

What the Heck Is an NFT?

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By now, nonfungible tokens—better known as NFTs—are an almost inescapable part of the news cycle. You may have seen February headlines buzzing about the [historic \\$6.6 million auction](#) of an exclusively digital artwork depicting Donald Trump’s election loss. Then, in March, there was the crazy story of millennial millionaires who burned a Banksy painting and memorialized it as an NFT, [selling it for approximately \\$380,000](#). More than just a phenomenon, such events are part of a growing craze that’s turning NFTs into some of the most speculative assets a consumer may encounter.

Since the future of NFTs is unknown, this article cannot give specific advice. Instead, it’s intended solely to help you understand what’s behind the NFT craze and where it might possibly go in the future.

A Unique Kind of Asset

First, what does being fungible mean? Something that is fungible, such as a \$10 bill or 1 bitcoin, can be exchanged for an equivalent item. For an item to be considered nonfungible, it should have unique properties that supposedly make it one of a kind.

It’s this special quality that has made NFTs so popular. An NFT typically has no physical, tangible properties and is digital in nature. (Nondigital NFTs can exist, but they require a third-party custodian for the physical item, so they are more or less unpopular.) A digital NFT takes the base layer of a cryptocurrency and adds to it the ability to acquire tokenized assets.

Let’s break that concept down. As defined by Investopedia, [cryptocurrency](#) is “a digital or virtual currency that is secured by cryptography, which makes it nearly impossible to counterfeit or double-spend.” Generally, the process of tokenization means adding a security token to a digital item—creating a unique asset that can be bought or sold.

CryptoKitties. The most memorable NFT to date, [CryptoKitties](#), launched in 2017 at the height of the cryptocurrency craze. The CryptoKitties platform allows users (or speculators) to spend their cryptocurrency (Ethereum in this case) on a one-of-a-kind digital cat that can’t be replicated or destroyed. At the time, CryptoKitties looked like a passing fad. Now, however, we can see it was the proof of concept that gave rise to a booming segment of the cryptocurrency market.

How Does an NFT Work?

The concept is fairly simple. A digital creator or a company with valuable digital assets or intellectual property can monetize those assets. To do so, the creator uploads a digital asset to one of the technology networks that support cryptocurrency (one is Ethereum), where the digital item is securely tracked and stored. Think of an NFT as a digital file.

Next, the creator tokenizes the uploaded asset, ultimately creating what we know as an NFT. This process is commonly referred to as minting in the NFT world. The rights received with an NFT purchase can vary, but ownership of intellectual property rights isn’t typically provided to buyers. Some recent and less complex use cases include an album launch from the band Kings of Leon, in which the group offered fans the ability to [purchase unique digital collectibles](#) along with the album.

NBA Top Shot. One of the more intriguing NFTs to be released—and perhaps the most profitable to date—is [NBA Top Shot](#). It’s an NFT platform built in partnership with the NBA and Dapper Labs, the creator of CryptoKitties. NBA Top Shot provides collectors with an entirely digital collectibles platform that offers buyers the ability to acquire packs of digital video clips, known as “moments.” Each moment contains a short highlight of one player’s skills. Mirroring the appeal of physical sports card collections, these virtual packs may contain rare moments.

NBA Top Shot has been a runaway success, with the platform generating nearly [\\$500 million in sales](#) since launching in October 2020. Cryptocurrency isn't needed to make a purchase from NBA Top Shot, but the packs live on a blockchain, which is designed to ensure that each transaction is securely recorded and tracked. Potential buyers should note, however, that owning a rare Top Shot moment doesn't confer any ownership rights in NBA property. You should also be aware that most NBA Top Shot moments can be viewed on YouTube for free.

Speculation or Technology Advancement?

In general, the hype surrounding NFTs seems eerily similar to other speculative bubbles we've seen over past years. Nonetheless, the current craze might someday be viewed as a proof of concept moving us toward a digitalized, token-based economy. Perhaps we're in the early days of what could be a major advancement in the way we value digital property.

According to industry experts, the biggest change ahead might be that digital creators will be more fairly compensated for their work. And consumers might gain more ownership over the things they use on a daily basis.

Ultimately, as with any new technology, we'll see peaks and valleys surrounding the adoption of NFTs as consumers become more accustomed to new ways of acquiring ownership of previously unavailable assets. Eventually, the FOMO attending NFTs is likely to run its course, but it's worth watching the space to see how this exciting trend transforms over time.

Because these are not approved products, I can't advise on any strategy involving NFTs, or provide a recommendation. If you're curious about or are seriously considering investing in NFTs, the bottom line is that you must do your own due diligence, thoroughly research and understand the benefits and significant risks, and be fully prepared to lose your entire investment, before making any decisions.

This article is intended strictly for educational purposes only and is not a recommendation for or against nonfungible tokens (NFTs).

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