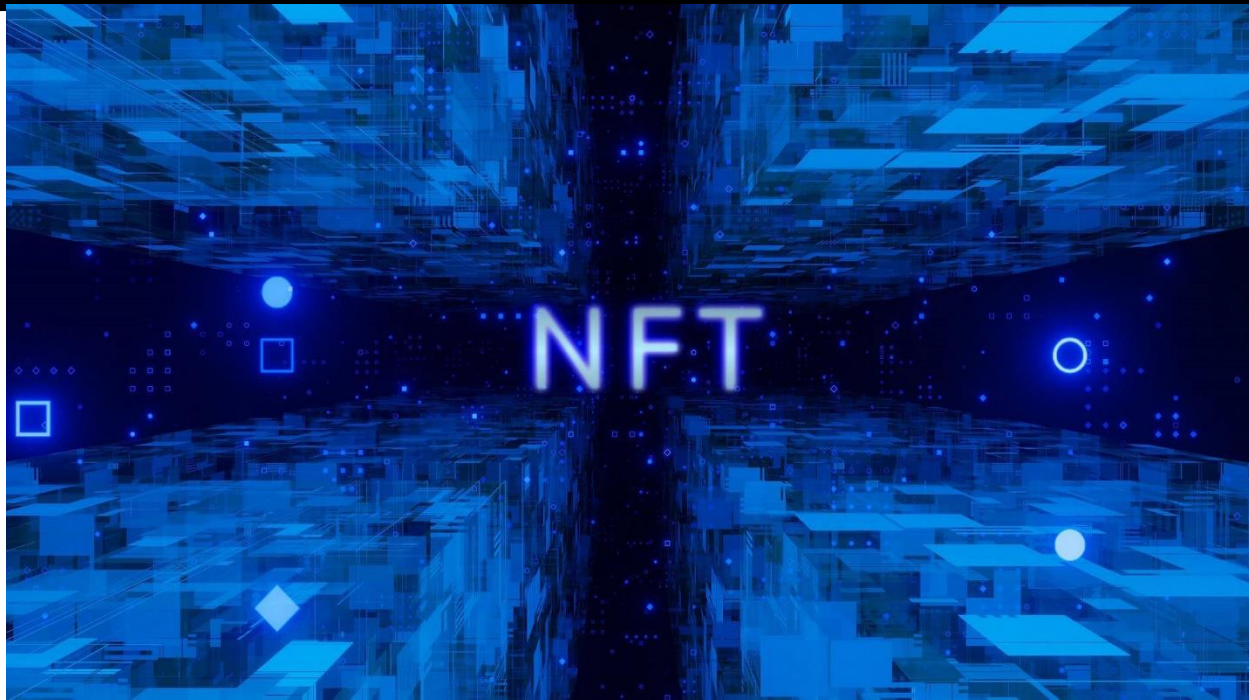


# The rise of NFT's as an Investment Tool



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## Executive Summary

A **Non-Fungible Token (NFT)** is a tradable financial asset based on blockchain. NFTs have been around for some time, they were introduced in 2014, but they started becoming popular from 2020 to 2021. As a result, they are increasingly becoming a popular investment among crypto investors and mainstream society. This white paper will provide a brief overview of NFTs, the different kinds of NFTs, and the benefits and disadvantages of investing in NFTs. It will also discuss the impact of NFTs on the investment sector.

## Problem Statement

NFT is a global investment similar to cryptocurrency, transcending borders and financial controls. An individual sitting in the farthest corner of the world can buy and sell NFTs in the other corner. The price of an NFT depends on factors such as scarcity of the piece, the creator's popularity, and a perceived value set by its creator, the buyer, and the seller. NFTs are digital assets occupying a niche position between an asset and a cryptocurrency. NFTs have become a popular investment tool with a significant presence in both traditional and social media. The popularity that makes NFTs a success could also be the factor for their downfall. The frequent criticism of NFTs are their speculative nature, copyright and regulatory issues, and lack of initial diversification; this white paper explores the concept of NFTs and their shortfalls.

## What Are NFTs

An NFT is a digital asset representing real-world or digital objects such as paintings, art, music, photographs, or movies. NFTs are commonly bought and sold using cryptocurrency on online platforms. NFT is a financial security asset that consists of digital data stored in a blockchain.

**Blockchain:** *A blockchain is a form of distributed ledger. Blockchain can be defined as an ever-growing list of blocks or records that are linked using cryptography.*

NFTs are images and other art forms, and anyone can create them without any knowledge of coding or other technologies. NFTs are transferred with the help of a digital certificate that establishes ownership. The provenance of NFTs is proven through the Bitcoin ledger, making each purchase and sale a unique combination that is always noted down.

## Examples of NFTs

NFTs come in many forms and are very diverse. The list attempts to take a comprehensive look into NFTs:

### Digital Art

Digital Art is the most common NFT in the market today, the first digital art as NFT was launched in 2015, and it has since been riding on a wave of popularity. In October 2015, the first digital art NFT “Etheria,” was launched at “Devcon1” in London; it was composed of 457 purchasable and tradable hexagonal tiles. After that, however, it went unsold till a renewed interest in digital NFT in 2021, when all the tiles were sold for a total of 1.4 million USD.

In March 2021, the NFT known as “Everydays: The First 5000 Days” (*Image 1.0*) sold for sold at the Christie’s auction for \$69.3 million.



*Image 1.0: Everydays: The First 5000 Days*

This is the highest price for an NFT and the second-highest price for any living artist. The artwork comprises a digital collage of hundreds of colored images made by a South Carolina artist known as “Beeple.”

### Music NFTs

Digital files in the form of artwork related to albums or songs and the music itself have also become popular NFTs in the market. Artists such as Lil Pump, Grimes, visual artist Shepard Fairey, and rapper Eminem have gained popularity in music in the NFT market. In February 2021, it was reported that the music industry earned around \$25 million in NFT sales involving music and related artwork.

## Game NFTs

An NFT game is also known as a blockchain or a crypto game. It generally consists of in-game currency that cannot be used anywhere else. NFT game tokens are based on blockchain elements, with the game publisher taking a fee from each transaction. Another section of an NFT game is called play-to-earn games, and gamers play in play-to-earn games; to earn cryptocurrency through gameplay and YouTube videos based on the gameplay. Gamers spend their NFTs or cryptocurrency on in-game items. This has led to grey market issues where gamers sell the in-game products bought using NFTs for cryptocurrency, which is converted into cash, raising the spectre of money laundering.

## Other NFTs

NFTs are available in diverse forms. A few of the other well-known types of NFTs are given below:

- Internet Memes
- Metaverses (Virtual Worlds)
- Patent Disclosures
- Tweets
- Political protests (Videos & Images)
- Personality based NFTs
- Trading cards (Baseball)

## Movie NFTs

Movie posters are becoming popular as NFT artwork. The market was established in 2018 with the sale of posters of the movie "Deadpool 2" (*Image 1.1*) by Marvel.



*Image 1.1: Deadpool NFT Poster*

This trend has been picked up by movie studios and other copyright owners of movies and their related artwork.

### Drawbacks Of Investing in NFTs

The primary drawback of investing in NFT is that it is not considered a “physical asset” by any financial institution or government. The other disadvantages of investing in NFTs are explained below:

#### Plagiarism and Fraud

Scammers have started assuming artists' identities and selling their works of art as NFTs. For example, after the famous digital artist Qing Han passed away, her identity was stolen, and her works became available to purchase as NFTs. The simplicity with which anyone can mint NFTs, combined with the ease of plagiarizing artworks, has made it impossible to pursue plagiarized art. Cases of fraud such as sleep minting, using insider knowledge, and whitewashing are on the rise and have become common in the NFT market.

#### Copyright Issues

The Copyright law gives the right of ownership to anyone who automatically creates an original work, a book, a song, a movie, or software, to name a few. However, the ownership of a blockchain-based NFT does not automatically confer ownership rights to the digital file and is not covered by copyright laws. The content of an NFT differs from physical artwork in that the contents of an NFT are publicly accessible. An NFT image can be easily duplicated by right-clicking on the image and saving it; NFT supporters call this activity “right-clicking.”

#### Environmental Impact

Blockchain minting & transactions enable NFT selling & buying; this requires high energy and releases greenhouse gases. The proof of work protocol that regulates and verifies blockchain transactions also consume a large amount of electricity; this has raised environmental concerns due to high carbon emissions.

#### Money Laundering

For money laundering, criminal elements have been using NFTs and other blockchain products, including cryptocurrency. When trading in NFTs, money launderers bypass transportation and insurance regulations, making it easier to evade law enforcement.

### Pyramid/Ponzi Schemes

Microsoft co-founder Bill Gates stated in June 2022 that NFTs are "100% based on greater fool theory," referring to the idea that overvalued assets will go up in price when enough investors are willing to pay more for them.

### Rug Pulls

Rug pull scams have increasingly become common in NFTs and cryptocurrencies. Rug Pull happens when the developers of an NFT or cryptocurrency build up the value to drive the prices higher, sell off all their NFTs at a higher price and then withdraw from the market.

### Speculation in NFTs

A frequent criticism of NFTs is that they are often called speculative assets. When an asset is purchased with the expectation that the price will rise significantly shortly, the actual value of the asset is not considered; just the expectation that the asset will become more valuable soon is considered.

### Impact of NFTs on the Investment Sector

The price of a physical asset like an artwork or the rights to a movie or a song depends on provenance and the difficulty to get factor; NFT has both these attributes and is becoming increasingly popular as an investment tool. NFTs allow upcoming artists to show their work to the world and allow investors to view and buy the works of art in advance. There are currently two camps of investors; one group supports NFTs, and the other group of investors disdains them. The latter group of investors mainly criticises NFTs for three reasons:

### Digital Artworks and Virtual Real Estate in gaming

NFTs saw diversification introduced from 2018 onwards, representing a range of products from music videos to personality based NFTs. This has bought several investors against NFTs into the "yes" camp. As a result, the pricing of NFTs will reach more realistic levels, but NFTs are here to stay for the foreseeable future as the public gets more used to investing in NFTs.

### High Speculative pricing of NFTs

NFTs are currently riding on high speculative prices; this might be due to the "first mover" factor. The pricing over the near future might come down to more realistic levels. Investors will start identifying the NFTs that have a more intrinsic value.

### Regulatory Issues

There is currently no regulation in the NFT market to combat fraud, plagiarism, and money laundering. The situation is like what the cryptocurrency market is currently facing. Governments and law enforcement agencies are discussing sweeping legislation regulating crypto and NFT markets.

### Conclusion

The NFT market though launched in 2014, can still be deemed to be in its infancy. With the market currently riding a high level of speculation, investors and the public hesitate to invest in NFTs. However, this high level of speculation is expected to end as the actual intrinsic value of NFTs is now being considered. NFTs, when introduced, were derided in the same way as cryptocurrency was when it was introduced, and the current market trend is that NFTs are here to stay in the same manner as cryptocurrency, as a viable investment.



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