

[PLACEHOLDER]

[Balancer Thesis](#)

July 20, 2020 [Chris & Alex](#)

Note: Placeholder holds Balancer's BAL.

Over the last year [pooled liquidity protocols](#) (AKA Automated Market Makers, or AMMs), which offer assets against algorithmic curves as opposed to order books, have come to dominate DeFi activity. Despite impressive liquidity and trading growth, the first generation of AMMs remain relatively inflexible. To accommodate more users and strategies, AMMs will have to evolve to offer both flexibility and depth, which is exactly Balancer's pursuit in building programmable and customizable liquidity pools.

Balancer is a new financial primitive that combines asset management and decentralized exchange. For investors, Balancer currently offers indexed management of cryptoassets [1]. Instead of paying fees to portfolio managers, investors earn fees for contributing their assets to Balancer pools [2]. For traders, Balancer is a permissionless and non-custodial trading venue with competitive prices where the fees from trading increase returns for the asset depositors. In conventional finance, this would be akin to smashing Fidelity asset management together with NASDAQ's exchange, funneling NASDAQ's trading profits to Fidelity's asset holders.

This effect provides a powerful reinforcement mechanism that drives towards having the most liquid pools of assets. The larger a Balancer pool gets, the less slippage there is when someone is trying to source one of its assets. With decreasing slippage for key assets, Balancer positions itself to attract more traders as it becomes a more competitive venue for many of their desired positions. Symbiotically, trading activity drives long-term value creation for the asset depositors. And so a pool is incentivized to grow, and grow, and grow.

And it's working. Despite being around for only 4 months, Balancer already offers highly competitive prices for trading popular assets such as MKR, REP, LEND, mUSD, and many others. For example, a \$13M [Balancer pool consisting of 60% MKR and 40% ETH](#) is one of the most liquid venues for those looking to trade MKR with little slippage, centralized or decentralized.

Being a supply-sider and governor in Balancer

Balancer allows suppliers, commonly referred to as “liquidity providers” (LPs), to deposit assets on their own terms. An LP can contribute to an existing Balancer pool or create their own. In the process, LPs may choose their preferred configuration of assets (any ERC-20 at the moment), pool weights (%), and trading fees. This flexibility has allowed Balancer to be a fertile ground for experimentation, alongside the deep liquidity pools it's accumulating (\$200M and counting).

<https://defipulse.com/balancer>

Balancer is intended to be owned and governed by its users. As part of that commitment, [Balancer distributes BAL to active LPs](#) (the suppliers), with

voting rights being passed on to these suppliers over time. BAL is also available in the open market for purchase, with its most liquid venue predictably being Balancer. Token holders have the right to decide Balancer's future, and how BAL itself will be used over time.

The ongoing issuance of 145K BAL per week to LPs has contributed to Balancer's rapid growth, and is similar to the supply-side subsidy that Bitcoin used to successfully scale its hardware security. Longer term, we anticipate BAL will need to find a [recurring model of value capture](#) to capitalize the network sustainably over time. Holders will also determine the final BAL supply, though they are limited by a 100M token hard-cap (current supply at ~35M, with weekly distributions to liquidity providers growing supply over time).

What the future looks like for Balancer

Balancer's growth to date only scratches the surface of the potential of dynamic liquidity pools. For those who find 8-asset pools not enough, Balancer allows pool parameters to be controlled and updated by a smart contract, an individual, or an organization like a DAO. This encompasses a considerable range of programmability. Some examples of pool types that are possible with dynamic Balancer pools include:

- Liquidity pools that [grow both liquidity and staking participation](#).
- Community-governed pools, such as those in [PieDAO](#) whose [USD++ pool](#) regularly adjusts weights to favor stablecoins that exhibit lower volatility.

- [Rollover pools](#) that can turn expiring assets such as bonds into perpetual tokens.
- Pools that can be programmed to [replicate financial derivatives](#). For example, users can hold LP shares with payoffs that approximate options.
- [Liquidity bootstrapping pools](#) that enable teams to build early liquidity with little initial capital, while gradually decreasing slippage and exposure. This can serve for primary asset issuance, as well as bolstering secondary-market liquidity if markets already exist for the asset.
- Surge pricing pools that increase fees during times of high demand for liquidity, such as Black Thursday. This attracts more liquidity to the surge pricing pool as it becomes more profitable than a fixed-fee pool. In turn, this allows for better trades with lower slippage, as there is now more liquidity available.

At Placeholder we believe open protocols will form the basis of a [superior financial system](#), and to that end have invested in minimally extractive but highly defensible protocols, as well as in [applications atop](#) these protocols. This model lowers costs for service providers, and enables an [opt-in relationship between users and applications](#). Balancer is a great example of a powerful protocol within this paradigm, and we expect many more ingenious applications to emerge atop the protocol, attracting fresh capital and liquidity to Balancer.

While Balancer's elegance and extensibility immediately drew us to the protocol, it was the core team's talent and authenticity that won us over. Fernando, a longtime Maker community member dreamed up the math behind Balancer; he recruited Nikolai, the original architect of MakerDAO to help him build it; and then brought on Mike McDonald, creator of [mkr.tools](#) to make it all happen. The

team has expanded since and is hiring senior smart contract engineers as it builds Balancer v2, so if you're interested shoot an email to contact@balancer.finance !

[1] If the composition of the pool deviates from its target weights as traders source assets from the pools, then arbitrageurs are incentivized to adjust the weights back to target. In this way, investors ensure that their portfolio will be consistently set at desired percentages of portfolio value, without having to do any rebalancing themselves.

[2] Liquidity providers lose some value to arbitrage during rebalancing, which the trading fees are designed to offset. For a full analysis of the trade-offs to contributing liquidity to Balancer pools, refer to [this article](#).