

# The Top Strategies For DeFi Investment.



**D**ecentralized finance (also known as DeFi) is all the rage these days - and it's not a passing fad. In 2019, the DeFi industry was worth \$700 million. By 2022, it passed the \$100-billion mark. In this article, we'll look at what DeFi is and how investing in DeFi works.

## What is DeFi?

DeFi refers to peer-to-peer, digital financial services that enable crypto trading, lending, interest-bearing accounts, and other services and uses public blockchains like Ethereum. DeFi aspires to cut traditional banks and brokers from the finance world, enabling faster and cheaper everyday transactions without the restrictions associated with traditional financial institutions, like copious paperwork and limitations.

While the first major DeFi players entered the market in 2013, there has since been an explosion of centralized and decentralized financial protocols, and DeFi investing has never been more popular than in 2022. The success of DeFi investment is not surprising, as it's led to a host of new

**There are several bubbles and lots of speculation about DeFi investing, but your strategy will depend on your appetite for risk.**

### **HODLING**

Cryptocurrency veterans are familiar with the term "HODL," which originated in a crypto forum when someone misspelled the word "hold ." HODLing is the easiest way to build your portfolio, ignoring the activity and the market to accumulate and hold crypto coins, no matter what. This strategy is easy enough for newcomers to follow but relies entirely on the value of your crypto holdings increasing over time. HODLing is always a long-term strategy, which is why you should evaluate the coins you invest (and the rewards for holding, if any, on offer) carefully. You can use sites like coinlens.net to find out more about new coins, their functionality, and the technology behind them.

### **Lending**

DeFi makes it very easy to secure a loan against collateral without credit checks. Lenders can supply tokens in a liquidity pool to gain profits via interest. These loans are usually over-collateralized, which means that borrowers provide more crypto than the actual loan. These interest rates are much more favorable than in the traditional sector. US banks often charge interest of just 0.09% per year, but DeFi deposits can earn between 1-5% interests (and accrue interest every few seconds!). DeFi lenders benefit both the lenders and the borrowers. Long-term lenders can earn higher interest rates and make use of margin trading options, whereas borrowers can access fiat currency credit at much lower rates.

### **DeFi Staking**

Staking is a way of earning profits from your idle crypto assets based on the benefits given by the decentralized finance platform. The purest form of staking locks a set amount of an investor's crypto coins. This is done in order to become a validator in a Proof-of-Stake network. DeFi platforms offer staking rewards in the form of governance tokens, which can be kept (to access voting power) or traded. The longer you stake your DeFi assets, the more you earn. It's one of the lower-risk methods of investment.

## Yield Farming

Yield Farming is more complex and riskier, but it comes with much bigger returns.

Yield farmers make a living by providing liquidity to decentralized exchanges, which are used to execute orders created by token swappers that pay fees. Yield farmers can earn a portion of these fees based on their contribution. This is done automatically through automated market maker protocols. Some projects enable users to move funds between different lending and liquidity protocols to take advantage of the best interest rates. Essentially, yield farming involves moving multiple assets over DeFi staking platforms to maximize your profits. Users lend or borrow crypto and then earn crypto in return. There are more complex strategies of borrowing, lending, and staking that can increase your outputs, but they are riskier. For example, an investor could take out a loan and swap the funds for a token. The token can be put up as collateral for another loan, and the borrowed assets staked. This folds the investment several times over to maximize your staking rewards and interest

## DeFi Funds

Funds and trust are the most passive and novice-friendly ways of investing in DeFi. Exchange-traded funds resemble traditional mutual funds that allow investors to invest directly in cryptocurrencies. In traditional finance, exchange-traded funds (ETFs) track the prices of different assets altogether. DeFi ETFs or indexes are the same but track digital assets. Some funds even offer a basket of cryptocurrencies to invest in (e.g., one that contains the top ten most popular crypto coins). These funds aren't entirely risk-free: they come with the same volatility and risk as to the crypto tokens they represent, so always research the coins carefully before taking an investment leap. You can usually choose the criteria for investment, e.g., size or volatility. Examples include the DeFi Index Fund and the Diversified DeFi fund or the MetaVerse Index, which enables investment in non-fungible tokens.

## C onclusion

Choosing an investment strategy for decentralized finance doesn't have to be complicated, but like with any other investment, you need to consider your own appetite for risk, your experience with cryptocurrencies in general, and the volatility of the coins you are considering. Always do your research before choosing an investment opportunity. Use early discovery sites like Coinlens to sift through audit reports and find out more about the latest coins available for purchase.

