CRYPTO JOURNAL

A little bit of Knowledge keeps Ignorance away

LIQUID STAKING

Image from holdingb.com

One of the ways to earn yield in crypto is staking. That's a straightforward "you park your tokens in my pool, I, the node operator, will go do the work to secure the blockchain, and share my block rewards with you".
If, at any point, you want to withdraw your stake, subject to any bonding periods, you are free to do so.

What happens if the bonding period's end date is unknown? While my tokens are being staked, can I still use it as collateral for something else? The answer is: yes, you can when you do **Liquid Staking**!

We're going to take a quick look at what it is, how it works, and do a deep dive into a DeFi protocol that offers liquid staking to the masses.

Hope this issue will clarify any queries or concerns you have about this interesting concept.

Disclaimer: The information presented is for educational purposes only. Absolutely no financial advise here. All content is a combination of research and opinions. Info sources are cited throughout.

Staking Portfolio

DApp: Pancake Swap
Ecosystem: Binance Smart Chain
Initial Investment: 100 CAKE
APR: 24.84% (subj. to change)
Profit to-date: 13.55371 CAKE
Total Balance: 113.90373 CAKE
Duration: 6 months
Unlock on: Jan 27, 2023

DAPP: Solend
Ecosystem: Solana
Initial Investment: 3.3 mSOL
APR: 2.13% (subj. to change)
Profit to-date: 0.00013562 mSOL
Total Balance: 3.300013562 mSOL
Duration: unlimited

What Is Liquid Staking?

In the beginning, 32 ETH is needed to become an ETH validator on the blockchain. When the price of ETH increased, this became quite a hefty investment.

After the Beacon Chain was launched, and before the Merge happened, some protocols made it possible to crowdfund everyone else's ETH to cobble them into validators.

The thing about ETH staking though, is that these can't be unstaked until after the Shanghai upgrade (initially scheduled for March 2023).

So those protocols decided to offer stakers a token representing their staked ETH. This can be redeemed for the original ETH at any time.

These representative tokens are then accepted in other DeFi applications, so users can "unlock their staked ETH liquidity" by using them to do things they would've done with original ETH.

Of course, if you do something risky with those representative tokens and end up losing them, you also lost the ability to redeem for your original ETH tokens, so play at your own risk!

Image via Rocketpool.net

What It Does

Type: DeFi application
Ecosystem: Ethereum
Function: Decentralised Ethereum staking protocol

Rocketpool is one of the earliest pioneers offering liquid staking to ETH stakers. It prides itself for its ability to support all kinds of stakers, ranging from techies to non-techies who hold less than 16 ETH. By lowering the barrier to entry, it hopes to incentivise more participants, thereby achieving its mission of decentralisation.

Each ETH staked gives you one rETH, redeemable for ETH at any time, but subject to available liquidity in the pool.

The collected ETH is then put into a pool and offered to node operators, who will take what they need to make up the 32 ETH required to be a validator.

There are three types of rewards available to earn:

- Block rewards from the network itself
- Priority fees paid to validators
- MEV rewards

The rETH: ETH ratio indicates how much ETH you can get when redeeming with rETH.

For the Solo Staker
If you have 32 ETH and want to be a validator without the hassle of setting up your own machines to do the validation, Rocketpool offers you the option to be a validator with them.

The protocol will swap half of your ETH with the deposited ones crowdfunded by others) to be part of your node.

Alternatively, you can also be a **minipool** with 16 ETH and obtain the rest from the crowd-funded ETH reserve pool. The rules governing this are the same as a regular validator except for differences in handling pool creation, withdrawals, and slashing.

What to watch out for !

Ability to redeem ETH with rETH
This is possible as long as there is liquidity in the deposit pool at the time of redemption. If liquidity is low, redemptions may not be possible.

Fantasy Portfolio

Initial Capital: $10,000
Asset(s) invested: 4 for $6,000
Total Balance: $4,000

Investment level
Polkadot @ 133.6 units for $14.97
Current price (Jan 10): $4.89 (-67.33%)

Chainlink @ 112.8 units for $17.73
Current price (Jan 10): $6.09 (-65.65%)

Terra @24.77 units for $80.72
Sold for Loss: -$2000

3 slots available @ $2,000/slot.

Secondary tier
Sandbox @ 325.73 units for $3.07
Current price (Jan 10): $0.51 (-83.38%)
4 slots available @ $1,000/slot.
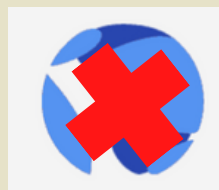
Trading tier
5 slots available @ $500/slot.

Investment Grade

$14.97 / 133.6 units

$17.73 / 112.8 units

$80.72 / 24.77 units

Secondary Level

$3.07 / 325.73 units

Trading Tier