



RETIREMENT & FINANCIAL PLANNING CORNER

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March 2022

THE BASICS OF NON-FUNGIBLE TOKENS – (NFT's)

What is an NFT?

An NFT is like a certificate of authenticity for an object, real or virtual. The unique digital file is stored on a blockchain network, with any changes in ownership verified by a worldwide network and logged in public. That means that the chain of custody is marked in the file itself permanently, and it's practically impossible to swap in a fake.



<https://www.latimes.com/business/technology/story/2021-03-11/nft-explainer-crypto-trading-collectible>

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History of Non-Fungible Tokens

Colored Coins (2012)

On Dec. 4, 2012, a paper was released by Meni Rosenfeld that introduced the concept of “Colored Coins,” issued on the Bitcoin blockchain. Colored Coins describe a class of methods for representing and managing real-world assets on top of the Bitcoin blockchain and can be used to prove ownership of those assets.

Who created the first NFT? (2014)

On May 3, 2014, Kevin McCoy, a digital artist, minted the first-known NFT “Quantum.” Quantum is a pixelated octagon filled with different shapes that pulse in a quite hypnotic way. On November 28, 2021, the one-of-a-kind Quantum art piece sold for over \$1.4 million in a Sotheby auction.

Counterparty (2014-2016)

Most notable is the Counterparty platform (Bitcoin 2.0), which allowed the creation of digital assets. Later on, Spells of Genesis followed Counterparty’s footsteps and through its platform pioneered issuing game assets. Finally, the meme age began in 2016, with the release of Rare Pepes NFTs on the Counterparty platform.

Cryptopunks (2017)

Following the success of the Rare Pepes, John Watkinson and Matt Hall decided to create a generative project on Ethereum. No two characters generated would be the same, limited to 10,000 pieces.

CryptoKitties (2017-2018)

CryptoKitties is a blockchain-based virtual game that allows players to adopt, breed and trade virtual cats from the safety of your own wallet. It was released by a Vancouver-based company called Axiom Zen and was introduced during the world’s largest hackathon for the Ethereum ecosystem.

NFT gaming (2018-2020)

NFTs slowly but surely caught public attention, most certainly through NFT gaming and metaverse projects. The first to enter this space with its decentralized Ethereum-based VR platform was Decentraland (MANA). In Decentraland, gamers can explore, build, play games, collect items and more. Imagine Minecraft, but whatever you build, find and earn there, you own as well.

The NFT explosion (2021)

In 2021, interest in NFTs increased. Other Blockchains such as Cardano, Solana, Tezos, Flow, etc. started getting into the game with their own version of NFTs. Specifically, at the beginning of the second quarter of the year, the buying surge was so astonishing that the mainstream media often called for a huge bubble that’s about to burst. Likewise, the fourth quarter showed a significant surge in NFT demand, especially in the metaverse field just after the announcement of Facebook renaming itself as Meta and moving to the metaverse as well.

<https://www.altpress.com/meta/history-of-nfts-non-funfible-tokens/#:~:text=Who%20created%20the%20first%20NFT,in%20a%20quite%20hypnotic%20way.>

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Uses of NFTs

Digital Art - In a nutshell, crypto arts derive their value from digital authenticity and ownership. For instance, let's consider CryptoPunk, one of the earliest NFT projects created in 2017. While anybody can download or save the image, the same can't be said when proving ownership of a particular image.

Gaming - Blockchain gaming is becoming a new trend for a reason: the demand for unique in-game purchases in online gaming, with the price driven by rarity, uniqueness, and the value each of these items adds to your overall gaming experience.

Media & Entertainment - NFTs reportedly generated around \$25 million within the music industry, with artists selling artwork and music as NFT tokens. Films convert movie posters, uncut scenes and the sale of films through NFTs.

Sports - NFT use cases can offer sports game tickets issued on blockchain to help prevent unauthorized entries at significant sporting events. NBA TopShot project allows for purchasing NFTs that links to basketball highlights and Player Cards.

Real Estate - By replacing intermediaries like agents, notaries and solicitors; a smart contract would allow for a safe and simple transfer of ownership. NFTs could greatly expedite the property-buying process. All history of ownership and rights are recorded and committed to the blockchain and instantly and easily verifiable.

Miscellaneous - Nike patented a system called CryptoKicks that would use NFTs to verify the authenticity of physical sneakers and give a virtual version of the shoe to the customer. A number of internet memes have been associated with NFTs, which were minted and sold by their creators or by their subjects. Some virtual worlds, often marketed as metaverses, have incorporated NFTs as a means of trading virtual items and virtual real estate.



<https://blog.liquid.com/nft-use-cases>

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What are Smart Contracts?

A smart contract is programming that exists within the blockchain. This enables the network to store the information that is indicated in an NFT transaction. Once done this information can be accessed when needed. The smart contract also ensures that the information stored is transparent as well as immutable.

NFTs are run by smart contracts which govern the various actions such as:

- Verifying the ownership
- Handling the transferability



How Are Smart Contracts Created?

When you make an NFT it is known as minting. You are basically writing the underlying smart contract code. The smart contract code decides the qualities of the NFT and it adds them to the relevant blockchain on which the specific NFT is coded.

What Do Smart Contracts Cover?

The smart contracts cover among other things the actual rights that are being sold.

How Do Smart Contracts Verify Authenticity?

Smart contracts can authenticate the token and its ownership. They can also trace the unique history of the token on how they were developed and linked to creative work, this would be available on public blockchains.

These smart contracts prove to be extremely useful because of the following characteristics:

- They bring in speed and accuracy as paperwork can be avoided completely
- They engender trust as no one can change the terms once it is created
- They are highly secure and hard to hack
- There are a lot of savings as intermediaries are avoided

<https://cyberscrilla.com/nft-smart-contracts-explained/#:~:text=A%20smart%20contract%20is%20programming,transparent%20as%20well%20as%20immutable.>

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