Midas.Investments

Investment Summary

September 2022

+5.61%

+2.45%

+4.12%

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MIDAS.INVESTMENTS

Disclaimer

The information in this report was stated on the 30th September, 2022. Midas is moving rapidly, especially in our investment structure, risk frameworks and ways of investing. It means that the information in this report can be outdated

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Summary

Aside from the Ethereum "Merge" event, all was relatively quiet on the western front in the crypto market during the month of September. Lower volume and volatility provided Midas the space to effectively handle the "Merge" and build new types of strategies for our portfolio.

To properly navigate the "Merge," Midas exited all ETH yield-bearing strategies to align with our risk policies. This led to a slight reduction in yield for the month, however, Midas was able to offset these declines by further focusing on our core yield strategies. Midas' primary focus for the month was the development and launch of two new categories of strategies:

01

ETH-correlated DeFi blue chips that generate yield with hedged positions shorting or longing ETH.

Midas has built correlative models between ETH and CVX / CRV / BAL price dynamics. These models proved that we can effectively hedge exposure on those assets through our trending algorithms that we use for ETH.

This strategy allowed Midas to generate impressive yield while hedging against the drawdowns of the directional portfolio.

Estimated APR: 25% on allocated assets.

02

Delta-neutral exposure on GLP position.

Midas has performed extensive due diligence on pool compositions of GLP, exploring ways to find correlation between the market, allocated funds in GLP, and the performance of traders and our algorithms. We have discovered that GLP is (at least for now) a self-sufficient market tool, giving us the space to deposit according to pool composition, reaching delta-neutrality against our liabilities. This has resulted in GLP emerging as one of our main yield positions.

We have developed real-time alerts to monitor our GLP position for potential manipulation and drawbacks.

Estimated APR: 30% on allocated assets; 50.89% effective APR in two weeks of September.

Midas has begun experimenting combining our two core competencies: algorithmic tools and DeFi. We should receive the first results after the major market movement, and if successful, this combination may provide us with a consistent yield generation process in the face of any market condition.

In markets of low volatility, Midas will earn yields on DeFi. In higher volatile markets, GLP is expected to earn a lot of fees on our positions. Trends on the market will be captured by trend algorithms, protecting our positions from both parabolic moves (up and down) in the market.

We continue to build on and fine tune our existing CeDeFi strategies; we plan to update our Soft Long ETH (SLETH) strategy and release new strategies which we believe will be a great fit for the current market. Additionally, we're considering a combination of DeFi and Algo toward our CeDeFi strategies which may further protect them from downwards movement of ETH, as we saw in the recent weeks following the "Merge."

Disclaimer

Introduction

Investors looking for an in-depth explanation of our team's investment process should reference our inaugural [Investment Report](#) for July 2022.

The information in this report is stated as of September 30, 2022. In order to effectively navigate the crypto and DeFi spaces, Midas continues to rapidly navigate the market, especially with respect to our investment structure, risk frameworks, and investment strategies. Thus, the information in this report may be outdated by the time of its publishing.

This report discloses the sources of yield and performance on the portfolio which generates yield for our (i) fixed yield strategies, including BTC, ETH, and Stablecoins and (ii) CeDeFi strategies. We also outline all segments of the DeFi and Algo portfolio and include the risk frameworks that we use for each position. We think that this type of transparency was always lacking from CeFi platforms.

Our purpose for publishing this report is to provide transparency to our investors on how we generate yield. We believe that centralized yield services should provide full transparency behind their yield-generation processes so that investors may decide if those investments align with their risk tolerances.

Sharing our portfolio structure on a regular basis provides transparency with how we make investment decisions while also supporting and substantiating how and why we adjust yield rates for fixed yield products which are based on the current market conditions and our risk policy.

Midas is not afraid of our strategies being copied by others as we have invested a significant amount of time and effort into creating 24/7 monitoring risk frameworks that significantly reduce the risks of using DeFi and Algo; this proprietary framework protects our positions from risks of depegging, liquidity outflow, price impacts, and smart contract exploits.

As per usual, we will not reveal the dollar allocation for each strategy; this is intentional and is for portfolio security and due to the rapid changes in our allocation strategy - Midas frequently updates allocations to respond to changing market conditions. See below for prior months' reports.

July 2022 Investment Summary   **August 2022 Investment Summary**

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Ethereum Merge

One of the most anticipated software upgrades in the crypto market has been successfully completed. The transition, known as "the Merge," has happened. Midas fully supported Ethereum's new Proof of Stake (PoS) update along with the new (forked) token, ETHW (native token for the ETH Proof of Work (PoW) network).

ETHW was airdropped to every ETH holder on Midas' platform (based on a given snapshot date/time) several hours after the long-awaited Merge was completed. Trading of ETHW is only supported by a handful of exchanges and may only be withdrawn from Midas' platform (cannot be swapped). Investors who decide to keep their ETHW on Midas' platform will have their ETHW automatically swapped to USDC on November 1 (if not withdrawn by then).

Base Yield Portfolio

The largest allocation of our portfolio is dedicated to our Base Yield strategies. Base Yield is a collection of the lowest risk protocols that generate baseline yield on high dollar amounts of liquidity.

Stablecoins

Description	Core, low-risk yield generation which allows us to allocate unlimited liquidity without exposure to directional crypto positions.

Positions	• Convex Finance • SUSD+DAI+USDT+USDC – 4.29% APR • Liquity Protocol - 5.71% APR • LUSD Stability Pool – 5.71% APR • mUSD+3Crv – 4.5% APR

APR	4.04%

Risk Frameworks

- 24/7 monitoring of peg sustainability of underlying stablecoins
- Real-time alerts on available liquidity to ensure Midas may quickly (10 minutes or less) close on any positions with minimal price impact, even under stressed network conditions
- Monitoring lending positions' health factors
- Thresholds
- Midas has two major rules on protocol liquidity and portfolio diversification:
  - Maximum allocation of the Midas Base Yield portfolio is 14% per protocol.
  - Maximum allocation of the TVL of the protocol is 10%.
  - Maximum allocation of the pool TVL is 20%.

These rules create thresholds that Midas cannot violate. Thus, in a black swan scenario - usually a game of chairs of evaporating liquidity - Midas will be able to extract all funds deposited in the protocol.

Commentary

Every low risk, high yield opportunity is being repriced by the market, which keeps the baseline rates at a humble 4.5% APR.

Disclaimer

Lending to Market Making Entities

Description   Consistent yield generation through lending to market making entities, the market standard for stable yield generation.

The primary CeFi lending model entails accepting deposits/assets from investors and lending those assets to third parties. The only crypto business model that has been perfect in fulfilling loan obligations is those employed by market making entities. Their business models consist of borrowing assets from lending institutions and using them in an efficient, delta-neutral market-making arbitrage for at least twice the APR against which they're borrowing.

Positions   • Maven 11 Permissioned USDC pool

APR   11.3%

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Risk Frameworks

- Legal due diligence of borrowers, including balance sheet and returns of market making strategies
- Tight thresholds for allocations
- Continuous communication with borrowers to ensure liquidity stability

Commentary

Prior to the Merge, Midas withdrew its liquidity from the public Maple USDC pool and peer-2-peer lending pool.

Following the Merge, we have subsequently increased our position in the Permissioned USDC pool by Maven 11, which continued to demonstrate professionalism across its partnerships between lenders and borrowers.

Midas was unaffected by the Wintermute DeFi hack, which did not touch the operations of their borrowing department.

Disclaimer

BTC, ETH Yields through DeFi Lending and Base Yield Stable Pools

Description

In bearish conditions, there is a significant shortage in BTC and ETH non-directional yield sources. Therefore, Midas is utilizing the AAVE and Compound protocols to extract liquidity from BTC and ETH and deposit it to Base Yield stable pools. Health factor alerts allow these positions to remain well above liquidation thresholds.

Positions

- BTC, ETH and LINK are supplied to AAVE and Compound, Stablecoins are borrowed and deposited to Convex pools. ETH is also supplied on Liquity to borrow and farm LUSD.

Convex Finance

- mUSD-3crv – 4.51% APR
- SUSD+DAI+USDT+USDC – 4.29% APR
- FRAX+DAI+USDT+USDC – 3.17% APR

Liqudity

- LUSD Stability pool – 5.71% APR

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APR
- BTC: 2.5% APR
- ETH: 2.7% APR

Risk Frameworks
- Real-time 24/7 monitoring of all health factors. If a health factor falls below a certain threshold, the alert system provides for rebalancing to avoid the possibility of an adverse scenario.

Commentary

In September, Midas significantly reduced this low-yield part of the portfolio in favor of GLP and ETH-hedged directional positions.

Disclaimer

GLP

Description

GLP is a crypto index used by traders on GMX to leverage their longs and shorts on Arbitrum and Avalanche. GLP is composed of a variety of assets, including ETH, BTC, UNI, LINK, DAI, USDC, FRAX, USDT, and MIM. The target allocation of the assets in the pool is 25% BTC, 30% ETH, and 40% stables and other coins.

GLP's price is a function of the profits and losses incurred by the traders. GLP appreciates when traders lose money and depreciates when traders profit from their leveraged positions. In short, GLP holders benefit from high volatility. Additionally, GLP holders receive 70% of the fees that the platform generates in wETH.

Positions

● GLP pool on Arbitrum

APR

● 50.89% APR over two weeks in September (30% estimated APR)
● Fees from trader's activity on GMX and trader profit and loss (PnL)

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Risk Frameworks

- Alerts on pool composition and manipulation of illiquid assets
- Correlation tests between market performance and pool compositions
- Delta-neutral allocation to GLP according to pool composition

Commentary

Midas has successfully finished testing this strategy and developed several quantitative correlations tests on all potential data, including pool composition change and traders' PnL to market dynamic correlation.

Our data indicates that as of this publishing, there are no significant correlations between any of the strategy variables, giving us a good indication that the strategy is self-sufficient and does not require additional tools other than alert systems.

As GLP is our main position that generates yield, it will continue to be an area of intense focus with respect to risk management.

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Trends

Based on our risk policy, Midas closed all "trends" positions in the run-up before the Merge. We used the opportunity to begin implementing our strategy of hedging the trend portfolio's tokens with an ETH short while computing new allocations of each of the trends tokens accordingly.

ETH Trends Hedging Positions

Description	In August, Midas' quant team conducted research and performed a series of tests involving hedging directional crypto DeFi positions. The results displayed a strong correlation between major DeFi blue chips and ETH's price.
	Midas' main altcoin thesis is that ETH is a proxy asset for all altcoins. Therefore, shorting ETH with Midas' algorithmic trend algorithms is a liquid way to hedge our long position in altcoins.
Positions	• ETH-CVX + hedged CVX – 27.48% APR • CVX/CRV-CRV + hedged CRV – 19.78% APR
APR	• 24.5% APR on ETH
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Risk Frameworks

- Internal thresholds on positions
- Real-time monitoring of real available liquidity for dynamic positions
- Hedging algorithm that monitors the trends of ETH and protects from sudden downward movements in ETH or rise of ETH non-correlated to alt dynamics.

Commentary

This is the starting point for new types of Midas strategies that combine both core strengths of our team: algorithmic development and DeFi yield farming. Long-term this should be one of the most profitable positions on ETH in our portfolio, and we will keep innovating on-top of it.

Disclaimer

Algorithmic Portfolio

Midas has **four types** of algorithmic products:

01

Long-term trend algorithms allow Midas to identify and evaluate risk based on major market movements while managing a large pool of assets.

Midas currently uses this algorithm for BTC and ETH. The advisors have shown great results during the bearish turn at the beginning of the year and are being actively used specifically to build trend positions.

In September, our trend algorithms were able to hedge our portfolio by shorting BTC from $22,050 until $18,700, followed by a successful reversal.

This algorithm helps our portfolio to generate yield without relying on limited DeFi liquidity but on major market movements. Over the long-term, we expect this part of the portfolio to generate large profit positions during certain trends that will cover yield for many months.

02

Active trading algorithms to capture specific market opportunities to achieve up to 50% APR.

Midas currently has five algorithms with various risk profiles and sizes to achieve the best possible risk diversification.

Midas has been working on building our own machine learning hardware and software infrastructure, which is required for efficient execution of ML algorithms. This reduced the computational time for our algorithms from 15 seconds to 0.2 seconds.

The ROI on this portfolio of algorithms is slightly negative due to the stagnation of the market.

03

Hedging module to protect the directional part of the portfolio from volatility.

As mentioned earlier in the Trends section, Midas tested the correlation between major DeFi blue chips and ETH's price in the month of September. As ETH is the core altcoin, other altcoin markets are heavily affected by ETH's performance.

The hedging module was fully launched in September, and we await the first major ETH movement to observe the first production results.

04

Risk module on top of the other algorithms that is responsible for enabling and disabling algorithmic strategies based on correlation between market conditions and the performance of the algorithm. The risk module reduces the risk that comes with the constantly changing nature of the market.

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CeDeFi Strategies

ETH Trends Hedging Positions

In September, Midas' team began working on improving the Soft Long ETH and Soft Short ETH strategies.

Given the varying levels of leverage and impossibility to build an efficient short model without being at risk of liquidation, Midas' SSETH strategy did not adequately perform as a hedge to Soft Long.

Additionally, due to increased leverage in the SLETH strategy, this strategy saw a decline following the decline in ETH's price decrease following the Merge. However, this strategy did exhibit reduced volatility as compared to ETH (as intended).

In September, we conducted tests on all available market models, searching to find the optimal leverage for SLETH and SSETH to optimize risk and returns and build a more intuitive return curve to ETH's performance.

In the first half of October, we plan to update SLETH, including adjustments to the strategy, description, and a more transparent return model.

DeFi Token Farming (DFTFLP)

This strategy exhibited a steady decline along with ETH's decrease over the month. Despite the decline, we remain bullish on the assets allocated in the strategy. Additionally, we are considering adding the ETH hedge module toward DFTFLP to protect it from potential drawbacks.

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GLP

The GLP strategy was released to the public in September. This is the first strategy in CeDeFi that has only one underlying DeFi position. With this strategy, Midas aims to provide users with similar potential exposure as in our core portfolio.

GLP consists of 50% stablecoins and 50% in non-stablecoins, and thus, its performance is correlated to the performance of the overall crypto market.

Please refer to our [Wiki](#) for an expanded explanation on each of our CeDeFi strategies as well as the links for each strategy's position on DeBank.

APR Summary

September's 2022 Yields based on 2-Month Average Yields

BTC	APR	APY	APY with Midas Boost
	6.55%	6.77%	8.46%

ETH	APR	APY	APY with Midas Boost
	7.95%	8.27%	10.33%

STABLES	APR	APY	APY with Midas Boost
	11.90%	12.63%	15.79%

BNB	APR	APY	APY with Midas Boost
	7.00%	7.25%	9.06%

AVAX	APR	APY	APY with Midas Boost
	9.80%	10.29%	12.86%

FTM	APR	APY	APY with Midas Boost
	8.40%	8.76%	10.95%

LINK	APR	APY	APY with Midas Boost
	3.85%	3.92%	4.90%

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October 2022 APRs based on 2-Month Average Yields

Asset	July	August	September	2-month APR	2-month APY	Midas Boost
BTC	6.2%	6.9%	6.8%	6.85%	7.09%	8.94%
ETH	7.8%	8.1%	8.0%	8.05%	8.38%	10.58%
STABLES	11.3%	12.5%	12.1%	12.3%	13.09%	16.62%
BNB	7.05%	6.96%	6.5%	6.73%	6.96%	8.77%
AVAX	10.4%	9.2%	9.3%	9.4%	9.85%	12.47%
FTM	8.5%	8.3%	7.9%	8.1%	8.44%	10.66%
LINK	3.9%	3.87%	3.2%	3.53%	3.59%	4.52%

APY for BTC is also applicable to WBTC.

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