



## Crypto Winter Continues to Drive Bear Market Sentiment

### Description

The unprecedented crypto rally last year met an unfortunate end, as decentralized currencies lost more than [US\\$2 trillion](#) in value since the 2021 bull run. In fact, many cryptocurrencies, including one US-dollar pegged stablecoin, collapsed altogether, further aggravating the crypto winter.

Kaiko Research's director, Clara Medalie, said, "As markets started selling off, it became clear that many large entities were not prepared for the rapid reversal."

While the recent trends have spooked investors worldwide, this is not the first crypto winter. Decentralized currencies endured a crypto winter in 2017-18 when major digital assets crashed due to a bubble burst.

The [cryptocurrency market](#) is poised to recover in tandem with the global economy as the macroeconomic headwinds subside. In fact, **Bitcoin** rallied more than 8% in 24 hours mid-month as the Fed signaled less aggressive interest rate hikes in the upcoming months.

## Liquidity pools might not be the ultimate Trump card

Given the increased market volatility, crypto investors are increasingly turning towards liquidity pools to hedge risks. However, they often forget to account for impermanent losses when staking or depositing decentralized digital assets within a liquidity pool.

According to a study published by Cornell University, more than 43% of investors who participated in liquidity pools incurred substantial impermanent losses in 2021. Holding tokens has historically yielded better returns compared to liquidity pools during periods of high market volatility.

In order to hedge against impermanent losses, the Crypto Volatility Index (CVI) devised Armadillo using the Black-Scholes option pricing model. This decentralized risk management solution mimics the working of an insurance policy, wherein customers can purchase a custom policy (depending on their cryptocurrency holdings) for a specific coverage period. Any impermanent losses incurred during the coverage period will be covered by Armadillo.

Armadillo is the only solution that provides cross-chain protection. It also provides impermanent loss protection on any decentralized exchange (DEX) and liquidity platforms. This means you don't have to stake or provide liquidity on the Armadillo platform to avail of impermanent loss protection.

By hedging the systemic risks in this manner, investors can churn out substantial returns on crypto investments even during the winter.

While you can hedge a portion of your risks, let's look at one cryptocurrency that remains a top buy right now.

## Polkadot: The next-gen blockchain

**Polkadot** ([CRYPTO:DOT](#)) has been gradually gaining traction among crypto connoisseurs, thanks to its unique blockchain ecosystem. Dubbed the "Ethereum Killer," the nominated proof-of-stake network is known for facilitating interoperability across blockchains, thereby paving the framework to build a truly interoperable decentralized web.

Polkadot's native token DOT is designed based on an inflationary token model. As a result, Polkadot network validators are entitled to inflation rewards, which average approximately 10% annually. This is higher than the current inflation rate in the economy, thus ensuring positive returns for network validators.

Polkadot's market cap declined 86% from its all-time high to close the second quarter at a valuation of \$7.90 billion. However, its network usage and developer activity remained consistent quarter-over-quarter. In the last quarter, Polkadot averaged 145,000 monthly users, including 68,000 new users.

## The Foolish takeaway

The crypto winter has definitely shaken the digital asset ecosystem, with many currencies and crypto investment funds collapsing. In fact, **Tesla** recently dumped approximately 75% of its Bitcoin holdings, alarming investors further.

Nonetheless, there are several ways you can hedge your crypto assets against the current market risks. In addition, investing in up-and-coming fundamentally sound blockchain solutions such as Polkadot could help you generate massive returns in the upcoming months.

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