Is DeFi The Best Opportunity For Passive Income? w/ Cathryn Lavery Transcript

Ryan Moran [00:00:04]
Hey everyone. Welcome back to Capitalism.com. I'm Ryan Daniel Moran and today we're going to go a little bit further down the rabbit hole. I've already admitted that I was wrong about crypto and Bitcoin and today we're going to take it one step further and talk about decentralized finance.

Ryan Moran [00:00:21]
I've been learning this world from my friend Cathryn Lavery, and if that name sounds familiar it's because she's spoken on stage at our events and she's been on the podcast in the past talking about a very successful ecommerce business that she runs called Best Self Co. She's famous for selling lots and lots of journals and other products as well.

Ryan Moran [00:00:43]
But a year ago, she started spending some time, as a distraction from stress in her life, learning about decentralized finance and it turned out to be a very profitable distraction. So, she has been catching me up to speed on what this world looks like. And from a business perspective, I want to know, how are these changes in the world going to impact business? How are they going to impact entrepreneurship?

Ryan Moran [00:01:09]
Right now, we're still super early. Right now, we're still speculating about how these developments are going to impact our lives. So, we go a little bit further into that discussion in this talk with Cathryn. Now, Cathryn is very well versed in this space so she throws around a lot of names of projects and tokens that I sometimes have to interrupt and say hold on, let's define this for a second because if you're not familiar with the projects, this can just feel like people are name dropping a bunch of stocks that you've never heard of.

Ryan Moran [00:01:41]
So, you'll hear me kind of slow down in the conversation a few times as we clean up certain pieces of the conversation, because if you're not familiar with the projects this could go off the rails very quickly. But if I was to summarize our conversation, I'd say that what we're seeing and what we're about to see is that individuals, entrepreneurs, and investors are now able to participate in the financial rewards of the financial system.

Ryan Moran [00:02:12]
Loans are now becoming available in seconds. The ability to make money on your savings and on assets that you have will outpace the interest you're getting at the bank and sometimes the return in the stock market. Because of the opportunities that are starting to become available, we will probably usher in a new era of savings rather than spending. And the reason for that is because the day is coming that you'll be able to get 6-8% on your savings. Yeah, your savings.

Ryan Moran [00:02:52]
And not only that, but your savings could go up in value meaning you could appreciate your savings. In the event that you put your money into something like an Ethereum and Ethereum goes up in value while also paying you an interest rate that is as safe as the bank, you could theoretically win twice.

Ryan Moran [00:03:16]
Now, we're super early on this but that could very well be what is coming. Can you imagine the day when your bank account doubles overnight while continuing to give you a fixed 6% interest? Things like that could theoretically happen based on what is happening in the world of decentralized finance. So, we attempt to unpack this in this conversation with Cathryn.

Ryan Moran [00:03:38]
It's tough to unpack something as vast as this topic in 45-60 minutes but we start to go into how this could impact you, your business, and your finance in this DeFi conversation with Cathryn Lavery.

Ryan Moran [00:03:56]
Cathryn, it's so good to have you back. I was hoping we could start by talking about the transition you kind of made a year or so ago when you started putting more focus into DeFi, because you've been on the show at least twice, maybe 3 times, always from an ecommerce context and then you started developing this other passion. So, would you tell that story?

Cathryn Lavery [00:04:18]
Yeah. So, it's funny. I haven't really publicly ... This is the first time I'm on an interview talking about DeFi and crypto. So this is my alter ego here. But I think 2020 was just a rough year. There was a lot of stuff going on business-wise for me. And a couple of friends in this slack group were starting to get into DeFi and it kind of started last summer.

Cathryn Lavery [00:04:43]

So, DeFi is just decentralized finance and on the Ethereum network, and then it's this thing called Yearn and Pom-Pom coming out. And it basically started this whole DeFi summer that I kind of fell into. Didn't know anything about it but it was such a nice welcome distraction from the stress of the ecommerce stuff, between COVID and a business partner buyout negotiation and all these other things. And it was just like oh, this is fun.

Cathryn Lavery [00:05:09]
And so, I just kind of fell into it. And by the time my business partner buyout happened, it was late September, by that time it was almost like I'm having an affair on my business with this fun thing on the side. And then the buyout happens and I own the ecommerce business fully but I'm like oh, but I had such a fun time over here. I don't want to give this up. And so, I've just been getting more and more interested in it, not from a ... Obviously it's been a profitable adventure but more so the possibilities for the future.

Cathryn Lavery [00:05:44]
I realized I really like figuring stuff out and that's been the fun part of trying to understand it, and then actually hoping people do it themselves which helps me understand how it all works.

Ryan Moran [00:05:55]
Yeah, so that's actually why I wanted to talk to you about it today because you are thinking about what this could lead to and where the opportunities might evolve over the coming years or decades. So, let's go there because I was hoping that you of all people could help me define DeFi from the perspective of the user.

Ryan Moran [00:06:26]
Now, here's what I mean. Most of the time when we hear about anything cryptocurrency related, we're usually talking about it from the speculative perspective. What cryptos should I buy? What's your Bitcoin price prediction? What's Ethereum going to? But from a use case, how would you define decentralized finance?

Cathryn Lavery [00:06:47]
So, Ethereum is ... So, let me just go back. So, in 2017 I was that person. I was like, okay, the number go up, I buy. Very speculative. I remember talking to you during this time adn you were like, I'm not into crypto. Very anti. And to be honest, I didn't know anything about the technology part. And so whenever I learned a little more about it, the whole idea of Ethereum is what I would liken to the internet.

Cathryn Lavery [00:07:15]

So, it's basically a platform that you can build other things onto through smart contracts. And the finance part of it is what DeFi is and it's been the first thing that's really popped up, which is building a whole financial ecosystem on the blockchain. So, everything is secured on the blockchain and so if you think of banks as the middleman handling loans and money and insurance, that's all now being done on the blockchain.

Cathryn Lavery [00:07:42]
And so, when you used to ... You put your money in a bank and the bank turns around and lends it out to someone else and you get a very, very small interest rate on that loan. And so, what DeFi actually allows is connects people through smart contracts that they don't know, you don't have to know anything personal about them, or there's no board of directors that can say no, you're not allowed to trade on here.

Cathryn Lavery [00:08:06]
If you want to buy a shit coin, the GameStop version on this exchange, nobody's going to stop you, not even your common sense sometimes. So that's kind of what I would consider DeFi. It's taking out the middleman and allowing people to trade with each other and securing it on the blockchain.

Ryan Moran [00:08:27]
And how might that play out or how is it playing out from a user perspective? All I have really seen in the real world is other cryptos launching and then incentivizing people to mine them. I haven't seen a whole lot of use cases of end users preferring decentralized finance versus going to Chase and getting a loan. So, do you see any of that and where do you think that could go over the next couple of years?

Cathryn Lavery [00:09:01]
I mean, so, for example, me as an entrepreneur, trying to get a mortgage, my first mortgage on my house was an absolute nightmare because somehow, owning your own company was way more risky than having a W-2 from one ... So it was just very frustrating and it was the first time where I was like, this is so dumb, this whole system of ... Also credit checks. For me, I only got a social security number in 2011 and so it's ... Building credit and all that sort of thing has been difficult just being in the US.

Cathryn Lavery [00:09:38]
So, in crypto, you can actually just get loans on your crypto rather than ... And they don't need to know anything about you. So, for example, there's platforms like Aave and Compound

Finance where you put in your collateral so there's no risk to the platform and then you can borrow against it.

Cathryn Lavery [00:09:57]
So, for example, you could put in Ethereum, Bitcoin, RabbitCoin, a bunch of other coins depending on the platform you're using and then borrow stable coins against it. And so, that could be a way that you could ... You could even transfer it back to your traditional bank account and use it to buy a house or to put into real estate, and the good thing about that is that say you've seen a huge run-up with Bitcoin and Ethereum right now where it's a little lower than we were but we're still up a ton from last year.

Cathryn Lavery [00:10:30]
And so, if you didn't want to sell your crypto because you're thinking I believe in this long term, but you want to get some of that money out from just sitting there, you could put it in one of these platforms and take a loan against it and then you could use it in the real world to buy real estate or do something else and because you're using leverage, there's no taxable event that you would be taxed for on taking that value.

Cathryn Lavery [00:10:55]
So, there's a great way of taking that money out and using it in the real world, and they also have these self-paying loans which is a whole other idea of putting your funds to work and the interest rate pays off the loan, and in the meantime you can borrow a synthetic token to do something else with.

Ryan Moran [00:11:12]
Yeah, so I wanted to go there next, but first I want to clean up something you just said which is, if I'm hearing you right, then one use case is taking $100,000 dollars, putting it into Ethereum and what these platforms allow you to do is borrow against the Ethereum and use it as a down payment for a house or to buy a car or what have you. And the upside to that is A, you don't sell your Ethereum so there's no taxable event.

Ryan Moran [00:11:47]
But also, if Ethereum doubles, you have essentially gotten a free car or a free down payment. Now, that makes sense to me. The downside to this gives me the heebie-jeebies. So, if Ethereum goes down 50%, are you then liquidating 2 assets? Do you then have to liquidate both your Ethereum and your car to pay this back?

Cathryn Lavery [00:12:13]

Well, no, you won't have to liquidate your car. So, you can never borrow more than 80% of what you are staked in there. I mean, I would never advise someone to fly that close to the sun, especially in crypto. So, I would never go above maybe 40%. It depends what I'm putting it in and how secure it is. But yeah, you could get liquidated if you fly too close to the sun but you're never going to ... If you buy a car with the money, the car is not collateralized. The crypto in there, so they'll liquidate the Ethereum to pay off the loan so you just won't have your Ethereum anymore but you wouldn't have to sell your car or anything.

Ryan Moran [00:12:52]
You might even be able to classify that as a taxable loss in that case. So, yeah, in that case, and this is the first time I'm thinking about that, but if you borrowed against your Ethereum and paid cash for the car, and then Ethereum goes down, you would have to liquidate the Ethereum but that could be a taxable loss which could actually be a net benefit on your taxes.

Cathryn Lavery [00:13:16]
Unless you bought the crypto for less and then when it was liquidated the cost ... Say you bought Ethereum at $400, it went up to $2000 and then you borrowed as much as you could against it and then it dropped a little bit. You would be liquidated but since you bought it at $400 and it sold for $1200, it actually would still be counted as a sale event. So, you'd basically be paying liquidation fees and you'd be taxed on that because ...

Ryan Moran [00:13:44]
Okay, got it. Well, there goes my dreams. A boy can dream about not giving the government money. You did mention some platforms, and the one that I'm thinking of is the one that Mark Cuban popularized. I think it's called Alchemist where it is essentially a self-paying loan, where essentially, same situation, you're going to buy a car but you put $100,000 dollars of Ethereum into Alchemist and your principal is still yours but they're using your principal, that $100 grand, to generate interest that is paying for the car or the mortgage payment. Am I getting that understanding correct?

Cathryn Lavery [00:14:31]
Yes, you're correct. There's 2 different pools. Dai coin, which is a stable coin in there, and you can ... I think I looked at it the other day. It was 7%. So you're making 7% on the Dai which is automatically paying off the loan and you can only borrow 50% of what you put in there. But you could also make ... So, you're borrowing ... The loan that you're taking in their version of a stable coin, you can put in somewhere else and make more yield on it.

Ryan Moran [00:15:01]

Yeah. That's interesting because now we're using true leverage in a situation like that. And I also appreciate ... The entire crypto space because of these innovations seem to me to be starting to usher in an era of saving rather than spending. Instead of going into debt to buy a house or a car, there's an encouragement to save and keep it in some asset and borrow against it and allow things to continue to appreciate. That to me is ... That's a libertarian fantasy where people are saving and that is actually what is driving the growth of the economy rather than government spending.

Ryan Moran [00:15:46]
You mentioned Dai coin which is a stable coin meaning it's tied to the US dollar, and I know there are several different stable coins each with their different uses. There's USDC and USDT and Dai, and then the failed project of Titan. There's all these stable coins but I don't quite yet understand the difference or how they interact or why some or more beneficial than others. Can you help me understand that?

Cathryn Lavery [00:16:21]
So, there's fiat collateralized coins which is USDC and USDT. Coinbase is the one that started USDC coin, and they, for every dollar that they have in USDC, they're supposed to have a dollar in reserves to basically cover that. USDT is the same but there's been a lot of concern about that. I don't know that that's true. So, the tether, I don't know. There's a lot of FUD, which is fear, uncertainty, doubt around that.

Cathryn Lavery [00:16:53]
I just read an interesting article so that could be a whole house of cards in itself. But technically it's supposed to be for every dollar or tether meant that they would have one in reserves. And then the crypto collateralized coins is Dai coin which is run by Maker. And so, they basically take Ethereum, and I don't know what the collateral ratio is right now, but say it was 200%, it means to be able to make $100 dollars of Dai, you would need $200 dollars of Ethereum.

Cathryn Lavery [00:17:28]
That's not the actual numbers, but that's how they peg the Dai to $1 US dollar and it's actually been very stable even with the market crashes and all that sort of thing. And something interesting that I've ... People who are scared to get into crypto because they're like oh, you know, because in 2017 you saw Bitcoin run up to $19K and then drop. Because stable coins weren't really a thing yet, you were basically ... To hold any value you had to move it either into another volatile asset that would also drop when Bitcoin dropped, or you would take it out of crypto altogether and put it back into fiat currency and move it to your bank account.

Cathryn Lavery [00:18:06]
And so, now that we have stable coins, there's a lot more money just staying in the market because you can make such a better return than you can if you moved it back to your back accounts.

Ryan Moran [00:18:17]
Yeah, so, let's go there because I hear and see on some platforms that you can have a stable coin, which is just tied to the US dollar getting 7%, 8%, 10%, 12% per year in interest. But I haven't, for the life of me, Cathryn, been able to figure out what is on the other side of that transaction. Meaning, who is it that finds it favorable to be paying 10% or 12% to users who just have their capital in a stable coin that's sitting there.

Cathryn Lavery [00:18:57]
Yeah, so there's definitely more riskier things than others. If you're seeing a very high interest rate, usually you're going to something a little more risky. If you look at things like Compound or Dai coin, it's all supply and demand. So even though ... I got a loan from Aave last year. It was $20K or something and I booked a stable rate of 5%. 5% in the normal world is like, that's high. In crypto world, that's actually, oh, I locked in a great rate, and compared to everything else I'm doing, I'll pay that one off last.

Cathryn Lavery [00:19:33]
And so, in crypto, because you can get loans in minutes, people are willing to pay more because they can turn around and use those resources for something else. So, it's a risk/reward. Some new protocols are basically rewarding you for bringing your capital there and it's kind of like if you think of Uber when they first launched. They're getting all this VC money. They're just losing money for years and you're getting all these free rides. It's the same idea in crypto where the winner of the market will make a lot of money, and so they are basically pre-funding their rewards to get people over there.

Cathryn Lavery [00:20:13]
So, Compound, they have their governance token on the Polygon network which is this new network. It's kind of annoying to get over to, so to reward people, they were just giving crazy rewards out. So, basically, even if you took a loan, you were making more money than you were borrowing because of the rewards you were getting. It was insane.

Ryan Moran [00:20:34]
So, just as an example, when you started first talking about this stuff and I started kind of following your work, I put my collateral into Aave on the Polygon network, and what was

happening was I was getting more native token to pay for the interest on my loan. So, I was actually profitable on borrowing because of the rewards system built into the platform.

Ryan Moran [00:21:07]
I still don't quite understand where that comes from and why they're paying it, which is where I'm still a little bit hesitant. But it does make sense, what you're saying about the fact that because there's so much speed in the system, there's a premium on paying for that because people are speculating and trading with that. So, that makes sense to me. Is there anything else that would help me understand where the interest and where the native coins are coming from?

Cathryn Lavery [00:21:43]
So, when people put it into those platforms ... If you think of Yearn, for example, it's basically a hedge fund in DeFi so they're finding the very best opportunities for yield that you may not even hear about. Or if you do hear about it, you're the exit liquidity they get to get out early. And so, because they have opportunities that we don't have, they can find better yield for our money just like a hedge fund in real life would, but most people don't get access to that unless they have a huge amount of capital.

Cathryn Lavery [00:22:20]
So, some things like Yearn are like that. And then again, people are more open to paying more. So, for example, I was trying to get a line of credit for my business. 6 months, every single detail later and I'm still waiting for it. ANd my backup is, oh, I'll just take a loan on my crypto. It will take 5 minutes and I can get a few hundred grand if I wanted and put it back into USDC and still actually make a little on that because of the rewards system.

Cathryn Lavery [00:22:54]
So, yeah, I'll be paying more than I would, possibly, to a bank, but it's just so much easier. So, people will pay for the convenience especially if they know exactly where it's going to go and how they can make a better return on that. So, I think people are just more open to the higher interest. And so, it's also supply and demand.

Cathryn Lavery [00:23:11]
So, for example, if a ... You'll go onto Aave, for example, on Polygon. If there's a farm going on where people are borrowing the coin that they need for that thing, they're the ones taking the risk. But they're going to borrow fro that. And so, suddenly, the cost to borrow goes up. So it might go up from 4% to 12% because it works on a ...

Ryan Moran [00:23:34]
Meaning that the APRs and the APYs are dynamic based on supply and demand. So, for example, since we've had this market pullback in the last few months, APRs and APYs have gone down. It's cheaper to borrow right now whereas when everything is in a bull market and Bitcoin and Ethereum are surging it's now more expensive because there's more people trying to borrow, so what you had in the system is now more profitable.

Ryan Moran [00:24:06]
But from an annualized perspective, even just holding your cash or your collateral in one of these platforms can produce a reasonable enough return just on your savings. Am I summarizing you correctly?

Cathryn Lavery [00:24:21]
You'll basically make 10x what you will in your traditional savings. Your high-yield savings account that's 0.35% a year is not even keeping up with inflation. On crypto, you would make 7% if you just kept it in stable coins and kept it in one of the legit projects that are stable.

Ryan Moran [00:24:45]
So, would you tell us the legit projects? Meaning, if all someone was going to do, because very few people should be speculators or try to figure out this world, but if someone were just to use this as seeing what's around the corner and putting some of their savings into stable coins to get returns, what would be the actual legit projects?

Cathryn Lavery [00:25:14]
So, I think projects with a use case. So, how I like to think about it is what projects or products am I using? So, I use Aave, Compound, which are both lending/borrowing platforms. There's Sushi, Uniswap. Those are basically exchanges. So, just like ... It's kind of like Coinbase, but in a decentralized way. So, it's not run by one organization or one board of directors or one guy cannot say, okay, Ryan, I don't like what you said about this political thing. You are no longer able to trade on our platform.

Ryan Moran [00:25:46]
Not that I would say anything controversial about politics.

Cathryn Lavery [00:25:48]
Never. Of course. And so, if you think of the money that Coinbase makes with all of their fees, what happens with these decentralize organizations is they take the exchange. So, they take 0.3% of every time you switch out a token and it goes to either governance tokens or to the

token that it is. So, Sushi is a great project that I think is way undervalued. Uniswap. Yearn. So, Yearn is the hedge fund type where you are investing in their strategies and they go out and find the best return for your money.

Cathryn Lavery [00:26:26]
And because Ethereum has gotten so expensive to do gas wise, they're basically moving a ton of money all at once. So, for them, it's like a rounding error when they do something.

Ryan Moran [00:26:37]
So, you've already given me 9 questions to ask about exactly this, but the first one that I want to ask about what you just said is when you list off these projects, are these companies?

Cathryn Lavery [00:26:50]
They are not companies as in they're not run by ... People work there but they're not ... They run it through a decentralized autonomous organization, which is basically a bunch of anonymous people that help the protocol run by voting, but not one person runs the project.

Ryan Moran [00:27:13]
Yeah, I'm going to need you to say that again. So, this is where I get really fascinated with where the world is going because I understand the idea that there could be completely decentralized companies. My brain still can't wrap completely around it. But now we're talking about real projects that are actively in use. So, you're saying people work there, but that they aren't companies.

Cathryn Lavery [00:27:42]
Yeah. They're basically run on a bundle of smart contracts. So, it's automated, decentralized, no one person is in control of it or can take it down. I'm really not great at describing this. I'm trying to think of ...

Ryan Moran [00:28:01]
Well, I mean, this is hard to describe. So, for example, I've used Aave as a platform. I've put collateral in there and I've borrowed against it. Aave has a user interface. Aave has a rewards system. Aave has an obvious platform where I can compare different APRs and APYs. And you're telling me that people work there, they're managing that, but that that isn't a business. So, who's paying who works there?

Cathryn Lavery [00:28:38]

They're paid through the protocol. So, the fees that they collect through the platform would be paid out and I believe everything goes through voting systems. So, for example, say they were like oh, actually, the careers need to be increased budget-wise to this, technically I think there's a vote and there's voting members that would vote on that protocol and it has to get over 51% to vote on that. And if you want to change things for the whole platform for example ...

Cathryn Lavery [00:29:11]
So, say you wanted to, on Aave, there's a coin that's not available for collateral yet. So, say it is Sushi. And so there will be a vote that everyone that owns or is on that platform will be able to vote in that governance proposal, and then it depends a lot of times how many of the coin you have in your wallet. So, say you have a million Sushi. You get a million votes or something.

Ryan Moran [00:29:39]
Yeah. Okay. So, that is fascinating and terrifying all at the same time.

Cathryn Lavery [00:29:43]
I think I'm explaining it terribly, but it's a way to not have everything reliant on one person or a group where generally the consensus is what is the best for this protocol.

Ryan Moran [00:30:00]
Yeah. I mean, I get it in theory. As I've discussed before, there's also benefits in centralized decision-making. So, there are benefits and trade-offs here. I mean, I think this creates some strengths and some weaknesses in a platform, which we're in the Wild West right now where we're going to see what types of structures and protocols win, which is both exciting and terrifying for me as somebody who is figuring this out and also speculating on how this is going to impact business in the future.

Ryan Moran [00:30:37]
So, the thing that I have come to the conclusion of at the point is I can see where this is going to increase the speed or borrowing and increase savings rates across the board. I think 10 years from now, I can't imagine that ... If Chase and Wells Fargo are still around, I can't imagine why they're not backed by DeFi so that they can pay out at least 3%, 4%, 5% to their users.

Ryan Moran [00:31:09]
And when Square opens up personalized bank accounts, which they've already rolled out business accounts, makes sense to me that they're going to have them backed by Bitcoin and then use that as collateral to be able to get 10-12% so that they can pay out higher interest rates, which is going to create, I think, a savings generation. That's awesome. That is a very

good thing for the world and for society. Is there any place else that this might impact our lives or our businesses that you can see on the horizon at this point?

Cathryn Lavery [00:31:45]
I mean, I think we're only scratching one part of this, which is the financial aspect. There's also a ton of other ways that this same idea could be used across different industries. Any industry that has a lot of middlemen and complications where maybe there doesn't need to be. So, for example, I wrote a blog post just about intro to DeFi and one way I was talking about this was real estate. You have so many people in transactions and a lot of it could be done on the blockchain.

Cathryn Lavery [00:32:16]
So, a title company, that could be handled on the blockchain. Why do you have to pay to get information on who owned what, what's the history of the thing? That could all be handled without these middlemen. And so, I think there's a ... We hear about the NFTs. That's a whole new market of secure art. And right now, I feel like it's ICO season as far as 2017. There's a lot of stuff that will not make it.

Cathryn Lavery [00:32:43]
But the whole idea behind the NFT market, it could be used for ... in real estate, for example, every house could be an NFT because it's unique and all of the history of who bought it, who sold it before. When you buy an NFT, you can actually see the entire ... From when it was minted, so in a house, when it was constructed, who owned it, how much they bought it for, anything like that, if they transferred it. That's basically what a title company would do and they do that in NFTs.

Cathryn Lavery [00:33:15]
And so, that's a market. I talked about NFTs for concert tickets. So, a concert ticket is an NFT because it's unique in that it's a date, seat number, concert. And so, what if you could create a concert ticket NFT platform that basically removes the middlemen which is the scalpers that go in, buy all the tickets up and then the real fans don't actually get to see the concert unless they pay an arm and a leg.

Cathryn Lavery [00:33:44]
And so what I could see ... I remember a few years ago, Taylor Swift tried to do quizzes and all these ways so her real fans were getting tickets. But what if you could create basically a smart contract that you minted the ticket and if you transferred it for over a certain amount, that profit

was taken from that sale and then it's put into a fund that the artist can decide what they do with it.

Cathryn Lavery [00:34:07]
And I thought a cool way to basically give back to the fans is you give each person ... It's dispersed to their wallet for that concert and you can only buy merch with it. So, the artist is getting it, and then the fans are getting it. And then the scalpers in the middle that are making all the money right now but are not adding any value would just be removed.

Ryan Moran [00:34:25]
Now, that's beautiful and I can see that impacting every fabric of society. I mean, I think about music royalties. If you only had a limited number of licenses for the album that you put out, Spotify pays a premium for one of them. They outbid everybody and they buy one of them so that they can stream it, and Pandora buys one of them.

Ryan Moran [00:34:54]
And eventually those licenses can be bought and sold, and the royalties for independent music artists goes way up and you as an investor could say, I've been watching this girl on Youtube for the last 9 months. She's incredible. I'm going to buy one of these licenses as an investment and every time that's played on the radio, you as an investor are getting that. I think this opens up a whole new world for people to bet on individuals that are releasing NFT projects.

Cathryn Lavery [00:35:30]
I think it's a way that brings the power back to people that are creating things.

Ryan Moran [00:35:34]
Absolutely.

Cathryn Lavery [00:35:35]
And connects them better with the people that want their stuff. So, for example, in the concert ticket example, you would have your wallet with the concert ticket. And so, technically, Taylor Swift or whoever else could see, oh, I have ... I know everyone that came to these concerts and I can send them a song that nobody else is going to get. I can send them an NFT. I can send them whatever, and you're rewarding the people and it gives you more power without having to go through a record company or Ticketmaster or anything like that.

Ryan Moran [00:36:06]

You know, that's beautiful. So, what I like about this conversation is up until recently, I was playing catch up on understanding all crypto because I was so anti-crypto for so long. And so I've been playing catch up, and this is the first time that I'm like oh, I can see how this creates more opportunities whereas before I just felt like I was missing out on the run-up that ... Everybody's making money but me. This actually, as an author, as a podcaster, as somebody who makes videos, I can see how this would open up more opportunities for revenue rather than less.

Ryan Moran [00:36:47]
What I want to ask you now is I wanted to shift gears to look at it from the speculation and investor side of this. So, we've talked about what it looks like from the use case and how a lot of that is still in development. But from a speculator's side, from an investor's side, are you able to articulate your strategy or your thesis as somebody who's been playing in this world for the last year? Do you have a clear strategy when you are playing in the DeFi sphere?

Cathryn Lavery [00:37:24]
You know, some days I feel like I have a great strategy. Some days, I look on my portfolio and I think, wow.

Ryan Moran [00:37:33]
Cathryn's a genius.

Cathryn Lavery [00:37:35]
So, there's a lot of opportunities in this space right now but there's also a lot of scams in this space. And as you see more people coming into this space, there's more of that. I will say that we're super early in DeFi. I don't remember the exact number, but a single-digit percentage of people who hold Ethereum are actually in it for DeFi at this point because it is difficult to get into.

Cathryn Lavery [00:38:05]
I just kind of was walking you through, okay, you get it to your wallet, and then you send it over here. And it's not easy and it's also you're working with real money and so it's a little scary. So, yeah, send it to this random number and hope it shows up. So, I think we're still super early. But for me, I pretty much hold ... What am I using? What do I see a use case for? And if I'm looking at something and not understanding what it would be used for, then I'm like, am I the product because I'm bringing the capital, or is this product the product?

Cathryn Lavery [00:38:39]

And so, I think ... And then the whole idea of does it seem too good to be true, because there's a lot of does it seem too good to be true, and sometimes I've made a lot of money in the oh, this seems too good to be true. And then I got out of that. But for me, it's like, long term, what do I think is going to make it? So, I know that Mark Cuban's talked about the lending platforms and these exchanges. So, if you look at things in real life ...

Cathryn Lavery [00:39:06]
So, some markets, there's a thing called Nexus Mutual which is insurance on crypto. When you look at their profitability and how efficient they are compared to something like Lemonade which is a public company and losing money, they're crushing it. And so, if you think of, okay, that's an actual product that I could see with a use case and it's actually doing it and it's making money. So, all these ... The valuations in real life are so high but in crypto they're actually not that high compared with the profit they're spinning out. So, look for the product. Look for the valuation. What are they actually doing? There's one called ...

Ryan Moran [00:39:44]
So Cathryn, I think what I'm hearing you say is you're talking about from a long term waht tokens you're owning. So, in the same way that you would own a share of a stock, you're buying the projects that you believe have real use cases from a long term holding perspective. But what about as somebody who is very active in the DeFi space that is doing things like staking and farming and forming liquidity pools?

Ryan Moran [00:40:16]
These are all terms I did not understand as recently as 3 months ago, and I only barely understand them now because I've played with them thanks to your nudging. But what I want to know is when you're playing in that world, do you have an overall strategy that you're following?

Cathryn Lavery [00:40:33]
So, if I have an asset sitting in my wallet and not doing anything, I feel like it's a waste of space.

Ryan Moran [00:40:43]
Meaning, if you're just holding Ethereum or if you're just holding Sushi or any of these other cryptos, you feel like it's not doing anything.

Cathryn Lavery [00:40:53]
Yeah. So, I want to be making yield on all of my crypto and there's ways to do that. So, there's liquidity pooling which you mentioned. So, liquidity pooling, if you think about it, is like you are

the airport exchange kiosk, and so you're pooling 2 assets together. So, for example, Dai and Eth would be a liquidity pool. And so every ...

Ryan Moran [00:41:15]
Meaning you're combining Dai, which is a stable coin we talked about earlier, and Ethereum. You're putting them into one pool and ...

Cathryn Lavery [00:41:24]
And every time there's an exchange, someone exchanges Dai for Eth or Eth for Dai, you will get part of those fees which depends on your percentage of the pool. So, for example, if there was a $100,000 dollar liquidity pool and you had $10,000 in there, you would make 10% of every single time someone makes an exchange, and usually it's 0.3% of every exchange. So, that's one way to do it.

Cathryn Lavery [00:41:49]
Then there's also yield farming which is when you ... And this is a huge range of risk/reward. You can do pretty safe things. And yield farming is basically any time you make yield on your money, you make profit. So, this is staking, and staking is when you use your assets to make a system stronger so you can stage your Eth for the new Eth 2 network and make a percentage on that. And there's a website ...

Ryan Moran [00:42:17]
Would you define that a little bit more because staking, I still don't quite understand what you're doing with your crypto when you stake it.

Cathryn Lavery [00:42:29]
So, when you stake it, sometimes it's used as you're lending it to a project for something. If you're a validator, you're basically staking it to make the ... So, for example, if you were a validator on the Polygon network, you're staking your MATIC in order to make the network more secure because you're essentially becoming another node in the network and you get paid out for that.

RM [00:42:53]
Okay, I understood 4 of those words, but ...

Cathryn Lavery [00:42:57]

I don't think it's ... You don't need to know. There's a bunch of different ways to make yield. There's liquidity farming. There's just helping with the whole backbone of DeFi which is bringing liquidity to the system and allowing ...

Ryan Moran [00:43:09]
Okay, so I just want to see if I understand. I think what you're saying about staking is where you are committing coins, you're committing crypto to a project so that it's there so that the system can continue to run. And by you putting it there for a defined period of time, it is almost like putting your money into a CD at a bank. So, the bank knows it's going to be there for a year and they can do things with it because they know it's committed for a year and they can pay a higher interest rate for that. Is that kind of what staking is?

Cathryn Lavery [00:43:48]
Yes.

Ryan Moran [00:43:49]
Oh my goodness, I got something. Awesome. So, Cathryn, that's exciting because that means that the everyday person who just buys a crypto and stakes it can have return on that. I know that things fluctuate, but what types of yearly APR and paid when somebody just stakes a token?

Cathryn Lavery [00:44:17]
When you stake a token, it's usually between ... It depends on the network, but 7%.

Ryan Moran [00:44:26]
Okay. Great.

Cathryn Lavery [00:44:28]
It depends again. If you were an early ... If you are an early person, you would likely get more and then as more people come in, you would get more diluted just like yield farming works the same way. The APRs can be insane because it works out, okay, the price of the reward, the number of rewards in that pool, and then as more people come in you basically get diluted so you get less rewards than when you came in.

Ryan Moran [00:44:54]
Got it. So, in theory, someone could buy Ethereum or any of the other projects we've talked about, stake it back to the project and have 7% put into their wallet in that native token, and they still participate in any possible appreciation of the token, correct?

Cathryn Lavery [00:45:19]
Oh yes. Yeah.

Ryan Moran [00:45:19]
Okay, awesome. So, it's just a way to monetize your holdings. That's fantastic. Now, I know part of your strategy has been looking at new projects and farming or participating in those early projects because the yields can sometimes be 1-2% per day in some cases. I have a friend that says he's getting 10% per day right now on a new project. Is Dino a new project?

Cathryn Lavery [00:45:54]
Oh yeah. I'm in that with stables.

Ryan Moran [00:45:59]
So, define what you mean by you're in a project with stables.

Cathryn Lavery [00:46:04]
So, I'm in Dino right now, but I'm in there with, I think it's, USDT. So, the percentage is 30% APR right now. And one thing you need to look out for before you start farming or doing liquidity pools is this idea of impermanent loss. And impermanent loss ...

Ryan Moran [00:46:24]
I've become very familiar with impermanent loss, yes.

Cathryn Lavery [00:46:26]
It happens whenever you are pooling 2 assets together, 50/50 ratio and if one asset drops a lot in value, you are not going to get the same tokens back because it always has to be 50/50 ratio, and so if the price of one drops then arbitrageurs essentially come in. You don't see any of this. When you remove your liquidity from the pool, you will just see, oh, I have just lost a ton of value. Now you have ... If both assets go up in value, you will gain ... Your value of the pool will go up and the token ratio might change but it's always going to be 50/50.

Cathryn Lavery [00:47:08]
So, when you pool things together ... So, say for example, Dino is going to be pretty volatile. Or actually, I don't think it's as volatile as it was, but I know that I've done so many of these farms that the pool tube farm is what we call it is the de-gen, high-risk, high-reward but there's a very good chance you'll get wrecked from impermanent loss.

Cathryn Lavery [00:47:33]
Now, sometimes you'll hit impermanent loss but you're farming so many rewards that it doesn't matter. You're able to make it up. But more often, you are actually just getting wrecked in your liquidity pool and you have no idea until you remove it.

Ryan Moran [00:47:49]
So, you've mentioned farming several times in here. How is farming different than staking or creating a liquidity pool?

Cathryn Lavery [00:47:59]
So, it's taking a liquidity pool and putting it into a specific project. So, you create an LP with usually 2 tokens. You stake it in a new farm where you're basically giving them access to this and you get rewarded with their platform. So, on Dino, I have a USDC, USDT pool I believe and I have it in an auto-compounding farm which means it is, I think, every, I don't know, a bunch of times a day, basically taking the rewards, selling them, and then adding to my liquidity pool.

Cathryn Lavery [00:48:39]
So, if they're getting Dino as a reward, they are every maybe twice an hour selling those rewards, adding back to my LP so that I'm not at risk of that impermanent loss because I have 2 stable coins. Whereas if I had a Dino USDC, if Dino goes up it's great because my LP will go up and I'm collecting rewards, but more often than not it will go down because as people are collecting them, they're selling them off because they know this token usually drops very quickly.

Ryan Moran [00:49:11]
Yeah. so, I mean, if you're still listening and your brain hurts because we just threw a bunch of different terms at you, I just want you to know, me too. I'm still playing catch up in this world but now at least I'm competent enough to interview somebody about it. But what I wanted to ask you, Cathryn, is for those who run full time businesses or work and aren't going to go down this rabbit hole, how would one participate in some of this world and some of ... Be an early adopter in this space that is probably going to play a bigger role in our lives over the next decade. How would someone take advantage of being early on this without going full on de-gen?

Cathryn Lavery [00:49:58]
Right. Yeah, it is a full time job. I would say ... I mean, I would recommend, if you wanted to just kind of get exposure to this, is get a little Ethereum, get some stable coins. so, if you have a

little money in savings and US dollar sitting in an account making 0.2% a year, why not just switch it into USDC coin on Coinbase and put it into one of these protocols that you're making 5-6% on and just kind of see how it works.

Cathryn Lavery [00:50:31]
I think it's very hard to describe. So, as I've been explaining it, it's a whole other language of ... I remember when I first was getting into this stuff and I was in this group and they had been in crypto in there for years and years, and I'm trying to understand what's what. They're like yeah, just stake this over here and exchange this, and then you just create an LP. I was like, I don't know what any of that means.

Ryan Moran [00:50:54]
I remember one time you were like look, you just need to convert your Ethereum, take it over the Polygon bridge, and then stake it. I'm like, what are you talking about?

Cathryn Lavery [00:51:02]
Yeah. I realize ... So, now I've been teaching people how to do this because I find it so fascinating and I do think this will completely change people's minds especially on crypto which I feel has this ... Oh, buy Bitcoin or you're not going to make it. Whereas there's actually a whole other ... And actually I know a lot of people are into Bitcoin but I actually think Ethereum is ... Bitcoin is like digital gold. It kind of just sits there. And Ethereum allows you ... It's like a bank where you can lend out your money, you can do all of this stuff with it and you can take Bitcoin onto Ethereum by wrapping it and actually be able to use it in a useful way.

Ryan Moran [00:51:45]
So, at the very least, someone can just convert their cash that's on the sidelines into a different asset, even if it's just USDC, and then put it to use in a way that gets, instead of 0%, 5%, 6%, 7%, which, by the way, is a good dividend. That's a good dividend on the stock market. That interest may be more than the interest you're paying on your home loan. That's not insignificant which is why this is interesting to me because I can see how this will change kind of the philosophies of how we spend and save.

Ryan Moran [00:52:30]
I do know you talk about this stuff sometimes. You have a newsletter and some other stuff where you post. Where could people follow you if you're putting this stuff up publicly?

Cathryn Lavery [00:52:43]

Yeah. Well, I mean, I have a ... It's a zero to DeFi course and it's very much like here's the step-by-step and it starts, you know, okay, you don't have to go zero to de-gen but I will show you the way if you want to go there. And it's just been fun for me to learn and I really like figuring stuff out and also seeing when people get it because there's so many stuff in life where people, when they take action and they start seeing themselves making yield on things, it's just like, this is insane. And it's super fun. So, you can go to ZeroToDeFi.xyz and it will be up there.

Ryan Moran [00:53:25]
And by the way to anyone listening, I am a customer and a user so you will see me in there. Cathryn, thank you for turning me into a de-gen. You've changed my perspective on a lot of this, so I appreciate ... You're a phenomenal teacher and I really appreciate you sharing this with us. Thank you.

Cathryn Lavery [00:53:41]
Well, I love being the one that could get you over to the crypto side.

Ryan Moran [00:53:45]
To the dark side?

Cathryn Lavery [00:53:46]
To the dark side. It's just so much fun.

Ryan Moran [00:53:50]
Yeah. You and Michael Saylor have helped me understand that I was wrong on this, so thanks for catching me up to speed.

Cathryn Lavery [00:53:58]
Awesome. Thanks for having me and thanks for just jumping in there.

Ryan Moran [00:54:01]
Thanks, Cathryn. If you found value in this podcast and you're ready to go deeper, here are 3 resources where we can help you. 1, you can grab my book 12 Months to $1 Million on Audible or Amazon. It has over 1000 reviews and it's the playbook to building a 7 figure business. 2nd, you can join our community of entrepreneurs who are following a plan to build a 1% net worth by building businesses and investing the profits. You can get plugged in at Capitalism.com/1.

Ryan Moran [00:54:32]

And 3rd, if you're looking to go deeper and build a 7-figure business that you can sell, you can work closely with us inside the Capitalism Incubator and you can get on the waiting list and find out what we do over at Capitalism.com/inc. That's Capitalism.com/inc.