Profit From the DeFi Revolution

A Simple, Low-Risk Way to Earn 10.3% Annual Interest on Your Idle Cash

By Jeff D. Opdyke

A *Global Intelligence* Report
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Editor's Note: Because of changes in the industry in the 18 months since we produced this report, the strategy tied to CoinLoan and Hodlnaut is no longer viable. Owning the Grayscale Ethereum Trust, however, remains viable.

Profit From the DeFi Revolution

A Simple, Low-Risk Way to Earn 10.3% Annual Interest on Your Idle Cash

Welcome to the Year of DeFi—the year that ordinary people finally learn how to start earning some return again on their savings accounts.

I bet you've heard this term "DeFi" in recent months in the mainstream media. It's all the rage these days. It stands for Decentralized Finance and it promises to completely transform much of the financial world that you and I have always known.

In the same way that the internet reshaped how we shop or book flights and hotels, DeFi is going to forever change how we save money, get loans, buy insurance, and so much more.

In fact, this transformation is already underway and if you get involved now, you can earn significant returns simply for parking your cash.

How significant? Try 10.3%.

Seriously: up to 10.3% per year. On what are basically safe, stable U.S. dollars.

These rates of return are open to everyone. And you face about the same risk you do from sticking your dollars in a regular bank account.

When I tell people this—when I tell them returns like these are available right now—their first reaction is uncertainty, followed by disbelief. They're skeptical and, sometimes, outright insist that what I'm telling them is a scam.

But when they hear the story and see the proof…well, everything changes.

That's why I wrote this report: I want you to understand how DeFi works and why it represents one of the best opportunities available to everyday investors.

And I want to share with you my favorite way to start earning real returns with DeFi today: Stashing money in what are effectively crypto savings accounts and collecting that 10.3% annual yield I mentioned above.

Once you understand these opportunities, you'll see why investors such as billionaire Mark Cuban are moving millions, if not billions, of their own personal wealth into this booming market.

So, let's get to know DeFi and start earning some money.

What Is Decentralized Finance?

DeFi is quite simple: It's financial services that do not rely on traditional providers, such as banks, brokerages, insurance companies, or financial planners.

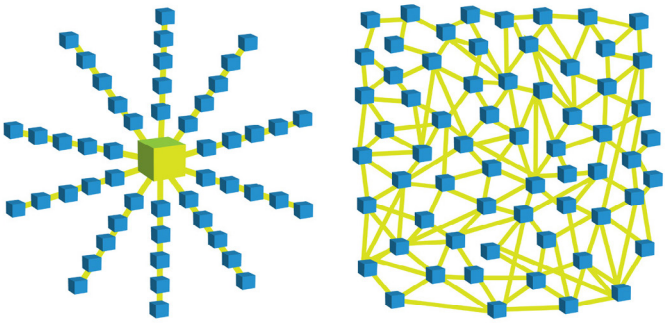
Rather, it involves masses of people recreating all the traditional financial products and services we've known for decades (and some unique ones) and providing those to one another without a middleman in the mix.

Frankly, it's little different than eBay, really. Buyers and sellers meet in a secure, centralized location online to transact…only now the products are financial rather than old books or electrical goods.

The reason we can have secure online banking, insurance, and investment products without the need for traditional middlemen like banks is blockchain.

This is the powerful technology behind bitcoin and all cryptocurrencies.

Basically, a blockchain is a database of records that is spread across a vast network of computers.



Centralized Network | Decentralized Network

New collections of records, or blocks, are added to the database in sequence, one after another. Thus, it is a chain of blocks, or blockchain.

Crucially, once a block is added, it is practically impossible to change or remove. This makes the system safe and unhackable.

Here's a very simple example of how that works.

Say, for instance, you send $100 through a DeFi network to another person, let's call him Mr. Smith. All the details of that transaction are recorded—such as the time of the transaction, the amount, and the digital signatures of you and Mr. Smith—and securely locked inside a record.

This record is then checked by many nodes—the computers attached to the network—to make sure it's valid. If the nodes agree it is, then it is grouped with other records inside a block. That block is then added to the chain.

Let's say the block with our record inside is going to be No. 8,000. It will be the newest entry on a blockchain with 7,999 existing blocks.

Now here's the crucial part about blockchain. Each block is like a jigsaw piece, with a unique slot on one side and a unique tab sticking out on the other.

The slot on our new block, No. 8,000, is designed to perfectly fit the tab on the previous one, No. 7,999. It will not fit any other block that has ever existed or will ever exist.

Similarly, when block No. 8,001 is later created, its slot will perfectly fit the tab on our block, No. 8,000, and no other block now or ever.

What these slots and tabs are in reality is something called hashes—long, complex strings of numbers and letters.

These hashes are created using a special math function based on the information *inside* the block. So, these hashes not only link one block to the next, they also protect the blocks from tampering.

Here's how:

Say Mr. Smith broke into your block and changed the amount you sent to $2,000. (Breaking in would take a truly astonishing amount of computing power, but let's say he somehow managed it.) Since the mathematical links—the hashes—are determined by the information inside the block, changing the data in the record would also change the hashes.

This, in turn, would alter the links on our block to the blocks before and after it in the chain.

Now the block is no longer linked properly in the network. Because of this, the nodes in the network would reject it and stick with the original version of the block. So, the record of our transaction is safe.

Because a blockchain is built in this way, it's essentially impossible for anyone to change a record in the chain.

This allows us to have safe, secure financial databases without the need for banks, insurance companies, or any other traditional industry players to manage them.

This technology is safe, and it is proven.

Blockchain is the reason that the bank branches you see every day will vanish in coming years.

It's the reason mortgage brokers, title companies, and escrow agents are headed for the same boneyard where lie the corpses of pay-phones, dial-up modems, beta-max video cassette players, and every Blockbuster store that once existed.

Even the New York Stock Exchange itself could cease to exist as an entity at 18 Broad Street, in lower Manhattan.

I know how that sounds.

Nevertheless, it's true. All of these services will end up on the blockchain.

Moreover, this is an entirely positive development for you and me.

Right now, cryptocurrency projects are emerging all across the DeFi space that are digital versions of pretty much every financial product and service we use daily: savings accounts, borrowing and lending, stock market investing, insurance, credit cards…you name it.

They all share a singular purpose: To eradicate the middleman—that person or institution that has historically taken a slice of the consumer's profit.

Consider a traditional banking arrangement. I deposit money in a savings account and earn 3%. The bank takes my money and lends it to you at 7%. And the banker keeps the 4% difference for himself.

DeFi asks: Why?

In a world of decentralized finance, you and I meet in a secure environment—a centralized location on the blockchain—and I lend to you at 5%. The transaction is secured by collateral. I'm protected, you're protected. I get paid more, you have to pay less. We both win.

Traditional banks lose because we don't need them anymore. They serve zero purpose in a DeFi world.

That is DeFi in a nutshell—a revolutionary way to manage and invest your money, or to buy the various financial products you need in your life.

The Crypto That Powers DeFi

By and large, DeFi runs on a cryptocurrency you've probably heard of: Ethereum.

It's the second largest cryptocurrency in the world after bitcoin, based on the market value of all the Ethereum that exist, and it has emerged as the backbone of DeFi.

Here's a way to think about Ethereum's role in DeFi:

Imagine you've built a train track to a newly emerging small town that you're absolutely convinced will grow into something big one day. At first, that track has little demand, so you can't really charge train operators very much for the right to operate their trains on your track. Many simply don't care that your track even exists.

But quickly, that town starts exploding in population.

New businesses are constantly popping up.

People from everywhere are moving in because of the opportunities.

Suddenly, demand for access to your train tracks is massive!

Every train operator in the area—and scores of newly opened train companies—want to service that booming town. Now, you can charge higher and higher fees to access your track as more and more train companies want to send trains to that town.

That's the Ethereum network—it's the train track running to DeFi Town.

If you want to start a DeFi project today—say for instance, a DeFi version of a bank offering savings accounts and loans—you need access to a fast, efficient blockchain network.

Ethereum offers this. And the way you get access to the Ethereum blockchain is by buying and using the Ethereum crypto.

So, this is "crypto-as-a-service," rather than "crypto-as-a-currency."

As such, while bitcoin is a store-of-value coin, Ethereum is a workhorse coin with real-world applications that are powering the DeFi revolution.

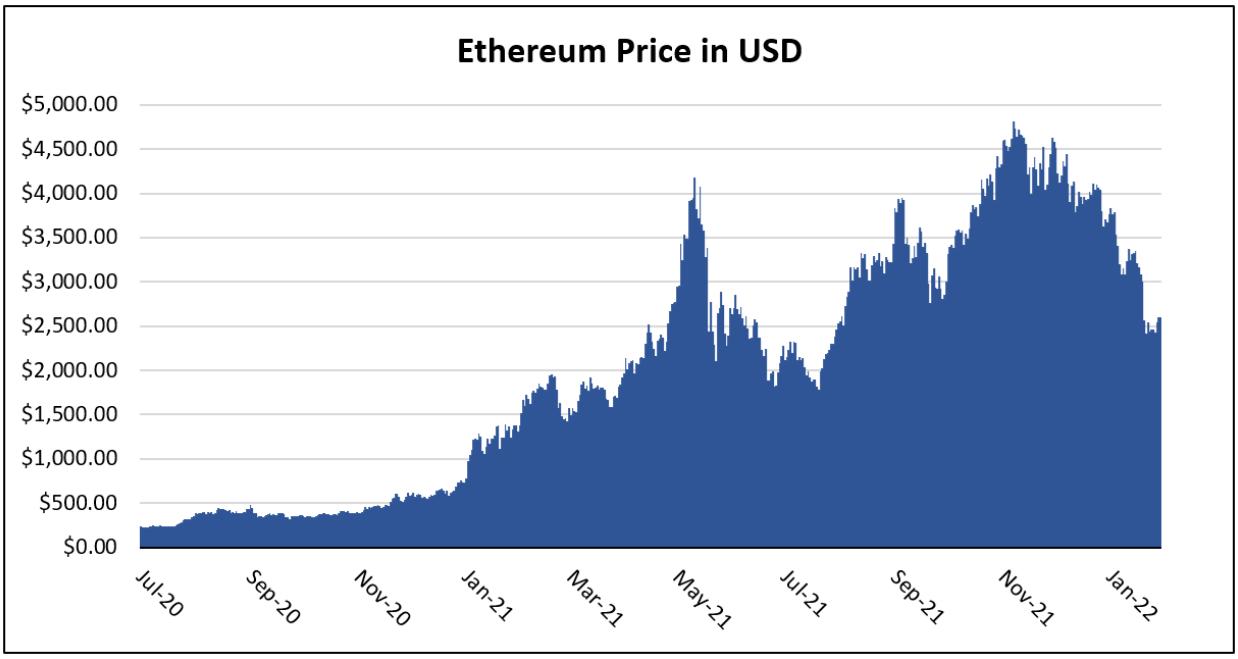
Why Is DeFi All the Rage?

In short: Money.

For savers, that money comes in the form of annual yields. In DeFi, those returns can range from less than 1% to more than 20%, depending on which cryptocurrency you own and where you save it.

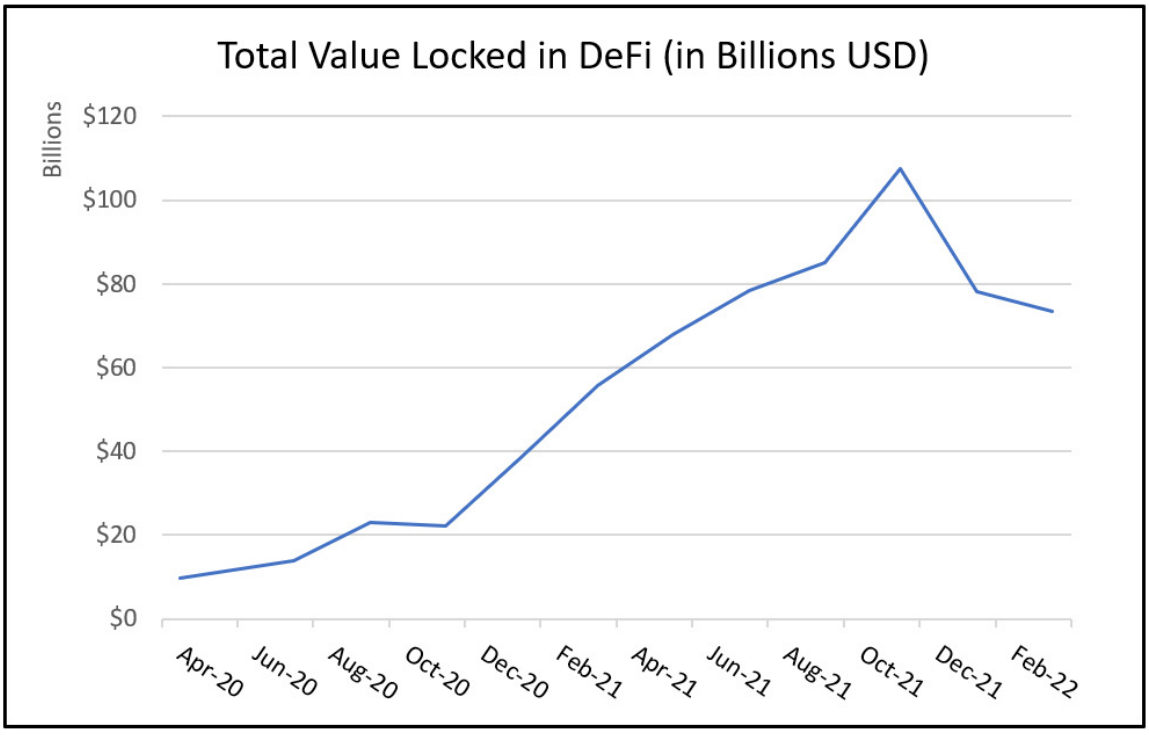
For investors, the money comes from the rising value of the coins and tokens that power the various DeFi networks and services. Anyone can buy coins like Ethereum simply as an investment and the returns can be astronomical.

As the number of DeFi projects has exploded over the past year, the price for Ethereum has soared, too. It rose from under $300 per coin in July 2020 to the $3,000 range, as I write this. That's a whopping 900% return!



It's not hard, then, to see why savers and investors are flocking to DeFi. You can see how demand for DeFi has truly exploded in the past year…

As recently as January 2018, DeFi held only around $100 million in assets. Four years later, we're around $75 billion.



More important is that ramp you see in the chart starting in the middle of 2020. That's when early crypto-savvy investors, savers, and institutions caught on to the opportunities that are available…and they began pouring money into DeFi.

In the grand scheme of global finance, $75 billion is a drop in the ocean. But DeFi is still quite young.

As the industry matures, money will rain into DeFi like a hurricane's deluge.

My expectation: DeFi assets quickly sprint past $1 trillion before 2023 ends.

A lot of money will be made in that move as savers stash more and more money in high-yielding accounts.

Getting Started in DeFi

The easiest and safest way to start earning through DeFi is to open the digital version of a savings account.

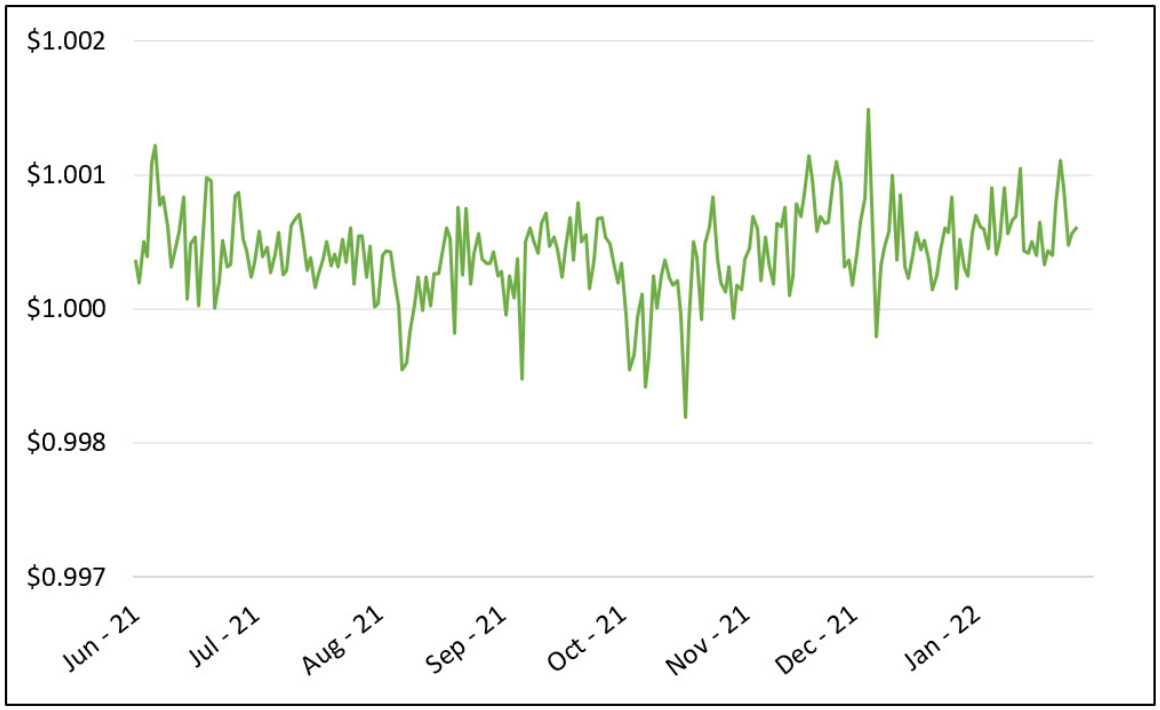
But, instead of earning 0.01%, which is what you get at Chase, U.S. Bank, Bank of America, and others, we're going to earn 10.3%…on a cryptocurrency that is, literally, no more volatile than a U.S. dollar bill.

That's crucial, so I want to repeat myself here: "Literally, no more volatile than a U.S. dollar bill."

I'm not talking about cryptocurrencies like bitcoin that regularly bounce up and down wildly. I'm talking about something known as "stablecoins"—cryptocurrencies that are specifically built to be, well, stable.

Their purpose is to tightly shadow a particular asset, usually gold or a fiat currency such as the dollar, euro, British pound, and others.

Owning these stablecoins isn't about chasing massive capital gains as they rise in value. These are about owning a stable, digital asset. Take a look at this chart and you'll see what I mean by stable…



That's a cryptocurrency called US Dollar Coin, or USDC.

Its singular purpose is to track the greenback. That chart looks volatile, but that's only because of the scale. Look at the price range on the left-hand side. USDC has spent almost all of its time moving tightly around either side of $1.

Own USDC, and the dollar you put into your account today is the dollar you pull out tomorrow, just as you would with any traditional bank account.

Stablecoins are so stable, in fact, that the U.S. Comptroller of the Currency has said that federally regulated banks can conduct payments using stablecoins.

In practical terms, then, owning a George Washington in your wallet is no different than owning USDC in a crypto account. The U.S. government says they're equal.

Where they're not equal is in the returns they generate.

You and I both know that banks effectively pay nothing. Even a five-year certificate of deposit reaches only around 1%.

But if you were to deposit USDC at one of the crypto-banks I mention, you could collect up to 10.3% annual return.

Why Crypto-Banks Can Offer High Interest Rates

How is it possible to earn such a large return on dollars?

Think about how a traditional bank works:

- It takes in deposits—dollars—from you and me.
- It turns around and lends that money to borrowers at some interest rate, with the borrower typically putting up some kind of collateral to protect the lender.
- The bank then shares with us a portion of the interest it earns on the loan.

Crypto-banks work in exactly the same way.

They pull in deposits from me and you in the form of cryptocurrencies—everything from stablecoins to bitcoin, Ethereum, and others.

Then, they turn around and lend those coins to borrowers at various interest rates.

There are two reasons why crypto-banks can offer higher returns to savers than traditional banks.

First, operating in cryptocurrencies is significantly cheaper and easier, since you don't have to store or manage fiat currency like dollars.

Plus, there's no need to have hundreds of bank branches or storefronts or ATMs, and no need for tellers or brokers or agents. So, crypto-banks have much lower overheads.

Second, like traditional banks, crypto-banks are imposing relatively high rates of interest on loans. And like traditional banks, they're charging origination fees and whatnot.

Combined, these factors mean crypto-banks have the income to pay us higher interest rates to attract our deposits.

But why would someone borrow from a crypto-bank?

A couple of reasons:

Some borrowers are institutions and businesses that might not want to go through the costly and time-consuming process of qualifying for a traditional bank loan. Or, they simply don't have easy access to capital.

In the U.S., micro-, small- and medium-sized businesses have always faced challenges accessing loans through traditional financial channels. It's an even greater headache across much of the rest of the world. Banking options are scarce—even non-existent—for small- and micro-business owners in many parts of Asia, Africa, and Latin America.

However, by owning cryptocurrencies—stablecoins, bitcoin, Ethereum, and others—businesses can immediately access capital without any rigamarole because all they have to do is simply post enough collateral and the loan is theirs in minutes. Some crypto-banks also offer preferential terms compared to traditional banks, such as the ability to repay a portion or the entirety of the loan early without incurring any fees or penalties.

This explains why a small company like Covenant Capital Management LLC, on the outskirts of Chicago, has used DeFi loans on several occasions to manage its cash flow and add equipment to its business.

Private borrowers, meanwhile, often want to maintain possession of an asset they expect will rise in price, like bitcoin, yet still have access to the money their crypto represents.

So, instead of selling their bitcoin to buy a new car, for instance, they borrow against their bitcoin, buy the car, and still own a valuable asset that could be worth substantially more by the time the loan is repaid and the collateral returned.

There are two key points to understand about how loans from crypto-banks work:

- Borrowers are typically required to deposit more collateral than the total value of the loan.
- The rate a borrower pays depends on how much collateral they deposit.

Let's use a $10,000 loan at a crypto-bank called CoinLoan as our example:

To secure that loan, borrower A puts up $14,300 worth of bitcoin, which means the value of the loan is worth 70% of their collateral. That doesn't leave a whole lot of wiggle room for an asset as volatile as bitcoin. So, CoinLoan charges borrower A its top annual interest rate of 11.95%.

Meanwhile, borrower B deposits bitcoin worth $50,000 for the same $10,000 loan. Meaning their loan—at just 20% of the collateral's value—is relatively conservative. There's a lot of room for bitcoin to bounce around without causing any problems. As such, CoinLoan will charge borrower B its lowest interest rate of 4.95%.

I'm using CoinLoan as the example here, but all crypto-banks operate in much the same way.

The 3 Main Risks and Our Protections From Them

Let me note here that crypto-banks are not covered by any kind of FDIC insurance, as are traditional bank accounts.

That said, there are protections from what I see as the three primary risks:

Risk #1: The borrower defaults on the loan.

Crypto-banks track in real time the value of the collateral backing each loan. If that value drops to a certain level, the borrower must immediately add more collateral.

If they don't, then the crypto-bank immediately terminates the loan and keeps an amount of collateral necessary to cover the full value of the outstanding balance. This protects me and you as depositors.

Risk #2: Hackers attack a crypto-bank and drain its assets.

Crypto-banks, as a matter of policy, routinely keep client assets offline, in a so-called "cold wallet." This is a type of wallet that is not connected to the internet. That means hackers have no way to get access to it.

Some crypto-banks manage this process in-house. Others hire an outside party to oversee it, such as custodian company BitGo.

In case something goes pear-shaped with this process, crypto-banks, and their service providers, also typically have insurance in place to cover losses or hacks. BitGo, for instance, has a $100 million insurance policy with Lloyd's of London.

Risk #3: A stablecoin collapses.

This hasn't happened in the years that stablecoins have existed, but that's not to say it cannot happen.

Frankly, however, I don't see the collapse of a stablecoin as a substantial worry. The stablecoins USDC, Binance USD (BUSD), and Paxos Standard (PAX, also called Pax Dollar) are fully backed 1:1 with U.S. dollars or other assets with equivalent value.

The world's biggest stablecoin, Tether, is not explicitly backed 1:1 with the dollar or assets of equivalent value. That makes it controversial in some circles. (Tether publishes its reserves daily, though they are not audited.)

I have used Tether in my own crypto investing. But for now, I would counsel you to avoid Tether until it can guarantee that the assets backing each coin are adequate.

The other mitigation measure I've chosen with my own portfolio, and the one I would recommend to you, is to spread your assets across multiple stablecoins. If calamity befalls one, the others should be fine.

Earn up to 10.3% Interest on Stablecoins at These 2 Crypto-Banks

Since DeFi is an emerging space, I would advise against placing all your assets in one crypto-bank. That's not to say that earning interest at a crypto-bank is risky. However, choosing multiple banks is a simple way to further lower your risk through diversification, while earning up to double-digit returns on your cash.

The two crypto-banks I want to tell you about that offer up to double-digit returns are:

CoinLoan, based in Tallinn, Estonia. Offering 10.3% on stablecoins.

Hodlnaut, based in Singapore. Offering 9.41% on stablecoins for the first 100,000.

Don't let those foreign addresses scare you.

Sometimes the best opportunities are found by moving away from the perceived safety of U.S. shores. Just because we're outside the U.S., however, doesn't mean we're suddenly taking on lots of additional risk. Not at all.

I have an account at CoinLoan, while *Global Intelligence's* managing editor, Ciaran Madden, has an account at Hodlnaut (though to be clear, we get no financial benefit from recommending them to you; we're merely spotlighting services we use).

Singapore and Estonia have robust financial services laws, and I feel perfectly at ease operating in either jurisdiction.

Singapore, where I've had a traditional brokerage account for nearly two decades, has one of the strongest financial-regulatory systems in the world.

As for Estonia: It's part of the European Union and, thus, ruled by EU financial laws that are on par with or stronger than U.S. laws. Moreover, Estonia is a highly advanced society, and it's equal to or ahead of the U.S. in technological adoption. It's the birthplace of Skype, after all, and has more tech startups per capita than Silicon Valley.

Why these two firms?

Primarily because they offer some of the fattest rates I've found, and because they're open to Americans. That's not always the case across the cryptoconomy.

Numerous firms refuse to accept American clients because of the hassles of dealing with U.S. regulations. These two crypto-banks have no such restrictions.

How to Earn Interest at These Crypto-Banks

You open an account. You deposit your money. Your interest is added to your account.

With these two crypto-banks, you can deposit and withdraw whenever you want, without penalty.

Note that not all crypto-banks accept all stablecoins. Of our recommended stablecoins, CoinLoan accepts USDC, PAX, and BUSD, while Hodlnaut accepts only USDC.

Also be aware that the interest rates at all crypto-banks are subject to change based on crypto market conditions.

The banks typically charge no fees to deposit crypto, though some will charge a withdrawal fee. Hodlnaut, for instance, offers one free withdrawal per calendar month with a charge of $10 for each subsequent withdrawal of USDC.

Signing up for an account at any of these banks is quite simple. You just need to enter some basic details and complete a "Know Your Customer" (or KYC) process.

At CoinLoan, the KYC process is three simple steps: Enter your name and address, upload a photo ID such as a driver's license or a passport, and take a selfie with your webcam or phone so that the internal systems can match you to your ID.

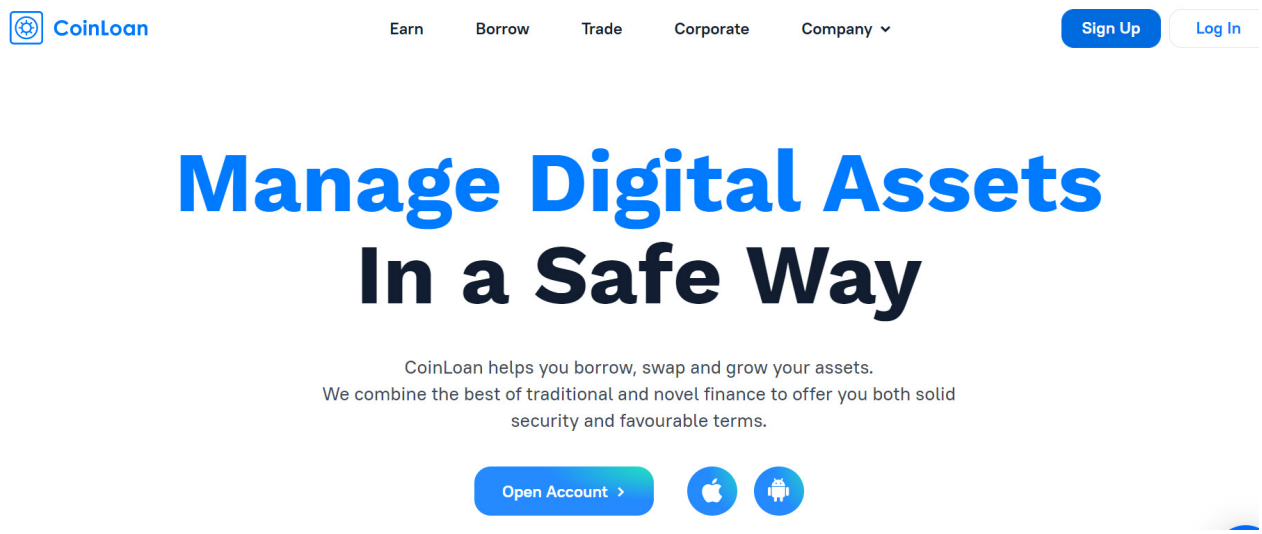
That process took me less than five minutes.

At Hodlnaut, the information needed is a bit more detailed—job title, employer, etc.—and it may take the company a day or two to process your KYC info. But once that clears, using a Hodlnaut account is simple and straightforward.

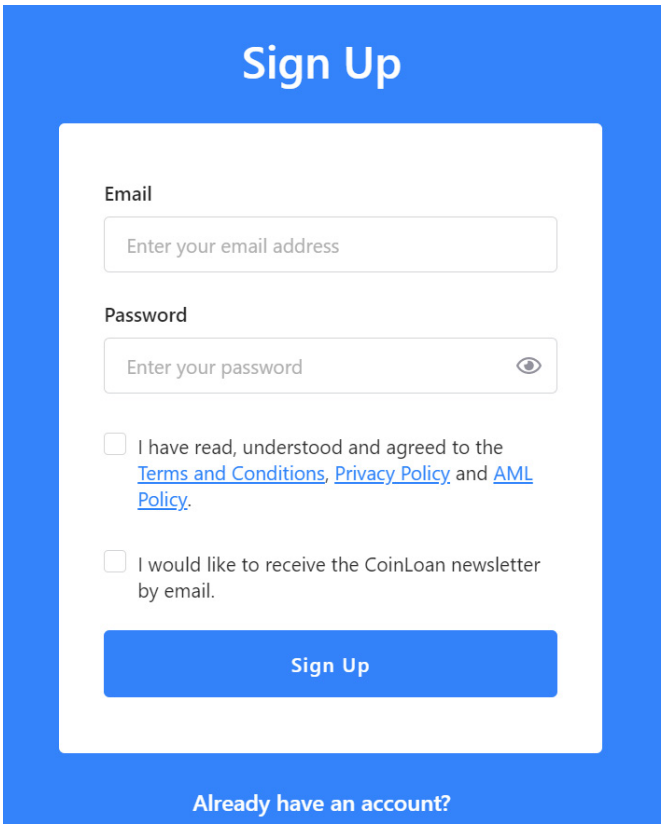
How Do I Open a CoinLoan Account?

Please Note: Crypto-banks regularly update their sign-up and log-in processes, so the screenshots in the following sections may not reflect your experience exactly. However, this guide should give you a robust understanding of how they operate and the kinds of information they require.

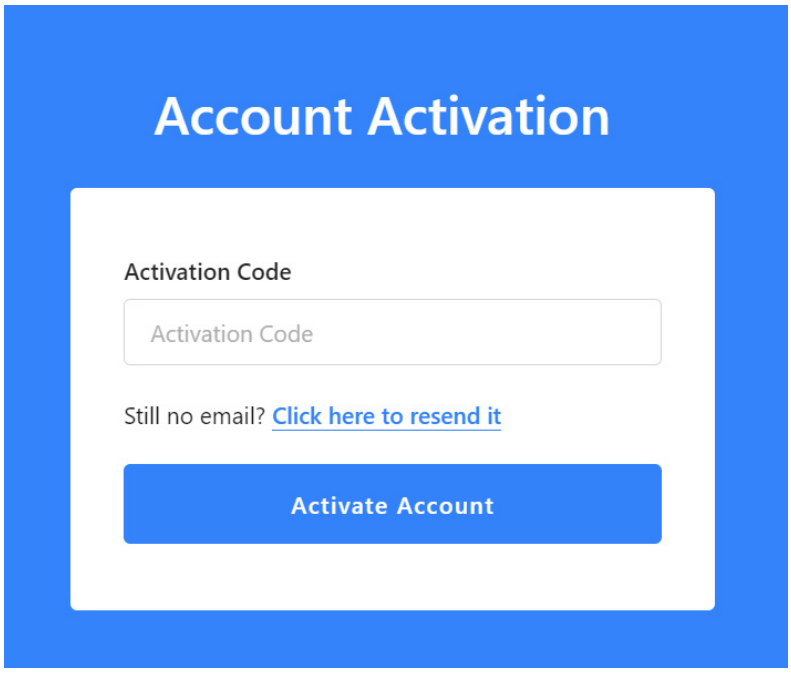
Head to CoinLoan.io and you will see this page. Click on "open account."



This brings you to the sign-up page. Enter your details and click “Sign Up.”



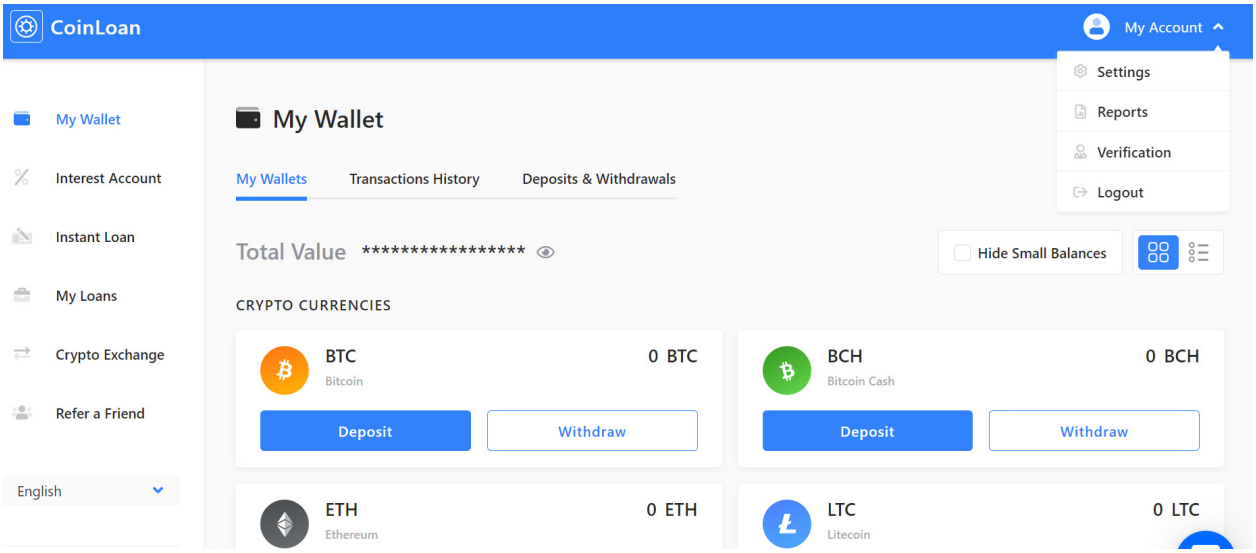
You will receive a verification code by email. Enter this verification code into the next screen and click “Activate Account.”



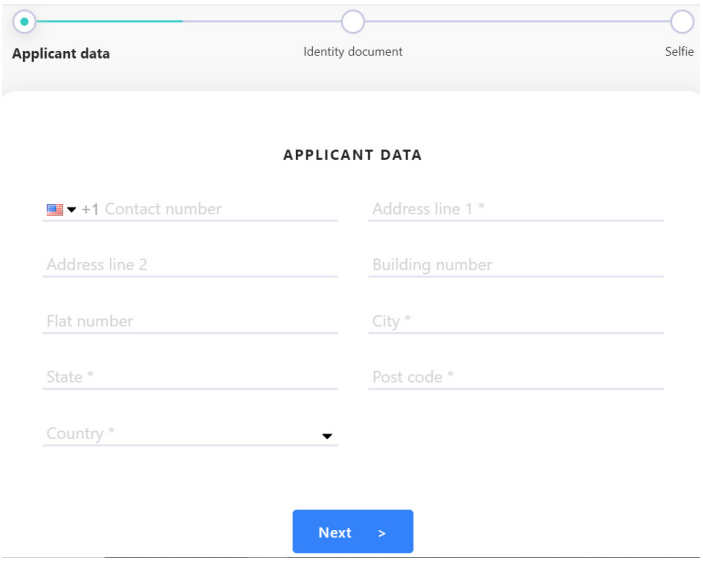
Your account is now activated. You can login to your account using the details you entered earlier.

Next, you need to complete the Know Your Customer, or KYC routine that all such firms undertake these days. This is a several-step process of inputting your personal data and verifying your identity. You will need a driver’s license, a passport, or some other form of government-issued ID to verify your identity.

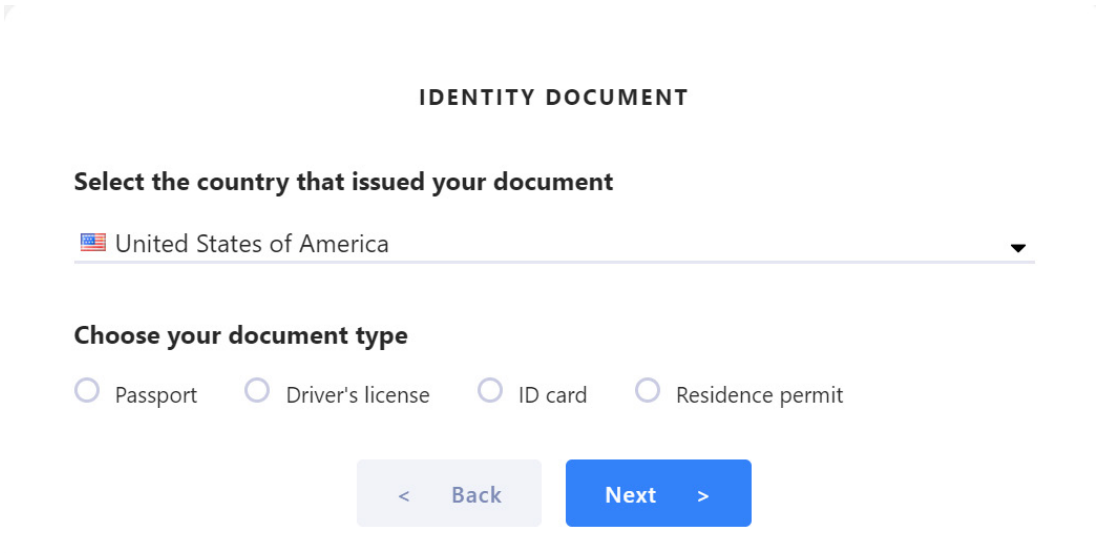
To start the KYC process, click on “My Account” in the top-right corner, then click “Verification.”



Next, enter your phone number and address and click “Next.”

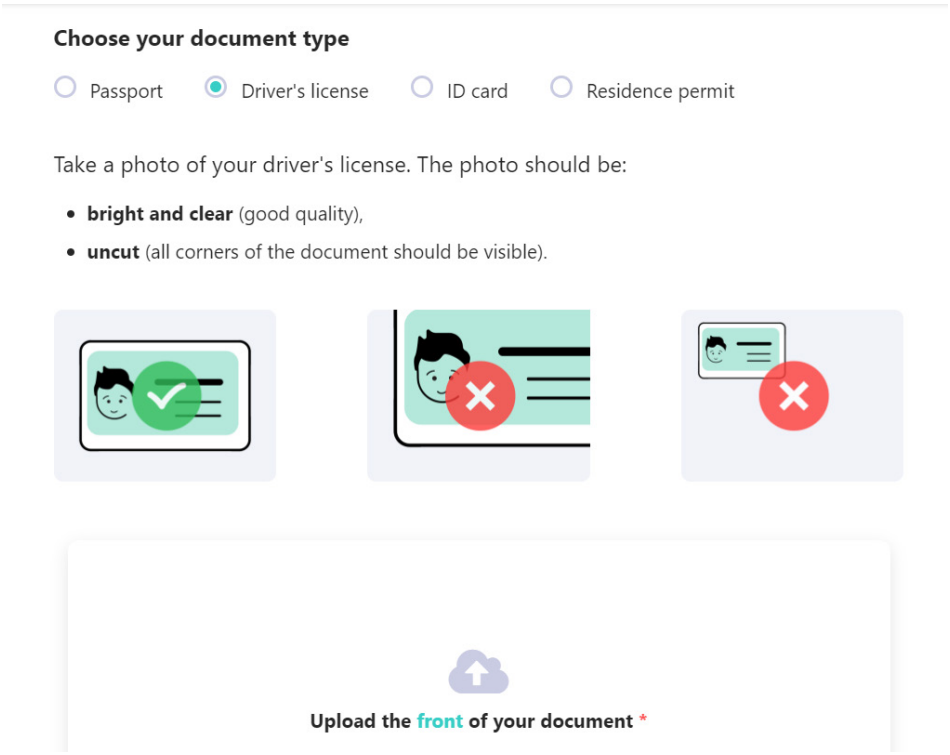


Then, select the government-issued ID you wish to use to verify your identity and click “Next”:



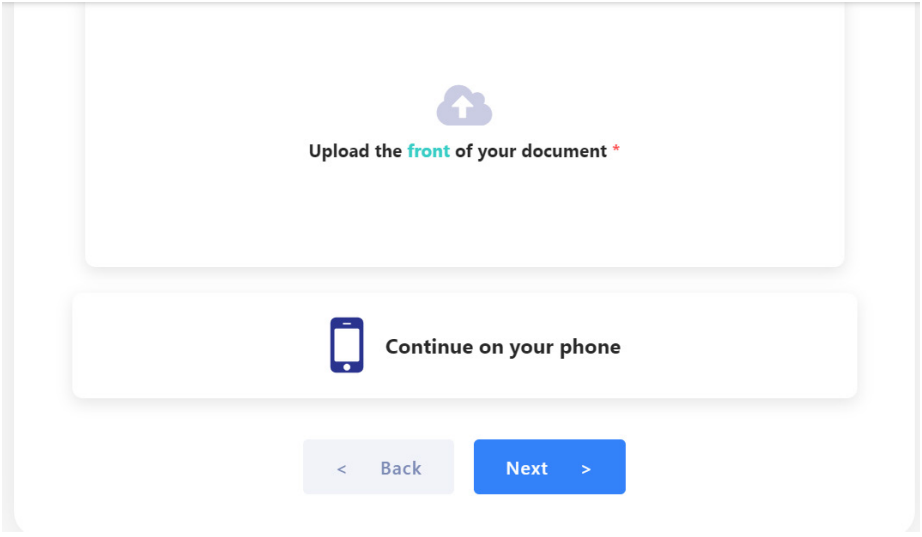
In this illustration, I'll verify my identity using my driver's license.

A clear front picture of the license needs to be uploaded. Click on "Upload the front of your document" and select your image:



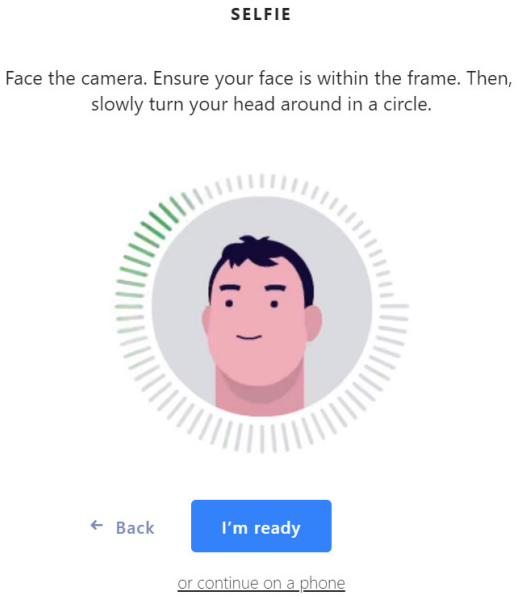
There is an option to upload the image using your phone if you prefer. Just click the "Continue on your phone" button.

After uploading the image, click "Next."



Next, you will need a webcam to take a "selfie." If your computer doesn't have a webcam, you can use your phone instead by clicking on "Continue on your phone."

To begin the selfie, click “I’m ready.”



Once completed, you have finished the KYC process. It took five minutes for CoinLoan to verify my identity, though the process can take longer than this. With signup and KYC out of the way, you can make your first deposit and start immediately earning a passive income at double-digit rates.

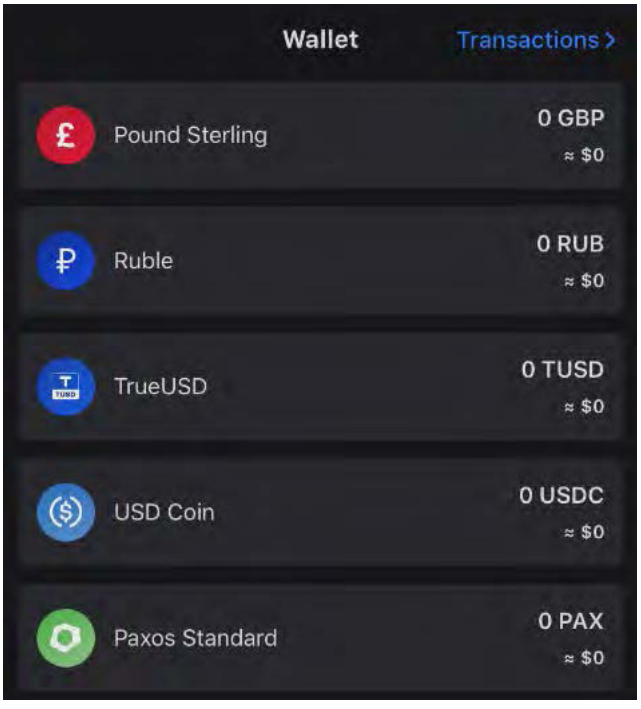
That, too, is quite simple.

Funding a Crypto Interest Account

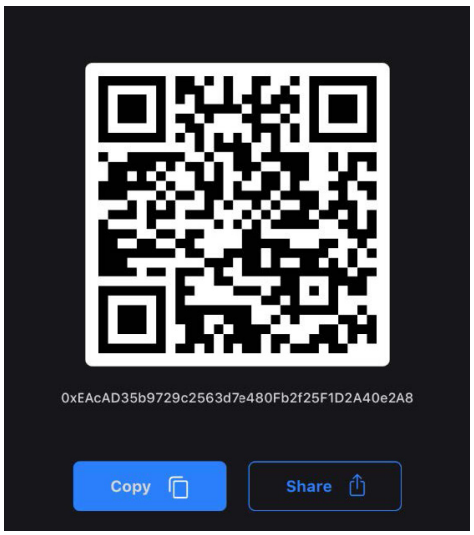
I’ll continue to use CoinLoan for our example. The process will be similar regardless of the firm you use.

In this example, I’m using CoinLoan’s smartphone app.

Once you’ve registered and your account is open, just navigate to CoinLoan’s “My Wallet” page and you’ll see this:



I'm depositing USD Coin, or USDC. But what I am about to show you is identical for any stablecoin you want to deposit. All you need to do is click on USDC, then click on "Deposit" and you will see this…



The QR code in the middle of the page is a graphical representation of the Deposit Address, that long string of numbers and letters below the QR code. They are identical. You can use either one to deposit crypto to your account.

Since I'm doing this on my phone, I will click "Copy" in the blue box. That copies the Deposit Address to my phone's temporary memory.

At this point, you hop across to your crypto exchange account. I recommend Binance.US or Coinbase.

No matter what firm you use, the process is similar, though there are two caveats to be aware of:

1. If you own crypto at PayPal, Fidelity, Robinhood, or another such payment or brokerage firm, you cannot send it anywhere. It's in a locked environment, so you will not have access to crypto-banks through those exchanges.

2. Crypto is still an emerging space, so not all cryptocurrencies are available on all exchanges. While you will find USDC on Coinbase and Binance.US, it is not available on all exchanges. On other exchanges you may be able to find two other stablecoins that I recommend. Like USDC, they tightly track the U.S. dollar. These are Binance U.S. Dollar (BUSD) and Paxos Standard (PAX), also known as Pax Dollar (USDP). Both BUSD and PAX are accepted by CoinLoan.

At your crypto-exchange, you buy as much stablecoin as you wish to deposit in a cryptobank. (For this example, I bought $120 in USDC.) Then, you click on that stablecoin and tap "withdraw." There, you will paste the Deposit Address and click "send."

The transfer process will take several minutes, so be patient. Most crypto-banks operate on the Ethereum network, which can be quite congested. There will also be a fee for the transfer. Again, this can range widely. When I transferred that $120 in USDC to CoinLoan, it cost me just under $0.67. Sometimes, though, that can be $10 or more, based on how busy the network is.

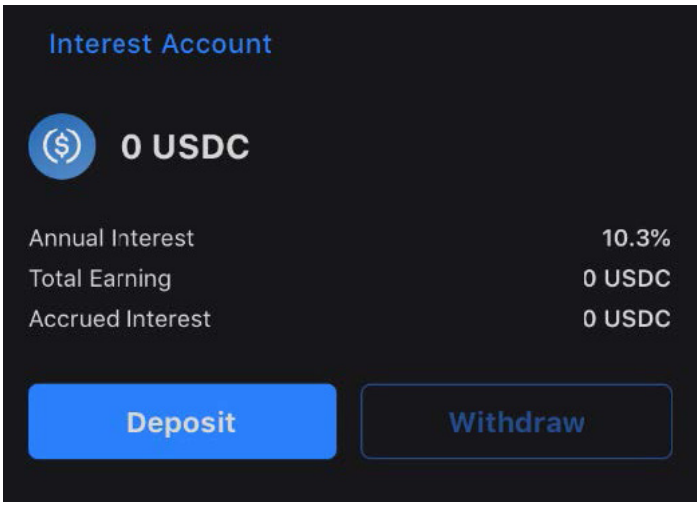
Also note that when you are sending your chosen stablecoin, you want to make certain you are sending it as an ERC20 token, which denotes that it's on the Ethereum network. Some crypto

exchanges like Binance.US will give you a list of two or three network transfer options, such as ERC20, BEP2, or BEP20. For the two crypto banks I've mentioned, you must choose the ERC20 option for sending USDC, Binance U.S. Dollar, and Paxos Standard.

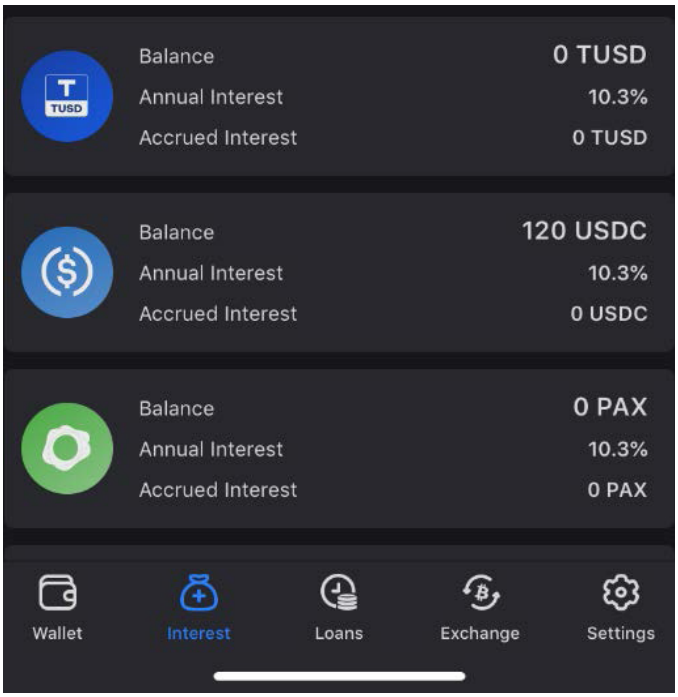
Important Safety Note: Never send one coin to a different coin's address. In other words, don't send Ethereum or bitcoin to a USDC address, assuming that it will simply convert into USDC when it arrives. Cryptocurrencies don't work that way.

You have to send USDC to a USDC address, Ethereum to an Ethereum address, etc. If, for instance, you send Ethereum to a USDC address, your Ethereum will forever be stuck in digital limbo; you will never be able to retrieve it and it will never show up as a USDC deposit. So, always pay close attention to what you are doing. You want to trade U.S. dollars for USDC at a crypto exchange, and then you want to send your USDC directly to your USDC address.

At some crypto-banks, including Hodlnaut, your deposit will arrive and immediately begin earning interest. At CoinLoan, your deposit will arrive in your wallet, and you will need to move it into your "Interest" account to begin earning interest. To do this at CoinLoan, just tap on "Interest" at the bottom of the screen and you will see this:



Click on "Deposit" in the blue box. Here, you will see your funds in your "Wallet Balance." In my case, that's the $120 I deposited for this example. Type in the amount of money in your



wallet you want to deposit in an interest generating account.

I'm going Full Monty (no reason not to) and putting all $120 into my USDC interest account. Click "Confirm," and you're done.

You will see a confirmation page pop up, and when you click on "Interest" again, you will see the "Wallet Balance" screen.

That's confirmation that your deposit is now earning interest, in this case at a rate of 10.3% per year.

Investing in DeFi Through the Market

If you want exposure to DeFi by investing through the market, the best—and right now, only—way to do so is through the **Grayscale Ethereum Trust**, a stock that trades on Wall Street under the symbol **ETHE**. The trust functions similarly to an exchange-traded fund that owns gold or a fiat currency. In this case, Grayscale owns a bunch of Ethereum, held offline in so-called "cold storage." Since it's offline, it's literally impossible for hackers to gain access to the coins. As the price of Ethereum moves higher, the value of the trust will move higher.

The upside here is convenience. You can buy ETHE shares through any traditional brokerage account.

The downsides are that you pay a relatively meaty annual management fee of 2.5% of your assets, and you do not control your Ethereum. By that, I mean that if you wanted to earn interest on your Ethereum by parking it at CoinLoan, you would not be able to since you don't own Ethereum directly but, instead, own shares of a trust—you own "paper Ethereum" as opposed to the digital asset itself.

That's 7.7% a year you're giving up (the 5.2% rate of return you'd earn on Ethereum at CoinLoan, plus the 2.5% fee you will pay to Grayscale). I recommend this approach only to investors who don't want to learn how to trade crypto directly, or who want to own exposure to crypto in a retirement-savings account such as an IRA. Some IRAs will allow you to buy crypto directly, as will some some 401(k) plans. But not all. If you can't own crypto directly, then ETHE is your best option.

As I write this, ETHE trades at about $23. ETHE is a buy at any price, given the key role Ethereum plays in the emerging DeFi sector. But buy it on bouts of temporary weakness in the crypto market. That's when you'll get a far better price.

My Recommendation: Buy Grayscale Ethereum Trust (ETHE) on pullbacks of 5% or more.

The Wrap Up

Not everyone operates from the same crypto-exchange, and, as I noted earlier, not every crypto-exchange offers the same selection of stablecoins or is available in every state. So, I will tell you to invest in the stablecoins you have access to and to put those coins to work at multiple crypto-banks.

That advice goes back to my overarching message of lowering risk through DeFi diversification. When it comes to the stablecoins to own and invest, I am comfortable with U.S. Dollar Coin (USDC), Binance USD (BUSD), and Paxos Standard (PAX)—just choose several. And as always in the cryptoconomy, never invest more than you feel comfortable losing.

That's not to imply that I think there's a lot of risk here. I don't see substantial risk in earning

passive income from stablecoins deposited at a crypto-bank.

Given that we're operating in stablecoins, and given that most crypto-banks provide insurance, or offer it for purchase, I sleep soundly without worrying that a hack or a market downturn will damage my investment. Instead, I go about my days happily earning up to double-digit returns on my idle cash. That's what passive income should be about.