

How Shorting most probably works on Dumpy.fun

So I've been looking at dumpy.fun, and learned some more about how shorting works.

The way shorting works is that you supply money as collateral.

1. borrow the asset you want to short.
2. Immediately sell the asset
3. buy the amount of asset back that would repay the loan
4. repay your loan
5. Whatever is left is your profit

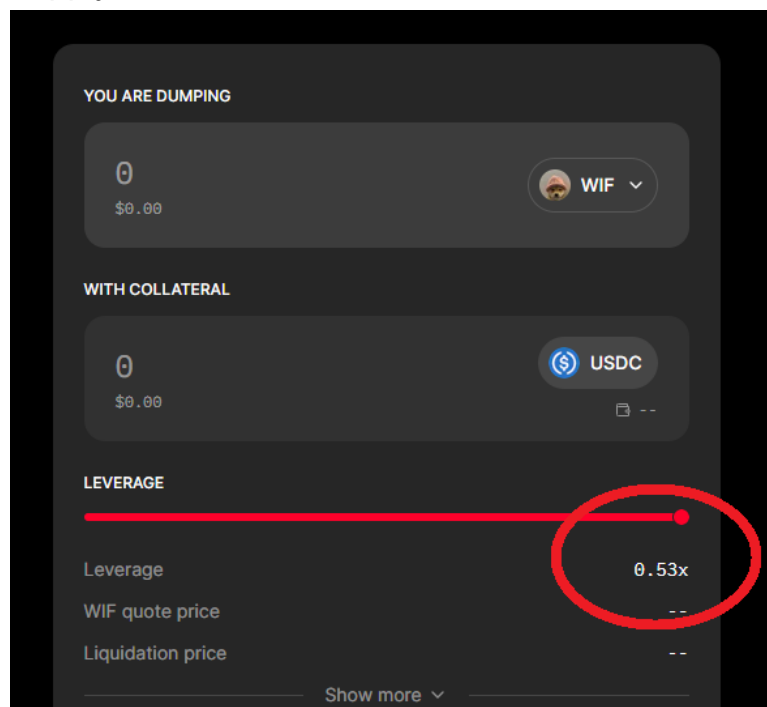
eg (Simplified without fees).

1. You supply/lend 10 USDT as collateral
2. You borrow 5 USDT worth of WIF at say \$1 = 5 WIF
3. You sell immediately to 5 USDT
4. WIF goes to \$0.8, you buy 5 WIF (4 USDT)
5. Repay loan, all flush with 10 USDT in lending account + 1 USDT profit.

This is why on Dumpy.fun the leverage is so low:

This is usually the amount you can borrow from supplied collateral

Supply 1 Sol = 0.53 Sol worth of WIF, see screenshot below



So, this is also where leverage comes from. Say you want to increase the leverage past 0.53, now you loop the lending/borrow cycle.

eg. When you reach step no 3 in the last example, add the USDT to your lending account, borrow more WIF and repeat the process.

Liquidation risk increases via this process.

If you do this process manually via lending protocols, you can also add hedging to your strategy. Hedging isn't something one usually has access to via tradfi or default trading protocols.

You hedge by trading your shorted token to a different token from what you supplied as collateral. eg. You sell your WIF to SOL instead of the USDT that you supplied as collateral. So if WIF doesn't go down but SOL goes up, you've hedged your shorted position. (If WIF goes up and you liquidate, the SOL going up will make the losses less)

So, we don't reaaally need Dumpy.fun to short shitcoins, as long as Solend has borrow liquidity for a token, you can short it. (This is dangerous, there are safeguards when using protocols. Not sure what they are for dumpy.fun, it's going to be super interesting, I'm sure there will be some shitshow etc..)

There are quite a few risks to this which they also outline on their site:

1. **Liquidation risk** is the risk that your dump position is liquidated due to insufficient collateral from the market moving against you.

2. **Oracle risk** is the risk that the oracle quotes an incorrect price, causing liquidation when it shouldn't have.

3. **Squeeze risk** is the risk that cascading short liquidations cause forced buying pressure, causing a rapid price increase.

For lenders, there is a different set of risks.

4.Utilization risk is the risk that withdrawals are not available due to all the tokens being lent out.

5. **Bad debt risk** is the risk of some accounts being left with more debt than collateral after liquidation, which may result in a socialized loss.

Unfortunately, people with lots of liquidity can game this system pretty hard. They can do things like empty the liquidation pools and squeeze you out of the position.

But, this is going to be very good for the market in my opinion to have a shorting protocol for memes/shitcoins. If this can integrate with pump.fun etc., it's going to create some massive opportunities.!!!

YAY!!! LFGGGGGGGGGGGGGGGGGGGGGGGGGGG

BTW, you can do this on protocols like AAVE with Ethereum tokens too.

HIGH RISK!!!!!!!!!!!!