

Decentralized Finance (DeFi)

DeFi is a relatively new branch of finance that revolves around a decentralized core premise. It relies on Blockchain technology to achieve decentralization and utilizes cryptocurrency for transactions.

A blockchain is a form of immutable distributed ledger that cryptographically secures entries, which are used for transactions. Blockchains are also the basis of cryptocurrencies, which are tokens that are created in a blockchain that have value.

DeFi, as opposed to the mainstream centralized finance (or CeFi), has no central authority over transactions or assets. This brings a plethora of benefits to users, but it also incurs risks. Some benefits include:

- Full control of your assets: being no central authority there is no one that can freeze your assets or prohibit you to make a transaction (as long as you stick to DEX's and non custodial wallets)
- Transparency: the smart contract model allows educated users to understand the terms and logic of transactions without hidden code.
- Anonymity: there is no need or requirement for users to be identified. Know Your Client requirements, which are common with centralized and regulated models, do not specifically apply.

Some risks include:

- Security: Exposing your key means risking losing all your assets. Shady projects can liquidate all their assets and disappear dropping their coins value to near if not 0 value (this is called a rug pull).
- Smart contract risk: while transparent smart contracts are extremely complex and uneducated or absent-minded users can fall for traps and scams
- Volatility: with no central authority that regulates transactions or market momentum volatility can present a real issue. And with smaller coins value can drop to 0, meaning any holder of that particular currency lost everything they had.