

What are NFTs? Non-Fungible Tokens Explained

Between the second and third quarters of 2021, **NFT** trading volume rose by 70%. Some people still wonder what makes **non-fungible tokens** special and how can a simple Nyan Cat GIF sell for a whopping \$590,000 worth of cryptocurrency?

People may consider them as simply digital collectibles, but they can serve many purposes due to their unique nature and features.

Last year, these tokens exploded in popularity. According to [Chainalysis](#), around \$41 billion worth of crypto was spent on **NFT marketplaces** in 2021.

While some believe that they are a bubble soon to pop, others are exploring the numerous utilities of **NFTs** in the virtual arena.

What are NFTs?

NFTs stand for **non-fungible tokens** and are cryptographic assets on **blockchain** technology that possess unique identification codes. From art to memes, these tokens are selling like exotic assets, with a huge appeal due to their rarity element.

For instance, Bitcoin is a fungible token, and its value will always remain equal to another Bitcoin. The price itself may fluctuate due to volatility in the crypto industry. But one Bitcoin will never become more valuable than another.

On the other hand, no two **NFTs** carry the same value. A good example of a non-fungible asset is your car. While there will be similar cars in the market, none of them will possess equal value as yours.

Also, these tokens are not divisible. For example, you cannot send someone a part of a concert ticket as it won't be worth anything. But you can always send or receive Bitcoin in smaller amounts.

Understanding NFTs

Most **non-fungible tokens**, at least for now, are digital creations that already exist in some form in the physical world. They can be iconic video clips from games, concerts, or movies.

For instance, Eminem collaborated with Nifty Gateway and launched characters from his videos and original instrumental tracks in his **NFT** collection.

Many other Hollywood celebrities have also released their **NFT** collections, jumping on the bandwagon to celebrate digital collectibles.

Snoop Dogg's collection called "A Journey with the Dogg" featured his memories from his early years. While the **NFT** drop lasted only 48 hours, the rapper made a whopping \$100,000 for one of the pieces sold.

Always limited in supply, these tokens are digital collectibles that hold value, just like physical art. Each **NFT** is stored as a non-interchangeable unit of data on the digital ledger through **blockchain** technology.

Apart from establishing proof of ownership, the distinct construction of each token gives it the potential for several use cases. **Non-fungible tokens** can represent real-world items like real estate and art, and tokenisation of these assets makes their trading secure and reduces the probability of fraud.

How Do NFTs Work?

The smart contracts of **non-fungible tokens** allow detailed attributes like owner's identity, rich metadata, or secure file links to be added to the digital ledger. In an increasingly digital world, the ability of these tokens to immutably prove digital ownership is a notable progression.

NFTs rely on two things – **blockchain** and cryptocurrencies. You require **blockchain** technology to mint them, and cryptocurrency in your crypto wallet lets you trade **NFTs** through various **NFT marketplaces**.

Blockchain is a familiar term for people who know about Bitcoin, Ethereum, and other cryptocurrencies. It is a distributed ledger where you can add information in the form of blocks but cannot edit or remove it.

Most of the tokens are a part of the Ethereum **blockchain** because it supports ERC-721 tokens, a token standard not found on other **blockchains**. Each ERC-721 token is unique from another, making it ideal for minting these tokens.

That being said, several other **blockchains** have started supporting **non-fungible tokens**, including Solana, Polygon, Binance Smart Chain, and Polkadot. **NFT** collectors are shifting towards other **blockchains** other than Ethereum because of significant carbon emissions and high transaction fees associated with Ethereum.

With a market cap of \$1.5 billion, Solana is second to Ethereum in terms of NFT sales. Popular Solana **NFT** collections include DeGods, Portals, Balloonsville, and MonkeLabs.

Where do NFTs Get Their Value from?

Many people are still in disbelief about how a simple piece of digital art is sold for millions of dollars.

For instance, Beeple was able to sell his **NFT** for \$69 million, and before that, he had never sold a print, even for \$100.

It's hard to define how a **non-fungible token** may derive its value. But for now, all we know is that the higher the hype surrounding it, the higher its value.

Artists, celebrities, and companies are using **NFTs** as an additional source of income. Artists create **NFT** assets to attract the new generation of investors and collectors, whereas celebrities capitalise on their brand identity. Therefore, certain tokens get their value from their creators' worth.

For instance, when Shawn Mendes collaborated with OpenSea and launched the **NFT** collection of wearables based on his work, he made around \$1 million in less than 10 minutes.

How to Create and Mint an NFT?

Anyone who wishes to create a **non-fungible token** needs to follow a specific protocol. Each marketplace has a distinct method, but here's a simple guide that will help you understand the process.

The major difference between various platforms is the fee they charge for minting an **NFT**. Otherwise, most of them require you to follow these steps.

Make a Crypto Exchange Account

To make transactions, you need cryptocurrency, and you can buy it from a crypto exchange. You can liquidate your crypto into fiat currency through a crypto exchange at any time.

Some of the best crypto exchanges are Coinbase, Crypto.com, and Binance. Consider factors like fees, supported assets, payment methods, and security to choose the right crypto exchange.

Get a Crypto Wallet

Get a crypto wallet because transactions for **non-fungible tokens** are not possible without one. Once you have a crypto wallet, you can create your profile on any marketplace.

The most popular crypto wallet compatible with major **NFT marketplaces** is MetaMask, which comes with a browser plugin and is easy to set up.

Fill Your Wallet with Cryptocurrency

After setting this up, you'll need to send cryptocurrency from your exchange account to your wallet. The most commonly used crypto is Ether, supported by most marketplaces.

Signup on an NFT Marketplace

You can find the option of connecting your wallet when you open the website of any **NFT marketplace**. When setting up your profile, enter your email address for verification. After verifying, you are ready to mint your creation.

In recent years, a lot of **NFT marketplaces** have shot to fame. The most notable and reliable ones include OpenSea, Nifty Gateway, Rarible, and SuperRare.

Mint Your NFT

Look for the 'Create' button on the marketplace, and you'll be redirected to the page where you can upload your digital file for minting. Make sure that your **NFT** is aligned with the format provided by the marketplace.

Sell Your NFT

When you upload your **NFT** on to the marketplace, you will find the option to sell it at a fixed price or auction it. As these tokens are recorded on the **blockchain**, the creator also becomes a part of the digital ledger, making it convenient for creators to earn royalties.

Where Can I Buy NFTs?

An **NFT marketplace** is your gateway to trade in crypto assets. It is a decentralised platform offering substantial ownership rights, asset security, and immutability.

While there are plenty of **NFT marketplaces**, most of them have a specific focus or niche. So, before you register yourself with any marketplace, ensure that it aligns with your interests.

Here is a list of a few prominent marketplaces:

OpenSea

You can find various **non-fungible tokens** on this platform, from virtual real estate to music. Founded in 2017, OpenSea claims to be the first and largest marketplace. It is an appropriate place to start for a newbie as it supports more than 150 different payment tokens.

Binance

We already know Binance as one of the largest crypto exchanges, and the Binance marketplace is also gaining popularity. Supported by its own **blockchain**, its size and scale make it one of the most future-proof **NFT marketplaces**.

Axie Marketplace

Axie Infinity is a top-rated **blockchain**-based game, and Axie Marketplace is where players can buy in-game assets. The Axie Infinity tokens called Axie Shards are built on the Ethereum **blockchain**. They are used to purchase new Axies, lands, or other assets.

The Sandbox

The Sandbox is a video game based on the Ethereum **blockchain** where the players can monetise their experiences. Its utility token, known as SAND, allows the players to carry out in-game transactions. The platform has a marketplace where creators can upload and sell their creations made in VoxEdit.

Rarible

Like OpenSea, Rarible is another large marketplace with all kinds of art, music, videos, and collectibles. It is a decentralized marketplace where the governance token called RARI lets active buyers and sellers vote for platform upgrades.

NFTs vs. Cryptocurrencies

Both **NFTs** and cryptocurrencies are built on the **blockchain**, but there are stark differences between the two.

Cryptocurrency is a currency secured by cryptography that is fungible and possesses an economic value. On the other hand, **non-fungible tokens**, as the name implies, are not fungible, and each token has a definite value that is not equal to any other unit.

Each **NFT** is a cryptographic asset with a unique identification code and metadata, making it different from any other token. You can trade one Ethereum for another, but **NFTs** don't trade equally. In fact, they use cryptocurrencies for transactions.

Top NFTs to Know About

Since the exponential growth of these tokens in 2021, investors are capitalising on the trend of owning digital assets more than ever. While we often see celebrities and artists introducing their line of no-

fungible tokens, a few collections are high in popularity and more valuable than the rest. The most popular ones include:

CryptoPunks

Anyone looking to buy a famous **NFT** must have come across the CryptoPunks collection. Launched in 2017, it is one of the earliest projects, peaking in popularity in 2021 when the **NFT** market exploded. The collection has 10,000-pixel images hosted on Ethereum **blockchain**.

Bored App Yacht Club

Comprising 10,000 unique **NFTs** representing “Bored Apes,” these are digital art pieces that have received immense attention from investors around the globe.

The owners also have access to the Yacht Club. They enjoy incredible benefits and join their Discord server, populated by celebrities and successful individuals.

Pudgy Penguins

The collection has 8,888 **NFTs**, each portraying a fun penguin possessing unique characteristics. Every token is unique and has attracted the attention of investors with high net worth. With the price of each penguin being just over \$4,000, these tokens are still accessible to average investors.

Doodles

Doodles is a collection produced by three digital artists: Tulip, Poopie, and Burnt Toast. Initially launched in 2021, the Doodles collection has 10,000 pieces with 2D characters containing a unique mix of aesthetics and traits.

Decentraland

Decentraland is an open-world play-to-earn crypto game that deals with **non-fungible tokens** within the metaverse where players can buy plots of virtual land and create in-game assets. Everything is in the form of **NFTs**, letting people exchange their assets or monetise them.

The Future of **NFTs**

Many people debate about the future of **non-fungible tokens**, but this is only the beginning. Artists and celebrities are already building fortunes through **NFTs**, and new protocols are coming out that will address the issues associated with the minting process.

They are proving their utility with time, becoming more than just digital art collectibles. It has been just four years since they were launched, and they have soared in popularity in that time.

Currently, most applications are in the entertainment industry or pop culture. Though, they have a great potential to transform intellectual property rights and software licensing.

As the world moves forward and steps into the metaverse, **NFTs** will be the source of owning assets in the digital realm because they help prove ownership. For now, they are eccentric assets, giving people the right to flaunt!