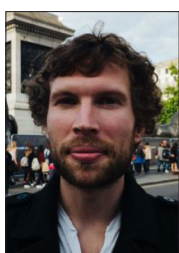


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Through the rabbit hole – ranking MakerDAO

Harry Hamburg, Editor



This last month I've been researching what I believe is the most important and exciting development in crypto since

bitcoin was first developed.

If bitcoin was created to be a better alternative to our current monetary system, then this is the development that could actually realise that vision.

I haven't been as excited about the possibilities of a crypto as this since I first discovered Ethereum.

Is that opening just hyperbole?

No, honestly, it's not.

If you read my [issue on stablecoins](#) back in October 2018, you'll know that I think the biggest problem with cryptocurrency is no one wants to use it as a currency.

Everyone remembers "Bitcoin pizza guy" who famously bought two Papa John's pizzas for 10,000 bitcoins back in 2010.

No one wants to be that guy.

The whole thing that makes crypto fun to invest in – its volatility – is also the whole reason that it makes a terrible form of money.

Stablecoins solve this issue. They remain stable in value. So if you bought a pizza with, say, 10 "stablecoin x" worth £10 today, in five years that 10 "stablecoin x" will still only be worth £10.

Now, you could argue this takes the whole fun out of crypto. What's the point of investing in it if it's always going to be the same price?

But if you think like that, you're missing the bigger picture. Far from making crypto boring, stablecoins are what will enable crypto to fulfil its vision of improving on our legacy financial systems.

I'm talking about decentralised



loans, mortgages, bank accounts, savings accounts, property, shares... everything.

What stablecoins enable is a way to cut the middlemen out of the financial system and put the power into the hands of its participants.

However, not all stablecoins were created equal. And all that I've written so far is actually only about one stablecoin: DAI.

In today's issue I'm going to take you through the rabbit hole of decentralised finance and show why DAI, Ethereum, and DAI's governance crypto, MakerDAO, is set to conquer the world.

And to do it, I'm going to rank MakerDAO.

So let's get started.

Oh, to be a bank

Right now, a typical loan of £5,000 with a typical bank like RBS has an interest rate of 6.9%.

That same bank, RBS, pays its savings customers 0.2% interest on their savings for balances of £1 to £24,999.

Over £25,000 that interest goes up to a whopping 0.3%.

So, let's say someone puts £5,000 into their savings account. The bank pays them 0.2% interest per year and lends out that money at 6.9% interest.

That may not seem very fair, but banks need to make money, right?

It gets even more annoying when you realise those same banks only pay the Bank of England's base rate – currently 0.75% – if they want to borrow money themselves.

Oh, to be a bank.

Now, if you want to get in on the bank's profits, you can buy shares in it. This way, when the bank does well, you do too because its share price will go up.

And many bank stocks also pay you dividends – which tend to outperform savings rates. So, if you really want to make money from the banks, maybe the best way is to invest in them.

But still, it does seem like the banks are getting the much better part of the deal in this scenario.

So, what if we could do away with the banks?

What if when you took out a loan, you only paid the Bank of England's base rate?

And what if when you put money into savings, you got a decent rate of return that would outpace inflation?

And what if you could own stock in the actual Bank of England itself, and vote on its policies and base rate?

Welcome to the world of MakerDAO.

How the MakerDAO ecosystem works

The MakerDAO ecosystem works a lot like the banking system, but without the middlemen.

You lock up Ethereum into a smart contract. This Ethereum then acts as collateral to create and loan you out DAI.

DAI is MakerDAO's stablecoin. It is soft-pegged to the dollar. I'll explain how this soft peg works in a minute. But all you need to know for now is that 1 DAI will always be worth \$1.

So, you are now free to use

that DAI as and how you like. You could use it to buy more Ethereum, and add leverage to your holdings. Or you could convert it into fiat currency and use it to buy something real, like a car.

The way you get your original Ethereum back is by paying back your debt in DAI, plus a stability fee (currently 1% per year) paid in MakerDAO (MKR).

It doesn't matter how much Ethereum has increased in price since you took out that loan. To get back your original Ethereum you only have to pay back the amount of DAI you borrowed, plus the 1% fee.

Why would you want to take out a loan like this?

A simple example: taking a loan out against yourself to buy a new car – at 1% interest

Well, to stick with the same example, let's say you wanted to spend £5,000 on a new (second-hand) car.

And for this example, let's assume one Ethereum is worth £100.

Your liquid assets are fairly limited, but you own 100 Ethereum, worth a total of £10,000.

So you decide to create a loan to yourself of £5,000 to buy the car.

You lock up 50 Ethereum and receive £500 worth of DAI.

You convert that DAI to pounds via Coinbase (Coinbase announced it was listing DAI in December, but it isn't available for UK customers just yet) and buy your car.



You then slowly pay back your £5,000 loan to yourself over the course of three years by adding DAI back into your loan.

With the current 1% stability fee, you'll pay a total of around £5,050 to pay off your loan. That extra £50 is paid in MakerDAO (MKR).

When your loan is paid off, you are automatically returned your 50 Ethereum.

This whole process works automatically via smart contracts. You don't need to get permission from anyone or fill out any forms.

That same £5,000 loan with a typical bank at 6.9% APR would have ended up costing you £5,532.48. And you'd have had to pay it off on a strict schedule.

Underpaying or overpaying each month would result in penalty charges, or even a demand for immediate payment of the entire loan amount.

With the decentralised MakerDAO loan, you can pay it off as fast or as slow as you like.

Have more spare cash one month? Pay off more.

Don't have any spare cash one month? Don't pay off any.

You could choose not to pay off a penny of it for a decade, it wouldn't matter.

If you did decide to pay it off after a decade, you'd simply need to pay a £500 stability fee in MKR (1% times 10 years).

You could pay off half of it over the course of a year and pay off the other half when you got money from selling the car you bought.

Or you could just keep your DAI and never pay it off.

You get the picture, you are in complete control of how and when you pay off your loan.

And of course, you could use this £5,000 for anything, you could even use it to buy more Ethereum and leverage your gains/losses.

Or how about this...

Let's say that in a few years Ethereum is back at £500 per Ethereum.

Let's say you now have that same 50 Ethereum, now worth £25,000.

You could take out a loan for £25,000 against your Ethereum and use that money to put a deposit down on a house to rent out.

You could then use the money you made renting that house out to pay off your Ethereum loan.

After a few years, you'll have paid back your loan and got back your 50 Ethereum. And, you'll have a property that you are now letting out for income.

All because you held Ethereum and made a decentralised loan to yourself using MakerDAO.

Like I said, the possibilities are endless.

How decentralised loans work in real life

Okay, the above are simplistic examples just to show you what's possible.

In real life, however, you need to take into account your loan's liquidation ratio.

In order for the system not to collapse, when you borrow against Ethereum, your collateralisation ratio needs to stay over 150%.

This is because Ethereum – as we know – is a volatile asset. MakerDAO has different collateralisation ratios for different assets.

Yes, that's right, you don't have to just borrow against Ethereum. Ethereum is just the first asset that MakerDAO works with.

However, MakerDAO is adding different assets all the time, with different collateralisation ratios.

Gold, for example has a much lower collateralisation ratio than Ethereum.

But I feel like this issue is already numbers-heavy enough. So for now we'll just concentrate on Ethereum-backed loans.

But in the future, you will even take out a mortgage on MakerDAO using your house as collateral. I told you the possibilities here are extremely exciting!

But back to our example.

Like I said, with Ethereum as your collateral, your collateralisation ratio needs to stay over 150%.

Basically your locked up Ethereum must always be worth more than 1.5 times the amount of DAI you have taken out.

So, in the above example, to get your £5,000 loan, you would need to lock at least 75 (£7,500) Ethereum.

If your 75 Ethereum drops below £7,500 in value, then your collateralisation ratio will fall below 150% and your position will be liquidated.

When your position is liquidated, your Ethereum is automatically auctioned off to pay your outstanding debt, plus your stability fee, plus a 13% liquidation fee.



So, say you took out a £5,000 loan against your 75 Ethereum when they were worth £100 each.

If Ethereum drops to £99.99, your locked Ethereum will be auctioned off.

For the purposes of this example, let's say your Ethereum would reach the liquidation level at £100.

Your 75 Ethereum is instantly sold off for £7,500 (£100 x 75).

Of that £7,500:

£5,000 is sold to pay the £5,000 in DAI you loaned yourself.

A £650 (13%) liquidation fee is also added to that debt and sold off.

And a £50 (1%) stability fee is also added and sold off.

For a total of £5,700.

After that all happened (automatically in a matter of minutes) you receive what's left in Ethereum.

In this case £1,800, or 18 Ethereum.

But don't forget that you also keep the £5,000 of DAI you took out.

So what did you lose in total?

You put in £7,500 of Ethereum and received £6,800 back.

So even if your position gets liquidated, it's not like you end up with nothing.

But no one wants to get liquidated. So that's why you always need to keep your collateralisation ratio above 150%.

Most people recommend keeping it above 200% or even above 300%, so you have plenty of time to react if it starts getting near 150%.

How do you increase your ratio? You can either pay back some of your loan in DAI, or add more Ethereum to your collateral.

If you want a properly in-depth explanation of how this process works, there is a great one [here on MakerDAO's Reddit](#).

So, realistically, in this scenario, to take out a £5,000 loan, you'd want to lock up at least £10,000 of Ethereum, and to set up alerts on the price of Ethereum so you could add to your position if the price dropped a lot.

You are clearly taking on a risk by loaning out your Ethereum. But an awful lot of people believe that risk is worth it.

2% of Ethereum's total supply is now locked up in MakerDAO's decentralised loans

To be clear, I'm not saying you should take out a loan against your Ethereum. I'm just showing you what the MakerDAO system allows people to do.

MakerDAO is building the foundations of a completely decentralised financial system.

And it's working. People are really getting on board with it. A lot of people. In fact, as I write this, 1.966% of Ethereum's total supply is locked up as collateral in MakerDAO smart contract loans.

That's just over 2 million Ethereum, currently worth around \$282 million.

23,796 more Ethereum got locked up last week. As the word spreads about MakerDAO and DAI, these smart contract loans are getting ever more popular.

Aside from this being a great

thing for MakerDAO holders – I'll get to that in a second – and people who want a stable cryptocurrency to use, this is fantastic for Ethereum holders.

The more Ethereum that is locked up, the less Ethereum there is available for other people to buy. So the Ethereum price gets pushed up due to simple supply and demand.

What if Ethereum goes up, do I have to pay more to get it back?

In the above examples, Ethereum drops in price, but what if it goes up?

Well, if the Ethereum piece goes up, that is very good for you as a loan holder, for two reasons.

1. You still only need to pay back the same amount of DAI you borrowed to get back your full amount of Ethereum (plus your 1% stability, calculated in DAI).

So, let's say you put 50 Ethereum into your position, when Ethereum was worth £100, and borrowed £250 worth of DAI.

In a year, Ethereum goes up to £500.

Now the 50 Ethereum in your position is worth £25,000 and you want it back.

To get that £25,000 of Ethereum back, you still only need to pay back your £250 loan, plus the 1% fee (£2.50).

So you pay £252.50 and get back £25,000 worth of Ethereum.

Not bad.

2. It increases your collateralisation ratio.

So you could borrow more DAI



against the same amount of Ethereum, if you wanted to. Or you could just sleep better at night, knowing your position is further away from being liquidated.

In the above example, you could now borrow £12,250 of DAI and be the same 200% collateralisation ratio you started at.

Gains without capital gains

It's also worth noting that taking money from your Ethereum holdings in this way is not a capital gains event.

You are not disposing of your Ether, you're taking a loan out against it.

So, in theory, this could be a smart way to take profits without triggering a taxable event.

But on this, please note that I am not an accountant, and not qualified to give out tax advice.

So if you were looking into doing this for tax reasons, you would need to consult your accountant, and hope they are au fait with the new crypto tax rules.

By owning MakerDAO, you become a bank and a central bank rolled into one

I touched on this earlier. But the possibilities here are much bigger than just personal loans.

It can be used to leverage your position – short the market, long the market, you name it.

It can be used in conjunction with other investments – like my house-buying example.

It can even be used to create a stablecoin savings account, which I'll explain in the next section,

MakerDAO could, and likely will, form the foundation of a whole decentralised financial system.

In the central bank analogy, Ethereum is your bank's assets, DAI is its liability, and MakerDAO tokens (MKR) are its shares.

Owning MKR is like owning shares in the whole system, because owning MKR gives you governance rights. It allows you to vote on how the whole system works.

Plus, every time a loan contract is closed, MKR tokens are burned, so their scarcity increases over time, leading them to rise in value. At least, that's the idea.

Where MakerDAO's token, MKR, comes in

So, we have covered how the loans work. Now to how MakerDAO's token, MKR, works.

Basically MKR is a governance token. When you hold it, it gives you voting rights over the MakerDAO system.

Just like owning shares in a company, the more MKR you own, the more your vote counts.

What can you vote on?

Well, remember that 1% stability fee? At one time it was 2%, and until very recently it was 0.5%.

The fee was changed through MKR holders taking a vote.

Someone proposes a change, and then the token holders all vote.

Some other things you can change as a MKR holder are the liquidation fees (currently

set at 13%), the collateralisation ratio (currently at 150%) and basically any changes to the rules of the system,

Given that there is already \$282 million of Ethereum in that system, having a say over how it all works is worth a fair amount.

Not only that, but whenever a loan is paid off, the stability fee is actually paid off in MKR. This MKR is then burned. So the supply is always decreasing over time.

Now, if MakerDAO and DAI really do go on to form the basis of a whole new, decentralised, financial system, I can only imagine how much people will be willing to pay to get voting rights over how it works.

I recently read a piece by Vision Hill Research that did a lot of fancy extrapolation on burn rates and debt ceilings.

It calculated that MKR could reach \$10,000 a token in between 1.5 years and 5.25 years. But this did assume "100.0% of the Ethereum supply is collateralized at a 150% collateralization ratio," which sounds a little ridiculous to me.

Still, MKR tokens have a much, much better value proposition than almost any other crypto I have seen. And they are already being used in the real world.

Ethereum is just the start, MakerDAO will soon be launching multi-collateral DAI

Okay, we're really heading through the rabbit hole now.

Up until now, all my examples have only used Ethereum as collateral in MakerDAO's system. But MakerDAO is soon launching multi-collateral DAI (MCD).



So, you people will be able to lock up different assets as collateral, such as gold, different cryptos, property... you name it.

The different assets will have different collateralisation ratios.

Gold, for example is much, much less volatile than Ethereum and so you won't need to over collateralise by anywhere near as much as you would when loaning out against Ethereum.

This MCD is currently being tested out, and has been for a while. There is no word on when it will launch on the mainnet, but it will likely be a matter of months.

On MakerDAO's website, it states, "In the next 6-12 months we plan to upgrade Single-Collateral Dai to Multi-Collateral Dai."

Or to use crypto speak, it will be launching "soon™".

But perhaps one of the most exciting things about the launch of MCD is it will enable DAI savings accounts.

Here is what MakerDAO developer Niklas Kunkel had to say about multi-collateral DAI in November 2018:

When multi collateral DAI launches, if you hold DAI and lock it up in an interest-bearing smart contract, kind of akin to a savings account, you'll be making 2% interest annually.

This is an effort to protect people from the inflation of the dollar. If you're just holding dollars, you're getting inflated over time and you're losing the value of your money.

And what you really want in a stable coin is you want to keep value. You don't want to be susceptible to the US printing more money and printing

more money.

How will it work, exactly? Kunkel explains:

The interest is going to be funded from the stability fee. So basically the interest we charge on the loans.

The way you can think of the stability fees and this kind of "savings rate" is kind of levers for the MKR token holders to use.

I almost think of it like a central banking kind of policy.

In order for DAI to maintain its peg, you have people who want to create DAI and people who want to create DAI.

And it's important that we keep these two in equilibrium.

The way we do that is, say we're seeing too much demand for holding DAI and not enough for creating it.

Well, then we may want to make it more attractive to create DAI, and so we would lower the interest rates that people pay.

Say we want to do the opposite, we want to encourage holding more, we would increase the interest rates.

The DAI savings rate is just another part of that equation.

How the DAI price stays stable

I guess the last thing we need to cover is how DAI is kept at a stable price.

I briefly covered this in my [stablecoins issue](#) back in October 2018, but just to recap:

People in the system are incentivised to keep the DAI

price stable through their own self-interest.

To show you how this works, I'll use two extreme examples.

In real life the same process happens, but at much smaller increments. Basically bots do this every time the price fluctuates by even a tenth of a penny.

Example one.

DAI starts selling for \$0.50 instead of the \$1 everyone took out a loan at.

This means people who have loans out can buy this cheap DAI and use it to pay off their loans for less money than they took them out for.

Say you had that same 50 Ethereum locked up, that you'd loaned £500 against.

You have £500 from your loan.

You see that DAI is now trading for \$0.50 instead of \$1.

So you buy £250 of DAI, and pay off your £500 loan with it and get your Ethereum back.

Remember, you only ever have to pay back the same amount of DAI what you borrowed (plus your 1% stability fee). It doesn't matter what DAI or Ethereum is trading for at the time.

In this scenario you have just made £250 from nothing.

When everyone who has loans does this, it will naturally push the price of DAI up through the laws of supply and demand.

Example two.

DAI starts selling for \$2 instead of the \$1.

This will incentivise people to put



their Ethereum into loans and get out DAI.

Say you have that same 50 Ethereum worth £100 each.

When DAI is selling for \$2, you can lock up your 50 Ethereum and get £1,000 of DAI from it.

You can then take that £1,000 of DAI and buy 100 Ethereum.

You've just doubled your Ethereum supply.

Now, if Ethereum goes down and your position gets liquidated, you don't care, you already have double your Ethereum.

And if Ethereum goes up in price, to say £1,000. You can still buy back your now £50,000 of Ethereum for £1,000 of DAI.

And that's assuming the DAI price never went back to \$1, which, for the reasons shown above, it would.

In reality, the price fluctuates by only a tiny fraction of a penny, and every time it does, bots make money by doing the above on a tiny scale, thousands of times over.

It's a very simple, yet very clever mechanism.

Ranking MakerDAO (MKR)

Okay, I think that just about covers everything. But if you want to do some research for yourself, I'll link you to a great resource of collected information from MakerDAO's GitHub in my resources section.

Now, let's get on with the raking.

Scope

I've already covered MKR's scope in the last 4,000 words.

It's safe to say this is a highly ambitious project that could fundamentally change how the financial world operates.

So, for scope it gets a 10.

Scope: 10/10

Team and partnerships

Unlike something like Ethereum, MakerDAO doesn't really have any household names behind it, like Vitalik Buterin.

Although, MakerDAO continually puts out good content on its Medium blog and YouTube channel. So its team are definitely well known and well regarded in the community. And there are currently around 66 of them.

On top of that, the MakerDAO team has stood the test of time. MakerDAO was one of the first ever companies to work on Ethereum. It started back in 2015, when Ethereum was very young.

The MakerDAO team saw Ethereum's potential from the start and got to work.

There is also quite an interesting aspect to MakerDAO's structure. As you might have noticed, MakerDAO's full name is MakerDAO.

The DAO stands for "decentralised autonomous organisation". As I've said, holding MKR gives you voting rights over the future of the company

As a MKR holder you can submit new company proposals – say about changing the stability fee, or collateralisation ration – and vote on proposals that other people have submitted.

The MakerDAO team serves as the executive part of the governance system.

As for partnerships, the biggest one is probably with DIGIX. DIGIX is a gold-backed cryptocurrency. Each DIGIX token represents 1g of gold held in vaults in Singapore and Canada.

This gold is fully audited, and as a DIGIX token holder you can actually go to one of these vaults yourself and redeem your gold if you ever feel the need.

In January 2018, MakerDAO and DIGIX announced they were: "proud to announce a partnership that combines the best of both projects to deliver the ultimate stablecoin to the blockchain ecosystem: the Dai Stablecoin backed by Digix Gold tokens (DGX) as collateral."

As I said MakerDAO is moving to a multi-collateral model, and it will be integrating other assets, like gold, other stablecoins and even property into its system.

But I would also say that unlike most other cryptos, MakerDAO doesn't really need partnerships in the usual crypto sense.

It is building its own decentralised financial system. The most important part will be the people and companies that actually use it.

So for team and partnerships it gets an 8.

Team and partnerships: 8/10

Why the tokens have value

I have covered this in the "Where MakerDAO's token, MKR, comes in" section.

For why the tokens have value, it gets a 10.

Why the tokens have value: 10/10



Passive income potential

MKR doesn't offer any kind of passive income. When people pay their stability fees, the MKR is burned, which reduces supply and increases the price. Those MKR tokens don't go back to MKR holders.

However, the MakerDAO system as a whole offers you the potential to create your own passive income – see my “using an Ethereum loan to buy a house” example.

And, as the MakerDAO developer Kunkel said, it will soon be introducing a 2% savings rate on holding DAI.

So although the MKR token themselves don't offer passive income, the MakerDAO system does.

So for passive income potential MKR gets a 2/5.

Passive income potential: 2/5

Competition

In terms of stablecoins, DAI has a lot of competition, from Tether to the newly announced JPMorgan Coin.

However, none of these other stablecoins can be trusted in the way that DAI can.

As I've said, DAI is fully decentralised. It doesn't rely on third parties to ensure its value and it cannot be controlled and manipulated in the way that say JP Morgan's stablecoin will be.

But I covered this in a lot more detail in my stablecoin's issue. So if you'd like more information on that, you can read that issue [here](#).

And MakerDAO's CEO, Rune Christensen, put all this very

well in an interview he did in November 2018. Here's what he had to say:

We are pretty much the only multi-collateral stablecoin that exists, given that that's the best model. So that's funny, but maybe that comes down to the fact that we're three and a half years old, and we really thought about this for years when we decided on our principles. We didn't just jump on the stablecoin bandwagon. We made it.

There are two other major types of stablecoins other than the multi-collateralized model. One is an IOU token, which is stuff like Tether, it's Gemini USD, Circle USD, and a whole bunch of others. There's also a euro, a euro IOU token, there's swiss franc, australian dollars, there's different IOU fiat tokens coming out and the problem, again, is all of them have the issue that they're centralized.

So it's basically giving up the biggest advantage of the blockchain. You have to let go of decentralization if you want to build your application on top of these stablecoins.

We're seeing some use from them on for instance centralized platforms, like centralized exchanges, but we're not really seeing decentralized applications adopting these IOU stablecoins, because then they become centralized. It's kind of like instead of building your application on the blockchain you're building your application on the bank.

*That's where Dai has a big advantage because the Dai is decentralized, but still has this sound, real asset, auditable, and trustworthy backing. And then also what we actually will do is, **we will include the IOU***

stablecoins themselves into the collateral portfolio of Dai and use them as on and off ramps for the system.

And just to clarify why someone would ever want to use another stablecoin to borrow Dai, because that may seem counterintuitive. In fact, people doing this, it won't be regular people. Basically, it'll only be highly specialized market makers, so it'll be the kind of traders who specialize in providing liquidity for someone who wants to get in and out of crypto.

They will be using CDP's (Collateralized Debt Positions) and these IOU stablecoins, which give them massive leverage when they're providing this liquidity. And that means it'll be a lot cheaper for them to provide that liquidity, which ultimately results in very low spreads and thus makes it almost possible to just move one to one from money in your bank and Dai.

You'll notice I highlighted one particular sentence in Christensen's answer: “We will include the IOU stablecoins themselves into the collateral portfolio of Dai”.

I thought this was pretty interesting. So eventually, MakerDAO will use other stablecoins, such as JP Morgan's new one, as collateral against loans.

And DAI is just a part of the MakerDAO system. As it stands, MKR is unique in the crypto space, and certainly unique in the finance space.

So for competition, at this time, MKR gets a 5. There is nothing else like it out there, yet.

Competition 5/5.



Ease of use

In terms of an investment, MKR it's as easy as any token to buy, store and trade.

It's simply an ERC20 token. So you can store it in any wallet you can store Ethereum.

It is mostly only available to buy on decentralised exchanges at the moment – which are actually far better than something like Binance, as you never put your crypto at risk.

And, it's coming to Coinbase soon. Coinbase already announced it will be listing MKR back in December. But it's not available for UK customers just yet.

It will be coming soon though, however.

So, if you're just looking to buy, hold and trade MKR, I would give it the same score as Ethereum.

However, using the MKR system to take out loans is still pretty complicated for your average person. So rating it on that I would have to give it a lower score.

But, for the purposes of this ranking I don't feel it would be fair to deduct points because taking out a loan is complicated. I don't deduct other crypto's points because their programming languages are difficult.

So, for ease of use, it gets the same as Ethereum, a 4.

Ease of use: 4/5

Caveats

As you may expect with such an ambitious project, it does come with caveats.

First of all, as Ethereum is the only collateral right now, if

something critical in Ethereum fails, it will take MakerDAO down with it.

However, if Ethereum fails, it will likely take the entire world of crypto down with it. So maybe that one is a little unfair, but it's certainly something to consider.

There is also the fact that this is a DAO. That is a very new structure for an organisation, and one that has never really been tried before.

And then there is the issue of a "black swan" event in crypto prices. MakerDAO's DAI stablecoin has stayed stable throughout the last 12 months, which is about the best test you could ever hope for.

But there is still the possibility of a crash so steep and fast that it messes up the system. If that ever happens, MKR automatically gets created and sold on the open market. This will ensure DAI stays stable, but it will reduce the price of MKR.

And then there is global settlement.

Gregory DiPrisco gave a good explanation of this on his MakerDAO for dummies article:

To keep the system as secure as possible and prevent what cannot be foreseen, the MakerDAO team has added a process called global settlement. When global settlement is triggered, the entire system freezes and all holders of Dai and CDPs are returned the underlying collateral. So, if a global settlement is triggered and I hold 100 Dai, and one ether is worth \$100, I can exchange my 100 Dai directly for one ether right through a smart contract. The collateral held in CDPs will be similarly released to its owners. A global settlement can be triggered

by a select group of trusted individuals who hold the global settlement keys. If these signatories see something going horribly wrong, they will enter their keys initiate the process of gracefully winding down the system.

"But doesn't that make this... centralised?!"

No, it doesn't. The only thing a global settlement can do is give you back your collateral. It can't steal your ether or Dai or interact with the system on your behalf. The worst case scenario in a global settlement is that you end up being exposed to the volatility of your collateral until the system is fixed or you can send it to an exchange.

So, if this happens, it shouldn't lose any people any money, but it will be a lot of hassle, and draw a lot of negative attention.

And the thing is, when MakerDAO moves to multi-collateral DAI, it will be triggering global settlement to do so. There will be a six-month grace period where people can collect their collateral, but it is going to be a headache for people already using the system.

Technically, MakerDAO is still in beta testing. When it switched over to multi-collateral, it will be its proper launch.

So, there are a fair few caveats to consider here.

Given all of the above, I am giving MKR a -5 for caveats.

Caveats: -5/-10

Total

34/45

Percentage

76%



Current market cap and what that means

MKR is currently ranked 17th on coinmarketcap.com, just below NEO. It is already a recognised and well-regarded project.

And over the last couple of weeks, in particular, its price has steadily risen. Perhaps this is because, unlike most cryptos, it has real users and is providing a real service, which is very much in demand.

It has gained great deal of coverage from the world of crypto recently, and is already on most people's radars. So if you're looking for an undiscovered crypto that could shoot up 10x out of nowhere, this probably isn't it.

But if you're looking for a real project that is already working well and providing real value, which will likely rise faster than most as the crypto market recovers, this could be a great investment.

However, given that it has steadily been rising, even when the rest of the market was flat, it could be due a dip. So maybe you'd be best waiting to see if it dips a little over the next few weeks if you want a better entry point.

But given that the entire market has been recovering this week, it's almost impossible to say what will happen with prices other the short term.

Many people are calling an end to the bear market. But I think it's a bit early for that. Crypto does love to surprise us, after all.

Perhaps, if you're looking to buy into MKR, you're best using the old faithful dollar-cost averaging strategy.

Trigger points

The main trigger point I see in the "next 6 to 12 months" is the launch of multi-collateral DAI.

I have already written about why this will be a crucial milestone. And it will mean that a lot more money can be locked up in the MakerDAO system.

Coinbase is also another good trigger. When full MKR token trading launches on Coinbase – which could be any time from a few days to a few months – it will get all the usual Coinbase hype. And it will make it much, much easier for people to buy into it.

Then there are the headlines. Whenever a big-round number of locked up collateral is reached, MakerDAO makes headlines.

It is very close to having 2% of the entire Ethereum supply locked up in its system right now. When that number is reached, it will bring a lot of attention.

And the same will happen when it locks up a significant amount of any asset into its loans.

Resources

[White paper](#)

[Official website](#)

[Medium blog](#)

[Kyber](#) – a big decentralised exchange where you can trade Ethereum and ERC20 tokens for MKR.

[AirSwap](#) – another good decentralised exchange where you can trade Ethereum and ERC20 tokens for MKR

[MakerDAO's Reddit](#)

[CoinMarketCap page](#)

[MakerDAO tools](#) – where you can see all kinds of information about MakerDAO loans.

[MakerDAO's YouTube channel](#)

[A big list of MakerDAO guides on its GitHub](#)

Conclusion

I think it's clear that I am a fan of MakerDAO.

I think this project has come the closest to creating a truly separate, decentralised financial system, and it's just getting started. As I said, it's still in its beta testing phase and is yet to launch multi-collateral DAI.

The kind of instruments and financial products that MakerDAO enables mean that next time you're looking to get a loan or a mortgage or a savings account, there will likely be a crypto alternative offering you much better rates and much more control over your money.

It has not received my highest ranking because as a pure investment play, it does have a lot of risk.

It has ended up joint fourth in my rankings, along with BAT. Once MCD launches, I will likely take another look at its ranking and maybe reduce the caveats a little, if it all goes well.

But I think that even if you don't invest in MKR, it is very important that you know it exists and how it all works. It is truly laying the foundations of a whole new world of decentralised finance.

This is the future, and it is here today.



If you've read this far, you are probably one of the few people who appreciate just how world-changing this is going to be once it gets going. And I think you'll be very happy you were on board from the beginning.

What do you think of MakerDAO and the world of decentralised finance? I realise this was a pretty full-on issue. So, let me know what you think: harry@southbankresearch.com.

Until next time,

Harry Hamburg
Editor, *Crypto Wire*

PS if you want to see where MKR fits in with my other rankings from previous issues, you can see the list below:

1. IOTA 38/45 – 84%
 2. Ethereum 37/45 – 82%
 3. VeChain 35/45 – 78%
 4. MakerDAO 34/45 – 76%
- Also 4. BAT 34/45 – 76%
5. Neo 33/45 – 73%
 6. Nebulas 28/45 – 62%