The hidden costs of yield

> **CRYPTO YIELD**
>
> Returns offered on held crypto - lending, staking, liquidity provision - are never free: each pays for a specific risk taken. Lending yield is counterparty risk; staking has lock-ups and slashing; liquidity provision carries impermanent loss. The advertised percentage is the return; the risk is the cost, usually unstated - and the platform's oldest rule, that yield is compensation for risk, applies at its sharpest here.

Crypto offers yields that dwarf traditional finance, and the module's job is the unglamorous one: naming what each yield is payment for, because none is a free return on a held coin.

The yields and their risks

Lending yield: coins lent to a borrower - an exchange, a protocol, a counterparty - earn interest, and the interest is the price of the counterparty risk from module 1 lesson 5; the borrower failing means the coins gone, and crypto's lending failures are on the public record.Staking yield: coins locked to secure a network earn rewards - real, protocol-native income - at the cost of a lock-up (the coins are illiquid, unsellable in a crash) and slashing risk (misbehaviour or downtime can forfeit some stake).Liquidity provision: coins supplied to a trading pool earn fees, at the cost of impermanent loss - the pool rebalances against the provider when prices move, so a volatile pair can leave the provider worse off than simply holding, fees notwithstanding.

Reading a yield honestly

The advertised APR is half the trade; the unstated half is the risk it compensates. A high lending yield signals high counterparty risk - the market pricing the chance of loss, exactly as a high bond yield does - so the biggest advertised numbers are often the biggest risks wearing a return's costume. The habit from the equity borrow lesson, generalised: read the yield as the market's price for a risk, then ask whether the risk is one you understood before the percentage tempted you.

The custody thread

Most crypto yield requires giving up self-custody - lending needs the counterparty to hold the coins, staking locks them, provision commits them to a pool. So yield is a custody decision from module 1, priced: the return is earned by taking on exactly the counterparty and lock-up risks that lesson taught, and the two must be weighed together. Spot ownership in self-custody earns no yield and takes no such risk - the track's default, and the honest baseline against which every offered percentage is a risk-for-return trade, never a free lunch.

Check your understanding

1. What does a high advertised crypto lending yield most likely signal?

a. A generous platform

b. High counterparty risk: the yield is the market's price for the chance of loss - the biggest numbers are often the biggest risks wearing a return's costume

c. Low demand for the coin

Answer: b. Yield is compensation for risk, at its sharpest here. The advertised percentage is the return; the unstated risk is the cost, and the largest yields price the largest dangers.

2. What is impermanent loss?

a. A temporary price dip

b. The pool rebalancing against a liquidity provider when prices move, potentially leaving them worse off than simply holding - the cost behind provision yield

c. A staking penalty

Answer: b. Liquidity provision's specific risk: a volatile pair's rebalancing can outweigh the fees earned. The advertised yield omits it, and the honest read prices it in.