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Learn DeFi ❯

How to Make Sense of Metrics in DeFi?

@upniveau
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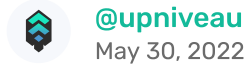
This article aims to provide an overview of DeFi metrics. It references [blockchain](#) and [cryptocurrency](#). If you are unfamiliar with the concept of DeFi, do read our [introductory article to DeFi](#) before reading this article.

DeFi investors often have to sift through a vast sea of data to find valuable information that can help them make informed investment decisions. This task can be complex and tedious without knowing the right metrics to analyze and which tools to utilize. This piece introduces a list of DeFi metrics and tools to help you get started!

Standard DeFi Metrics

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are staked, borrowed, and in liquidity pools. It is a key metric to measure the growth and performance of DeFi protocols. TVL is dependent on two factors, namely the price and quantity of locked tokens. Users can examine the growth in TVL over time to evaluate the performance of a project. DeFi aggregator platforms rank DeFi projects by TVL, allowing users to gauge their popularity against other protocols.

Tools you can use: DeFiLlama, DappRadar

2. Market Capitalization

Market cap refers to the total value of a cryptocurrency at a given point in time, which can be calculated by multiplying the token's value with its circulating supply. This metric is often used to evaluate and rank the size and popularity of a crypto or DeFi project. Users generally deem a project with a large market cap to be more stable. Tokens with larger market caps are also less sensitive to price fluctuations compared to smaller cap projects.

Market Cap = Token Value × Circulating Supply

Another similar metric is the fully diluted market capitalization, which refers to the total value of a cryptocurrency if its entire supply was in circulation. This can be calculated by multiplying the token's value with its maximum supply, which accounts for the quantity of tokens that have been, and will be released. Fully diluted market cap is used to evaluate a project's value while accounting for future token supply. A project with a large fully diluted market cap can signify long-term growth, only if the token value rises in proportion to the future released supply. If a token's supply increases greater than its value over time, there will be huge inflationary pressure driving its value down. When using this metric, it is also important to consider other factors such as token allocation, release schedule, vesting periods, emission rates, and staking mechanisms.

Fully Diluted Market Cap = Token Value × Maximum Supply

Tools you can use: CoinGecko, CoinMarketCap

3. Active Wallet Addresses

The number of active wallet addresses on a blockchain is used to gauge the number of unique active users on a specific network. Active addresses refer to wallets involved in successful on-chain transactions, either as a sender or receiver. Over time, an increasing number of active wallet addresses translates to a larger participating network of users. Since this metric only measures the number of unique active addresses, wallets that are involved in multiple transactions over a given period of time will only be registered once. The number of active wallet addresses can be helpful for gauging activity levels on a network or DeFi protocol, as well as the utility of a token. A large number of active wallet addresses indicates high user activity, which can usually increase utility and confidence in a project.

A tool you can use: Glassnode

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users over a given period of time. It is the sum of all recorded transactions on a network. This metric is widely used to evaluate a token's popularity and on-chain activity between participants. A token with high trading volume indicates high transaction activity, and this can bring about confidence in the project. Trading volume reflects user activity more accurately than metrics like the number of active wallet addresses because it covers the total value of token transactions happening within a given time period.

Trading Volume = Token Value × Number of Traded Tokens

Tools you can use: CoinGecko, CoinMarketCap

Blockchain / DeFi Tools

The open-source nature of blockchains allows anyone to access on-chain data. However, it may be a complex process for everyday investors lacking the expertise to extract and process blockchain data for their own consumption. This has led to the conception of various powerful tools allowing users to access and understand on-chain data easily. Here are three types of useful blockchain research tools for you!

1. Blockchain Explorers

A blockchain explorer is a software that enables anyone to access extensive data and activity occurring on a network. This comprises transaction details, wallet activity, token data, and smart contract information. Crypto enthusiasts typically use explorers like Etherscan or BscScan to seek alpha by analyzing whale wallets and their transaction activity. Investors can also gain useful insights by examining token data such as price, market capitalization, transaction volume, number of holders, and more. Blockchain explorers can even be used to read smart contract code and check gas prices on a network.

2. DeFi Analytics Platforms and Wallet Trackers

With the multitude of DeFi protocols in Web3, some effective applications have been developed to extract and curate on-chain data to help users visualize and better understand DeFi statistics.

Dune Analytics is a blockchain analytics platform that surfaces on-chain data and turns it into readable data for users to absorb. Users can query blockchain data from Structured Query Language (SQL) databases which are then visualized and presented in tables, graphs, and charts for easier understanding. They can also collate specific datasets to create dashboards for an overall view of the extracted data.

Glassnode is another effective tool for accessing on-chain and derivative data presented in graphical representations. There is an extensive list of metrics to examine, and platforms l

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Harvest by Treehouse is a comprehensive DeFi analytics platform that deconstructs users positions to analyze risk, historical data, and profit and loss.

Harvest's dashboard provides a general overview of the connected wallet, displaying an accurate view of the portfolio's net worth over a selected time period.

Net Worth = Wallet Assets + Productive Assets – Liabilities
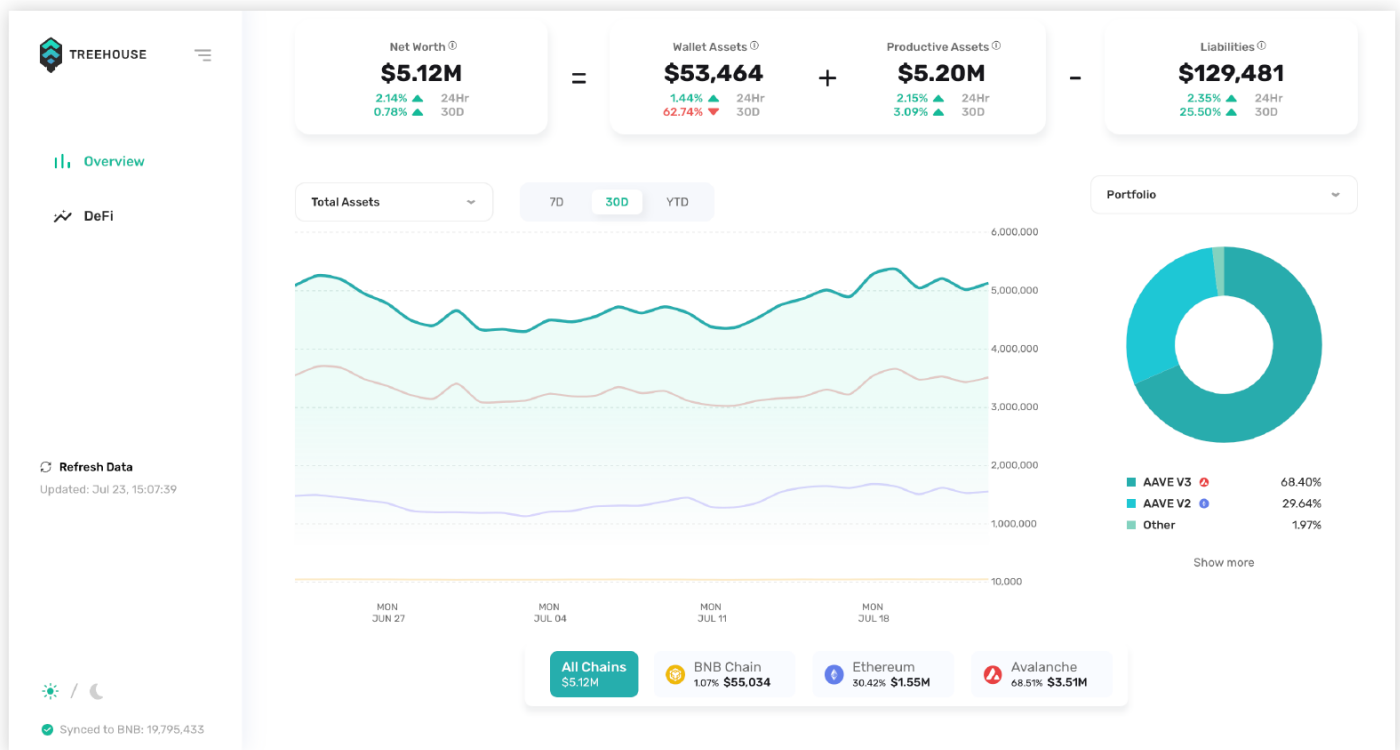
Below the portfolio overview, users can access a breakdown of their Wallet Assets, which refer to digital assets in the wallet that are not interacting with any DeFi protocols.
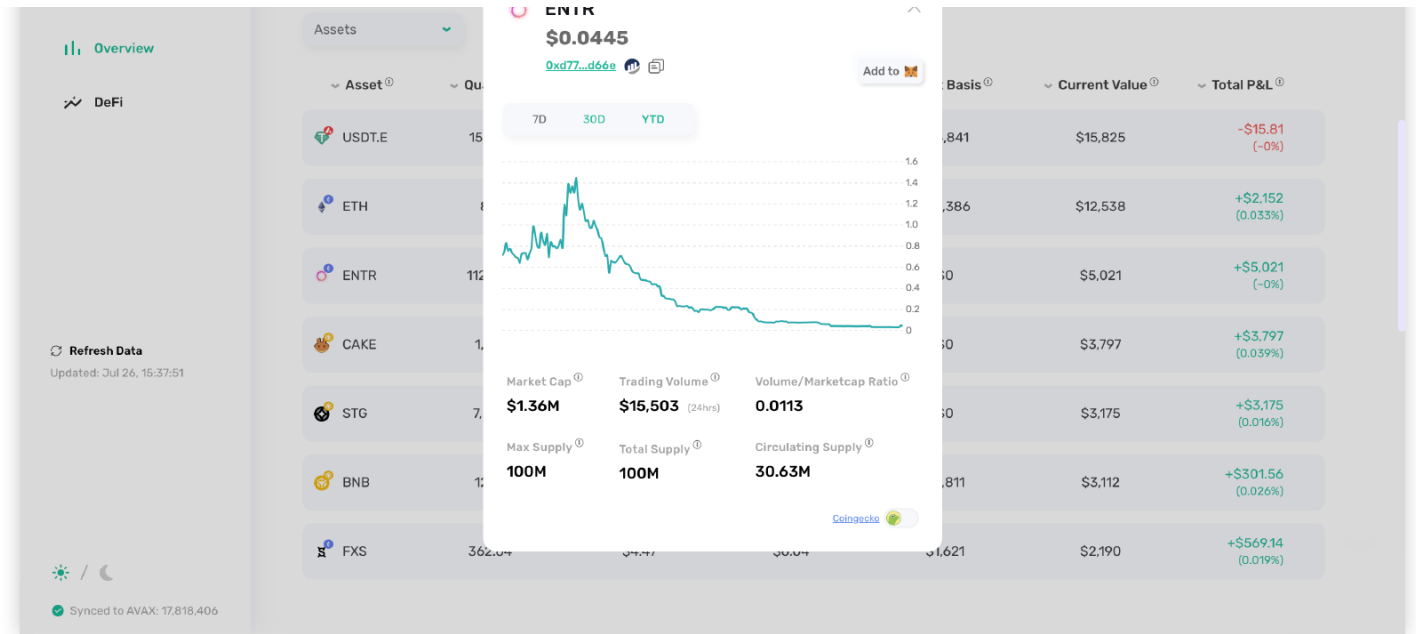
Harvest's Productive Assets section provides a deep dive into users' profit and loss (P&L) on a protocol level, helping them identify which positions work best. Clicking into each asset gives users a comprehensive breakdown of their positions, with statistics such as annualized time-weighted rate of returns and projected yields. Harvest also provides detailed information on current P&L components and historical P&L dating back to the initiation of the position.

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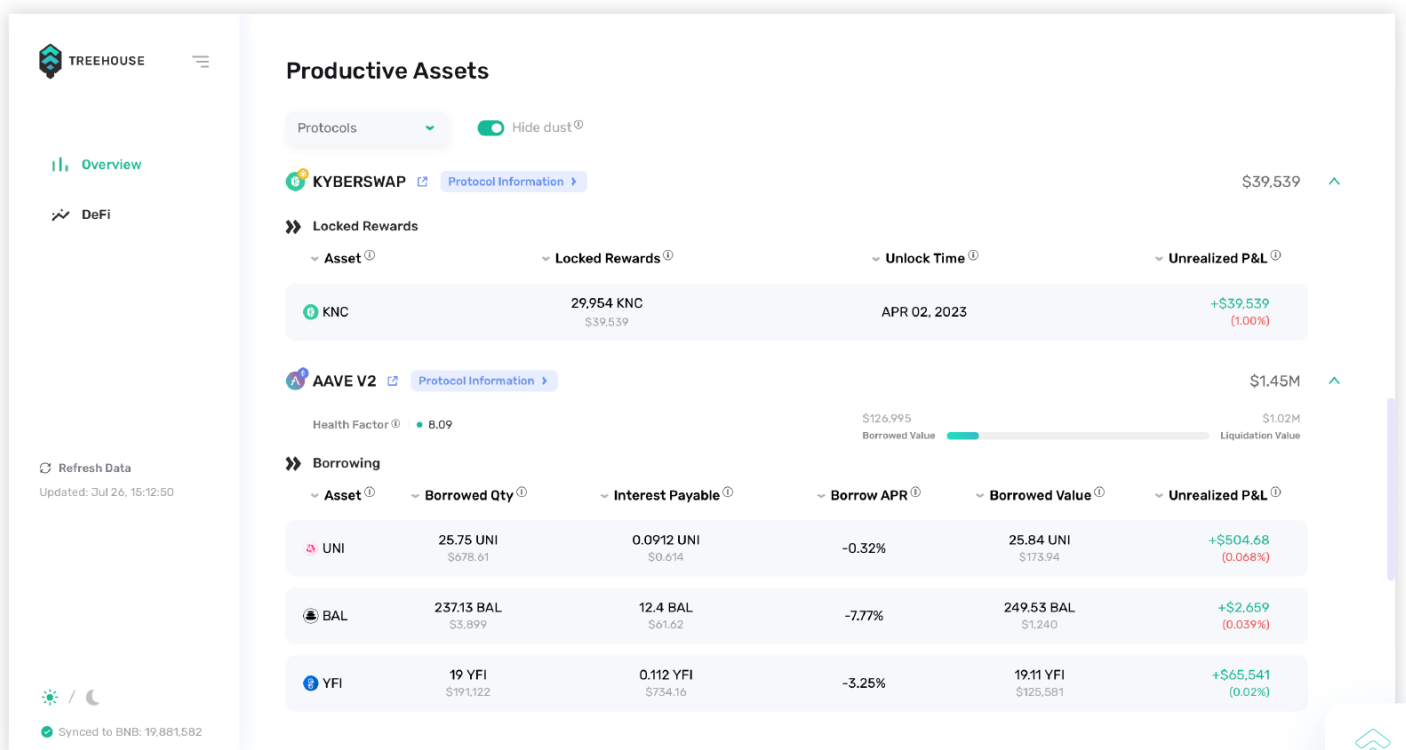
Paid, and Impermanent Loss across that same period. Try Harvest out [here](#)!
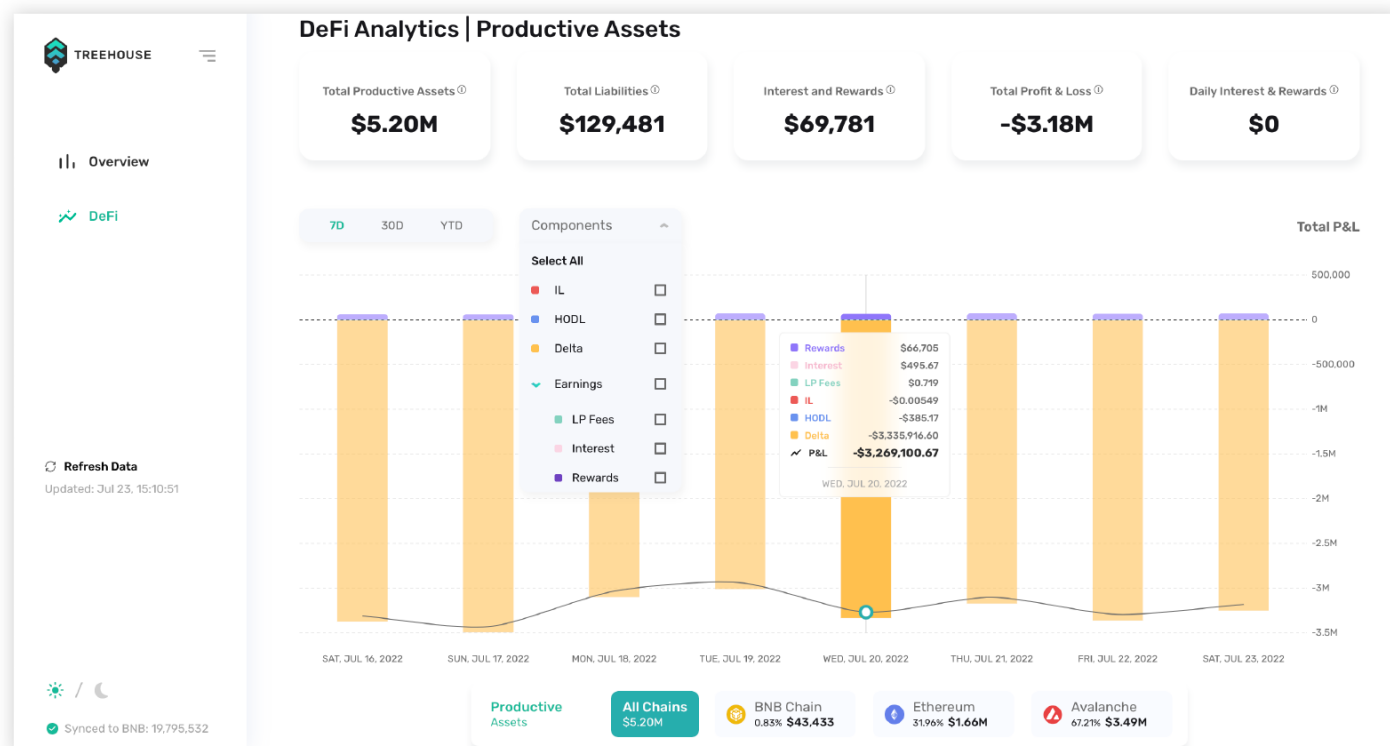
DeFi Aggregators

In a space where users are constantly seeking the best yields and rotating crops, platforms like [DeFiLlama](#) and [DappRadar](#) make it remarkably easy for people to analyze protocol performance. DeFiLlama is the largest DeFi TVL aggregator, tracking over 800 protocols from over 80 different blockchains. They mainly provide TVL data and rank the best yields across a wide variety of blockchains and DeFi protocols. This is incredibly useful for users to analyze the DeFi landscape and study the performance of protocols.

What Is Next?

DeFi is still a nascent space with thousands of builders and developers aiming to disrupt traditional finance systems by harnessing the power of blockchain technology. With countless projects posing novel ideas and concepts that can seemingly revolutionize finance, investors have to learn the skill of evaluating projects before deciding to invest in them. Using specific metrics to analyze blockchain protocols allows users to make more informed investment decisions. After all, numbers paint a picture of a project's overall performance. A reminder to always exercise due diligence and [do your own research (DYOR)](#) before investing in somet

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1. [The Truth About Audits in DeFi](#)
2. [DeFi Risks: What You Need to Know](#)
3. [How to Manage Your Defi Risks With This Framework](#)

New to DeFi? If you found this useful, check out our other [Learn DeFi](#) articles to dive deeper into the wonderful world of DeFi! Alternatively, browse our [Insights](#) section to read more in-depth analyses on the DeFi space. You can also try out our flagship product, [Harvest](#), to get a comprehensive analysis of your DeFi assets. Lastly, subscribe to newsletter updates in the box below!

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