Course IV:

DeFi Risks and Opportunities

5. Winners and Losers

(i) Investing in DeFi

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- Hard to argue the crypto complex is “niche” any more
- Capitalization of cryptos on par with the largest US stocks like Apple, Microsoft, etc.
- A diversified portfolio should hold all available assets – including Apple and Microsoft
- However…

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1. Cryptos are not one thing. There is bitcoin which is a risky store of value. Ethereum is a computing platform. Stablecoins are another class. It would be a mistake to group everything together under one label.
2. Cryptos are difficult to value (in general). Of course, certain cryptos like stablecoins are easy to value
3. Cryptos are challenging to understand (you understand a lot more after these four courses)

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4. Cryptos have a limited history. Quality data only exists from 2013
5. While theoretically unlinked from central bank and government policies, they have behaved like speculative assets. For example, in the height of the COVID-19 crisis in March 2020, stocks dropped 35%, gold dropped 20% and crypto plunged over 50%. As people started to realize that there was an end to the crisis, the stock market soared to record highs, gold reached its third highest level ever, and cryptos set all time highs. This suggests they are viewed by investors as risk assets.

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7. Too much attention is paid to Bitcoin which is mainly a speculative asset. The world of DeFi is largely under the radar screen. This presents opportunities
8. With any new technology, there will be those trying to take advantage of others. Hence, buyer beware
9. There are four different approaches: a) pure speculation on level of crypto; b) investment in governance tokens; c) investment in the equity of startups in the DeFi space; and d) yield farming