

# NFT 101: YOUR GUIDE TO UNDERSTANDING THE WACKY WORLD OF BLOCKCHAIN AND CRYPTO ART

## NFT's, The Blockchain, and Smart Contracts



### TECH TIPS

By Joe Awe, President, TechBldrs, Inc.

NFT's, or non-fungible tokens, are digital objects that are unique. This is a confusing idea. How can something digital be unique? If it's an image, can't I copy-and-paste it or share it with my friends in an email?

The difference with NFT's is that using smart contracts and blockchain, a digital object can be authenticated. The authentication is made possible by smart contracts and the blockchain. The smart contract executes the terms of a transaction and records them in a digital ledger known as the blockchain. The entries in this ledger are irreversible and highly secure.

So, you can still copy and paste and share an image, but the blockchain preserves the information on who has the one and only original and authenticated digital image.

### What's Crypto Art?

Crypto Art looks like any other digital art. The big difference is digital art is now using blockchain technology and being presented as an NFT. This is Crypto Art. The reason we call it Crypto Art is because to make NFT art, an artist must mine crypto currency. That is, each time a piece of art is made, it requires computational power. Often this Crypto Art is traded, bought, and sold on marketplaces specifically using a certain form of cryptocurrencies.

It's helpful to think of a traditional oil painting — collectors pay millions of

dollars for an original Van Gogh. Yet, there are thousands of perfect reproductions of that original Van Gogh painting. These reproductions look exactly the same, and they cost a miniscule fraction of the original, so what accounts for this price difference? The original Van Gogh can be authenticated as being an original painted by Van Gogh. This authentication makes it more valuable than a reproduction.

Crypto Art — NFT's based on blockchain technology — can now for the first time, function like our example of Van Gogh's painting. An artist can make a digital art piece, and this piece can be authenticated using Blockchain technology. An authenticated digital art piece, or NFT, then has increased value as an original, just as our authenticated Van Gogh painting.

Sure, you might copy and paste or reproduce this digital art piece, just as someone might reproduce a Van Gogh painting. But the difference is in the authentication of which art piece is original. That's why now you see NFT's being sold for massive sums of money. They now are a unique collectible.

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### Why would artists make crypto art instead of tangible art?

One big reason is because of the smart contracts within blockchain. A smart contract is, like any other contract, a set of if/then conditionals between two parties. If X satisfies these conditions, then this transaction from Y is triggered. Smart contracts are preferable to standard contracts because they trigger immediately without any middlemen or mediation. The outcome of the contract is then recorded securely and irreversibly in the blockchain ledger.

The reason this is better for artists is that when one mines a new NFT — uses crypto currency to create a digital object — they are able to set a royalty. This usually ranged from 10-20 percent. When the piece is originally sold, the smart contract is immediately executed, and without any delay or negotiation, an artist has cryptocurrency in their wallet. This is much easier logistically for the artist.

The second big advantage is how the smart contracts execute in the secondary market. Based on whatever the artist set as their royalty percentage, each time their

work is resold, they take that percentage as commission. This means if their art appreciates, they proportionally enjoy that appreciation. Not only that, but the royalties, triggered by the smart contract, immediately appear in their crypto wallet. This means artists are instantly receiving passive income with no effort or arbitration needed. This is a major advantage and draw for artists to operate within the crypto market.

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### Why would art collectors buy Crypto Art?

It seems to go against common sense to pay big bucks for a digital image that is available to anyone with a quick google search. But if we refer back to our analogy with the Van Gogh paintings, we see the underlying motivations are the same. That is, collectors want authenticable, original art. And sure, some collectors might buy the work just because they love to look at it. But the majority buy high end art as a status purchase, an indicator of their wealth and taste, and with the desire to show it off.

But what's easier, showing off your big money art purchase on a wall in your private home, or putting it on the internet or social media? Nowadays, if you want the most visibility for your art collection, it's easier to display it digitally. This is what may attract big money collectors to Crypto art over traditional art.

On a smaller scale, many crypto artists and buyers participate in the crypto market for the same reason some people collect baseball cards — because it's fun! It also gives them a chance to support the Crypto community by buying and selling using cryptocurrencies.

### How does this all affect you if you're not an artist or an art collector?

As far as Crypto Art, it might not affect your life, besides the headlines you'll surely encounter.

However, the underlying technology of Crypto Art, NFT's on the blockchain and executed by smart contracts, will be a major part of every future field. Smart contracts, with their secure and rapid execution, will certainly become a mainstay of digital transactions. And NFT's are not purely a form of art. Non-Fungible Tokens, or digital objects that are secure, unique and authenticated, will populate everyday life sooner rather than later.

Imagine this scenario: you go to the car dealer to purchase a new car. Along with the car, you receive an NFT of that exact car. The transaction is executed with a smart contract and recorded on the blockchain. This is how ownership may look in the future! You'll have one car in your driveway and an identical digital version of your car in your NFT collection.

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