

## **A Primer on NFTs**

[Invest like the Best Podcast](#) - Jessie Walden

### **What are NFTs?**

NFTs are a file that lives on the blockchain. You have media files like mp3's or jpeg's that live on your computer, and NFTs are like those files, except for they're uploaded onto the blockchain, which means it can't be meddled with. When you own an NFT, you own a piece of digital media.

One pixel difference between two jpeg files that are otherwise the same makes each file unique. It only takes one pixel to differentiate between two jpeg files. Each dollar bill in your wallet is fungible, meaning it is interchangeable with other dollar bills of the same amount. In this way, the dollar bill in your wallet is not unique. But each digital file is altogether unique, meaning it is not fungible with other digital files.

For example, a song by Lady Gaga is entirely different from a song by Dolly Parton. They can't be interchanged for one another the same way two \$1 bills can be interchanged.

NFTs take unique digital files and make them individually ownable on the internet, without any third party. It is taking a file, making it an asset that is scarce (1 of 1), and then creating an opportunity to commercialize that asset: to value it, trade it, generate a commission off of that sale, etc. NFTs are, in essence, a certificate of authenticity, of an original piece of art. They represent a form of digital property rights.

At a technical level (a bit more complicated): an NFT is a fingerprint (a unique ID) of a file (24 characters long...it's a small piece of data) that lives on the blockchain, and that hash points to a file (jpeg file, etc.) that lives somewhere else. So the hash is a pointer to a file that lives off of the blockchain. The hash is technically the thing that is being bought and sold, and the hash has meta-data attached to it, including who the author of the file is.

### **Why on the blockchain?**

The blockchain enforces a fixed supply of Bitcoin or other digital files like NFTs. Blockchain ensures that there is only one of every digital file (NFT). They are built on the Ethereum crypto platform.

### **Direct to consumer vs. Platforms**

NFTs represent a direct-to-consumer way for artists and creators to reach their fans. For many digital files, like music files, fans were only able to interact with artists via platforms like Spotify, and these platforms captured the majority of the value. With NFTs, creators can interact directly with their fans without having to rely on platforms.

This matters because artists and creators who were previously dependent on these platforms (Spotify, Youtube, etc.) are now able to keep a higher percentage of the value they create through their art.

The blockchain represents a new media library (like Spotify or Youtube or Twitter). But unlike Twitter where when we login to Twitter, we must accept its terms, conditions, format, the blockchain is open-sourced, and there will be more ways that artists can experiment with this platform. So NFTs represent an ability for *creators* to build and experiment on the blockchain, but where do the consumers go to find those creators creating? We don't know yet.

### **Original versus Copy**

People want to own NFTs when they want to own the original version of something, as opposed to the copy. For many people, they're okay not owning the original of a song...they have their favorite song, and they enjoy listening to it, but they don't need to own the original file. But there are superfans who want to own the original. The same is true in the art world. You can go to a museum and see famous paintings, but for a certain audience, they want to own those originals and there is social status in being able to demonstrate - online - that you own the NFT.

### **NFTs at "Patronage Plus"**

NFTs allow for content to be open to anyone, but they allow patrons who really want to support an artist to pay them for it, and then have the opportunity to sell that digital property later. A lot of the incentive to participate in the NFT market is that 1) you can support an artist, and 2) you can benefit from the eventual resale of that asset later. This, of course, assumes that these assets are actually worth something and can be resold at a later date.

But what is unique about NFTs (and different from other forms of art) is that the artist only realizes value when it is sold the first time. In the art world, Monet and Van Gogh (or their descendents) have not been able to profit from their art changing hands again and again. With NFTs, there can be royalties built into the code, so that every time a file changes hands and is sold, the original artist gets a percentage.

### **Can NFTs map onto physical assets?**

In the future, maybe. But in the physical world, assets (like a piece of art) don't have connection points to the blockchain. If someone owns a piece of physical art, we operate within the legal system of legal contracts, which is an entirely different system (that speaks a different language) than the smart contracts system of the blockchain.

### **The future**

- There will be a correction in terms of prices of NFTs. Right now it is crazy and the hype-cycle will end. But these hype-cycles drive competition around the technology, and it improves the technology.
- The legacy legal system will come to inter-operate with the smart contracts system of the blockchain
- Brands will begin to recognize that if they give their consumers real digital assets (in the same way that Gucci gives you the ownership of a purse when you buy it), then more brands will get involved because they will see more value in getting into digital assets.

- We will get to a place where every piece of media that is created (a photo from an iPhone, a song, a tweet, etc.) is registered and entered on the blockchain as an NFT. Right now we have files on our phone, on our computer, but in the future, it will all be on the blockchain.

Further Reading:

- [NFTs make the internet knowable](#)
- [An introduction to NFTs](#)