



Explained: What Is an NFT?

Description

[Non-fungible tokens](#), or NFTs, happen to be the newest crypto craze to capture the world's attention.

Indeed, NFTs have garnered impressive popularity after the first-ever NFT, "Everydays: The First 5000 days," was sold by Christie's auction house for a staggering \$69.3 million. It was a purely digital artwork created by Beeple.

For those intrigued, you should be. Here's more on what this NFT business is all about.

So, what is an NFT?

Non-fungible tokens refer to one-of-a-kind digital items that are traded on the blockchain. These tokens are unique and are thus not mutually interchangeable. Indeed, they now even come with a certificate of authenticity.

Like that coveted signed Wayne Gretzky card we all wanted when we were a kid, these things have value in their rarity. Indeed, scarcity is a driving market force for most items. For collectors, it's everything.

NFTs can be used to represent a wide range of collectible items. These include unique digital works of art, video clips, tweets, etc. **Twitter** CEO's first tweet is now being auctioned for \$2.5 million; whereas a Nyan Cat GIF was sold for \$600,000.

The valuation of the NFT market has already breached the \$1 billion mark. Accordingly, many expect it will continue to grow at an accelerated rate, as more individuals come to know about this new sector.

How does one buy NFTs?

Individuals can buy a growing swath of digital collectibles as NFTs. However, there are a few aspects that should be considered before jumping in and buying one. Among these, it's vital to know the

marketplace from where they'll make the purchase and the type of digital wallet that's required.

A popular real-world example of NFT usage would be the Top Shot marketplace, which has been established by the NBA. It allows individuals to buy video clips from NBA games. These digital clips can be traded in the marketplace and are growing in popularity accordingly. Indeed, the NBA's involvement appears to be a major seal of approval for this sector.

Individuals can bet on the growth of non-fungible tokens by investing in Ethereum. For Canadian investors who are in the search for regulated and listed options, I believe that **The Ether Fund** (TSX:QETH.U) could be an excellent choice. It's a close-fund that tracks the digital currency Ether (ETH) and aims to maximize the long-term gains of its investors.

Bottom line

Investors must note that that any cryptocurrency-related investment these days involves a great deal of speculation. Indeed, I'm of the view that the NFT marketplace is one which has both the potential for incredible success as well as the potential for some catastrophic losses.

Investors with lower risk appetites would likely do better avoiding this space altogether. For those so inclined, ensuring one is investing in NFTs in a Foolish way (utilizing proper investing discipline in portfolio sizing and risk management) is vital.

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