

# 10 Things You Should Know About NFTs

NFTs, or non-fungible tokens, are digital-only collector items backed by blockchain technology. Here's what you need to know about these sought-after crypto collectibles.

- 1. What are NFTs?** – Time Magazine defines them as “computer files combined with proof of ownership and authenticity.” They can be anything digital: artwork, memes, sports cards, music, etc. For example, Twitter CEO Jack Dorsey sold the first tweet as an NFT for \$2.9 million (see **FIGURE 1** for more examples). Unlike traditional money or bitcoin which are essentially interchangeable, NFTs are non-fungible, meaning each token has a unique worth and cannot be traded for another.
- 2. Digitizing and monetizing** – Artists have been creating easily accessible art online for years, often times with nothing to show for it—especially in a monetary sense. NFTs allow digital artists the ability to truly own and sell their creations while benefiting financially.
- 3. Who is buying NFTs?** – NFTs aren't just for high-end collectors. Some tech-savvy buyers are purchasing them as a way to support their favorite artists, athletes, or celebrities. Others are just hopping on a booming trend in the hope that the value will increase.
- 4. The pandemic, the Internet, and NFTs** – NFTs aren't a new concept and have been around for years. Their popularity has been boosted by a combination of Bitcoin's success and people spending more time online due to COVID-19.
- 5. How big is this market?** – Bigger than you may think. The NFT market grew by 299% in 2020<sup>1</sup> with sales in the first quarter of 2021 soaring to more than \$2 billion<sup>2</sup>—and it's shown no signs of slowing. Auction houses are already getting in on the NFT craze and NFT-related stocks have been on the rise.
- 6. Is this the future of digital-asset investing?** – Some investors see NFTs as a modern approach to investing in art, but how this may pan out remains to be seen. The growing field of digital assets is volatile, but it's a trend both investors and financial professionals should keep an eye on.
- 7. Risky business** – Like all investments, NFTs have risks. They're unregulated and the mania surrounding them may lead to volatility: buyers may purchase an expensive NFT only to discover later that it's not worth much. NFTs aren't readily exchangeable for cash, so liquidity is an issue.
- 8. Environmentally unfriendly** – Digital assets might be paperless, but, unfortunately, they're far from green. The computers, storage, and security required by NFTs (and cryptocurrency in general) use a lot of energy.

<sup>1</sup> The New York Times, “What Are NFTs, Anyway? One Just Sold for \$69 Million,” 3/20/21

<sup>2</sup> CNBC, “NFT Sales Top \$2 Billion in First Quarter, With Twice as Many Buyers as Sellers,” 4/13/21

# Client Conversations

**9. Surprise! They're not tax-free** – Both buying and selling NFTs is a taxable event. Because NFTs are considered collectibles, they're taxed at the maximum capital-gains rate of 28%. Investors can also expect to be taxed when buying and selling NFTs with cryptocurrency, selling an NFT for another NFT, and when converting cryptocurrency back into US dollars.

**10. Bubble trouble?** – With so many people trying to “get in early” and pushing prices to exorbitant highs, some worry that this market isn't sustainable.

FIGURE 1  
The 10 Most Expensive NFTs Sold

NFT	Price
<a href="#">Everydays: The First 5000 Days by Beeple</a>	\$69.0 million
<a href="#">Cryptopunk #3100 from Larva Labs</a>	\$7.6 million
<a href="#">Cryptopunk #7804 from Larva Labs</a>	\$7.6 million
<a href="#">Crossroads by Beeple</a>	\$6.6 million
<a href="#">First Tweet by Twitter CEO, Jack Dorsey</a>	\$2.9 million
<a href="#">Cryptopunk #6965 from Larva Labs</a>	\$1.6 million
<a href="#">Auction Winner Picks Name by SSX3LAU</a>	\$1.3 million
<a href="#">Not Forgotten, But Gone by WhIsBe</a>	\$1.0 million
<a href="#">Hairy by Steve Aoki</a>	\$888 thousand
<a href="#">The Complete MF Collection by Beeple</a>	\$777 thousand

Source: Business Insider, “11 of the Most Expensive Pieces of Crypto Art Ever Sold, From Beeple to Steve Aoki,” 3/21/21.

Talk to your financial professional to help you find investments that are right for you.

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