Complete DeFi Risk Management Checklist

Prepared by: DeFi_Guy • **Date:** January 15, 2025 • **Use time:** ~5 minutes

Use this checklist before depositing funds, while positions are open, and whenever conditions change.

Quick Start

- ☐ Define your max loss per position and daily/weekly loss limits.

- ☐ Use only audited, well-known protocols for core capital.

- ☐ Diversify across protocols and chains; avoid concentration.

Layer 1 — Protocol Due Diligence

- ☐ **Audits:** Confirm recent/reputable audits (e.g., Certik, Trail of Bits, OpenZeppelin).

- ☐ **Bug bounties:** Active programs signal ongoing security focus.

- ☐ **Incident history:** Review responses to past vulnerabilities/exploits.

- ☐ **Team:** Verify track record, public profiles, and transparency.

- ☐ **Governance:** Examine structure and token distribution; assess centralization risk.

- ☐ **Maturity:** Look for TVL stability, time live without incidents, active proposals/community.

Layer 2 — Position Sizing & Diversification

- ☐ Set allocation caps by risk tier (blue-chip vs. experimental).

- ☐ Keep high-risk/exploratory exposure small relative to core holdings.

- ● ☐ Diversify across chains:

  - ○ Ethereum (mature, higher fees)

  - ○ Polygon (lower fees)

  - ○ Arbitrum/Optimism (L2 growth)

  - ○ Solana (fast/cheap, higher technical risk)

Layer 3 — Liquidity & Exit Strategy

- ● ☐ Maintain **20–30%** of portfolio in positions you can liquidate quickly.

- ● ☐ Know lockups/unbonding and withdrawal timeframes **before** entering.

- ● ☐ Check pool depth to avoid slippage—especially on small caps.

- ● ☐ Pre-define reduce-exposure/exit triggers; automate where possible (e.g., DeFi Saver).

- ● ☐ Consider impermanent-loss protection when providing liquidity.

Layer 4 — Monitoring & Alerts

- ● ☐ **Tools:** Use protocol/portfolio monitors and set real-time alerts (e.g., DeFi dashboards, DeBank, social channels).

- ● ☐ **Track:** TVL changes (watch for sudden drops), governance activity, price/volume anomalies, exploit reports.

- ● ☐ **Subscribe:** Follow protocol announcements (Twitter/Discord/Telegram) for rapid updates.

Layer 5 — Insurance & Hedging

- ● ☐ Smart-contract insurance where available (e.g., Nexus Mutual, InsurAce, Unslashed).

- ● ☐ Hedge larger exposures with options/shorts when appropriate.

- ☐ Keep a stablecoin buffer for fast rebalancing during stress.

Common DeFi Risks & Mitigations

- ☐ **Smart-contract risk** → Use audited protocols; start small; diversify across providers.

- ☐ **Impermanent loss** → Understand pair correlation; consider single-sided staking/IL protection.

- ☐ **Governance risk** → Monitor proposals; avoid excessive centralization.

- ☐ **Oracle risk** → Prefer multiple, robust price feeds.

- ☐ **Regulatory risk** → Stay informed; consider geographic diversification.

Case Study — Volatility Playbook (Condensed)

- ☐ Sizing: keep high-risk farms a small % of portfolio.

- ☐ Monitoring: watch depegs/incidents via community alerts.

- ☐ Exit: use pre-planned triggers to cut exposure.

- ☐ Liquidity: hold a meaningful liquid buffer.

- ☐ Insurance: cover major positions to contain total loss.

Build Your Personal Plan

- ☐ **Assess risk tolerance:** capacity to lose, time horizon, ability to monitor.

- ☐ **Define framework:** caps per risk level; monitoring stack; diversification map.

- ☐ **Document:** working checklist, decision log, quarterly reviews.

- ☐ **Start small & scale:** gain experience; never risk funds you can't lose.

Reminder: Risk management is profit management. Prioritize capital preservation over headline APYs.

 Next: Run this checklist on your active positions today.