Cryptoasset Specific Risks

It is important for you to understand the unique risks that different types of cryptoassets and crypto products carry.

Staking

Staking cryptoassets, like DOT or ETH, locks your assets for network security and rewards, but come with risks:

- **Slashing**: A potential penalty (loss of assets) due to validator non-compliance.
- **Liquidity risk**: some tokens involve a lock-up period, meaning you will have to wait before you are able to sell tokens.
- **APY not guaranteed**: Reward rates are subject to change and are not guaranteed.
- **Consensus risks**: Changes to how a protocol is validated (how 'consensus' is reached), can introduce new, unexpected vulnerabilities.

Stablecoins

"Stablecoins", such as USDT and USDC, are cryptoassets whose value is linked to reserve assets like the US Dollar (or other cryptoassets), and which seek to maintain stability through various methods, each carrying distinct risks.

- **Collateral risk**: Fluctuations in the value of collateral may impact price stability.
- **Redemption risk:** Redemption processes might not work efficiently during market volatility or operational incidents.
- **FX risk**: Depending upon your base currency, exposure to exchange rate fluctuations (from/to USD) may impact the value of your investment.
- **Counterparty risk**: The management of collateral maintenance depends upon third-parties, over which you have no control.

DeFi Tokens

DeFi tokens, such as AAVE, are associated with decentralised financial applications, but they come with specific risks.

- **Smart contract risk**: Vulnerabilities in smart contracts may be exploited and lead to significant losses.

- **Scam risk**: Bad actors may launch tokens with no real intention of developing the project, resulting in the exploitation of investors and complete loss of funds.
- **Data risk**: Reliance by some protocols on external data sources, which may be vulnerable to attack, could result in disruption and devaluation.
- **Protocol complexity**: Understanding the intricate nature of DeFi protocols can be challenging, take time to educate yourself.

Wrapped Tokens

Wrapped cryptoassets, like wAXL, represent cryptoassets native to another blockchain, and are typically used to facilitate interaction between different blockchains, but they carry risks.

- **Collateral risk**: Failures to adequately collateralise the underlying tokens could destabilise the wrapped value.
- **Custodial risk**: Underlying assets may be held with third-party custodians, who could be exposed to an insolvency or cyber crime event. This can impact the value of the wrapped tokens.
- **Smart contract risk**: Vulnerabilities in smart contracts could be exposed and lead to fund losses.
- **Bridging risk**: Technical issues in integration layers between protocols ('Bridges') can disrupt token movement or redemption.
- **Price divergence**: A liquidity crisis, or other market issue, might cause price disparities between the wrapped token and its underlying asset.

Meme Tokens

Meme coins, like DOGE, derive their value from online trends, resulting in distinct risks.

- **Volatility risk**: Rapid and unpredictable price fluctuations are common, with value reliant on community interest, social media trends and speculation.
- **Market abuse**: High vulnerability to market manipulation schemes, such as pump-and-dump, where value can crash instantly.
- **Lack of transparency**: Limited information about development teams and financials mean traditional market value assessments cannot be done.
- **Emotional investing:** Emotional reactions can lead to impulsive decisions and amplify your losses.