This Week's Theme:
Decentralized Finance

SilverMile Capital – What's Rolling in VC

SilverMile Capital

Centralized Finance

- In a centralized finance system, your money is held within a bank.
- With any additional transaction or movement of funds, there is often multiple 3rd parties, who charge fees when transferring payments.
- In order to take out loans, a person must fill out paperwork and be approved, ultimately being charged a high interest rate on money borrowed.

What is Decentralized Finance(DeFi)

Decentralized Finance allows for the elimination of the 3rd party during financial transaction through computer code encoded with blockchain technology.

Users are able to engage in Peer to Peer transactions through borrowing, investing, and trading instantly, with financial transactions being approved by smart contracts.

Why use Decentralized Finance for transactions

01 DeFi is accessible for those who are unable to open bank accounts or take loans. Simply, one needs internet connection to utilize any services.

02 DeFi has low transaction fees and high interest rates, as compared to central banking lending and borrowing, so users are able to maximize their amount of profit.

03 DeFi is created using Blockchain, which is extremely secure in terms of your data. And Smart Contracts allow for all completed transactions to be visible for the public further protecting a user from fraud.

04 DeFi doesn't have connections to any centralized systems, thus any collapse of corruption of banks would mitigate any risks of severe losses.

Why it matters?

01

Disrupts the central banking system as it eliminates any fees that go along with financial transactions.

02

Money is held in a protected and secure wallet rather than at the hands of the bank

03

Allows for the ability to lend with the only provision being needing a strong internet access

How it started?

MakerDao

MakerDAO was the first platform to allow users to make transactions using cryptocurrency that was affiliated with a 1-1 value of the US dollar through digital assets as collateral. This created a process that eliminated the central bank.

Present

Soon after, dozens of DeFi platforms emerged, ultimately making the assets held in these platforms' smart contracts to be 85 billion dollars as of August 2021.

Services Offered

Lending & Borrowing

- Peer to Peer lending, which eliminated the middlemen in financial transactions
- Borrower must offer up collateral through digital assets at 150% the original value
- Most popular lending and borrowing platforms include Maker, Aave, and Compound

Savings

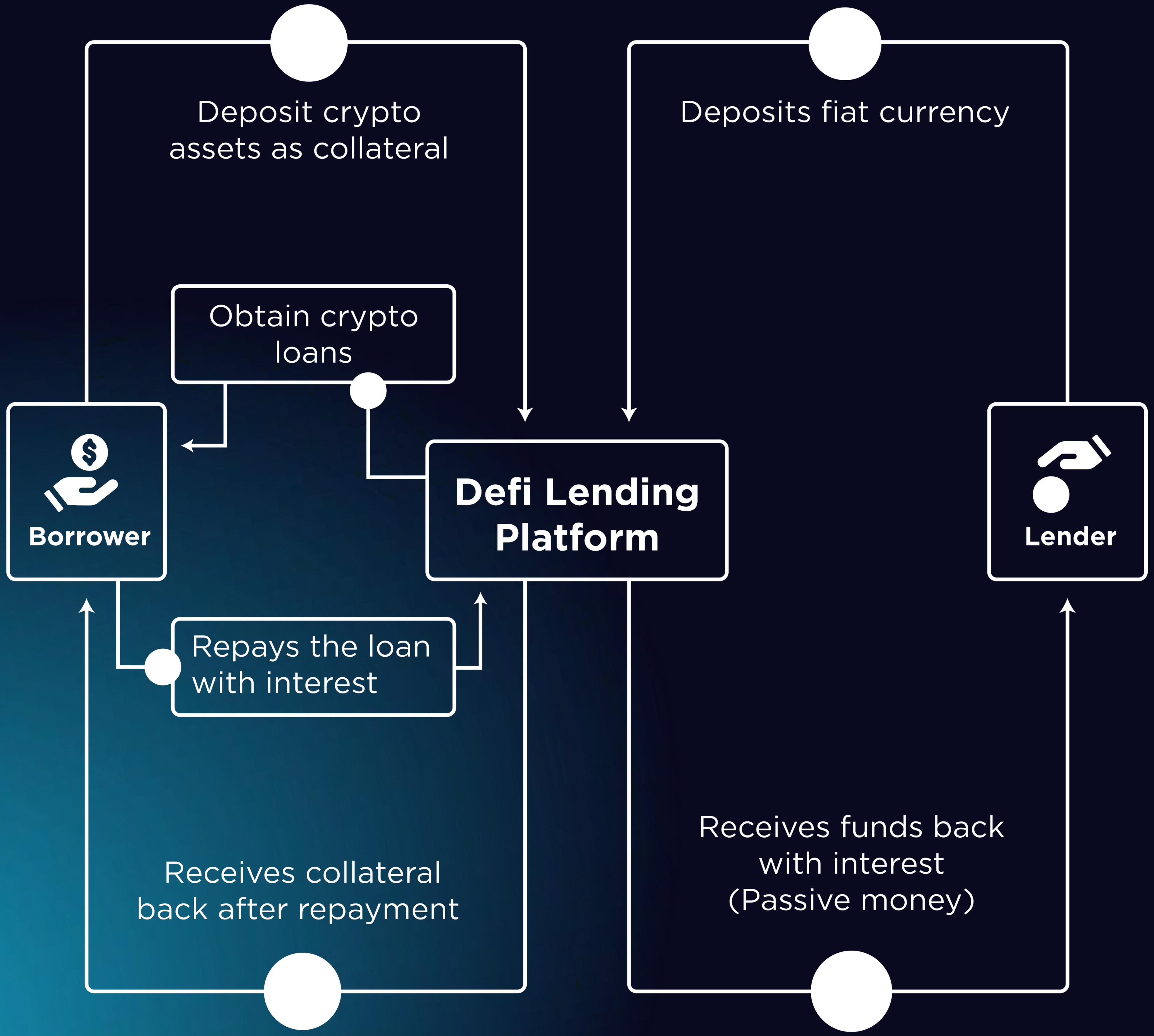
- Users can enter into various lending programs, in order to attain maximin interest on earnings
- 8% yield on stablecoin deposits through Gemini and 6% yield through Coinbase
- Most popular savings d'Apps are Argent, Dharma, and PoolTogether

Asset Management

- DeFi enables simple ways to manage assets through wallets such as Gnosis Safe, Metamask and Argent
- Allows for quick management and easy buying, selling, and transferring cryptocurrency

How Lending Process Works

Diagram



Risks

- Because there is no middleman authenticating transactions or governing the system, Decentralized Finance is unregulated, meaning its susceptible to hacks or scams.
- When users borrow, they must give a collateral of 150% of the loan value using cryptocurrency, though cryptocurrency is very variable, so if the value of crypto drops lower than the 150%, it becomes subject to liquidity penalty.

Projections for DeFi

DeFi is projected to move into new financial structures such as high yield savings accounts

DeFi will grow,due to increased cryptocurrency adoption, as people will be open to experimenting with new technology related to their crypto

There is a large amount of capital being brought in for blockchain startups, and thus the capital will move to innovate DeFi firms