

TOPIC: How to invest in DeFi

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Links to similar articles and references

- <https://medium.com/reef-finance/introducing-reef-baskets-to-manage-and-optimize-investments-e3d3e856f841>
- <https://www.investopedia.com/decentralized-finance-defi-5113835>
- <https://academy.shrimpy.io/post/how-to-invest-in-defi>
- <https://forkast.news/what-is-yield-farming-how-it-works/>

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How to invest in DeFi

What is Defi

Currently, all financial activities between individuals and organizations are done through a middleman and monitored by a central authority.

Decentralized Finance, DeFi, is a broad technology that aims to eliminate the existence of intermediaries in our everyday transactions. It is built on a decentralized infrastructure, usually Ethereum, and implemented via smart contracts.



While all DeFi projects remove intermediaries between transactions, their utility goes beyond that. Other services decentralized by DeFi include- loans, savings plans, insurance, and any service that resonates around money.

In this decentralized economy, there is no question of corruption and mismanagement by central authorities. For the first time, a friend in another continent can receive money in few minutes across the Atlantic and an entrepreneur can obtain a loan on a Sunday morning. Thanks to DeFi.

How to Invest in DeFi

DeFi has gotten the attention of many and it is only natural to want to invest in it. 2020 saw a blooming market for DeFi and investors went home happy.

The greeny days of the DeFi market flourished into 2021 until it was hit hard in Q2/3 following China's regulation on Bitcoin mining. The trend turned south.

Fluctuations are not uncommon in markets but they are even more pronounced in volatile markets like crypto and DeFi.

DeFi investment can make you rich forever but only if you know your onions as an investor. In DeFi, there is something for everyone, from the Italian investor trying out new investment options to the Newyork entrepreneur looking to add another passive income source to his streams.

1. Trading Assets

Asset trading is the commonest way to make money off DeFi. Here investors buy assets usually on decentralized exchanges like Pancakeswap and keep them in their wallets to resell at a higher price.

2. Yield Farming

Yield farming is quite an interesting way to invest in DeFi. Similar to buying assets for a long-term hold, the investor deposits the assets back into a lending protocol and gets rewarded from a share of the trading fees generated in the DeFi market.

This can serve as an extended investment option for long-term holders. An asset that would have been 'wasting' idly away is used to attract rewards.

3. Lending Protocol

There are decentralized lending platforms that allow users to either lend or borrow funds. Borrowers pay an interest fee for their loan and lenders benefit from this fee.

The lending protocol is a win-win arrangement that allows both participants to benefit.

Getting Started with Reef Baskets of Defi

A Reef basket, as the name implies is a collection of several Defi assets and tokens in one place.

This aggregation of Defi assets is an indispensable tool for newbie investors looking to make their entry into the vast Defi world a seamless one.

Similar to ETF, Reef basket tracks different Defi projects and records their performance.



As a beginner, fishing out the best Defi asset that suits your investment objectives from a sea of Defi projects will be, no-brainer, a tedious job.

Someone has just helped you do that, thanks to Reef Finance.

Even more interesting to note, Reef optimized their Defi baskets into different categories. A basket can contain a collection of low-risk projects with small and steady returns while another contains high-risk projects with larger ROIs.

For investors going for long-term investment options, the first basket will contain a suitable project. While the risk-averse investors with a larger appetite will prefer the second to satisfy their short-term goals.

The Reef Baskets have an option of customization for more adventurous investors. When a basket is customized, the Reef Basket Engine automatically generates the risks, ROI, and other information associated with the projects contained in the basket.

Pro Tips Before Investing in DeFi

Money is made in DeFi just the same way it is lost.

Here are factors to put under consideration before putting up your hard-earned dollars for a crazy DeFi chase.

- **People equal value**

This age-long business tip cannot be overemphasized even in the DeFi economy.

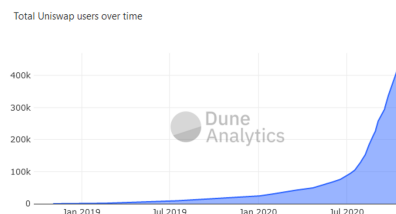
Ascertaining the number of participants in a particular project offers you invaluable insight into that project. This is the most essential parameter for evaluating the quality of a DeFi project.

With most DeFi built on Ethereum, tools like etherscan.io give you raw data about active users of a project. At least for those built on the Ethereum network.

Another weapon to add to your arsenal is [Dune Analytics](https://duneanalytics.com). It gives a user-friendly report about DeFi projects.

With these tools, watch out for a total number of users and growth in the number of users over time.

For quality projects, expect a quadratic increase in the number of users. This data is reported in real-time and not a quarterly or annual report as seen in the traditional economy.



The graph above from Dune Analytics and published in the Bitcoin Market Journal shows the number of uniswap users in July 2020 as well as growth in users from January 2019.

The steady increase in this metric is a pointer to what Uniswap will be like in the long run.

- **DeFi is already complex, why not keep it simple?**

The boils down to investing in projects you understand their use cases. Avoid complex project with no clear explanation of what it does. If you do not understand them, there are high chances others would not.

- **Do your research and stay away from rants**

There are a lot of crazy things about crypto and DeFi seems to be the craziest.

New projects hitting a 3000% increase 5 minutes after launch or an investor turning \$100 to \$10,000 from the comfort of his pajamas can drive you crazy but not as much as when a thousand dollars of yours vanishes into the thin air.

But no one brags about his losses so you do not expect to hear them.

People making rants about a project is not a guarantee that it will stand the test of time.

Be patient and do your research.

Risk Factor

Due to the anonymity offered by DeFi and crypto in general, vulnerable investors can fall prey to bad actors. This is very common in the DeFi marketplace.

There are cases of a newly launched project pulling away with investors' money after the initial rush to be the first to hop into the projects. A practice now referred to as rug pulling.

This makes it pertinent for intending investors to have a grasp of what a project offers before venturing in. A principle to adopt is 'wait till the tide is over. Experienced investors are better immune to emotional upsurges following a project launch despite how promising it sounds.

Conclusion

Investing in DeFi is quite profitable for both short and long-term investors. However, making the right decisions at the onset can be overbearing for newbies in the DeFi game.

DeFi is a world of its own in the crypto space with a thousand plus one projects already in existence and more springs up daily.

Understanding the concepts behind a DeFi project will give an investor a sharp foresight into the profitability of such products.