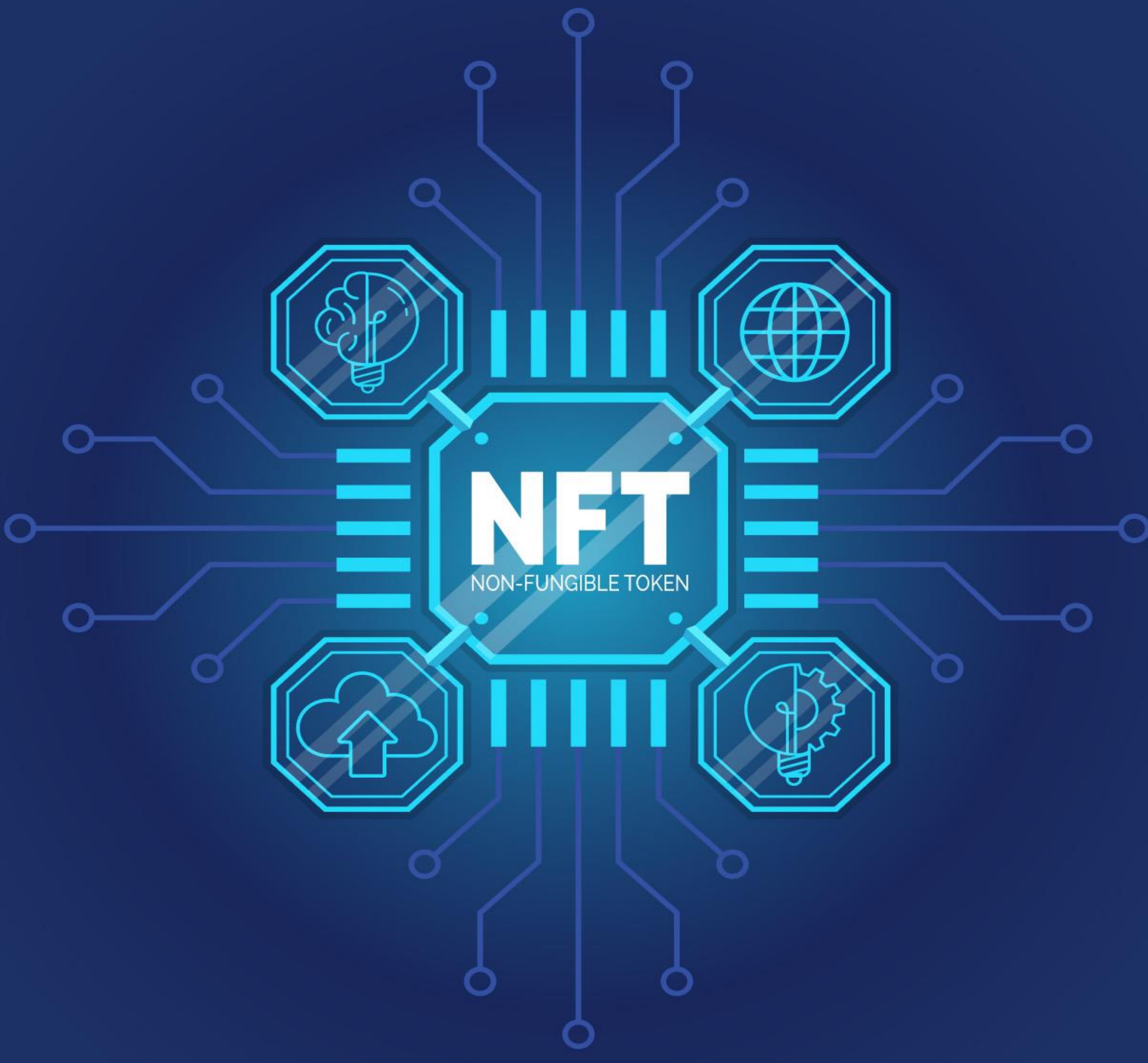
NFTS EXPLAINED

LEARN EVERYTHING YOU NEED TO KNOW ABOUT NFTS AND HOW YOU CAN GET STARTED TODAY



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Introduction

One new asset you might have seen exploding onto the market is the NFT or Non-Fungible Token.

From music and art to everyday items like toilet paper, these digital assets are *"selling like 17th Century exotic Dutch tulips,"* say Forbes writers Robyn Conti and John Schmidt.

The question is: are they worth the money (or the hype)?

Some experts feel they are "a bubble poised to pop," while others believe NFTs are going to change investing forever.

In this special report, we'll take a close look at what NFTs are, how they can help your business and so much more.

Let's begin!

NFTs Explained

What exactly is an NFT?

It's a digital asset that represents some real-world object like music, art, in-game items, or videos. NFTs are bought and sold online, often with cryptocurrency, and are usually encoded with the same underlying software as many cryptos.

NFTs are becoming well-known now, though they've been around since 2014, because they're an increasingly popular way to buy and sell digital artwork.

Conti and Schmidt report that "a staggering $174 million has been spent on NFTs since November 2017."

NFTs are usually either one of a kind, or one of a very limited run, so they have unique identifying codes. Arry Yu, chair of the

Washington Technology Industry Association Cascadia Blockchain Council and managing editor of Yellow Umbrella Ventures says they “essentially … create digital scarcity.”
This contrasts with most digital creations, which are almost always practically infinite in supply.

So, cutting off the supply of a given asset should raise its value (assuming it’s actually in demand at that moment).

Many NFTs, especially nowadays, have been digital works that already exist in some form elsewhere (like securitized versions of digital artwork that’s already out on Instagram).

Why are people willing to spend so much money on something they could screenshot or download elsewhere?

“Because,” say Conti and Schmidt, “an NFT allows the buyer to own the original item.”

Also, since it has built-in authentication to serve as proof of ownership, collectors can amass an online collection. Some collectors even value “digital bragging rights” almost more than the item they’ve purchased.

People are starting to answer the question: *how do we assign value to something that doesn’t exist? What is a digital object worth?*

“While we were all waiting for virtual worlds to spring up,” says Joe Procopio, entrepreneur and founder of TeachingStartup.com and GetSpiffy.com, “Facebook was selling out of Oculus.

While we were laughing or wincing at the pop culture references in Ready Player One, Minecraft was letting its players build their own blocky starter-kit societies.

And while we were debating the ‘realness’ of Bitcoin as a currency, someone was paying 170,000 real dollars for a CryptoKitty.”

If you’re an entrepreneur, you can’t help but wonder about the method of calculation on that $170,000 digital cat’s valuation.

The value of that CryptoKitty was determined by the expectation that its value would increase over time. That same speculation “drove the great alt-coin rush of 2017, and some painful lessons resulted in a hardening of the rules of value for digital currency.”

Many have found that some of the “must-haves” for almost every type of token come down to scarcity, supply and demand, ability to transact, and tangible proof of ownership.

The digital coin is still only a virtual piece of money, and ownership is still only in the virtual sense. But thanks to the implicit rules in the blockchain (documented by smart contracts), virtual ownership became “real enough.”

What’s the difference between an NFT and cryptocurrency then?

NFT stands for Non-fungible token. A fungible asset, like physical money and cryptocurrencies, can be traded or exchanged one for another.

They’re also equal in value. One dollar is always equal to another dollar and one Bitcoin equals any other Bitcoin.

In fact, cryptocurrency’s fungibility makes it a trusted means of conducting transactions on the blockchain.

On the other hand, a non-fungible asset, even if built using the same kind of programming as cryptocurrency, cannot be exchanged with any other non-fungible asset.

Each NFT has its own digital signature that makes it impossible for it to be exchanged for (or equal to) another one.

For example, say you have two different video clips from an NBA game.

One clip isn't even necessarily equal to the other clip, much less to an entirely different work of art.

How NFTs Work

You've heard of blockchain, probably as the underlying process that makes cryptocurrencies possible. It's basically a ledger recording transactions.

NFTS exist on a blockchain, usually the Ethereum blockchains (although other blockchains support them as well).

An NFT is "minted" (created) from digital objects representing both tangible and intangible items, including art, GIFs, videos, sports highlights, collectibles, video game skins & avatars, designer sneakers, and music.

You can even sell a tweet. In fact, Twitter co-founder Jack Dorsey sold his very first tweet as an NFT for nearly $3 million!

Essentially, an NFT is like a physical collector's item, only it's digital. Instead of buying a physical painting to hang over the

mantel, you get a digital file. You also get exclusive ownership rights because an NFT can only have one owner at a time.
Its unique data makes it easy to verify ownership and transfer tokens between owners. Also, the creator or the owner can store specific information inside their NFT, such as the artist's signature in the metadata.

NFTs give artists and creators the power to protect and authenticate their work like nothing before. With an NFT, a creator can certify that a piece of art is one of a kind. This can make the demand for NFT creation higher than ever.

The problem is, all the value proposition of a digital work is tied to speculation—the promise that the value of that work will increase (or at least hold steady) over time. Who's making that promise, though? This is where things can get sketchy, according to Joe Procopio.

“Speculative value is not to be confused with value derived from usage.”

Let’s say you buy a saw to cut a piece of lumber for a shelf in your bedroom. The value of that saw is directly tied to the cost of making it plus how badly you need that board sawed. And as a saw owner, you’re not really interested in whether or not the value of the saw is going to go up over time. Speculative value is tied to market value.

“Your company,” says Procopio, “is worth what’s gone into it + the speculative value of the investment in that solution once that solution reaches peak market saturation.”

Investors buy shares in a company for one reason: they believe that down the road, someone else will pay more for those shares.

Collectibles like NFTs don’t have usage value like the saw does. You buy a painting, and the value of that artwork is mostly tied to how it makes you feel, not how well it can cover a stain on your wall.

Collectibles have speculative value—and lots of it. You can purchase a piece of someone else’s painting, sitting on their wall. You may never even see that painting in person, but that’s not the point.

What you want is the return when someone else buys your piece of that painting for more than you paid for it.

“When you get your head around that,” says Procopio, “it opens up the possibilities for digital collectibles.”

When you stop caring about having an actual painting above your mantel, it doesn’t really matter whether or not that painting even exists in the real world—so long as the rules of ownership apply.

How to Use NFTs

"Blockchain technology and NFTs afford artists and content creators a unique opportunity to monetize their wares," say Conti and Schmidt.

Instead of having to rely on an art gallery or auction house, an artist can sell their work directly to the consumer as an NFT. This also lets them keep more of the profits.

Artists can also program in royalties so they will receive a percentage of the sale when that art is sold to a new owner.

This is a very attractive feature to an artist, as they usually don't get any future proceeds after the art is first sold.

And art isn't the only way to make money with NFTs. Brands like Taco Bell and Charmin have auctioned off themed NFT art for charity. Taco Bell's art sold out in minutes, with the highest bids

topping $3 million worth of cryptocoins. Charmin dubbed its offering “NFTP” for non-fungible toilet paper.
A 2011-era GIF of a cat with a pop-tart body, called Nyan Cat, sold for nearly $600,000 in February.

Sports is a big seller also. NBA Top Shot generated more than $500 million in sales as of March, while a single LeBron James highlight NFT brought in more than $200,000 on its own.

Even celebrities are jumping on the bandwagon. Snoop Dogg and Lindsay Lohan have released unique memories, artwork, and moments as securitized NFTs.

Let’s get back to that imaginary painting that only exists in the digital world. The blockchain, NFTS, and a system of record for ownership would seem to solve all your problems.

But here’s part of that problem you might not have thought about—and its one entrepreneurs need to solve. The markets for physical things like saws are (for the most part) standardized and regulated.

“If you want to sell me a piece of your company,” says Joe Procopio, “the SEC will definitely be involved.”

The markets for physical collectibles like paintings aren’t as regulated, but are somewhat standardized.

“If you want to sell me your Tom Brady rookie card or your Fantastic Four #1,” says Procopio, “there is at least an agreement of value based on some standard—scarcity, condition, proof of ownership—those are all considered and balanced across the trading card or comic book industry.”

Now think about NFTs. The markets for virtual assets are individually controlled by the smart contract that created that NFT. “Can you really buy a ‘piece’ of a celebrity or their digital equivalent?” asks Procopio.

“No. What you’re buying is speculation, and you’re also betting on the integrity of the market maker.”

That’s a real problem. There will be scams and lawsuits; there will be chaos around these new markets as they struggle to exist without any connection to a universal marketplace.

Right now, the value rules for digital assets like NFTs are being made up on the spot. This might be exciting to some investors, but “maybe not a great idea in terms of risk vs. reward.”

Procopio relates the lesson learned “the hard way” with Gamestop.

“There’s no way Gamestop is worth any more than, let’s say $40 a share max.” But lots of investors are still hanging on to $400-a-share bags of that company because they believed that others would be compelled to pay more than that.

The lesson, he says, is that we can lose the foundation of a digital asset's value being tied to a physical standard—"but what we can't lose is the line between speculation and reality, even if that reality is virtual."

Here's where Procopio thinks there is some entrepreneurial opportunity.

"Most of the action around NFTs currently swirls around creating the tokens, tying them to a digital asset, and auctioning them off. This is the digital currency ICO-equivalent phase of digital assets, where the quick FOMO money is made."

The vast majority of these assets, he says, will devalue back into the bits that created them. But organization of digital assets has to happen at some point.

Someone is eventually going to make an index like the Dow Jones or the Nasdaq, once the standards of what a digital “asset” actually is gains more definition.

“Let’s call this the Coinbase of digital assets,” says Procopio. And since speculation is already a big part of the picture, someone is going to “white-glove” the brokering of these assets. Let’s call this the Amazon of digital assets.”

Procopio says it’s an exciting time to get involved as an entrepreneur—just avoid the lure of the quick (digital) buck.

How to Purchase NFTs

To acquire your own NFT collection, you'll need a few key items.

First is a digital wallet that will allow you to store cryptocurrency and NFTs.

You'll also probably need some actual cryptocurrency like Ether, depending on which currencies your NFT provider will accept.

You can purchase cryptocurrency with your credit card on platforms like Kraken, Coinbase, eToro, PayPal, and Robinhood. You can then move it from the exchange to your digital wallet.

You'll need to keep fees in mind though, as you research your crypto options. Most exchanges charge at least a percentage of the transaction when you purchase currencies.

Once you’ve got your wallet set up and funded with crypto, you can start shopping for NFTs. Here are some of the largest NFT marketplaces currently:

OpenSea.io – this is a peer-to-peer platform that bills itself as a purveyor of “rare digital items and collectibles.” Get started by creating an account, then start browsing their collections. You can sort pieces by sales volume to “discover” new and up-and-coming artists.

Rarible – this is another democratic, open marketplace like OpenSea. It allows artists and creators to issue and sell NFTs. RARI tokens issued on the platform let holders weigh in on features like community rules and fees.

Foundation – this is an invitation-only platform. Artists must receive “upvotes” or an invitation from fellow creators in order to post their work. They also have to buy “gas” to create those NFTs.

These features mean the site may boast a higher caliber of artwork. Of course, it may also mean higher prices for the buyer, which isn't necessarily a bad thing for artists and collectors looking to capitalize (assuming the demand for NFTs stays at current levels or even increases in the future).

Be sure to do your research before you buy. These platforms and others host thousands of NFT creators and collectors and some artists have fallen victim to impersonators who listed and sold their work without permission.

Also, the verification process for creators and NFT listings aren't consistent across the various platforms. Some platforms are more stringent than others, so always be cautious.

Risk Management

Array Yu, chair of the Washington Technology Industry Association Cascadia Blockchain Council says it all depends. “NFTs are risky because their future is uncertain, and we don’t yet have a lot of history to judge their performance. Since NFTs are so new, it may be worth investing small amounts to try it out for now.”

Investing in NFTs is largely a personal decision—if you have money to spare, it might be worth thinking about, especially if you find a piece that has meaning to you.

But keep in mind, the value of an NFT is based entirely on what the public is willing to pay for it.

Demand drives the price, not the more typical fundamental, technical, or economic indicators which influence stock prices and usually form the basis for investor demand. This means your NFT might resell for less than you paid for it. You even might find yourself stuck with an NFT you can't unload because there is no longer a demand for it.

NFTs are also subject to capital gains taxes, just like when you sell stocks at a profit.

However, since they are treated as *collectibles*, they might not receive the preferential long-term rates that stocks receive. NFTs might even be taxed as a higher collectibles tax rate, although the IRS hasn't actually ruled on what NFTs are considered for tax purposes.

The cryptocurrencies you used to buy that NFT might also be taxed if they've increased in value since you bought them. This means you might want to check with a tax professional if you're thinking about adding NFTs to your portfolio.

In other words, treat NFTs like you would any investment. Do your research, know the risks, and proceed with caution if you decide to buy.

How to Get Started with NFTs

Tyler Gallaghher, CEO and founder of Regal Assets and writer for Forbes, produced his list of ten business ideas for entrepreneurs to start working on now.

The good news is, you don't have to be a digital artist to succeed as an NFT entrepreneur. There are lots of applications for NFTs besides art, across a variety of industries.

"As a nascent industry," says Gallagher, "the sky is truly the limit when it comes to potentially money-making ideas with NFTs."

Here a few of those ideas:

Create an NFT Online Course: if you've learned a thing or two about the NFT ecosystem and how to create, produce, and sell NFTs, consider developing a course or masterclass.

You could also charge for a week long "bootcamp" or a semester long course (depending on your level of expertise and investment).

Write an NFT-Themed Blog: Gallagher says that the web is desperate for well-written and informative NFT-related content. There's a "huge potential readership" for any blog that is planning to cover NFTs and the news around them.

Then, monetize your blog with sponsors, ads, or affiliate links after you have a dedicated readership and have built a following.

Create an NFT Forum or Community: The internet, says Gallagher, needs more spaces for NFT creators, sellers, and enthusiasts to talk about their projects.

Creating an NFT-exclusive forum “that rivals Bitcointalk” could become a really lucrative project, especially if you run banner ads.

Become an NFT Broker: There’s a high demand for secure, encrypted marketplaces and brokerages that let buyers and sellers view, commission, and transact NFTs.
They’re being bought and sold in record numbers nowadays, and you can get in on the ground floor here.

Create an NFT Newsletter: There just aren’t a lot (if any) of NFT-themed newsletters taking a deep dive into the subject. “If you can aggregate all the latest NFT news, press releases, major auction sales and market developments into a short monthly or weekly newsletter,” says Gallagher, you might end up with a very profitable venture.

Write an NFT eBook: It's not unheard of, says Gallagher, for a bestselling cryptocurrency book to earn six (potentially even seven) figures in royalties.

If you're a gifted writer, think about self-publishing an eBook on NFTs, or you could always outsource it to qualified writers who are experienced with NFTs. Make sure to explore the subject from as many angles as you can while "providing actionable advice to those who want to get started with NFT investing."

Create a White Label NFT Service: The NFT market needs "a Shopify-like service that can bring a project to life with little or no additional development."
If you can manage to launch an off-the-shelf NFT service to help develop NFT ventures, "you could become one of the most popular white label platforms in the blockchain industry."

Become an NFT Artist: There's nothing stopping you from producing your own digital art, even if it's abstract.

You don’t need to be the smartest or most talented physical artist in the world to get started in the digital marketplace. Convert your art into an NFT and market it on popular forums such as DeviantArt, Reddit, or Wetcanvas.

Create NFT Collectibles: NFTs lend themselves well to preserving and authenticating collectibles. For example, “you could mint NFTs out of authentic collectible items, like sports trading cards or autographed photos.”

Launch an NFT App: Centralized apps for buying, selling, trading, or minting NFTS are “likely in high demand.”

An app that would mimic Bid Beacon or BiddingOwl—but is solely focused on the NFT market—could be quite a lucrative project if you take a commission from every sale.

Unlike other industries, says Gallagher, The NFT business is totally new. It’s going to take years of development before it fully matures. The same is true of whatever business venture you launch into NFTs.

If at first you don’t succeed, don’t sweat it. At this stage, there’s plenty of room for error.

If an NFT can bring in over $11 million at auction, there’s really no reason why a “bold and adventurous entrepreneur” can’t build on that momentum.

Consider the many ways you can make money with NFTs, such as the ideas we’ve discussed in this chapter, and then decide on a plan of action.

Remember, it’s the wild west right now when it comes to startup projects and monetization methods in the NFT space. You’re getting in at a great time so seize the moment!

To your success,

Resources

Here are links to a few resources that I believe will help you:

NFTs Explained:

>> https://aws.amazon.com/blockchain/nfts-explained/

NFTs for Small Businesses:

>> https://www.marthastewart.com/8148532/nft-explained-small-business-benefits

What You Need to Know About NFTs:

>> https://www.inc.com/amrita-khalid/what-are-nfts-blockchain-benefit-businesses.html

How to Make and Sell NFTs:

>> https://www.creativebloq.com/how-to/make-and-sell-an-NFT