Valuations - DeFi

1 Understanding DeFi valuations

- DeFi tokens extract value at protocol value: can value as capital assets: can use traditional valuation methods: (1) Discounted Cash Flow, (2) Comparabale Company Analysis, (3) Comparable Transactions

- evaluation tool

- Valuation mix of science and art: more of science for stable giants, more art for start-ups.

- Relative valuation for DeFi is useless given rapidly changing tokenomics and different sectors. Same for fundamental analysis (high uncertainty, fundamental analysis does not make sense in this context).

- Valuing DeFi tokens is an art: depends on subjective assessment of the future value of a token discounted to the present. Look at: product-market fit, team, community, token economics.

- Practice artistry: fundamental analysis at this stage is unreliable, same for relative valuation.

2 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 oustanding loans for lending protocols

- Tokens that sold down the hardest during a crash seeminly 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 accural 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.