Twitter Thread by DeFiGod

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1/ Let's talk about Impermanent Loss and how it can be solved using tranches and segregating returns between parties.

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2/ @saffronfinance_ is building a tranche ecosystem that is bifurcating yields between high-risk/high-return and low-risk/low return tranches. The initial products were aimed at interest generation. High-risk tranche earns 10x interest of low tranche, in exchange for insuring the

3/ principal of the low-risk tranche if there is an adverse event in one of the underlying lending/yield aggregating platforms. Now, thinking outside the box and expanding a bit this can be applied to insurance, more specifically IL insurance.

4/ A low-risk tranche (LPs) can deposit their LP tokens (Uniswap, Sushiswap, etc.) into this tranche in exchange for a portion of their LP rewards & trading fees. A high-risk/high-yield tranche contains both of the LP tokens and covers the IL of the low-risk tranche.

5/ If the low-risk tranche has IL, the tokens are taken out from the high-yield tranche. The low-risk tranche can now be a LP and earn at least 12% APY with *zero* risk of IL. The high-yield tranche will receive elevated returns from the LP rewards + trading fees obtained from

6/ insuring the low-risk tranche. Yields for this tranche could very well be 88% APY. Now imagine users can only enter the high-yield tranche by having the $SFI and staking it, which is fixed and limited in supply.

7/ If the pair has excessive IL and the high-yield tranche is losing too much principal a third tranche could be created that also contains the two principal tokens. This tranche would receive $SFI rewards as compensation. Conceivably in the future, the $SFI token could receive

8/ protocol fees among all tranche products making it a cash-flow generating token, and a bet that there is high-demand for tranche products. Given its unique PMF and basically no competitors in DeFi, it is.

9/ Now also imagine that @iearnfinance does not have a tranche product, and is basically acquiring the entire DeFi stack. What if?

Some other similarities between the two projects: the lead dev for @saffronfinance_ could have rugged 50m DAI, but choose not to. Andre could have

10/ rugged 198m DAI in July (initial $YFI farming) but choose not to. Both products are focused on composability and improving DeFi, while also making returns more simple and sustainable. Andre has also been experimenting/thinking about IL insurance for quite some time.

11/ I would have shared this information in @basedkarbon 's paid group, but he is a scammer and I cancelled my subscription.

Tokyo is back on the menu $100k EOY.

Imagine the smell.