

Valuations - DeFi

1 DeFi Metrics that Matter for a Price Recovery: Fundamental Analysis

- Fundamental analysis matters and there must be value accrual to protocol and investors, but price recovery can be more dependent to correlation to Bitcoin. Look at # active users, trading volume, TVL, interest per year on lending protocols, amount deposited and outstanding loans for lending protocols
- Tokens that sold down the hardest during a crash seemly make the biggest short-term recoveries.
- High correlation between price and active user growth (seen in recovery phase). Idea: portfolio in DEXs with proportions weighted by active user growth
- Price performance of DEX also correlated to transaction volumes
- During bear markets, DEXs that allow staking for portion of fees outperforms short-term (SNX, CRV, KNC, SUSHI). During bull markets there is no correlation between protocols that allow fee accrual to tokenholders (or generally long term)
- There is no correlation between TVL growth and price performance. Reason: capital is temporary and factors such as incentives or exploits can quickly change that.
- Conclusion: During bear markets fundamentals matter.