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A Detailed Introduction of Staking Pools

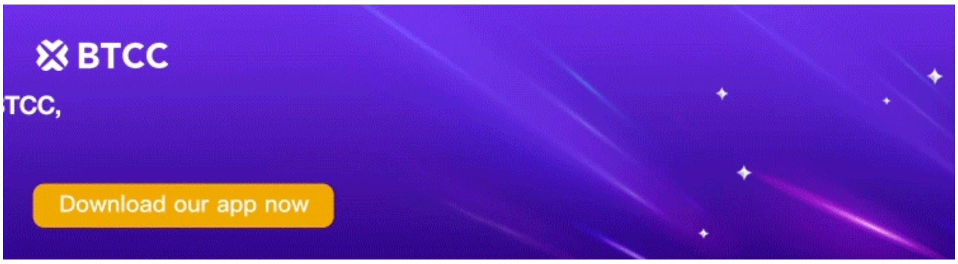
1.What Exactly Are Crypto Staking Pools?

A staking pool allows multiple stakeholders (or bagholders) to combine their computational resources to increase their chances of receiving a reward. In other words, they combine their staking power in the process of verifying and validating new blocks, so they have a higher probability of receiving block rewards.

For many crypto investors across the globe, the concept of a staking pool is rather unknown, and investing in one elicits skepticism rather than drawing hordes of investors to it. Yet, the overall concept of a staking pool is available on blockchains that employ a proof-of-stake (PoS) model and requires stakeholders to lock their crypto tokens in a specific blockchain address or wallet in return for an annual percentage yield (APY).

These locked tokens are tethered toward developing the respective blockchain. In exchange, the blockchain provides stakeholders through the public stake pool operator with a percentage reward based on the number of tokens staked. The many advantages of investing in a public stake pool are accompanied by a number of caveats that are important to consider before staking crypto tokens, especially the staking pool model employed.

Public stake pools are ideal for retail investors who want to participate in the staking activity without having to stake large amounts of a crypto token which is needed to become a validator on the blockchain network or start a private staking pool. For Ethereum, an investor would need 32 ETH to become an independent validator, so any user can stake Ether (ETH) and earn rewards in the process.



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2.Staking Pool Gains

As a suitable option for long-term crypto token holders, staking pools offer the promise of earning yields in addition to the capital gains earned through token value appreciation.

One can invest in a stake pool with a fraction of the number of tokens required to become a validator on a PoS blockchain, while the staking pool rewards users on a daily, weekly or quarterly basis, depending on the cryptocurrency being staked. For example, investors can stake their ETH tokens in a staking pool on Coinbase for daily rewards and with no minimum balance requirement.

Another popular blockchain to stake tokens is Cosmos, the second largest ecosystem in blockchain. Investors can also stake their tokens through various validators on many chains available in the Cosmos ecosystem.

Choosing which staking pool to enter depends on a number of factors, including the commission rates, which are typically between 5% to 6% and how they contribute to the ecosystem like creating code for the projects they validate. The annual percentage rate (APR) varies from chain to chain, with the APR on Cosmos Hub being 15%, while for Osmosis it's 60% and Juno offers 150%, which is significantly higher.

Apart from these factors, many staking pool operators offer unique value propositions that may make them appealing to potential stakeholders. A relevant example here is Cosmos Antimatter, a new budding Cosmos ecosystem validator that is promoting decentralization within the validator network. The main aim is to ensure that no validator cartels are formed while giving up 100% of their profit to the stakeholder ecosystem.

3.What Makes Staking Pools Different?

Staking pools earn rewards in proportion to the tokens invested, even if the quantity staked is a fraction of what is needed to achieve validator status on the blockchain.

Staking pools provide anyone to earn a passive income while still holding on to the crypto tokens for long-term price appreciation. Moreover, investors do not have to worry about how a staking pool works or the procedures required in setting up and running a validating node, which the staking pool operator instead does on behalf of all the stakeholders.

Rewards earned are in the form of the staked crypto token as the blockchain rewards the validator (pool operator in case of a staking pool) with newly minted tokens every time a block of transactions is successfully added. This means that stakeholders will receive their fair share in proportion to the number of tokens staked and will be able to generate even higher returns when the price of the staked token appreciates with time.

Considering that the minimum amount of tokens required to become a validator is so high, it is far easier for even novice investors to lock their coins with a public staking pool operator to enjoy more predictable and frequent staking rewards.

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4.Pre-Investment Considerations

Despite the potential returns, the costs of operating a crypto staking pool need to be considered wisely before investing.

It is important to choose a staking pool wisely, as the staked tokens act as a guarantee for the blockchain and it is important that the pool operator, who is acting as a validator on the blockchain, does their job without any malicious intent.

Suppose a block is formed with invalid or fraudulent transactions, the blockchain network may burn a certain amount of the tokens staked and result in you losing money staking crypto along with other stakeholders who have invested their tokens in the staking pool.

Moreover, once an investor decides to join a staking pool, their crypto tokens are locked in a specific blockchain address or with a third party and this may result in stakeholders not having direct control over their staked tokens. It is wiser to choose staking pools that allow stakeholders to participate in the staking process while still having their holdings held on a hardware wallet for more security.

A staking pool will give smaller rewards than if the tokens were directly staked with the blockchain since every staking reward is split among the many participants of the staking pool. After deducting platform fees and commission rates, the final payout reduces further. For ETH, becoming an individual validator could earn someone an APY of 6%. In comparison, investments tied in crypto staking pools can earn a lower APY of about 5% from pool staking in the best-case scenario.

5.How to Start Your Staking Journey

It is necessary to conduct due research about all available crypto staking pools for a particular crypto token and choose those with a proven track record.

Unlike crypto mining, crypto staking doesn't involve investing in mining equipment to generate returns. There are several crypto staking pools that are currently available for different cryptocurrencies that operate on a PoS blockchain and it is suggested that investors choose notable crypto exchanges that operate public stake pools over private staking pools that may offer a higher APY.

Apart from considering the stake pool's ranking, it is prudent to choose staking pools that provide stakeholders with regular updates about the staking pool's performance and are transparent in their functioning. This includes key decision-making regarding the future roadmap of the pool and how stakeholders are made a part of the process.

It is recommended that a performance assessment be conducted prior to narrowing a staking pool for investment purposes. Consider membership or entrance fees to understand the actual returns that may be generated on the staked tokens and enter a staking pool without too many stakeholders to ensure that rewards are not further diluted.