Many people would be willing to exchange some of the upside return bitcoin offers to be protected from the bitcoin dips that occur often.

There are also many people that would be willing to take additional losses in exchange for additional returns as long as custodial risk is excluded and the time frame is longer than a bitcoin halving period.

Both of these needs can be met using bitcoin bonds based on DLCs.

Each bond has an “issuer” and a “buyer.” The buyer is assured that they will receive a specified annual return unless the price of bitcoin drops over a 5 year period by more than the full amount the issuer provided as collateral. The issuer receives the amount of bitcoin remaining, if any, after the buyer is paid his guaranteed return.

For example the bond might be 500% collateralized and provide an annual return of 40%. Assuming the bitcoin exchange rate is $50,000 when it is issued and the buyer purchases 1 btc worth the buyer is assured a return of $268,912 at the end of 5 years even if the bitcoin price drops slightly. If the bitcoin price were to drop to $20,000 per bitcoin the buyer would still receive $120,000. In order for the buyer to lose money on the 5 year bond the bitcoin price would need to be below $8,334.

On the other hand the issuer would be required to provide 5 btc (worth $250,000) of collateral. If bitcoin performed at the historical average of 200% per year he would receive back 5.98 btc valued at $72,900,000 after the buyer receives his original investment back and his 40% return ($268,912). The price per bitcoin would be $12,150,00.

If bitcoin performed at only 50% per year returns the issuer would still receive 5.29 BTC back valued at just over $2,000,000 as the 6 bitcoin would be worth $2,278,125 and the buyer is only due $268,912.

But if bitcoin only performs at 20% per year the issuer would receive back only 3.83 bitcoin valued at $477,584 and the buyer still receives $268,912 (1.16 btc).

If bitcoin were to drop at 30% per year the buyer would not lose any money and would receive almost all 6 bitcoin valued at just over $50,000 and the issuer would receive only $421 dollars.

With these bonds we assume all would have a 5 year period (one year longer than a bitcoin halving) so there are only two variables that would be set by market participants seeking a trading partner:

The rate - the annual return per year the buyer is guaranteed before the issuer receives any amount of bitcoin back.

The collateral - the amount of bitcoin the issuer must put at risk to protect the buyer from the price of bitcoin falling.