

# How to yield farm crypto

The creation of cryptocurrencies announced the arrival of a new age. Those that had succeeded in it knew how to influence the system for their advantage.

They recognized early on that there is a demand for digital currencies and will only grow as time passes.

To become successful in this new age, you have to employ concepts that can be complex at first. But once fully understood, it can be substantial for the growth of your business.

One such concept is yield farming with cryptocurrencies, which is beneficial once you have learned its basic principles.

## What is the simplest explanation of yield farming?

Simply put, yield farming is earning interest in your preferred cryptocurrency. It resembles the interest earned from money deposited in your savings account.

When you make a loan through a bank, the amount loaned out is paid back in interest.

Yield farming follows the same concept: cryptocurrencies held in an account will be lent out to garner returns.

## What is DeFi?

To understand yield farming, you also have to learn about decentralized finance or DeFi.

And to understand DeFi, you should know about its opposing institution, which is centralized finance.

Centralized finance refers to banks and financial institutions, of which your money and cryptocurrencies can be channeled if orders are made. It has many third parties facilitating the exchange, which charges fees for its services.

It was the standard practice for the cryptocurrency trade before DeFi was introduced.

Decentralized finance utilizes this emerging online technology that removes third parties in fiscal transactions.

Once DeFi came into the picture, it became standardized for the crypto trade since it was advantageous and has a significant possibility to earn massive returns.

## Main features of DeFi

- It does not charge fees that financial institutions do when using them

- Your money is kept in a digital wallet instead of inside a bank
- Transactions like fund transfers are finished in minutes
- Anyone can use it who has an internet connection

However, since its regulations are deemed too lax compared to centralized finance, it is still under debate and continuous development.

## What is yield farming in DeFi?

Yield farming is an investment strategy in the world of DeFi cryptocurrencies that obtains the most yield within the cryptocurrency you are currently using. It is, in a way, a chance for brave investors to earn big or for new cryptocurrency holders to control the prices.

It has similarities to other forms of financial transactions:

- Yield farming with cryptocurrencies is similar to dividends and bonds, wherein as the price of the assets increases, there will be a yield of new tokens for the crypto users. Modern traders and traditional investors view this as beneficial and are interested in applying this reward system.
- It is similar to bank loans wherein the bank borrows money from a client and is paid back with interest. In this example, the bank is the cryptocurrency user, and yield farming applies to the idle cryptos that had been wasted from transactions in providing liquidity in DeFi exchanges.

## How does yield farming work?

The way to fully comprehend yield farming is to learn about dapp, which is a Decentralized App for short. It is better explained in this analogy:

Think of Bitcoin or any other cryptocurrency as a pocket calculator. Smartphones are online platforms with dapp that automated programs operate without a server or central operating system. These platforms will use a digital ledger, which is an Ethereum blockchain.

To approach this is to loan out digital coins (like Tether or DAI) via a dapp (like Compound). The coins are lent to borrowers who utilize them for speculation.

Each day the Compound users use its service, they will get new points, fees, and interests. Yet the interest rates will deviate from the demand.

Once the Compound token appreciates, the users' returns will abruptly increase, and it has doubled in value since June last year.

## What are the dapp online services that involve yield farming?

Based on an online tracker, DeFi Pulse, Compound is one of the largest services that offer yield farming and has about eleven million dollars in funds.

Here are other dapps that also provide yield farming:

- Balancer
- Synthetix- Had initiated it
- Curve
- Ren

These online services have about ninety billion dollars available for their users for yield farming purposes. Most of them use it for speculation and trying to earn massive returns.

## What are the risks of yield farming?

- The cryptocurrencies for lending purposes are contained in computer software, which is sometimes vulnerable to expert hackers who know how to exploit computer codes.
- Yield farmers can sometimes be unwitting investors to deceitful schemes.
- Some cryptos deposited a few years ago for yield farming can lose their value, resulting in a crashed system.
- Old investors who had been stockpiling on large reward token shares would have a massive impact on their prices once they sold them.
- Regulating bodies like the SEC or Securities and Exchange Commission have yet to make a distinct decision to create reward tokens into securities. Of which will be impactful to its value and usage.

## Is yield farming with cryptos profitable?

Even though there are many perceived risks in yield farming, it can still earn a good profit, otherwise, no one would try it. Based on online rankings, many investors can still earn substantial returns.

Its profitability is similar to investing in cryptocurrencies, which are still unsecure and uncertain. How much money you will make will depend on how much cryptocurrency you will put up. And to make a decent profit, yield farming necessitates thousands of dollars and undergoes complicated strategies.

## Conclusion

The growth and success of yield farming are closely linked to the proliferation of cryptocurrencies. As it becomes more prevalent, yield farming will become popular and mainstream.

Before even attempting yield farming, it is crucial to understand how it works first and the risks involved before attempting to use it. But once fully comprehended, you have the power to reach new heights not previously attained, and be a major player in the game.