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Managing Investment Decisions and Risk in Decentralized Financial Markets: Evidence from Blockchain-Based Platforms

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Abstract

Decentralized finance (DeFi) has provided alternative investment, lending, trading, asset management and other methods via blockchain on both public and private platforms. Unlike traditional financial institutions, DeFi protocols rely on smart contracts for transactions, collateral, and financial returns and do not depend on the entire reliance of the centralized intermediaries. The innovations provide access, transparency and operational efficiency but also financial, technological, liquidity, and governance risks to the investor. This study adopts a structured literature review approach of academic studies, institutional reports and documented platforms mechanisms and investigates the investment decision making and risk management in decentralized financial markets. The cases of platform Uniswap, Aave, Compound, and MakerDAO are not meant to represent an empirical sample, but instead serve as examples to illustrate the platforms. Thematic synthesis take account of the concepts of portfolio theory and information asymmetry, highlighting the centrality of factors like expected return, collateral management, security of smart contracts, the reliability of oracles,

concentration of governance, and regulatory uncertainty. It concludes that transparency of record and liquidation automation can enhance transaction discipline, but will not be enough to prevent losses in stressed markets all on its own. The study suggests an integrated decision-making approach that incorporates elements of financial, technological due diligence, governance appraisal, Exposure limits and ongoing monitoring. The results offer a basis for future transaction level tests of the effectiveness of risk adjusted investment strategies.

1. Introduction

1.1 Background

Discussions about financial intermediation, ownership and investment management have been revolutionized by blockchain technology. Typically, banks, brokerage firms and investment companies perform functions such as: completing trades, evaluating risk of counterparties, keeping records and establishing processes for resolving disputes. While they serve very important roles, they can have costs associated with them, limited access to those services, delays in the process and information asymmetries. Distributed ledgers provide a different type of infrastructure for transactional records that can be verified and written down over multiple machines within a network, and not just in one's bookkeeper. An application of this infrastructure is decentralized finance (DeFi). It refers to financial applications that utilize distributed ledger, digital assets and programmable smart contracts to facilitate exchange, lending, borrowing, managing collateral and other financial functions. DeFi can be defined as a multi-layered and interoperable financial service that can be woven into more intricate financial transactions, according to Schär (2021). The programmability is another aspect that sets DeFi apart from moving cryptocurrency: financial, “rules” are written into computer software code that can trigger predetermined “rules.” With Pooled liquidity and Automated

Market making, Uniswap is a great example of the decentralized exchange. Protocols like Aave and Compound demonstrate interest-rate specifications and collateral mechanisms which are algorithmically programmed and can be changed as needed; MakerDAO provides an example of a protocol that uses collateral to back tokens. These are some examples of ways investors can make money in a variety of ways, with lending and borrowing on digital assets, or even a mix of them all. They also bring into focus the relationship between anticipated monetary returns and protocol rules and technological infrastructure. Although investors control their own wallets and transactions, they're also responsible for some of the roles that were previously taken up by intermediaries or are otherwise managed. They need to evaluate the custody, token design, liquidation levels, permissions of the smart contracts, and protocol dependencies. The Bank for International Settlements (BIS, 2023) warns that DeFi can create some of the same financial fragilities that can be observed in traditional finance, through terms such as 'leverage', 'interconnectedness' and 'liquidity mismatches' and complicate both technological and governance vulnerabilities.

Traditional methods of investment analysis focus on potential returns and market volatility, liquidity and diversification needs, and investor's risk tolerance. These still hold true, but they are not enough for DeFi. A portfolio can look good on the surface but plague the investor with problems such as oracle manipulation, weak code, centralised governance power, transaction congestion, or flash liquidations. Furthermore, the openness of the public ledger isn't an assurance that all the players can determine what it implies or can act on it in time.

Research is exploring protocols' architecture (Schär, 2021), the liquidation mechanism (Qin et al., 2021), and how financial stability can be compromised (Financial Stability Board [FSB], 2023). But such know-how is frequently looked at as discrete issues in isolation of a single decision process for investors. To address the practical and scholarly problem at hand, a model is

developed to link financial, technological, governance and regulatory information for use in deciding where and how much to invest, and whether to invest at all, in a given country.

The objectives are to identify the factors shaping investment decisions on DeFi platforms, evaluate the principal categories of associated risk, and propose an integrated approach to investment appraisal and exposure management. Three research questions guide the review: (1) What factors influence investment decisions on blockchain-based DeFi platforms? (2) Which financial, technological, governance, and regulatory risks are most relevant to investors? (3) How might the identified risks be integrated into a practical risk-management framework?

2. Literature Review

2.1 Refinancing and the Process of "Commoditisation"

Public blockchains allow for settlement to take place without any single method of record-keeping (Nakamoto, 2008) due to the peer-to-peer validation system. More complex architecture is used for modern lending pools, however. Bartoletti et al. (2021) demonstrate that the interplay between incentives and parameters in lending protocols can generate surprising behavior, with the presence of executable code not necessarily indicating that these protocols are economically safe.

Castillo León and Lehar (2026) curate empirical studies of exchanges, collateralized lending, yield farming, governance, and infrastructure, and conclude that protocol design influences market efficiency and exposures. Therefore, it should be noted that the allocation of liquidity, collateral, and execution risk is specific to the contract and should be separated when comparing pools of Uniswap protocol with lending protocols.

DeFi is built in blocks settlement, electronic assets, executable protocols, user interfaces, and aggregation services.DeFi can be structured in blocks settlement, digital assets, executable

protocols, person interfaces, and aggregation services. Schär (2021) suggests these layers provide transparent and interoperable applications, but also introduce exposures where an application relies on an underlying network or another protocol. An investor can use a claim token in one app, and then deposit a token in another app. This reuse can result in better capital efficiency, but also pose challenges in tracking exposures between positions.

Unlike traditional order matching, automated market makers (AMMs) use liquidity pools holding assets that can be traded in line with predetermined pricing rules. Liquidity Providers benefit from fees, but the returns will be based on asset mix, price fluctuations and transaction volume. Lending protocols, on the other hand, are different: asset suppliers collect variable interest while the borrowers place assets as collateral and pay for the cost of borrowing. Returns and protections are based on utilization ratios, collateral factors, liquidation incentives, and certain protocol configurations. The disparities suggest that none of these yield indicators represent all investment risks in a single indicator.

Platforms also differ greatly in terms of the level of decentralization and administration. Governance processes may allow for contract upgrades, or emergency pauses or collateral policy changes. Such functions can increase the resilience in the event of issues but also centralize decision-making powers for certain aspects of the operation. Thus, investors must make a distinction between an immutable contract and a protocol where the essential parameters can change via voting or through having certain people or institutions to decide the protocol's fate.

Analyze portfolio theory and investment decisions.

The risk of the portfolio also applies to losses arising from automated market making. Brönnimann et al. (2024) examine the opportunity costs that liquidity providers face, and explain why fee income might not offset the losses from divergence. Cartea et al. (2024) also simulate

concentrated-liquidity positions and demonstrate that fee income needs to be assessed against expected loss, rebalancing costs and concentration risk. Simple comparisons of liquidity-pool yields vs conventional asset returns are made possible by these results.

According to Marks and Bateson, Markowitz (1952) developed modern portfolio theory which states that investment choice should involve the joint consideration of the distribution of returns of the assets chosen, rather than considering the returns of individual assets. The overarching takeaway holds true for crypto-assets and DeFi trades: ‘diversification’, achieved through focusing on correlated risks, can overcome wide diversification. A multi-named protocol list, though, is not synonymous with diversification of economic exposure. A number of different roles can be simultaneously impacted by the same blockchain network, collateral token, oracle service, liquidity source or multiple combinations thereof.

There are also other variables to consider when deciding on using DeFi platforms, such as how much yield it offers, how many tokens are being rewarded, the ability of smart contracts to replace unwanted counterparts, costs of execution, and the chances of getting liquidated. A small bonus, offered in the form of a lending yield, may prove to be unattainable. By contrast, the transaction cost a liquidity provider may experience due to a relative price change of these assets is dubbed “impermanent loss.” For this reason, it is recommended to compare the estimated gross yield with potential net returns in favorable, ordinary, and stressed market scenarios.

While lots of data are available for the public to access, Akerlof's (1970) information-asymmetry framework explains why this doesn't necessarily result in equally knowledgeable investors. Sophisticated users may be able to check out contract permissions and blockchain occasions, and others will utilize interface summaries or promotional yield quantities. Therefore, some information barriers are decreased due to market transparency, but not all information gaps can

be mitigated by market transparency because analytical skills, time, and/or access to specialist tools may differ.

2.2 Market, Liquidity and Liquidation Risk

Vulnerabilities of seemingly stable units of account also concern the quality of the collaterals. Gorton and Zhang (2023) tie fragility of stablecoins to the issues surrounding private money creation and runs in the past. The International Monetary Fund (IMF) also notes some operational and market concerns relating to financial technology and DeFi (2022). Stablecoin backing and redemption should therefore be measured by the amount of backing and the redemption procedures as well as by the ability to liquidate during a crisis, but not the same as insured deposits.

Price of cryptoassets can change quickly and when trading with leverage, you are subjected to the price fluctuations of both the token and your leverage position. With overcollateralized lending, the market value of the collateral placed is higher than the value of the loan, but may be liquidated if the safety margin is less than a certain limit. Qin et al. (2021) study DeFi liquidations and demonstrate the existence of real economic incentives and costs to borrowers. Sharp declines can benefit lenders if the liquidation process protects them from losses while transferring a lot of cost to the borrowers.

Liquidations may additionally be linked systemically. The prices have been dropping, thus decreasing the ratio of the collateral; liquidation sales can cause additional selling pressure; further price declines can lead to additional liquidations. Congestion on the blockchain could lead to higher fees just when investors need to move assets, close positions or add collateral the most. This is also an example of procyclicality – micro rational buffers can amplify market stress

at the macro level. The FSB (2023a) notes that leverage, mismatches in liquidity and interconnectedness are significant vulnerabilities in the DeFi ecosystem.

An associated risk is associated with stablecoins. A stable asset might rely on the worth of reserves, the valuation of the collateral, the accessibility and timeliness of redemption, or market incentives. A disruption can impact the pressures on lending and trading and other leveraged positions in which that asset functions as collateral or a unit of account. The distinction between using price stability targets and using a guaranteed price stability of value is therefore important and should be taken into consideration when an investor is considering investing.

2.3 Smart Contract and Oracle Risk

Execution ordering introduces another market-specific technological exposure. Daian et al. (2020) document front-running incentives and transaction-ordering competition in decentralized exchanges, showing that on-chain transparency does not prevent economically consequential extraction by sophisticated participants. Investors must consider transaction slippage, ordering risk, and the suitability of protective execution settings.

The execution of financial agreements through smart contracts can reduce manual processing and make transaction rules inspectable, but software is not infallible. Defects in contract logic, interactions between protocols, key management failures, and insecure upgrade paths can cause losses that are unrelated to the performance of an underlying financial asset. Schär (2021) stresses the significance of technical security and operational dependencies within DeFi.

Oracles present a distinct vulnerability because smart contracts cannot independently observe all off-chain prices. They rely on mechanisms that supply external data. Incorrect, delayed, or manipulated prices can cause unjustified borrowing, arbitrage, or liquidation. An investor evaluating a lending pool therefore needs to ask not only how collateral is valued but also who

provides the valuation, how it is updated, and what happens if the source fails or diverges from liquid market prices.

A formal audit may reduce certain risks without constituting a guarantee. The scope of an audit, code version, subsequent changes, and interactions with external contracts all matter. Equally, past survival is not proof of future security. Technological due diligence is best treated as a recurring activity after upgrades and governance decisions, not as a one-time certification.

Once the project has been developed, the town manager or district must deal with governance and regulatory issues.

Aramonte et al. (2021) refer to the “decentralisation illusion” regarding the tendency toward the centralisation of governance power in spite of the decentralised software of which transactions are carried out. The conditions that result in losses for liquidity providers in automated market makers have also been investigated recently by Hafner and Dietl (2026). These studies also highlight the necessity to separate the concepts of transaction settlement decentralization from control and financial risk distribution.

The International Organization of Securities Commissions (2023) suggests determining who is responsible, understanding the DeFi structure, improving disclosure, and investor protection. The Basel Committee on Banking Supervision (2022) and the Financial Stability Board (2023b) offer some insights on prudential treatment of banks' cryptoasset exposures and an international framework for cryptoasset activities, respectively. The measures point to a trend of implementing risk-based protection, irrespective of technology.

Decentralized governance is typically done using token voting, delegated voting or multisignature administrative permissions. These can be adapted in a way that makes it clear and can involve the residents. However, if someone has a significant interest in a token or a

delegation of power, they can have the power to influence who is eligible for collateral, what they can borrow, the treasury's allocations, and even system upgrades. In the view of the BIS (2022), this unease is a component of the decentralization illusion.

A further uncertainty arises due to the regulation: platforms, developers, governance actors and users can be spread across jurisdictions. Classification of tokens, rules governing the provision of services, consumer disclosures, requirements for financial integrity, and post-loss liability may vary from location to location. FSb (2023a) points to the importance of assessing financial stability channels and the connection between DeFi and traditional institutions. Potential legal changes also have investment implications as they can impact the market access, availability of services, and compliance expense.

Research gap

It is known that there are various types of risks, but less coherent explanation is given in the literature about the way investors should build a portfolio of risk types. Financial tools like historical volatility don't account for technological failure modes, and a security review might not consider liquidity and leverage. There may be potential interactions between governance concentration and both: a quick protocol change can change the risk parameters or may introduce new code-related exposure. The present review thus suggests that a multidimensional appraisal approach is needed to evaluate risk adjusted opportunities in decentralized markets.

3. Methodology

3.1 Research Design

A structured review of academic and institutional literature is used for the research. This design should allow for a comparison of financial theory and documented protocol mechanisms and results on systemic vulnerability. It does not include a registered systematic review protocol,

original blockchain transaction extraction, investor survey or econometric estimation. Evidence is then to be understood not as platform level observations, but as published studies, documented institutional assessments.

A student is expected to be able to choose appropriate evidence and set a scope for a speech.

The review focuses on the DeFi operations, investment risk, collateral liquidation, governance, and financial stability aspects. Core sources include Schär (2021), Qin et al. (2021), BIS report (2022, 2023) and FSB report (2023a) as well as portfolio theory (Markowitz, 1952) and information-asymmetry theory (Akerlof, 1970). Major categories of decentralized activity are used to demonstrate: Uniswap, Aave, Compound, MakerDAO. The examples are not representative of the various market shares and financial performance of these examples and no conclusions are drawn with respect to the market shares or financial performance of these examples at this time.

3.3 Thematic Procedure

Evidence was grouped into five analytical themes: (1) incentives and expected returns, (2) volatility and liquidation, (3) smart contracts and operational dependencies, (4) governance and regulation, and (5) portfolio-level risk controls. Results for overlap, disagreement and implications for investors' decision-making were compared. Themes were then shared with an illustrative conceptual framework regarding investment screening, multidimensional assessment, position control and continuous monitoring.

3.4 Limitations

Since this is a purposive review, the selection does not provide a comprehensive coverage of all the literature that is relevant, nor is it intended to justify statistical generalization. Financial procedures also change rapidly, and details of how they actually work can change over the years.

This paper can't estimate risk-adjusted performance, the impact of particular security measures, or loss probabilities. Reproducible longitudinal data, and explicit econometric identification strategies would be required to answer those questions.

4. Results and Thematic Findings

4.1 Investment Returns Are Conditional

This view is corroborated by quantitative analysis of liquidity provision. Cartea et al. (2024) show that a sample of Uniswap v3 liquidity providers saw large average losses at trade, meaning that income from transaction fees should not be considered as net profit. Brönnimann et al. (2024) follow a similar line of reasoning to provide an explanation for the fact that divergence costs may easily exceed transaction fees under certain circumstances. First, DeFi investment opportunities are nuanced and depend on the protocol's particular setup, not on the number of points found in the headline yields. Trading fees are a possibility for exchange liquidity providers, but the effects of rebalancing, price differences and transaction costs can also apply. Lenders can enjoy interest which depends on the utilization of the loan, and they can get risks from collateral and market conditions. Rewards in add-on tokens can be variable and independent of the service that produces the rewards. This means that the same apparent APY can have widely varying economic exposure across platforms. It is sensible to compare the sources of income, its continuity, the ease of access to assets generated, the transaction cost and situations where the job needs to be unwound. This is in addition to the traditional risk adjusted analysis but not a substitute for it.

4.2 Liquidation Protects Pools but Can Harm Borrowers

The second implicates an asymmetry between the level of extent of protocol solvency protections and borrower outcomes. Automated liquidation is used to shield a pool when there is less and less collateral compared to the debt. However, penalties for liquidation and missed upside for borrowers should result when the assets come back up after the sale of the collateral. Qin et al. (2021) describe how these liquidations are actually carried out and the economic motivation to do so. The effects of these are of particular concern to individuals with leveraged investments, not just those who have digital assets. For example, an investor could deposit $15k of crypto assets and then borrow $8k. Even if the investor is certain that the market will bounce back, the position may be liquidated due to the protocol's rules as to the collateral assets. The conditions for liquidation would be determined by the asset-specific liquidation thresholds, the amount of interest due, the protocol mechanics and the price inputs.

4.3 Infrastructure Quality Is Financially Material

The third discovery is that technological reliability should be part of an investment valuation. Even if someone has made a proper prediction on the valuation of assets, the entire portfolio can suffer losses due to the fact that the code for contracts is incorrect, there is an error in the oracles, administrative keys were compromised, or assets were dependent on something else that failed. The technical assistance of audited code, conservative upgrade procedures, and diversified data sources can minimize exposure, but none of these can guarantee that there is no exposure at all. The intricacies of DeFi architecture are highlighted as a key vulnerability by the BIS (2023).

4.4 Transparency Does Not Equal Decentralized Control

The fourth finding is that no influence occurs automatically from observing transactions and governance decisions.The fourth finding is that a transaction and a governing decision are not balancing each other, even when observed. If the voting records are transparent, this gives the

ability to scrutinize, but large shareholders of the governance or authorized administrators may remain with the power of changing pivotal voting terms. Despite the fact that financial activity is conducted on a decentralized infrastructure, centralization can still exist, according to the BIS (2022). Investors have been asking who can change a contract, how fast the changes take place and what protection is afforded to minority parties.

4.5 Risks Reinforce One Another

Other central concepts in the synthesis are those of interdependence as they relate to protocol incentives, leverage, execution frictions, and market infrastructure by Castillo León and Lehar (2026). For this reason, correlated exposures may also occur when holdings are spread across seemingly independent protocols. The macro-financial analysis of the International Monetary Fund (IMF 2022) offers an alternative view of the transfer of existing vulnerabilities to new technical contexts through novel financial intermediation. The fifth finding is that risk categories interact. When the market price falls, prices may go down and cause liquidations; when prices rise during a liquidation, they may further exacerbate downward pressure; congestion may make it harder to adjust prices; and shared liquidity dependence can propagate distress between applications and cause them to get into a downward spiral. The same process could be furthered by governance decisions or oracles' disruptions. FSB (2023a) also points to similar pathways connecting leverage, weaknesses in the operations of banking system participants and financial interconnectedness. A checklist of hazards at the protocol level will thus underestimate the overall vulnerability of the portfolio.

4.6 Cross-Theme Summary

Risk dimension	Synthesis	Risk-management implication

Return and incentives	Yields vary with utilization, fees, and token rewards	Evaluate sustainable net returns
Market and liquidation	Leverage and collateral shocks can force sales	Limit leverage and retain collateral buffers
Technological	Contracts, oracles, and dependencies can fail	Review security and upgrade mechanisms
Governance	Voting and administration may be concentrated	Assess decision rights and safeguards
Systemic	Shared exposures can propagate distress	Monitor correlations and infrastructure overlap

5. Discussion

5.1 Extending Portfolio Analysis

The results have broadened the concept of portfolio reasoning by showing that it is possible to have both infrastructure concentration and application level decentralization. Users can allocate their investment to multiple tokens but still take risks to the same chain, stablecoin, oracle or liquidity channel.Investors could spread investments over multiple tokens and still be vulnerable to the same chain, stablecoin, oracle or liquidity channel. Markowitz (1952) demonstrates the critical role of joint risk, rather than just the number of positions. Another implication is that the dependency relationship between protocols should be connected with financial return dependency, which applies to DeFi.

In an integrated analysis, it is necessary to differentiate direct market risk, conditional exposure due to leverage and failure risk due to systems that process transactions. While traditional

allocation techniques are valuable, they are not exhaustive, and without accounting for these technical dependencies and nonlinear losses, they are not complete. In situations where historical information is scarce and novel exploits do not have a close historical match, scenario analysis is helpful.

.5.2 Information Asymmetry and Investor Protection

Technical complexity could negatively affect some investors, but public transaction logs can help enhance accountability. In relatively transparent markets, it is important for a reason that is pointed out by Akerlof (1970) namely due to difference in ability to judge quality. Risk dashboards, clear documentation of the protocols and the independent security assessment could make information more usable. However, interfaces can make complicated contractual relationships easier to use and can hide away major conditional risks if the emphasis is almost entirely on the yield.

This poses the governance question of both sides. The amount of intervention may restrict experiments and open access, and under-disclosure may fail to allow less advanced users to identify hazards in the material. Proportionate governance would aim to achieve more comparable and transparent governance, but would not presume every Protocol to be a traditional intermediary.

5.3 Financial Innovation versus Risk Transfer

DeFi can enhance financial capabilities and allow for programmable transactions. Those are significant potential benefits for transparent settlement and for permissionless technical experimentation (Schär, 2021). But doing away with the economic risk isn't the same as automating the financial function. Rather, there may be a new division of labor between user and

intermediary, the code maintainer and the user, or between the governance participants and the external infrastructure providers.

This is why positive and negative comparisons to DeFi may have merit, as they generally trace to different nuances of the reality of the sector. Leverage, liquidity, operational control and institutional linkages (BIS, 2023; FSB, 2023) are key for the efficiency gains; they are pivotal also for the vulnerabilities. The question to be asked is not one of whether decentralisation is safe or unsafe, but rather under what governance and market conditions are certain applications safe.

5.4. Integrated Decision Framework

There are four sequential, but revisitable stages in the proposed framework. The first step outlines the investor's goal and identifies financial attributes to be considered: the projected net return, investment timeframe, liquidity needs, transactional costs, and the volatility of the assets. The second stage examines technology, governance, and regulatory aspects such as audit history, the way the oracles are designed, the administrative powers, the legal uncertainty of the relevant contract, and the potential upgradeability of the contract. The third stage sets portfolio controls such as position size, buffers of collaterals, maximize leverage and diversification for independently exposed infrastructure.

The fourth stage constantly observes the position for parameter changes and security incidents, abnormal liquidity changes and market stress. In real use, the investor who wants to take a position in a DeFi lending service would first contrast the interest they foresee they will receive with the other returns they may be able to find, and figure out where the interest is coming from. The investor will then assess the collateral types, permissions, price feeds and security details. The investor would then choose a position size where it's feasible for them to be unable to access, or lose money. Lastly, reassessment would occur if the collateral thresholds, code or market

liquidity were changed. The strategy is to turn disjointed risks into "repeatable steps in the decision making process.

Policy responses should not assume all decentralized applications will have the same vulnerabilities. While the Basel Committee on Banking Supervision (2022) provides prudential recommendations for exposures on banks, the International Organization of Securities Commissions (2023) makes recommendations in an outcomes-based framework. In conjunction with the Financial Stability Board (2023b), these sources help to support a proportional approach to regulation on activities and material risks rather than on terminology alone.

Technical due diligence needs to be used alongside, not replacing, traditional investment governance, independent risk review and compliance controls for financial institutions weighing blockchain based exposures. Clarity about governing privileges, progressions, and financial associations can enhance the quality of investors' choices for developer. It is likely to be more informative for regulators to be able to identify the persons and entities, that are in fact exercising control, rather than the claims of decentralization made by a project. The FSB (2023a) also endorses the monitoring mechanisms for interconnectedness with conventional financial markets.

6. Conclusion and Recommendations

6.1 Conclusion

This structured review has examined the determinants of investment choices and the interconnected nature of risk in decentralized financial markets. Blockchain-based platforms expand the possibilities for automated lending, trading, and liquidity provision. Their advantages include programmable contracts, visible transactions, and new forms of financial access. Yet

DeFi retains conventional financial vulnerabilities and introduces operational, governance, and regulatory exposures that standard yield comparisons do not capture.

The synthesis establishes three central propositions. First, financial returns must be judged alongside the sustainability of incentives and the possibility of nonlinear losses. Second, automated liquidation and transparency can improve particular operational functions but do not remove market instability or unequal governance influence. Third, risk management must examine the portfolio and its shared technological dependencies, not merely individual application labels. These propositions support a multidimensional framework for prudent investment assessment.

6.2 Recommendations

Investment managers should assess net rather than advertised returns and document the assumptions underlying expected yield. Collateralized investors should stress-test adverse price scenarios, maintain prudent safety margins, and account for the possibility that market access becomes costly during congestion. Investors should also review protocol security, oracle dependencies, administrative powers, and governance concentration before committing funds. Protocol developers should disclose significant technical permissions and economic parameters in accessible language and update users about material changes. Policymakers should focus on observable risk-generating functions and financial interconnectedness while preserving room for responsible innovation. Finally, future studies should collect longitudinal on-chain positions and market data to test whether multidimensional screening reduces realized losses, and examine how investor experience moderates the relationship between public transparency and investment quality.

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