Case Studies:

NFTs as Alternative Investments?*

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"Case Studies" presents a case pertinent to contemporary issues and events in investment management. Insightful and provocative questions are posed at the end of each case to challenge the reader. Each case is an invitation to the critical thinking and pragmatic problem solving that are so fundamental to the practice of investment management.

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With news headlines touting the latest and hottest NFTs, private wealth managers are regularly asked by their clients whether they should consider investing in NFTs as an alternative asset class. To further muddy the waters, the enthusiasm for NFTs materialized alongside the emergence of meme stocks, which are increasingly included in trading strategies of retail and institutional investors alike. So does an NFT represent an alternative investment much like how real estate and private equity have long been established as alternative asset classes? Or, like how collectibles such, as art and wine, are included in well curated and exotic portfolios?

The answer really depends on the NFT in question, as different NFTs fall into different asset classes depending on the intent of the issuers. That is, NFTs are not so much a distinct asset class as they are a vehicle for asset classes with which we are already familiar. Similar to a piece of paper, which can be turned into a dollar bill, a gift certificate, or a car title, an NFT can be designed to represent many different things.

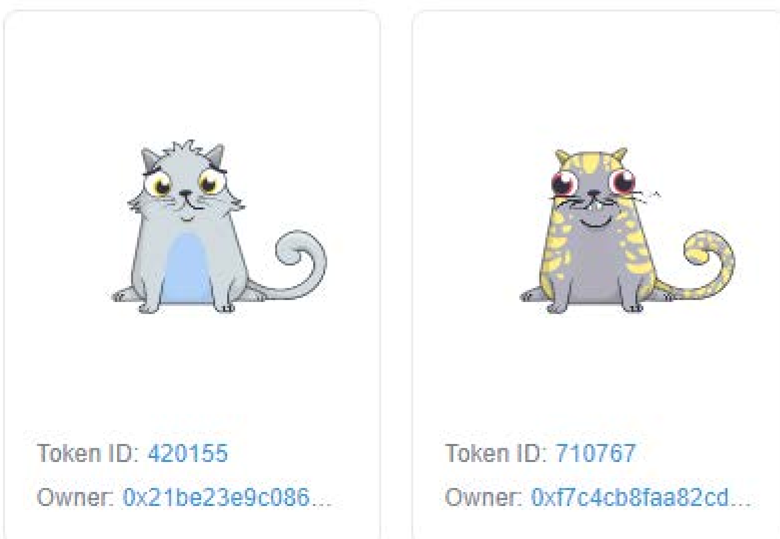

Figure 1. Visual representations of Token ID 420155 and Token ID 710767 of the CryptoKitties ERC-721 token contract accessed at contract address: 0x06012c8cf97bead5deae237070f9587f8e7a266d

At its core, an NFT is simply a cryptographically secure record of ownership that is stored on a public blockchain. Within a given NFT collection, say CryptoKitties,[1] individual tokens -- also (and perhaps, confusingly) referred to as NFTs -- are assigned unique digital codes: e.g., Token ID 420155 or Token ID 710676. The tokens are *non-fungible* (hence, the term, NFT), and each token cannot be further divided. Figure 1 provides a graphical representation of these tokens. The figures are not the NFTs themselves; the NFTs are the ownership records, much like how a house deed is not the house itself but rather a record verifying ownership of the house.

In the case of CryptoKitties, ownership of a digital cat by way of the corresponding NFT doesn't provide obvious tangible benefits, since, in this case, (i) the NFT doesn't confer exclusive rights to the image, and (ii) the digital image can easily be copied. However, similar to the world of high fashion, which is about flexing rare and authentic pieces of fashion history, the crypto-community enjoys flexing its own brand of rare and authentic pieces, where flexing rights are derived specifically from proven ownership.

NFTs are still in their infancy. Although most implementations to date have focused on memorializing provenance of digital collectibles, many more use cases abound. In time, NFTs may even become the widely accepted method of validating ownership of any unique item.

Questions

- What are other possible uses cases for NFTs?
- How can NFTs be integrated into the physical world?
- Would you consider investments in NFTs? Why or why not? If not, what is the biggest hurdle?

[1] See https://www.cryptokitties.co/