

Framework for Opening New DNL LP Positions – Capital

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Opening DNL positions is not easy, but this framework should provide enough information to be able to open the position from the capital side. This specifically provides a guide for opening the capital part of a DNL position. The following model has been built to make this process more systematic:

Parameter Inputs:	
Liquidation Threshold:	95%
Total Capital to Invest:	\$ 200.00
Liquidation Margin:	20.00%

Outputs:	
Deposit Amount	\$ 111.628
Buy and Borrow Amount:	\$ 88.37
Liquidation Value:	\$ 106.05
% from Liquidation:	20.00%
LTV%	79.17%

This model can be obtained directly from Paul by contacting him at his email address: paulpaskevicius@gmail.com

“Parameter Inputs”:

- The parameter inputs is the information that the portfolio manager has to provide to the model
- The “Liquidation Threshold” is the percentage of borrowed capital / capital deposited that the protocol would liquidate the borrowed position. To find this number you must read the protocol’s docs to find their specific Liquidation Threshold
- “Total Capital to Invest” is the TOTAL amount of money that is being put into ONE delta neutral liquidity pool position
- “Liquidation Margin” is the percent increase in your borrowed capital position value that would result in your deposit being liquidated. For example, 20% would mean that the borrowed position would move 20% against you, i.e. the price of the cryptoasset would go up 20%. This should be set based on the level of risk that the investor is willing to take. Higher Liquidation Margin % means less risk but less capital efficiency.

“Outputs”:

- The outputs are NOT TO BE CHANGED; these are the calculations that should be used to set up the capital portion of the strategy.
- The two highlighted boxes are the most important.
- The “Deposit Amount” is the amount of the total capital that should be deposited into the lending protocol.
- The “Buy and Borrow Amount” is the DOLLAR amount that should be borrowed and bought.
- The other three boxes are additional information: the “Liquidation Value” is the value of your borrowed position that would result in liquidation. “% from Liquidation” is same as Liquidation Margin”. And “LTV%” is the Loan-to-Value Ratio at the START of the borrowed position.