HT BLOCKCHAIN BI-WEEKLY NEWSLETTER

Editor's Note
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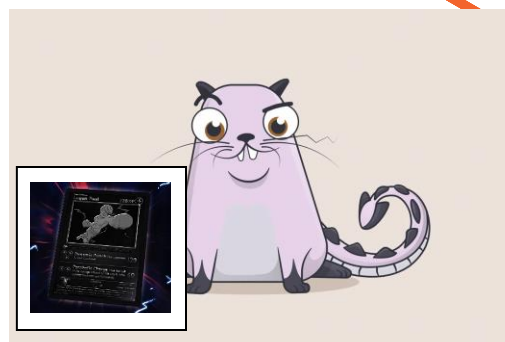
Dear Reader,

In this article, Dr. Okpalaeze explains non-fungible tokens (NFTs) for you. This is an exciting new application of the blockchain with cryptocurrency foundations. To give you an idea of how new this concept is, the first NFT project began in 2015. Yes, just six years ago.

If you are an artist or a creator of some form of original work, you can potentially earn millions by converting your work to an NFT.



Your money-making artwork goes to the blockchain…

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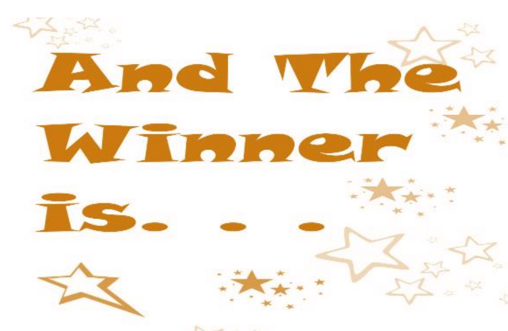
The winner from the last post-article survey was Ms. Mariah King. Mariah is an undergraduate (Adult Degree Program) Business Administration student at Huston-Tillotson University. Congratulations Mariah!

Editor:

Dr. Abena Primo from the School of Business & Technology



Mariah King

WHAT IS A NON-FUNGIBLE TOKEN (NFT)?

By Dr. Azubike Okpalaeze

Non-Fungible Tokens (NFT) is a special kind of crypto-asset in which each token is unique, as opposed to "fungible" assets like Bitcoin and dollar bills which are worth exactly the same amount. Because every NFT is unique, they can be used to decipher the ownership of digital assets like artworks, recordings, and virtual real estate or pets. Questions? Email the author at adokpalaeze@htu.edu.

An NFT is a digital asset that represents real-world objects like art, music, in-game items and videos. They are bought and sold online, frequently with cryptocurrency, and they are encoded with the same underlying software as many cryptos. Although they've been around since 2014, NFTs are gaining notoriety now because they are becoming an increasingly popular way to buy and sell digital artwork. A staggering $174 million has been spent on NFTs since November 2017. NFTs are also generally one of a kind, or at least one of a very limited run, and have unique identifying codes.

"Essentially, NFTs create digital scarcity," says Arry Yu, chair of the Washington Technology Industry Association Cascadia Blockchain Council and managing director of Yellow Umbrella Ventures. This stands in stark contrast to most digital creations, which are almost always infinite in supply. Hypothetically, cutting off the supply should raise the value of a given asset, assuming it's in demand.

How Is an NFT Different from Cryptocurrency?

NFT stands for non-fungible token. It's generally built using the same kind of programming as cryptocurrency, like Bitcoin or Ethereum, but that's where the similarity ends.

NFTs are different. Each has a digital signature that makes it impossible for NFTs to be exchanged for or equal to one another (hence, non-fungible). One NBA Top Shot clip, for example, is not equal to EVERYDAYS simply because they're both NFTs. (One NBA Top Shot clip isn't even necessarily equal to another NBA Top Shot clip, for that matter.)

What Are NFTs Used For?

Blockchain technology and NFTs afford artists and content creators a unique opportunity to monetize their wares. For example, artists no longer have to rely on galleries or auction houses to sell their art. Instead, the artist can sell it directly to the consumer as an NFT, which also lets them keep more of the profits. In addition, artists can program in royalties so they'll receive a percentage of sales whenever their art is sold to a new owner. This is an attractive feature as artists generally do not receive future proceeds after their art is first sold.

How do NFTs work?

At a very high level, most NFTs are part of the Ethereum (ETH) blockchain. Ethereum is a cryptocurrency, like bitcoin or dogecoin, but its blockchain also supports these NFTs, which store extra information that makes them work differently from, say, an ETH coin. It is worth noting that other blockchains can implement their own versions of NFTs. (Some already have.)

What's worth picking up at the NFT supermarket?

NFTs can really be anything digital (such as drawings, music, your brain downloaded and turned into an AI), but a lot of the current excitement is around using the tech to sell digital art. Anyone can view the individual images—or even the entire collage of images online for free. So why are people willing to spend millions on something they could easily screenshot or download? It is because an NFT allows the buyer to own the original item. Not only that, it contains built-in authentication, which serves as proof of ownership. Collectors value those “digital bragging rights” almost more than the item itself.

Do people really think this will become like art collecting?

I’m sure some people really hope so — like whoever paid almost $390,000 for a 50-second video by Grimes or the person who paid $6.6 million for a video by Beeple. Actually, one of Beeple’s pieces was auctioned at Christie’s, the famous. But NFTs are designed to give you something that can’t be copied: ownership of the work (though the artist can still retain the copyright and reproduction rights, just like with physical artwork). To put it in terms of physical art collecting: anyone can buy a Monet print. But only one person can own the original.

So, every NFT is unique?

In a technical sense every NFT is a unique token on the blockchain. But while it could be like a van Gogh, where there’s only one definitive actual version, it could also be like a trading card, where there’s 50 or hundreds of numbered copies of the same artwork. Art isn’t the only way to make money with NFTs. Brands like Charmin and Taco Bell have auctioned off themed NFT art to raise funds for charity. Charmin dubbed its offering “NFTP” (non-fungible toilet paper), and Taco Bell’s NFT art sold out in minutes, with the highest bids coming in at 1.5 wrapped ether (WETH)—equal to $3,723.83 at time of writing. Nyan Cat, a 2011-era GIF of a cat with a pop-tart body, sold for nearly $600,000 in February. And NBA Top Shot generated more than $500 million in sales as of late March. A single LeBron James highlight NFT fetched more than $200,000. Even celebrities like Snoop Dogg and Lindsay Lohan are jumping on the NFT bandwagon, releasing unique memories, artwork and moments as securitized NFTs.

Who would be the Buyers?

Well, that’s part of what makes NFTs so messy. Some people treat them like they’re the future of fine art collecting (read: as a playground for the mega-rich), and some people treat them like Pokémon cards (where they’re accessible to normal people but also a playground for the mega-rich). Speaking of Pokémon cards, Logan Paul just sold some NFTs relating to a million-dollar box of the—your text here. Add your text here. Add your text here. Add your text here.

Where can I Buy?

There are several marketplaces that have popped up around NFTs, which allow people to buy and sell. These include OpenSea, Rarible, and Grimes’ choice, Nifty Gateway, but there are plenty of others. If you’re keen to start your own NFT collection, you’ll need to acquire some key items:

First, you’ll need to get a digital wallet that allows you to store NFTs and cryptocurrencies. You’ll likely need to purchase some cryptocurrency, like Ether, depending on what currencies your NFT provider accepts.

Popular NFT Marketplaces

- OpenSea.io: This peer-to-peer platform bills itself a purv collectibles.”
- Rarible: Similar to OpenSea, Rarible is a democratic, op creators to issue and sell NFTs.

You can buy crypto using a credit card on platforms like Coinbase, Kraken, eToro and even PayPal and Robinhood now. You’ll then be able to move it from the exchange to your wallet of choice.

You’ll want to keep fees in mind as you research options. Most exchanges charge at least a percentage of your transaction when you buy crypto.

CONCLUSIONS

NFTs are risky because their future is uncertain, and there is not yet a lot of history to judge their performance. “NFTs are so new, it may be worth investing small amounts to try it out for now. In other words, investing in NFTs is a largely personal decision. If you have money to spare, it may be worth considering, especially if an art piece holds meaning for you. But keep in mind, an NFT’s value is based entirely on what someone else is willing to pay for it. Therefore, demand will drive the price rather than fundamental, technical, or economic indicators, which typically influence stock prices that forms the basis for investor demand. This means that an NFT may sell for less than you paid for it. Or you may not be able to resell it at all if no one wants it. NFTs are also subject to capital gains taxes just like when you sell stocks at a profit. Since they're considered collectibles, however, they may not receive the preferential long-term capital gains rates stocks do and may even be taxed at a higher collectibles tax rate, though the IRS has not yet ruled what NFTs are considered for tax purposes. Bear in mind, the cryptocurrencies used to purchase the NFT may also be taxed if they've increased in value since you bought them, meaning you may want to check in with a tax professional when considering adding NFTs to your portfolio. That said, approach NFTs just like you would any investment: Do your research, understand the risks, including that you might lose all of your investing dollars and if you decide to take the plunge, proceed with a healthy dose of caution.

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Survey Link

Previous Survey Winner: Mariah King

This project was generously sponsored by the FinTech Center at Morgan State University. If you have any questions or concerns, please contact Dr. Abena Primo (email: acprimo@htu.edu).

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