Notsofast – "Uniswap 101" DeFi primer

"Hi Ben, here's the document I prepared as a private guide to my fellow cryptocurrency explorers looking to make their first step into the world of DeFi from the standpoint of a token speculator. It's done primarily via tutorial on how to use Uniswap, the most popular Ethereum-based (roughly) decentralized exchange.

It's very colloquial but I'm sure that's OK with readers also comfortable with the BITFD narrative. It assumes a high level of familiarity with using, owning, and trading cryptocurrencies.

It was written early September 2020 and the number and quality of tools mentioned have both increased."

--nsf

Here are my notes from my first week of using Uniswap, compiled into a Uniswap 101 for you guys who might want to dip your toe in but don't know where to start.

How it works for buying and selling, most basic:

UNISWAP 101

You want to trade some tokens on Uniswap, so send some ETH to your Metamask wallet (*this is a browser-native Ethereum wallet interface that works well in Chrome and Firefox*), go to app.uniswap.org and connect.

There's no orderbook, just a pool of [token] and a pool of ETH (or stablecoin etc). The AMM (automated market maker) manages the pools so they don't run out, by increasing the price of the token against the base.

Imagine a normal exchange's orderbook with an equal amount of coins at each price level, and that's kind of how uniswap works. You buy a tiny amount, you increase the price just a little. You buy a lot, you move the price up by a lot.

EXTRA THING #1: POOL

You can choose to provide liquidity too, and earn a share of 0.3% trade fees. If you have both tokens and the underlying, then you can pledge them to the liquidity pool and gain a share of the automated market making. As trade happens back and forth, and the price moves, the liquidity pool will gain and lose the tokens and the underlying. If it moves with high volatility, the liquidity pool will suffer a net loss that the fees won't make up for-- this is called impermanent loss. It's 0 or negligible on big liquidity pairs; very real risk for small liquidity pairs. You generally want someone else to provide the liquidity on a deep shittoken, not yourself.

EXTRA THING #2.

If you provide liquidity for a particular pair, your share of that pair's liquidity pool (say TOKEN/ETH) will be represented by a proportional number of UNIv2 tokens called TOKEN/ETH, with their own smart contract that has its own token address. IF YOU WANT, you can create a brand new market for those tokens versus another base currency, by creating a new liquidity pool for TOKEN/ETH vs. ETH, which would issue new tokens on their own smart contract called TOKEN/ETH//ETH, and you could do this forever if you wanted. But this is the basic idea of how all these huge TVL "$ locked in DeFi" numbers arise.

EXTRA THING #3.

If you want to sell a token you bought (IE take profits/dump), you have to do TWO TRANSACTIONS. One to approve Uniswap to spend your tokens, and then again for the actual transaction. This costs double the gas and takes double the time to confirm! So it is not easy to quickly dump into a price spike!

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When trading a token, you want to monitor it with a few tools:

uniswap.info which is Uniswap's internal charting system

dextools.io which shows the same information plus a few extra key technicals in a circle-y graph in the upper right.

Price and volume you know, total liquidity is the new factor.

The higher the total liquidity, the less a large order will move the price of a token. There are "early" tokens which, once confirmed not to be scams, have velocity in crazy multiples, like daily trade volume 20x the liquidity. Some tokens will have such low liquidity that your default order size will move the price too much.

EXTRA THING #4.

Some tokens will "rug pull". This is when the creators of the token pledge to put up a bunch of their token and their own ETH to seed the liquidity pool and allow for early buy-in and trade. Then they exit scam by removing their seed tokens and ETH from the liquidity pool. Imagine if a CEX pulled all the bids and all the asks from the books, right after you bought some tokens. That's the rug pull. You might want to recover from the rug pull by putting up your own liquidity so you can sell your tokens, but this is just adding more underlying to the pool for other people to dump their tokens on first.

Rug pulls are generally prevented by a token's creator pledging to publicly, verifiably lock a certain amount of liquidty via a decentralized smart contract service called Unicrypt. This locked liquidity is rarely for infinite time; usually the lock expires after a year, and rarely upon any kind of KPI achievement. There are other protocols that, if implemented for a specific token pairing, tax each trade and add the tax to the liquidity pool automatically.

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You can by all means buy the big tokens like LEND and YFI and use them to lend ETH/BTC, then lend out the yield tokens you get as coupons to redeem your collateral, then lend out the other tokens you got for lending THOSE out, etc. etc. etc. That's (very basically) yield farming. I am not really into it because I believe the contract risk compounds exponentially-- if one contract breaks you risk losing the collateral you put up.

The speculator game game will more likely be to buy into things early. You can watch [redacted] or [redacted] buy in something early and then shill it on Twitter, that's a fairly decent game for them. Even better is when you don't have to shill something and it actually has decent FA, which we are good at spotting.

There is a spec-miner like approach available too. Instead of Bitcointalk ANNs, we have a few tg channels that are botted in to report new uniswap listings (over 160 today):

https://t.me/WhaleBotUniswap for all Uniswap listings as they happen

https://t.me/annbtctalk includes bitcointalk ANNs for cross reference (things that appear here first, but not in the above channel, might be more legit, non-ninja-launch plays)

EXTRA THING #5.

There are some common pitfalls.

In addition to unique trash, there will be constant re-ANNs of tickers the exact same as a legitimate token. So I always find the contract address of a particular token in Etherscan, check it against the project's website/tg if it has one, and cut-and-paste that address into uniswap.info and dextools so I am never fooled.

On WhaleBotUniswap you will often see a release with "□Cookie Cutter ERC20"-- that is like a walletbuilders token, it will 100% of the time be a scam.

UNLESS YOU ARE BLEEDING EDGE EARLY TO SOMETHING YOU THINK IS GOOD, you want more than a few holders of the token. If there's only 1, that's a rug puller hoping to scam you.

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Some of these tokens will have wacky tokenomics: every tx burns a certain amount, and/or redistributes a certain amount to stakers (locking up your tokens in another contract). If you have fewer tokens than you think you bought, take a look at the purchase tx on Etherscan. If there was a send of some tokens to 0x0000000..... those were burned.

Every action costs gas and ETH gas can get really expensive, so factor that in to your p/l. Have a look at fees.wtf (connect your metamask wallet to it, and disable PrivacyBadger and adblock services if it doesn't work).

Get good at adjusting your gas inside Metamask: hit the Edit button and then the Fast button if you want a transaction to confirm quickly, like in the next 15-second block. If you don't, your token purchase in an illiquid market could be front-run, IE someone could pay higher gas to buy the tokens at the price you wanted, pump the price 20% higher, then turn around and sell them to you. For slow markets this won't matter but in a flurry of high volume it will.

If you REALLY need to be quick and are willing to pay for execution, load up ethgasstation.info/calculatorTxV.php somewhere always accessible, and when preparing a tx, hit the Edit button and then the Advanced tab at the top, which will allow you to enter your own gas price. If you go 1 Gwei above the fastest on ethgasstation, you will 99% guarantee inclusion in the next block no matter what.

UNISWAP 201

I have this image from a defi degens tg room, called Commandments of Aping, which is very very useful once you get comfortable with using Uniswap and start searching for gems.

Commandments of Aping

1.) DO NOT RISK MORE THAN .1 ETH BEFORE VERIFYING THE REST OF THE COMMANDMENTS.

2.) Is there a website/telegram/twitter/medium?
   - a. Bonus points if people are doxed
      - i. Google image search all doxes and "previews" of the product
   - b. Bonus points if the project is followed by people you follow

3.) Is there a whitepaper?

4.) Do the tokenomics on the website/whitepaper match what you see in the Etherscan contract in terms of holder allocations?

5.) Is liquidity locked on unicrypt? Paste the pair address after this - https://unicrypt.network/uniswap-browser/pair/
   - a. > 95% liquidity locked is usually a red flag, why would the team care about the project if they don't own any of it?

6.) Ctrl-f the contract on etherscan for "mint" and "builder"
   - a. WARS was able to mint with no "mint" in their contract...somehow

7.) Are any of the early holders whales? You want to see some people with $100K+ in their wallets

8.) Do you see transactions flowing both ways, or only buys?
   - a. Only buys shows a potential blackhole like XAMPTARDIES and SHYT
      - i. Apparently, there is a way to modify the contract afterwards to make it a blackhole? Example – SHYT

9.) Name.finance is almost always a scam

10.) Presales are usually going to dump on listing, try to buy under presale price and flip at presale price if possible. Know beforehand when presale distribution is. Sometimes you have time before the distro for a flip. Some distros are done in tranches, so don't get caught slipping. You can look at the etherscan holder's to see what is left of some distros.

11.) Take our your initial when you start feeling mildly euphoric (normally "half on a double")

12.) Look for twitter shills (search the cashtag)
   - a. Track wallets of known shills ahead of time for potential plays

13.) Is the dev racist?

14.) **APE**

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UNISWAP 202

Rebasing.

This is some confusing shit. Some tokens will rebase, which means, periodically the amount of tokens you have will be adjusted somehow. Think of an automatic stock split or reverse split or something. Sometimes this can suck, IE you're in a token that automatically adjusts so that the liquidity provider's impermanent losses are socialized to the token holders, so your holdings shrink. Sometimes it's OK, like you will get a little airdrop. I haven't owned anything that has rebased so I'm not totally sure how it goes.