

# Show me the money: Follow the funds, not the famous, for safer investments

*With Sam Bankman-Fried now released from prison on a record \$250M bond to await trial on a slew of fraud charges, collapsed cryptocurrency exchange FTX enters the next chapter of what will surely become a long-running saga.*

Temps de lecture : minute

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Yet for all the breaking news, this is already an old, old story. John Ray, the new court-appointed chief executive of FTX, said what he uncovered there was neither new nor sophisticated. Quite the reverse. He described it in his report to Congress as nothing more than “plain old embezzlement,”

Whether he is found guilty or innocent, Bankman-Fried – and others before him – took us to school. We do not need to wait for a verdict to learn the lesson they are teaching: Reputation is not collateral.

## Talk is cheap. We don't have to buy it

FTX is far from a unique example of investors duped by figureheads with big reputations. We are mere months out from the fall of Terra, headed by “cult leader” Do Kwon. And from the collapse of 3AC, founded by mediagenic Kyle Davies and Su Zhu of “Much Wow” yacht fame. In both these cases, as with FTX, the hyped-up talk of crazily profitable deals proved to be founded on hot air, not legitimate reserves.

Nor are such rags-to-riches-to-rags sagas unique to the crypto industry. Wall Street gave us Bernie Madoff, Eran Mizrahi, and Trevor Cook, along with a host of others who used their reputations and connections to hoodwink thousands of investors.

“Embezzlement” is itself an ancient term for a very specific type of theft: stealing assets entrusted to your care. The word itself dates back to the fifteenth century. What differentiates embezzlement from other types of thievery is the word “entrusted.” It’s no fun having your partner leave you for someone else. But if that someone else happens to be your best friend, then the loss is greater. It was a betrayal of your trust.

As investors, we have to entrust our assets to organisations or individuals if we are to keep them safe and maximise their worth. And while blockchain itself is inherently trustless – meaning it functions with no need to rely on third parties – the world of centralised or partially centralised crypto finance is not.

Why we feel we can trust some people and not others falls under the remit of psychologists. What we who work in DeFi do know is that, amid all the noisy energy of a young space, it can be easy to get seduced by frontmen with well-crafted images. But the advice of celebrities, whether *movie stars* or web3 darlings, should never be your sole guide, however famous they may be.

## We need more, not less, decentralisation

As well as the reputational damage caused to DeFi at large, many crypto firms have been hit hard by the fallout. *BlockFi*, for example, cited exposure to FTX as a major factor in its recent collapse. And there will almost certainly be many more.

In the reckoning to come, many pundits will seek to lay the blame at

DeFi's door. They will argue that centralised exchanges are safer, when in fact fully decentralised protocols are safest of all since they bypass the requirement to trust individuals.

With fully decentralised protocols, there is no central authority. Users retain hold of the keys to their wallets and control of their digital assets. They gain access to financial services such as lending, borrowing, and trading through smart contracts, with no need to rely on centralised exchanges like FTX - or their potentially flawed human leaders.

## Start small, stay safe

In spite of the current atmosphere of FUD (fear, uncertainty, and doubt), there is no need for participants already in the DeFi world to overreact. Instead investors, especially those new to the space, need to take things slowly and double down on ticking the boxes of due diligence.

The water may look choppy right now. But there are a few steps you can take that will help you dip a toe into web3 finance as safely as possible.

First, look for fully decentralised protocols. They remove the unpredictable human element. And be wary of partial centralisation. While this may be a small percentage of a protocol, it is often the point of failure.

Secondly, be careful to do your homework, especially when it comes to proof of reserves. Is it all just talk or are there real, verifiable assets? Don't take anyone's word for it, no matter how convincing they appear or how big their reputation - *look it up*.

This raises another critical point: in DeFi, transparency is everything. If you can't gain a full understanding of how a protocol ticks, walk away. Luckily, for fully decentralised projects such as *Finterest*, where all

transactions are visible on the blockchain, it would be a challenge *not* to be transparent.

And don't worry if DeFi feels a little daunting at first. It's the same for everyone. Simply start small. Borrowing and lending, which use the simplest mechanisms in DeFi, is a good place to begin - and to learn. Start with small amounts of capital. Increase your bets as your confidence, knowledge and skills develop.

Remember also that this is not a race. Take it steady. Focus on learning one thing at a time. Once you've mastered that, then dive deeper.

Despite the negativity caused by a few bad actors, DeFi is not the shark tank some would have us believe. Indeed, thanks to blockchain, the world of finance, once the exclusive preserve of a privileged few protected by central gatekeepers, is now open to all.

No need to take my word for it, though. Come and discover all DeFi has to offer for yourself.

Olliver Barr is the cofounder of *Finterest*.