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What is Solana? Is Solana a Good Investment in 2022?

[Solana](#) (SOL) is one of the best performing [cryptocurrencies](#) in 2021. At the beginning of the year, it ranked 120th in market value and fifth in the end, surpassing the blockbuster bombs such as [Cardano](#) (ADA) and [Polkadot](#) (DOT).

Solana is a smart contract cryptocurrency, which is thought to be comparable to [Ethereum](#) (ETH). It is extremely fast, and the transaction cost is a small part of the world's second-largest blockchain.

However, so far, the start of 2022 has not been smooth. Solana has fallen nearly 17% since the beginning of this year and about 45% since its peak in November. Let's look at the reasons for the decline and list some advantages and disadvantages of Solana for investors to decide whether Solana is a good investment in 2022.



Why Did Solana Step Down?



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1. The Entire Cryptocurrency Market is Collapsing

Since mid November, the total amount of funds invested in cryptocurrency has decreased by more than 30%, and many large cryptocurrencies have lost value. Broader economic factors played a big role. After many months of fiscal and monetary stimulus, the Fed announced that it would begin to tighten its position.

Among other measures, it now appears that the Fed may raise interest rates in March, earlier than expected. This, together with the Omega variant, has put the cryptocurrency market in trouble as people withdraw from riskier asset classes.

2. Solana Has Some Technical Problems

Solana's rapid growth is not without problems. The ecosystem now hosts more than 1000 projects and has been interrupted several times in the past six months. The most serious one was in September, when the Internet was down for 17 hours. Some see these as relatively normal growth pains, but others worry that this is a sign that the network places too much emphasis on speed and not enough on security. One concern for investors is that Solana has not been road tested like a more mature smart contract cryptocurrency. Technical difficulties exacerbated the unease.



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3. Solana May Have Reached the Time of Correction

One challenge of cryptocurrency investment is that speculation is common. People buy cryptocurrencies they don't fully understand because they see prices rising and hope to catch up with this wave. This means that prices are often pushed to unsustainable levels.

A related problem is that, unlike buying stocks, it is not easy to evaluate assets based on their fundamentals. You can't use the income or cash flow of a cryptocurrency to estimate its possible value, because the cryptocurrency project doesn't need to publish any financial information. Some indicators can be used by cryptocurrency investors, but they are very different from the relatively solid foundation of stock investment.

Others hope that blockchain can change our way of life, and the whole industry may eventually be worth \$100 trillion - 50 times its current value - or more. This hype means that people feel pressure to enter as soon as possible, and it is difficult to see whether the price of a cryptocurrency is too high.

In Solana's case, for months, it seemed that the sky was the limit. Its price began to rebound in July and continued to rise until around November. For every critic who warns Solana to become too hot, another critic will suggest that Solana has the potential to be on par with, if not beyond, Ethereum. Finally, after an increase of 11000% in 2021, it is not surprising that the sun in Solana sinks slightly.

Pros and Cons



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Advantages

- Fast transaction speed and low cost. Cryptocurrency enthusiasts believe that Solana is Ethereum's biggest competitor. Eth can currently process 14 transactions per second, while sol can support 50000 transactions. Ethereum is switching from proof of work consensus algorithm to proof of equity algorithm because gas costs are quite expensive. However, sol still has advantages in transaction speed and cost.
- Solana has the third largest futures market. Solana currently has the third largest open futures contract, which is the most relevant indicator in derivative contracts. The total is the total number of contracts held by market participants on their networks, regardless of their recent trading capacity. Although its price value plunged sharply in early November, its current open interest in futures maintained its previous position.

- NFTs and smart contracts. The NFT industry has developed wildly in the past year. Non replaceable tokens became a high growth industry opportunity, followed by epic sales hosted by well-known digital artists. Taking advantage of this expanding industry, Solana jumped into the market and shared NFT's choices. Solana is gaining market share through the NFT market solanart running on the network. For NFT enthusiasts using the platform, one of the biggest advantages is its minimum cost and transaction speed.
- Solana is a leader in TVL, users and derivatives markets. There is no doubt that there are a lot of activities going on in Solana's chain data and derivatives market. The TVL of the network has increased by more than 15% in the past six months. It seems to be rapidly narrowing the gap between TVL, active users and derivatives markets.
- SOL's ecosystem has strong institutional appeal. Solana's market value is more than twice that of avalanche and Terra. 2021 has presented strong evidence of the growing investor community of sol, and with the increasing adoption of investors, the adoption of institutions is also increasing.

Disadvantages

- Solana is not decentralized enough. Some cryptocurrency enthusiasts believe that investing in sol may not have many disadvantages, but this feature of the cryptocurrency is especially considered to be its biggest disadvantage. Eth network has more than 200000 verifiers, but Solana network has only 1000 verifiers so far. The more verifiers there are, the more secure the network will be.
- Fewer projects. Ethereum's first mover advantage means that the network has more projects than Solana. Sol claims to have about 350 projects on its network, including decentralized finance, NFT projects and game applications. As more investors will realize the fast trading and low cost of the cryptocurrency, more new projects may choose sol instead of ETH.
- Inflation. Cryptocurrencies became popular in 2020 for many reasons, one of which is to use them as a tool to hedge inflation. Most digital currencies have a hard cap on how many coins will exist in total. But Solana has no fixed supply of coins. The creators began to increase the annual supply of sol tokens by 8%, which means that the inflation rate will be reduced by 15% to 1.5%, and then stop reducing beyond this point.
- Unstable network. Solana's investor community is still in its infancy. Moreover, compared with Ethereum, its performance record is short, and investors may not be easily persuaded to buy sol instead of Ethereum. The reputation of the cryptocurrency was hit when the Solana foundation tweeted that its network was experiencing some instability. Since reliability is the key to cryptocurrency investors, this scam made sol withdraw from its biggest competitor.
- Solana's test phase. Solana has big plans for the future, but many of them are still in the testing stage. Until these plans are implemented by the company, it will be impossible to analyze how successful the cryptocurrency may become. Solana is an impressive cryptocurrency. Among the thousands of cryptocurrencies on the market, it stands out by showing sustained growth and potential. But investors estimate their safe value at risk and then concentrate on testing their luck in cryptocurrency investments.



Does Solana Deserve to Buy?

In some cases, increasing your portfolio when prices fall can be a reasonable investment strategy. But there are some precautions. First, we don't know what will happen to the cryptocurrency industry in the coming months — there's no guarantee that this is the bottom. Part of the reason why cryptocurrency prices soared last year was that so much money was available. As this situation changes and the Fed becomes more hawkish, the cryptocurrency market may be affected. In addition, we do not know the impact of strengthening supervision.

Second, it makes no sense to rush to buy just because the price is lower than it was three months ago. If you don't plan to buy Solana yet, don't buy it now just because it's cheaper. Take some time to do research. Make sure you understand Solana, how you think it will perform in the next 5 to 10 years, and its gap with competitors. Decide whether you think Solana may be a good long-term investment.

All in all, now may be a good time to buy Solana, but only if the following is true.

- You believe it may be a good long-term opportunity.
- You are achieving your other financial goals, such as retirement and your emergency fund.
- The money you invest is a loss you can afford.
- You understand that Solana's price may fall further.
- You know that cryptocurrency can be unstable and understand the risks.

Cryptocurrency investment can produce incredible returns, but it is also a very risky industry. If you want to buy Solana, please use a reputable cryptocurrency exchange and make sure it accounts for only a small part of your entire portfolio.

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