

# Profitable INVESTING Tips

## Stock Market Investing Tips, Techniques, and Resources



## Firewall Between Decentralized Finance and Traditional Banking

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The world of cryptocurrencies came into being 15 years ago and has grown to become a significant financial asset class. Along the way there have been a number of growing pains. These have included people not keeping track of the necessary cryptographic keys to get into their [crypto wallets](#) and losing thousands if not millions of dollars as Bitcoin and other tokens soared in value. Crypto exchanges and decentralized finance businesses have been [hacked](#). More recently we have seen a wave of [crypto bankruptcies](#) that have taken client assets with them. Regulation has increased in this investment niche with the latest being a [potential firewall](#) between decentralized finance and traditional banking.

## Will Decentralized Finance Lose Access to the Traditional Banking Sector?

As crypto businesses like FTX collapsed, concern mounted about both sloppy business practices and outright [fraud in the crypto sector](#). If crypto had been [regulated like a bank](#) or a stock exchange, many of these issues would have been avoided. As a matter of fact, banks have already been advised in regard to how they deal with crypto businesses. The SEC has been looking at crypto businesses that take client deposits and pay interest in return for using their funds.

The problem as discussed by SEC chair Gensler is that crypto companies have not been properly separating client funds from company funds. And they have not been clear with their customers just what they are doing with their funds in order to make money. Gensler says that in the securities industry all of this was sorted out in the 1930s after the 1929 market crash. The basic right of investors and financial service customers is to have clear warning of any and all risks associated with their investments.

When crypto exchanges have commingled funds between clients and their business operations that fact should have been told to clients. When FTX moved assets from one arm of its company to another to cover losses this should have been disclosed instead of giving the appearance that the company was more solvent than it really was.

Recently Kraken shut down its US crypto staking operations and paid a \$30 million fine. According to Gensler this operation would not fly in the securities or banking sector as clients were not adequately advised of the risks involved. Kraken can do this operation offshore wherever it is legal but no longer in the USA. You can see an interview with the [SEC chair at this URL](#).

## Dual Concerns Causing Crypto Regulations

The regulators have two concerns. One is protecting the investing public. Banks, stock exchanges, stock brokers, investment advisors, and other folks who handle investments or give advice about investments are obliged to follow rules that protect investors. The other concern is, as we mentioned up front, crypto has

grown to be a significant asset class. It may have shrunk during the crypto winter but will grow again with the [best crypto businesses](#) gaining the most. It will be important as this asset class recovers, grows and matures, that investments within its bounds are transparent and secure within reason and normal market movement.

### Are Regulators Trying to Destroy DeFi and Crypto?

It does not seem to us at Profitable Investing Tips that the SEC or anyone else is trying to destroy crypto exchanges, decentralized finance operations, or anything related to the blockchain. What they are doing is making sure that these businesses play by the same sorts of rules that have been in place since just after the worse financial crisis in a century, the 1929 to 1932 stock market collapse and ensuing [Great Depression](#). Not only are individual investors hurt when a crypto business commits fraud but the entire economy is damaged when a significant amount of capital vanishes in an unexpected business collapse and bankruptcy filing.

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