you look at, there are currently 21,910 cryptocurrencies investors can choose from. That's a lot of competition. The team behind a project needs to actively market the token in order to stand above the crowd. Some industry insiders are saying that it is now harder than ever to stand out. In addition, with the advent of new tokens on the market, established cryptocurrencies are struggling to retain market share. So, the team behind the project must actively build brand awareness, get customers, retain customers, and improve sales and profits figures.

Before investing in a project, ask:

- Is the core team marketing the product well?
- Do they have a dedicated marketing team?
- Are they increasing market share or not?



10 TEST IT YOURSELF

If the core product is out, test it for yourself. This one might be a little tough for someone who is just looking to invest in the underlying token of the project. However, let's say an investor just wants to invest in Ethereum. Since Ethereum is a decentralized global software platform, an investor could create a secured digital technology and see how the platform actually works. This could help inform on their investing decision. After all, if the platform is hard to use, is time-consuming, or otherwise creates more problems than it claims to solve, an investor might want to steer clear of investing in it until these issues are fixed. These are the10 steps to sound fundamental analysis to help evaluate the profit potential of any coin before investing or trading.

Cointelegraph Has The News, Research, And Tools You Need To Stay On Top Of DeFi

COINTELEGRAPH
The future of money

Cointelegraph Research

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Allnodes

The Leader in Non-Custodial Staking and Node Hosting Infrastructure

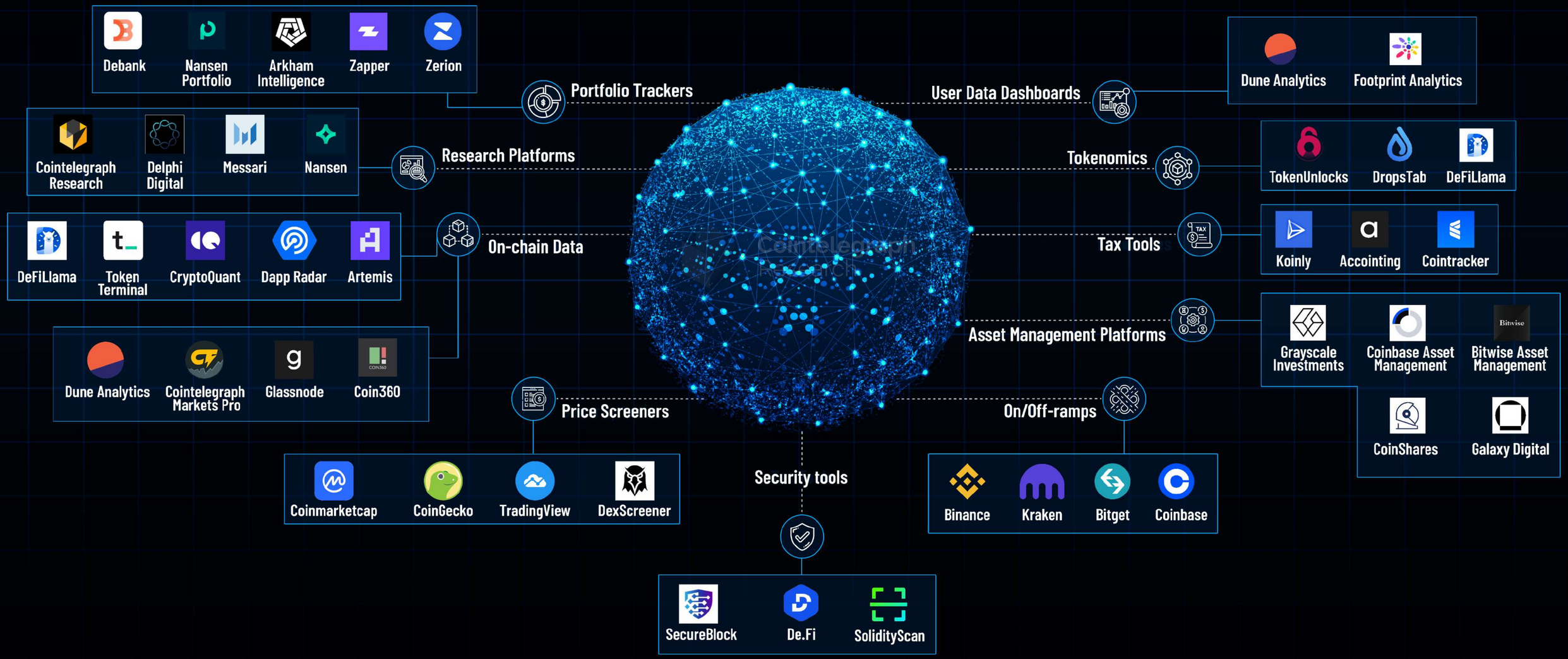
GET STARTED

Staking Rewards
The #1 Verified Provider

Trusted by crypto.com METAMASK | Institutional VALKYRIE CONSENSYS

Cointelegraph Research

DEFI TOOLS



IS THERE A STRATEGY BETTER THAN DCA?

Cointelegraph Research

Comparing Dollar-Cost Averaging (DCA) and Value Averaging (VA)

Both dollar-cost averaging (DCA) and value averaging (VA) are investment strategies that can be applied to cryptocurrencies and other assets. The choice between the two depends on individual preferences and investment goals.

A regular, consistent and disciplined approach, DCA may be a suitable choice. By investing fixed amounts regularly, regardless of short-term price fluctuations, an investor can potentially reduce the impact of market volatility and benefit from the long-term upward trend.

On the other hand, if someone is more comfortable with actively managing investments and adjusting positions based on market conditions, VA may be a more viable option. VA allows to allocate more funds when prices are low and reduce exposure when prices are high, potentially maximizing gains during volatile periods. VA with Selling includes using a value average strategy but selling when the value exceeds the target each month, whereas VA with Holding includes using a value average strategy but taking a payment break when value exceeds the target and holding all assets.

Example scenario: For this exercise, a monthly budget of $100 was maintained and assumed perfect growth over a 32-month period at a compound annual growth rate (CAGR) of 57% and 80%.

The costs of DCA increase gradually, as expected. The VA and Sell strategy greatly benefits from the rise in BTC's price, allowing us to actually profit while keeping the portfolio's overall value on target. The VA and Hold is a little lumpier than the DCA, but they level off as BTC prices rise because we are outpacing our target value and can pause payments.

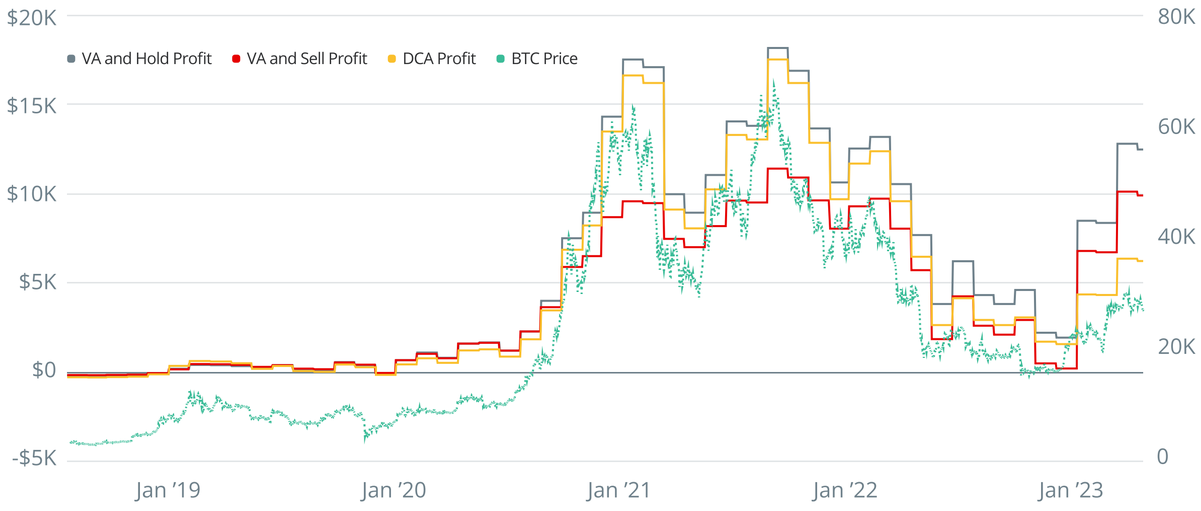
As anticipated, DCA steadily builds up BTC, and the amount we gain decreases as the price rises. The VA and Sell strategy demonstrates how we turned a profit by gradually selling off a sizable amount of BTC. However, we inevitably end up with less BTC, which may not be ideal if obtaining large holdings is your goal.

Through backtesting, we can see that, out of the three strategies examined, the VA and Hold strategy yields the best results, followed by VA and Sell and, lastly, DCA.

Ultimately, the decision between DCA and VA should consider factors such as risk tolerance, investment horizon and the level of involvement an investor wishes to have in managing their portfolio.

USD Profit From Each Strategy (GAGR 50%)

Figure 14



Source: *Cointelegraph Research*

Cointelegraph Research

Data as of *May 16, 2023*

REWARDS: STAKING, LENDING AND LIQUIDITY MINING

Cointelegraph Research

There are multiple ways that an investor can have what some can term “passive” flow of returns through utilizing DeFi. Three of the most common types are staking, lending and liquidity mining. Each have pros, cons and associated risk levels and, as usual, market conditions: the higher the risk, the higher the potential reward.[32]

Staking

Staking, which is used primarily as a way to secure proof-of-stake protocols, usually incentivizes those who stake with rewards. This may not provided the greatest profit margins but has the lowest risk out of these three strategies.[33]

Lending

Lending is in the middle of the pack. In DeFi, it is often the case that borrowers overcollateralize the amount being borrowed, and the risk of walking away completely empty handed is mitigated by smart contracts compelling the collateral to be forfeited if the agreed amount is not paid. However, the asset itself may also have decreased in value during that time, so the lender could be out of any return at the end of the day.

Liquidity Mining (Yield Farming)

A bit different than staking, this strategy can also lock up assets for long periods of time. Asset liquidity is an important factor to keep in mind in the world of DeFi. Different pools may require a lock up period, which allows these pools to provide the assets an investor gives them as liquidity to different protocols. There are associated risks, such as impermanent loss (covered on page 43), but they can provide the greatest returns out of these three strategies.

Yield Farming/Liquidity Mining vs. Staking vs. Lending Figure 15

	Yield farming/ Liquidity Mining	Staking	Lending
Consensus mechanisms	Proof-of-stake	Proof-of-stake	Proof-of-stake
Profit margins	Highest	Moderate	Moderate
Time	Long term	User-determined/ Fixed	User-determined/ Fixed
Risk	High	Low	Moderate

CASE STUDY: Beamer

The ability to move assets across protocols is important when trying to pinpoint the best use of an individual's investment. For EVM (Ethereum Virtual Machine) compliant protocols, this has resulted in issues such as high fees, slow transaction times, and worse – hacks that cost users their DeFi bags. Beamer offers a bridging solution that helps mitigate all of those issues in one place.

Users can simply connect their Web3 wallet (MetaMask, is a popular choice), and users can sign just one transaction on the source rollup to complete the transaction. The transactions are peer-2-peer (P2P), and custody of the assets always stays with the user, limiting risk and exposure to hacks and weaknesses in the bridging.

32 To read more on how to earn passive income with DeFi, read this Cointelegraph article here
33 For more on the pros and cons of cryptocurrency staking, read this article

STAKING

For many crypto investors across the globe, the concept of a staking pool is rather unknown, and investing in one elicits skepticism rather than drawing hordes of investors to it. Yet the overall concept of a staking pool is available on blockchains that employ a proof-of-stake (PoS) model and requires stakeholders to lock their crypto tokens in a specific blockchain address or wallet in return rewards for securing the network.

These locked tokens are tethered toward developing the respective blockchain. In exchange, the blockchain (through the public stake pool operator) provides stakeholders with a percentage reward based on the number of tokens staked. The many advantages of investing in a public stake pool are accompanied by a number of caveats that are important to consider before staking crypto tokens, especially the staking pool model employed.

Public stake pools are ideal for retail investors who want to participate in the staking activity without having to stake large amounts of a crypto token, which is needed to become a validator on the blockchain network or start a private staking pool. For Ethereum, an investor would need 32 ETH to become an independent validator, so any user can stake Ether (ETH) and earn rewards in the process. Staking pools allow anyone to earn a passive reward while still holding on to the crypto tokens for long-term price appreciation. Moreover, investors do not have to worry about how a staking pool works or the procedures required in setting up and running a validating node, which the staking pool operator does instead on behalf of all the stakeholders.

Rewards earned are in the form of the staked crypto token as the blockchain rewards the validator (or the pool operator in case of a staking pool) with newly minted tokens every time a block of transactions is successfully added. This means that stakeholders will receive their fair share in proportion to the number of tokens staked and will be able to generate even higher returns when the price of the staked token appreciates with time.

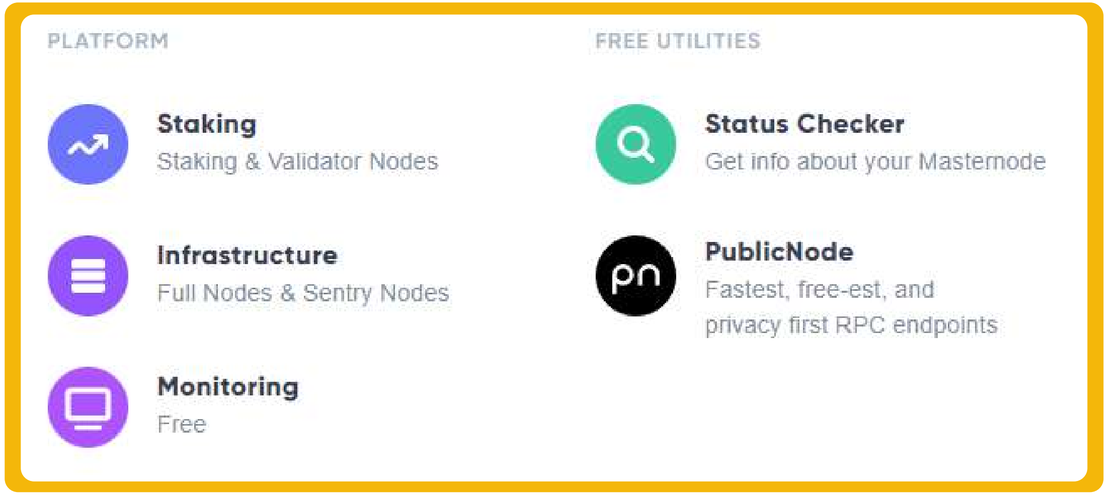
Considering that the minimum amount of tokens required to become a validator is so high, it is far easier for even novice investors to lock their coins with a public staking pool operator to enjoy more predictable and frequent staking rewards.[34]

CASE STUDY: Allnodes

There are tens of thousands of different cryptocurrency protocols on the market, and it can be overwhelming to figure out where to start staking. Allnodes has done a great job of taking the guesswork out of trying to navigate through all the noise. As the name suggests, Allnodes does provide users the ability to host Masternodes, Validator Nodes, Super Nodes, Sentry Nodes, and full nodes on different respective protocols. Allnodes also allows users to partake in staking on over 70 different protocols.

The best part is that Allnodes is a noncustodial platform, meaning the user maintains control of their crypto at all times. There is no risk of some third-party misusing the users' funds. It also means that to sign up with Allnodes, all an investor needs is a wallet address. Simply using a Web3 wallet (like Metamask, for example), a user can interact with Allnodes' services and begin finding staking pools that work for them.

Services provided by Allnodes



34 To learn more about staking pools and cryptocurrencies, read this article

LENDING

In DeFi lending, the challenge is the collateral itself.

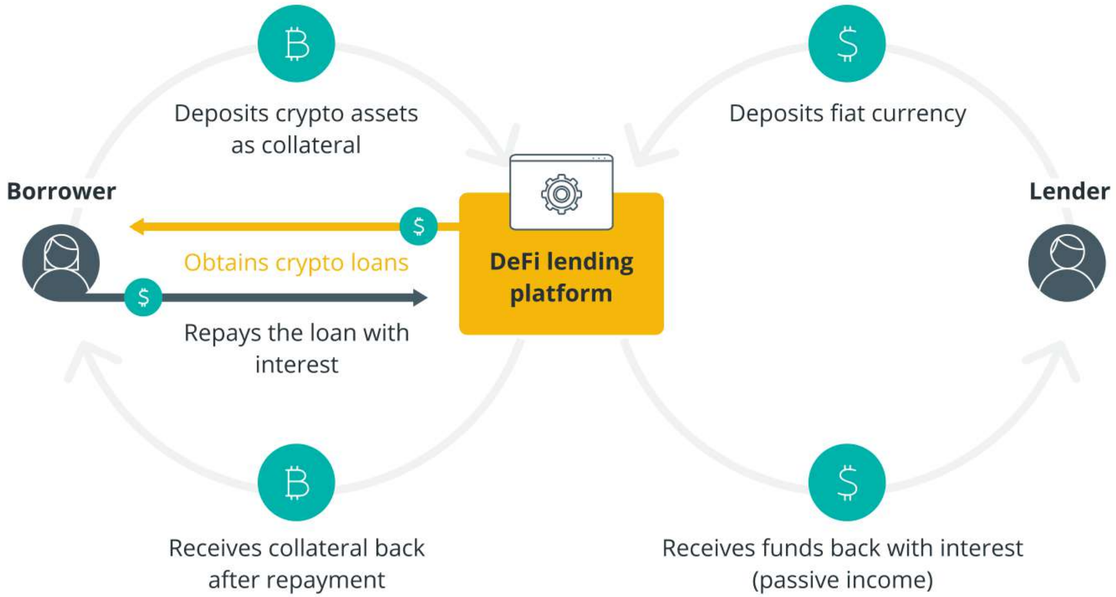
DeFi lending protocols allow users to borrow loans directly from lenders using cryptocurrency. They are the heart of the DeFi lending ecosystem, and platforms such as Compound, Aave, MakerDAO and dYdX are among the leading lending platforms.

A DeFi platform usually disburses loans in stablecoins, while collateral is backed by cryptocurrencies, such as BTC, and a smart contract defines the margin for minimum collateral and liquidation. Further, DeFi lending platforms do not enforce payback periods, but the accrued interest increases as time passes, incrementing the risk of liquidation.

- DeFi relies heavily on crypto collateral, as most users are anonymous. Lenders face numerous risks without collateral, but the interest rates on their loans are much higher than collateralized loans.
- Overcollaterization means borrowers post more crypto than they borrow, but this approach has drawn criticism for needing to be capital efficient due to idle collateral. MakerDAO is a good example of an overcollateralized loan system.
- Undercollateralized and unsecured loans offer high risk/high returns on lenders. Certain protocols provide unsecured loans and use off-chain assets as reserves in case of losses; however, it's hard to the reliability of these statements, especially if the company runs an attestation and not a proper audit.
- There's a way to put real-world assets, like a property, as collateral for a DeFi loan. For example, an individual can tokenize their house into an NFT using a third-party protocol to carry out the process. Asset tokenization can solve unsecured loans, but the expenses are high. On-chain credit is also an emerging field; however, someone must reveal their credentials to these third parties, and the extra cost is also considerable.

Working of a Crypto Lending Platform

Figure 16



Source: *Cointelegraph Research*

There are several types of DeFi lending protocols.[35] Some offer overcollateralized loans, some allow NFTs as collateral, and some of them don't even require collateral at all. Carefully weigh the pros and cons of each and make a decision based on your personal goals.

35 For more information on DeFi lending protocols, read this Cointelegraph article

POLKADEX ORDERBOOK

Polkadex.

Combining the best features of CEXs and DEXs
for the growing DotSama ecosystem and beyond

The CEXier DEX

Designed to look and feel like a CEX, Polkadex Orderbook is capable of scaling to 500K trades per second.

Your keys, your crypto, your DEX

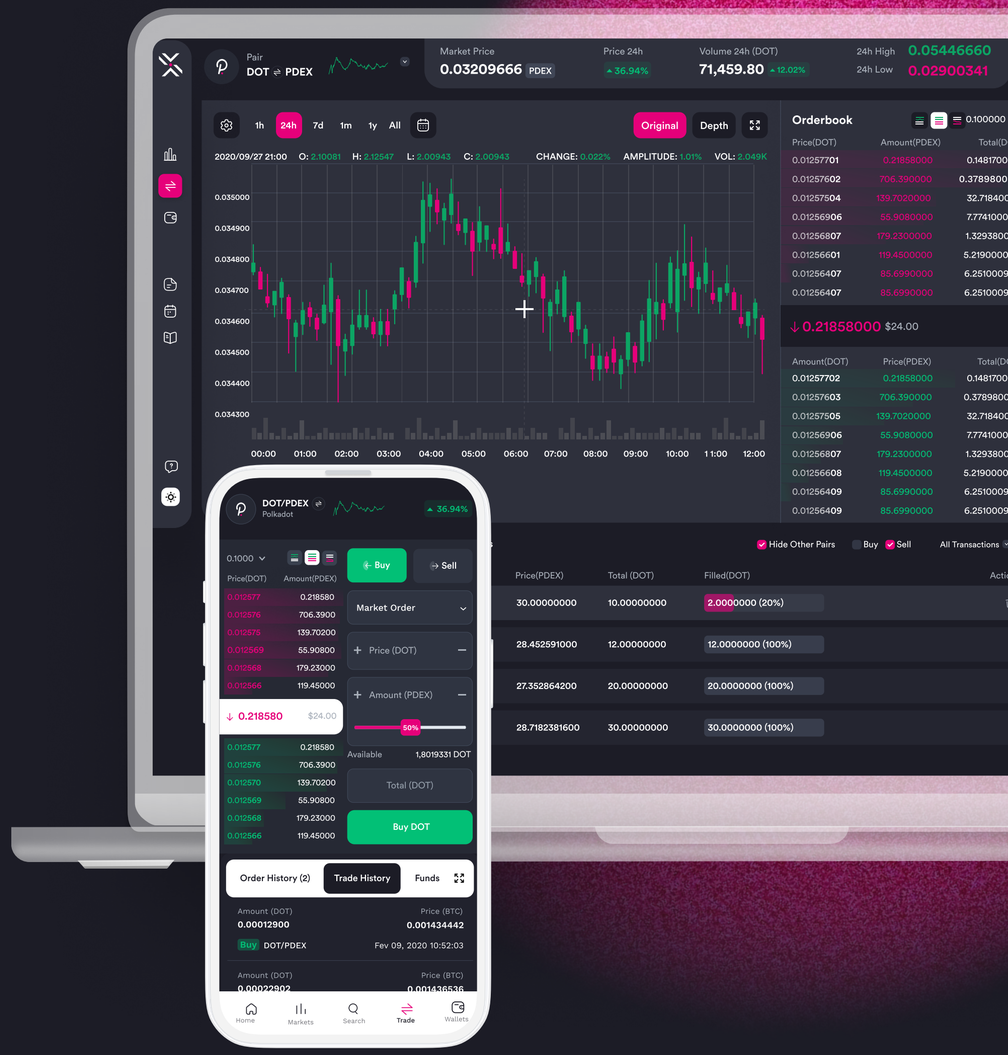
With Polkadex Orderbook's cutting-edge non-custodial infrastructure, you're in control of your funds at all times.

Advanced trading tools for pros and novices alike

Trade your way with limit orders, market orders, trading bot integrations, multi-device support and delegated trading.

A truly interoperable platform

Thanks to its cutting-edge interoperability layer, THEA, Polkadex Orderbook allows for seamless connections with Ethereum and other blockchains, positioning the DEX as a real interoperable trading hub.



Start trading your DotSama assets this spring!

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DECENTRALIZED EXCHANGES (DEXS)

Cointelegraph Research

Most decentralized exchanges (DEXs) use automated market makers (AMMs) to quote prices. A rare exception, dYdX uses a hybrid system combining decentralized features with an order book.

AMMs work by following Uniswap's mathematical quoting formula, x*y=k. Here, "x" and "y" represent the value of two different tokens, and "k" is a fixed constant that relies on liquidity providers depositing funds into liquidity pools to maintain a balanced price between the pool's assets.[36]

DEXs eliminate intermediaries, allowing direct user transactions and reducing the risk of trading manipulation and transaction fees. They are noncustodial, so users are responsible for their private keys and how they move their funds within the app.

However, DEXs and AMMs have some significant drawbacks:

- **Impermanent loss:** A price divergence when a user deposits tokens and the price changes suddenly compared to the original price when deposited.
- **Lack of liquidity and capital efficiency:** New DEXs have a more challenging time collecting liquidity to perform on-chain trades than order books from centralized exchanges.
- **Slippage:** Refers to the change in liquidity from a given asset, making the algorithm quote a different price at the moment of trade execution. While slippage is usually a small percentage, it can become a large-scale threat to DEXs; it results in wasted gas fees, increases the costs of executing transactions, and affects the overall trade structure.
- **Oracle pricing errors:** Oracles, such as Chainlink, power many of today's AMMs. However, the threat of oracle manipulation and pricing errors is always a constant that can lead to catastrophic events even when the risk is low.

CASE STUDY: Polkadex.

Centralized exchanges (CEX) are often an easy way for people to start their journey into the world of cryptocurrencies. As someone dives more into the world of DeFi, DEXs play a role in optimizing investments. Different DEXs offer different features, and Polkadex is bringing together the best features of CEX and DEX into one platform. As with all the case studies in this report, Polkadex stresses the noncustodial approach, meaning the user always keeps custody of their cryptocurrencies. This helps to mitigate the risk of a middleman holding on to investor funds.

The Polkadex Orderbook allows for interoperability between Ethereum and other blockchains, making trading between assets across the cryptoverse easier and seamless. Polkadex offers users not only ways to make limit orders, market orders, and have trading bots integrated but also allows for delegated trading, which could help newer DeFi participants.

Orderbook v2 is being unveiled in the summer of 2023, and has not been released yet. Version 2 will utilize new technology not available during the first launch, and will still look and feel like the original. However, this new versions will have enhanced security, as all trades and balances will be maintained by Polkadex validators instead of snapshots kept by exchange operators.

Cointelegraph Research's Polkadot Report

- How Polkadot allows blockchains with different structures to co-exist in an interoperable environment with shared security.
- How the system of slot auctions allows projects to compete for the right to remain connected to the network.
- How the ecosystem around Polkadot gave rise to a wide variety of decentralized products, from social networks to cloud computation and prediction markets.



Read The Report

36 Reference https://cointelegraph.com/explained/uniswap-and-automated-market-makers-explained

IMPERMANENT LOSS IN YIELD FARMING

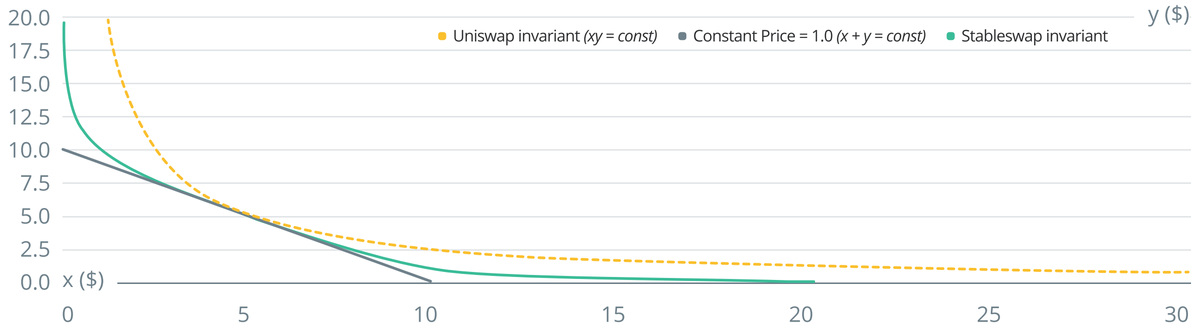
Despite the drawbacks, AMMs offer numerous advantages compared to their centralized counterparts. For example, Uniswap has broader market depth, providing access to passive capital and attracting investors with an appetite for risk. However, the trade-off is the risks accentuated by market and infrastructure factors, such as market volatility, blockchain scalability and network models.

The Challenges of DEXs: Liquidity and Capital Efficiency

The formula x*y=k remains one of the most popular due to its simplicity. However, Uniswap allows different types of assets to be pooled into a single smart contract, which results in more significant price slippage due to their underlying differences, and it is not the most capital efficient.

This has led DEXs to experiment with different types of AMM models. Curve Finance designed an AMM model that creates pools of similar coins, such as stablecoins, such as Dai (DAI) and USD Coin (USDC), and wrapped tokens, such as Wrapped Bitcoin (wBTC) and renBTC. This reduces impermanent loss and the risk of front-running. However, this model reduces trading fees and is not as flexible as Uniswap, which allows users to create liquidity pools with any cryptocurrency they want.

Curve Finance model of an AMM for liquidity pools Figure 17



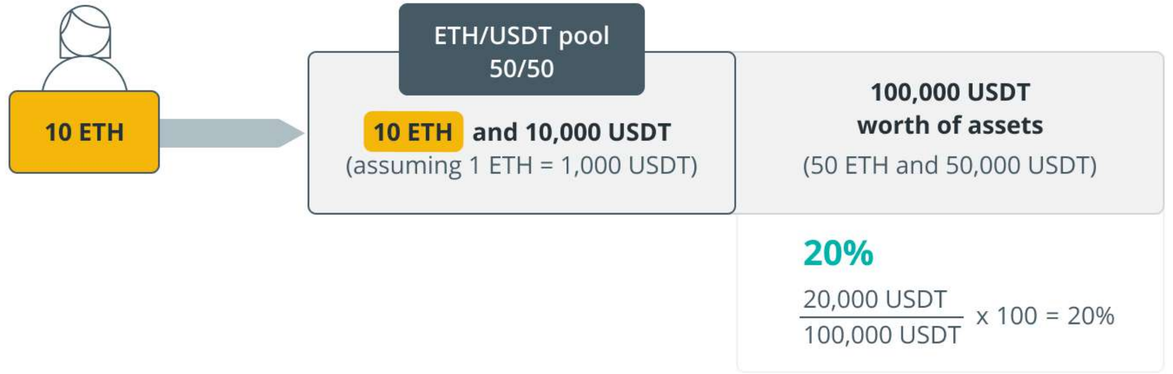
Source: *Curve Whitepaper, Cointelegraph Research*

Cointelegraph Research | ***Data as of*** *May 16, 2023*

Impermanent loss is a term used to describe the loss incurred by a user who deposits tokens into a liquidity pool, with the price of those tokens immediately changing compared to when they were initially deposited. These losses only materialize when the user retrieves their funds from the pool.[37]

Although we cannot completely eliminate impermanent loss, there are ways to decrease it. One way is to choose AMMs that offer less volatile assets and enough liquidity provider (LP) trading fees to counteract the loss. Users can also offset their losses if the value of the token(s) returns to their original value, but this is unlikely.

Calculation of Liquidity Provider's Share in the Liquidity Pool Figure 18



Source: *Cointelegraph Research*

Cointelegraph Research | ***Data as of*** *May 16, 2023*

How does impermanent loss happen?

The difference between the LP tokens' value and the underlying tokens' theoretical value if they hadn't been paired leads to impermanent loss. Let's look at a hypothetical situation to see how impermanent loss occurs in Figure 18. Suppose a liquidity provider with 10 ETH wants to offer liquidity to a 50/50 ETH/USDT pool. They'll need to deposit 10 ETH and 10,000 USDT in this scenario (assuming 1ETH = 1,000 USDT). If the pool they commit to has a total asset value of 100,000 USDT (50 ETH and 50,000 USDT), their share will be equivalent to 20% using this simple equation = (20,000 USDT/ 100,000 USDT)*100 = 20%.

37 *For more on impermeant loss and how to avoid it, read this article by Cointelegraph*

GOVERNANCE

DeFi proposes a democratic, community-centered governance system in which users participate by staking the protocol's token. After staking their tokens, they can vote on protocol changes, submit governance or protocol proposals, and participate in community discussions.

Each decentralized autonomous organization (DAO) will structure its governance model according to its purposes. Generally, utility tokens are used for governance, following the "one token = one vote" approach. However, some DAOs adopt a multicurrency approach, in which utility tokens are used for internal services and governance tokens are used for decision-making. For example, Curve Finance uses the Vote Escrow Model, in which:

- A DAO member locks up the protocol's token, CRV, to be converted into the governance token, veToken.
- The lockup period is flexible — users can choose a time up to four years but can unstake during that period.
- The number of veTokens decreases throughout the lockup period, motivating users to relock CRV to gain more governance votes and rewards.
- The longer the lockup period, the more governance votes and rewards.

Cointelegraph Research's DAO Report

Decentralized autonomous organizations have a been a hot topic in the blockchain world, and many believe them to be the evolution of how organizations, firms and even governments can structure themselves utilizing blockchain technology.
The report includes:

- Key Metrics
- History
- Outline of DAO 1.0, 2.0 and 3.0
- Token Performance
- Case Studies

This free report is a great resource and starter guide to learning more about the subject and how it may be the next big thing in applying blockchain technology.



See The Report

Like anything in DeFi, governance has a few problems that remain somewhat unscrutinized or undebated regarding power distribution and core team ethics.

The first issue is the lack of recourse action for tokenholders to rely on when a development team doesn't perform as expected. Nothing impedes founders and equity holders from not executing changes or updates based simply on governance votes, leading to a conflict of interest between the team and tokenholders and the risk of scams or rug pulls. Tokenholders can only (loosely) rely on the founders' ethics and background.

The next issue relates to the distribution of power between tokenholders and investors and possible friction between the two:

- **Equity tokens:** Tokens allow investors to buy equity tokens in a DeFi project. Equity tokens allow founders to recollect investor capital (besides other key benefits) in exchange for a share of the company's revenues and voting rights in its future.
- **Utility tokens:** Allows users to stake the native network token to perform activities and access services. They have a subset: governance tokens, which power DAOs to make decentralized decision-making.

It's well-known that even when DeFi projects have "fair" launches, the token distribution often remains concentrated in the hands of a small group. This raises a question: What happens if tokenholders pass a proposal that clashes with the interest of equity tokenholders?

These issues and others should be addressed in the following one to two years:

1. Foster and encourage governance participation.
2. Give a broader sense of direction and provide a clearer picture for token valuation.
3. Stop the delivery of half-baked protocol changes and updates (which could result in hacks due to errors and bugs in source code).

RISK MANAGEMENT IN DEFI

Cointelegraph Research

DeFi replaces intermediaries with code. Therefore, risk management in DeFi requires different approaches toward certain aspects, such as:

- **Financial:** What's the current state of the market? Volatility, liquidity, interconnectedness.
- **Infrastructure:** Smart contract code, the main layer infrastructure, scalability.
- **Protocol:** Tokenomics, business structure, auditing, etc.
- **Regulation:** Regulatory pressure and lack of defined and complete laws.

REGULATION IS A MAJOR GAME-CHANGER FOR DEFI

Given the regulatory landscape in the U.S., it's likely cryptocurrency exchanges will have to relocate to crypto-friendlier countries. This has led users looking for alternatives, which includes DeFi protocols, but the SEC is also scrutinizing the DeFi industry, likely pushing it to foreign jurisdictions as well.

Europe is taking a more neutral (if not friendly) approach toward regulation. In February 2023, the Financial Stability Board teamed up with Global Standard Setters to study and determine how DeFi should be regulated across different jurisdictions, reviewing the industry's core attributes and vulnerabilities. Likewise, the Bank for International Settlements has been more active in exploring the possible regulatory frameworks for the DeFi industry.

Ultimately, DeFi regulation will lead to companies, communities and key players in the space to try to reach some agreement with policymakers or push crypto and DeFi innovation elsewhere until we can find a crypto-friendly jurisdiction. If not handled properly, lack of regulatory clarity in DeFi could stifle innovation for several years.

THE CURRENT STATE OF DEFI INSURANCE

DeFi insurance protocols generate revenue primarily through insurance premiums (the user buys coverage by depositing funds into the protocol's pool), service fees (providing underwriting, risk management and claim processing services), and investments (use tokens from pools to invest in multiple assets or DeFi protocols).

The DeFi insurance business grew considerably in 2022, with nearly 20,000 policies sold. Over $34 million in claims were paid out, including $22.5 million paid out to the TerraClassicUSD (USTC) depeg and $4.7 million in the FTX collapse. The market has now expanded to include nearly two dozen providers in 2023.

The current challenge for DeFi insurances is finding ways to attract liquidity providers to sustain coverages in a space where hacks are commonplace. Only $231 million worth of funds in DeFi projects has been covered since 2022. That's around 0.5% of the industry's TVL.[38]

There are several ways in which claim payout structure can be improved. For instance, insurance is becoming more automated with protocols, such as Risk Harbor, which offer smart contract capability for automatic payouts.

Instead of executing vote-driven payouts, protocols are selling insurance directly to other protocols, such as Sherlock. Other protocols, such as Cozy Finance, integrate DeFi protocols into its platform for on-site interactions.

While insurance is necessary in DeFi, it can't proliferate without requesting proper smart contract audits from DeFi protocols. A good idea is that insurance protocols provide some kind of auditing process or merge with audit firms to align both workflows.

Overall, DeFi policies should take care not only of the technical part, but the financial side of DeFi as well — this means providing coverage from liquidation in lending platforms, impermanent loss, slippage from DEXs, etc. Until then, the current high risk conditions found in the DeFi space may be too much for traditional investors.

38 For more on insurance in the cryptocurrency space, read this Cointelegrph article here

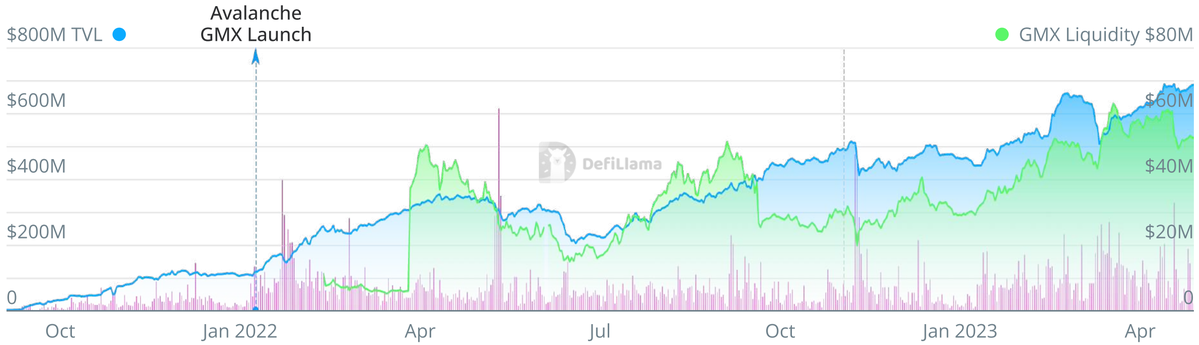
DERIVATIVES

The decentralized derivatives market has seen robust growth in the last three years, thanks to improvements in infrastructure, product offerings, and a better user experience and onboarding process.[39]

Though it still pales in comparison to centralized exchanges, there are now clear leaders in 2023:

- dYdX and GMX dominated the decentralized derivatives market in 2022, with nearly $1 billion in TVL in the first six months of 2023.
- GMX (Global Markets Exchange) is the current market leader, having recorded a 126.57% surge in 24-hour trading volume on March 15, 2023. This highlights the increase in network activity and user interest on the derivatives platform despite bearish market conditions.
- Decentralized perpetuals make up 90% of decentralized derivatives trading volume, with an average daily volume of $3 billion. dYdX is the leading platform for perpetuals.[40, 41]

Avalanche GMX Launch from October 2022 to June 2023 Figure 19



Source:
DeFiLlama

Cointelegraph Research

39 For more on how derivative markets are shaping the 2023 crypto markets, read this article
40 For more on GMX, read this DefiLlama article
41 Even in the bear market, derivatives keep providing a way to make money

THE OUTLOOK AND POTENTIAL GROWTH OF DEFI DERIVATIVES

The future of DeFi derivatives seems full of potential, but the effects of regulatory laws remain uncertain with little to no advancements in this area.

1. **Expect new money influx into emerging derivatives instruments and trends.**

Decentralized derivatives only comprise less than 5% of the centralized version of crypto derivatives volume. Yet the potential growth for this market is to be considered as new types of derivatives and trends that may emerge:

- **Inverse perpetuals:** Similar to traditional perpetuals, but the value of the contract is denominated in the underlying cryptocurrency instead of USD dollars.
- **Everlasting options:** Allow traders to gain long-term exposure to options.
- **Synthetic assets:** Digital representations of physical assets. Synthetix is an example of decentralized derivatives protocols offering these types of investments.

2. **Expect state-of-the-art technology implementations for DEXs.**

Further, a multi-token system could help enhance yield for liquidity providers in derivatives protocols, with one token for governance and another for liquidity pools, like in the case of GMX. Each token will capture a specific amount of platform fees to use internally.

3. **Expect uncertainty with the law.**

DEXs still have to somehow comply with Know Your Customer (KYC) and Anti-Money Laundering (AML) laws while maintaining their privacy and anonymity. Developing an approach toward regulatory requirements is difficult due to the lack of clarity and blockchain knowledge from global regulators and governments.

In the meantime, some feasible solutions include building a similar hybrid model like Aave Arc — which provides a permissioned liquidity pool where users or institutions undergo a KYC and whitelist participants — or using compliance protocols to implement KYC and AML solutions according to a protocol's need.

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REAL-WORLD ASSETS IN CRYPTO: BRINGING THE REAL WORLD ON-CHAIN

Cointelegraph Research

Tokenization of real world assets (RWA) unlocks untapped capital for the DeFi ecosystem by merging real-world assets with blockchain technology. In 2023, this sector flourished, with new protocols and asset types generating growth and interest from investors and institutions. Three popular RWA markets are real estate, private credit lending and equity.

Credit lending is booming in the RWA niche for 2023, with a total loan value of $4 billion across 1,560 loans.[42] Credix and Goldfinch Finance are the most popular platforms offering investors debt financing, credit and yield farming. Unlike crypto lending platforms, private credit protocols post collateral backed by real-world assets. This market is attractive in emerging countries with unstable currencies and where access to TradFi markets is difficult. This is the case with Goldfinch Finance, which provides the most loans in Mexico and Kenya.

Real Estate NFTs

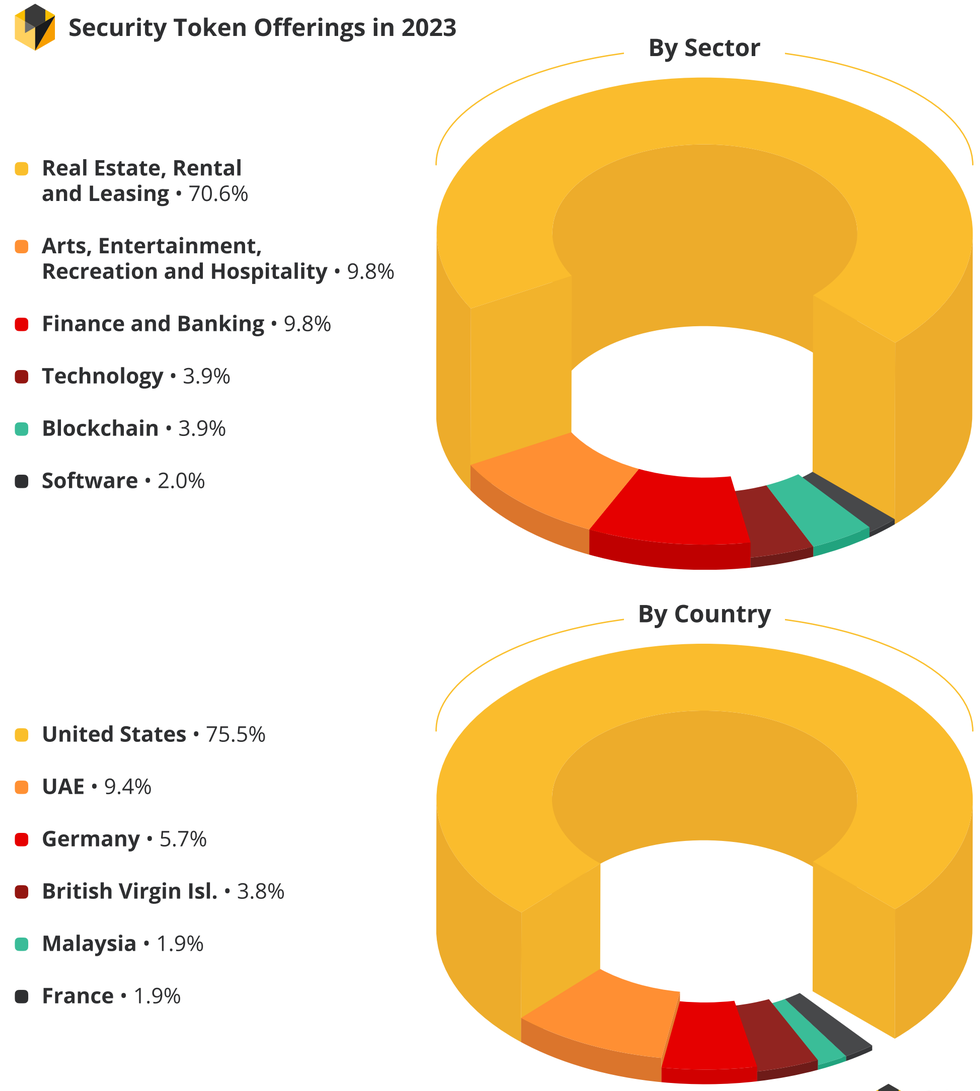
In the real estate industry, protocols like RealT are gaining popularity. They can tokenize a property's information as shares in an LLC that owns the property's deed under a specific token standard (ERC-20). This allows investors to purchase these shares and obtain fractional ownership of the property. However, it's problematic with equity and real assets since the underlying physical asset needs to be moved in case of redemption. The operational process is complex, and only a few protocols, such as Backed Finance, offer public equity RWAs.

Regulation will heavily influence the success of RWAs.

RWAs present a promising market with tremendous potential for the DeFi ecosystem. However, proper handling of assets and compliance with law enforcement are crucial. The lack of clear regulation for asset tokenization poses a problem, especially for markets like private credit protocols where monthly loan payments are due.

Security Token Offerings in 2023

Figure 20



Source: *Cointelegraph Research STO Database*

42 To research more on RWA in 2023, look into this website here

FINAL THOUGHTS ON DEFI

Cointelegraph Research

DeFi can give financial tools to those who were kept out of the TradFi system. Whether it is because of individual's geographical location or middle men like governments, banks, and institutions putting barriers in the way, DeFi is permissionless and it is up to the user to decide to take part or not. This also means there is a new found responsibility of the user to be completely read for all consequences of their actions, both positive and negative. Positive can be monetary gain, but the risk is that this also can come with loss. These losses are not just because of markets tanking, but also because of negligent risk taking with seed phrases, clicking odd links, or falling for a scam.

FIRST STEPS

As the old saying goes, "not your keys, not your coins." The first step to DeFi is to secure a Web3 wallet or combination of wallets for storing cryptocurrencies. It is likely a good idea to have at least one hot wallet and one cold storage wallet. The hot wallet will serve as one's "easy to connect" wallet to decentralized applications (DApps) and should be used to hold cryptocurrencies being traded in the short term. Cold storage wallets should be deployed for any digital assets being held medium to long term and provide great security and control over one's coins or tokens. There is a seed phrase all wallet types have, which is made up of a series of 12 or 24 words.* This should be written down offline and not stored on any computer or cloud storage. If possible, transcribe the words onto metal to make sure that the risk of damage to the list is reduced. This seed phrase will be the most important way to recover assets should someone lose passwords, computers, phones, etc. Store this phrase in a safe or a safety deposit box or get creative with it (some people have painted their seed phrases in murals). If those words fall into the wrong hands, so may all your digital assets.

NEXT STEPS

If you've never purchased cryptocurrency before, buy some and send it to a few wallets under your control. Get familiar with speeds, transaction hashes and the "look and feel" of Web3. Connect to a decentralized exchange and swap one token for another. Take a small amount of money and play around with it to get a feel for how everything works. Once you feel comfortable, it is easier to look this report over and see how to make DeFi work for you. This is not financial advice, but included are some rules or guidelines to follow, which will help anyone diving into the world of DeFi.

TIPS FROM THE EDITOR

Not financial advice

1. **Seed phrase** — Write it down on paper, then on metal, then make sure not to show anyone else.
2. **Only invest money that you can afford to lose** — Just like any asset, there are risks. A lot of research should be conducted before jumping into a project. If you don't, you may lose a lot of money chasing "the next Bitcoin" instead of following better methods for growing your portfolio.
3. **Bitcoin is king** — Bitcoin is the least risky cryptocurrency play in terms of purchasing and holding long term. Everyone should own and hold some Bitcoin, even if they are dabbling in the "altcoin" markets. Understanding Bitcoin as a benchmark for all other cryptocurrencies will also help in discerning what is a good or bad investment.
4. **Research is not just watching a YouTube video** — There are a lot of paid shillers out on the internet who can get paid handsomely to promote rug pulls, bad projects and "the next Bitcoin" project. Take everything heard about a project with a grain of salt. It does not mean that a project is bad simply because it is hyped all the time, but caution should be the first mode of operation for the DeFi warrior.
5. **Research, research, research** — When looking into a DeFi protocol, application or other DeFi tool, research the team that founded the project and see if they are "doxed" or their real identities known. If it is hard to know who actually founded a project, it might be hard to know who is responsible when there is a rug pull or other deviant activity.
6. **Buy low, sell high** — Most everyone who believes they can trade in DeFi gets rekt because they jump in head first when green candles exist, and they sell all out when red candles show up. Train yourself to buy on red and sell on green.



Michael Tabone
Deputy Director of Research
and Sr. Economist at Cointelegraph Research

** Note: Seed phrases are a bit more complicated than described here. To learn more, check out Cointelegraph's articles.*

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