Fad or Frontier

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Our mission is to remain an independent firm

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100% of our revenue comes from fees for advice

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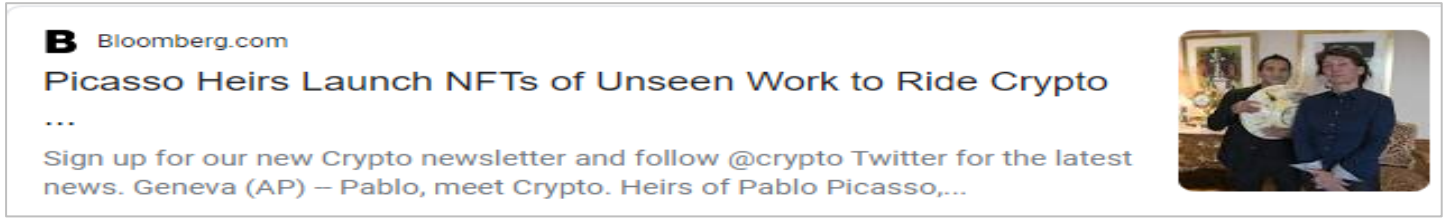
Today's Dispatch from Metaverse: NFTs

THE NEWEST AREA OF COLLECTABLES, AND POTENTIALLY INVESTMENTS, THAT HAS RECEIVED THE MOST ATTENTION OVER LAST YEAR

- Most view this as an extension of crypto
- It can be seen as part of crypto or even as a new digital frontier asset
- High correlation to risk assets/speculation



NFTs…What's That?

HOW WE DESCRIBE NFTS:

- In essence, NFTs are collectible digital assets, which hold value as a form of cryptocurrency – these come in many different types
- Unlike standard coins (Bitcoin, Ethereum), they are one-of-one and can't be exchanged like-for-like (i.e. Non-fungible)
- The most expensive art NFTs ever sold were made by Beeple; but there are some emerging "types"

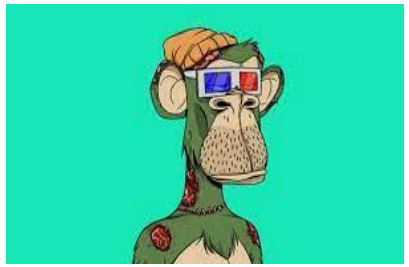
1) Everydays: The First 5000 Days by Beeple - $69MM

2) Crossroads by Beeple (Feb. 2021) - $6.6MM

3) Ocean Front by Beeple (March 2021) - $6MM

Some Types of NFTs

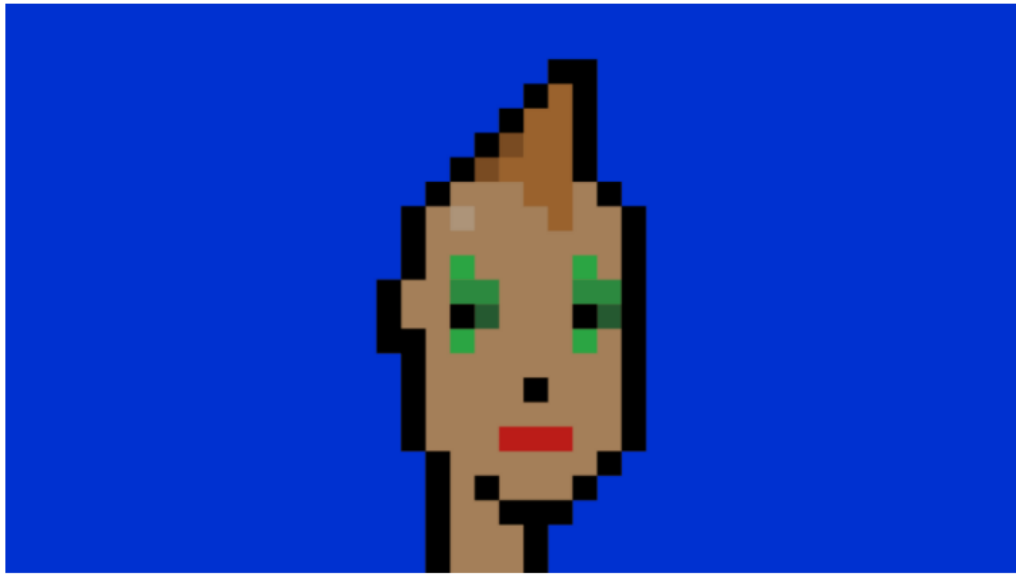
PFP	Proof of Picture, or Profile Picture: Virtual Profiles and limited sets. Original and core NFTs
Art Blocks	Blocks is a **platform focused on genuinely programmable on demand generative content** that is stored immutably on the Ethereum Blockchain. A randomly generated version of the content is created by an algorithm and sent to your Ethereum account.
Moments	Often athletic moments or performance art. Top Shot rules the roost with licensed digital moments, but other performances can be captured. These are **not** copyrights, but they are the first time that can be captured, collected, and traded.
Virtual Worlds	Perhaps the most revolutionary and the beginnings of the metaverse, the ability to have and transfer digital assets in games/worlds. The cheapest Infinity monster today is $7, the most expensive sold was $819,000. This genie likely won't go back in the bottle.
Memes/Moments	Side eyed girl, Doge dog, cat with a rainbow fart propulsion, popular memes that make up an important part of the headlines on NFTs.



The Punk that Changed the World

CRYPTOPUNKS:

- On Monday, August 23 Visa purchased Cryptopunk #7610 for $150,000
- Cryptopunks are 10,000 uniquely generated characters stored on the Ethereum blockchain
- There were $53.76MM of Cryptopunks bought and sold in the last four weeks
- The lowest “punk” price was $127,212 or 52.95 Ethereum as of 5/10/2022
- Punks volatility was less drastic when accounting for ETH denomination



Larva Labs, *CryptoPunk #7610* (2017). Courtesy of Visa, via Twitter.

TECH

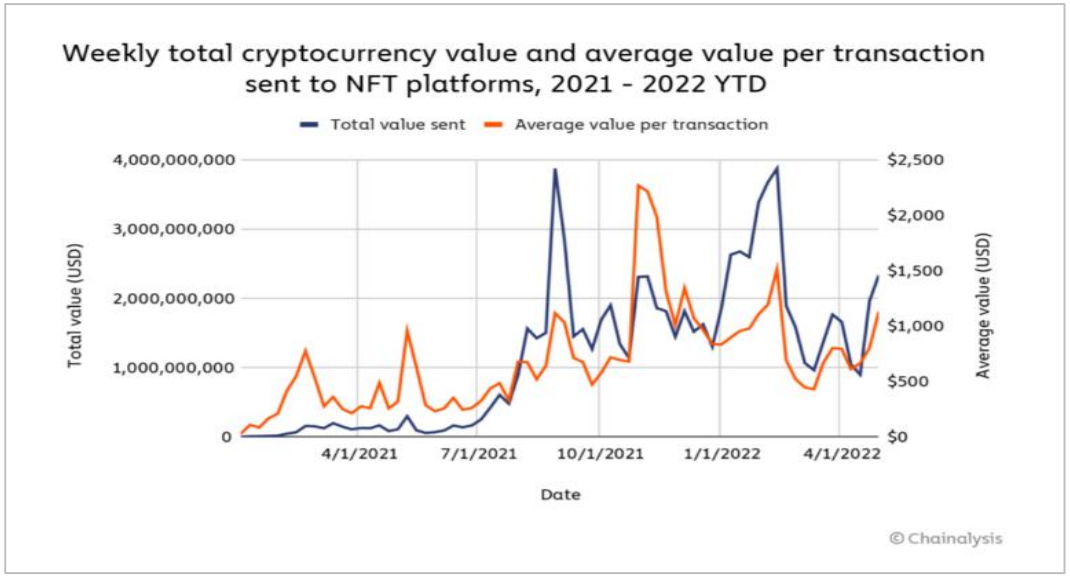
Visa jumps into the NFT craze, buying a ‘CryptoPunk’ for $150,000

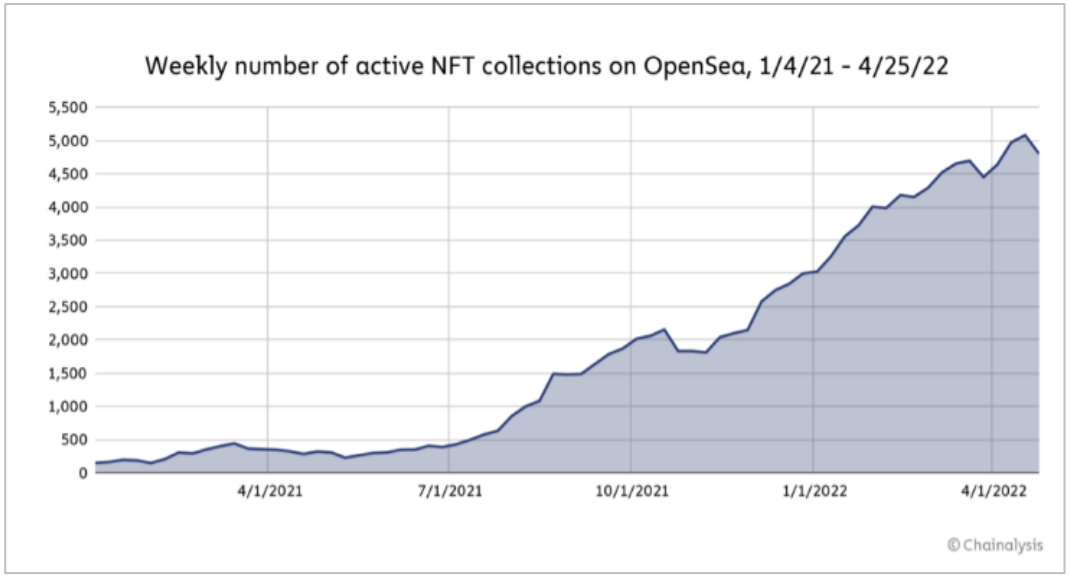
PUBLISHED MON, AUG 23 2021•10:11 AM EDT | UPDATED MON, AUG 23 2021•8:37 PM EDT

Market Size

LARGE, VOLATILE MARKET

- There was $44.2BN in cryptocurrency sent to ERC-721 and ERC-1155 contracts, the two smart contracts associated with NFT marketplaces in 2021
  - Through May 5th, 2022, there have been $37BN of cryptocurrency sent through NFT marketplaces
  - However, since mid-February, NFT transaction value has dropped from $3.9BN the week of Feb. 13 to a low of $964MM the week of March 13th
- The number of active NFT collections on OpenSea went from 193 (at the beginning of March 2021) to 4000+ by April 2022 – a 20x increase
- Weekly NFT volume has been volatile, driven by big spikes surrounding popular releases like the "mutant" Board Apes at the end of August 2021





Source: Chainalysis 2021 NFT Market Report, OpenSea

Source: Chainalysis "NFT Transaction Activity Stabilizing in 2022 After Explosive Growth in 2021", OpenSea

Major NFT Collections

NFT Collection Rankings by Sales Volume (All-time)

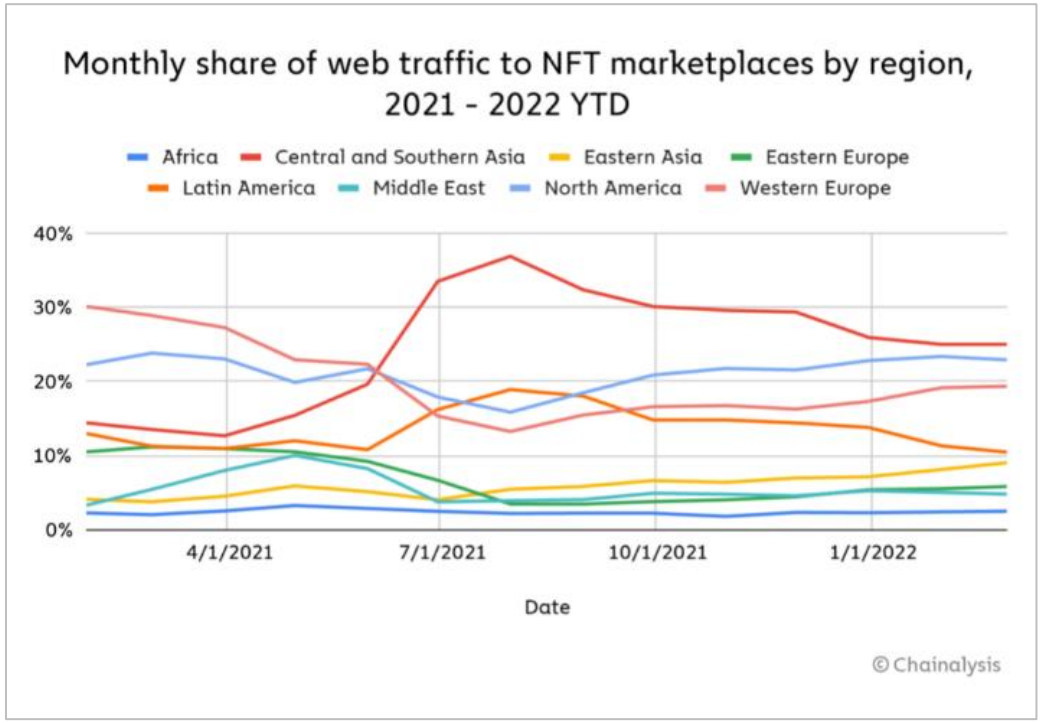
	Collection	Sales	Buyers	Txns	Owners
1	Axie Infinity	$4,068,326,231	1,734,142	15,962,589	2,530,955
2	CryptoPunks	$2,229,054,495	5,513	20,940	3,638
3	Bored Ape Yacht Club	$2,072,305,441	11,068	28,818	
4	Mutant Ape Yacht Club	$1,483,219,244	20,388	37,760	
5	Art Blocks	$1,253,846,958	29,435	157,010	33,798
6	NBA Top Shot	$995,798,048	429,740	19,760,145	682,723
7	Otherdeed	$834,881,873	17,377	33,390	
8	Azuki	$654,666,753	12,289	26,224	
9	CloneX	$650,322,484	8,858	16,960	
10	VeeFriends	$537,170,297	6,160	13,554	
11	Moonbirds	$512,747,537	11,943	16,279	
12	Meebits	$497,254,948	11,314	31,477	
13	Doodles	$467,321,654	11,956	24,030	
14	The Sandbox	$371,012,173	24,712	54,997	19,035
15	Cool Cats	$354,694,064	11,367	29,724	
16	Bored Ape Kennel Club	$325,359,701	9,645	22,162	

Source: Cryptoslam as of 5/9/2022

Where are They?

THE NFT MARKET IS GLOBAL

- No region made up more than 40% of total monthly web visits
- Central and Southern Asia are currently the most active region with ~30% of global NFT web traffic
- Like traditional cryptocurrencies, NFT activity is diversified across the globe

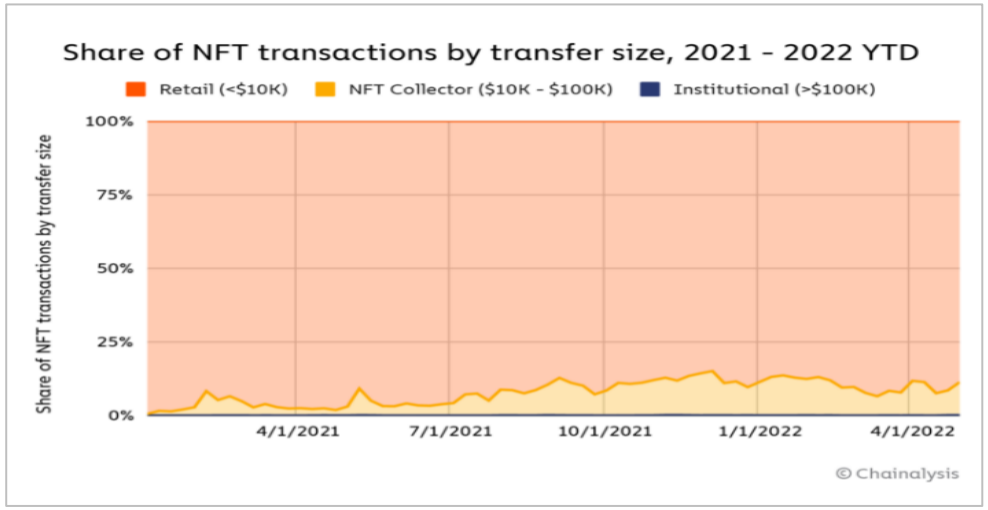


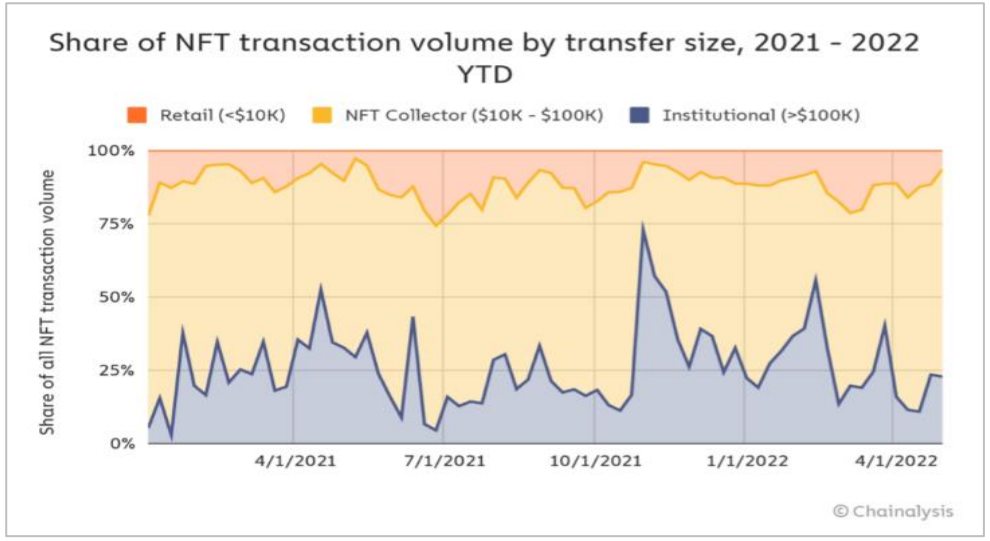
Source: Chainalysis "NFT Transaction Activity Stabilizing in 2022 After Explosive Growth in 2021", OpenSea

Who Dominates the Market?

BELIEVE THE NEWS: SMALL OR WHALE PARTICIPANTS?

- The majority of transactions are done by small investors (less than $10,000 transactions)
- Larger transactions, in the $10,000-$100,000 size are rising
- However, dollar volume in NFT transactions is dominated by collectors and whale sized investors



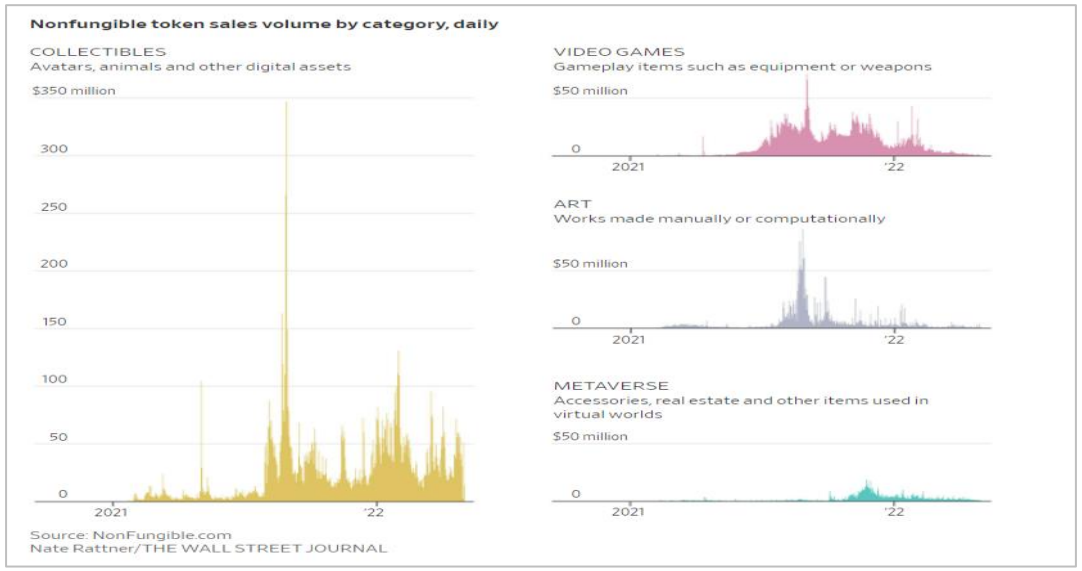


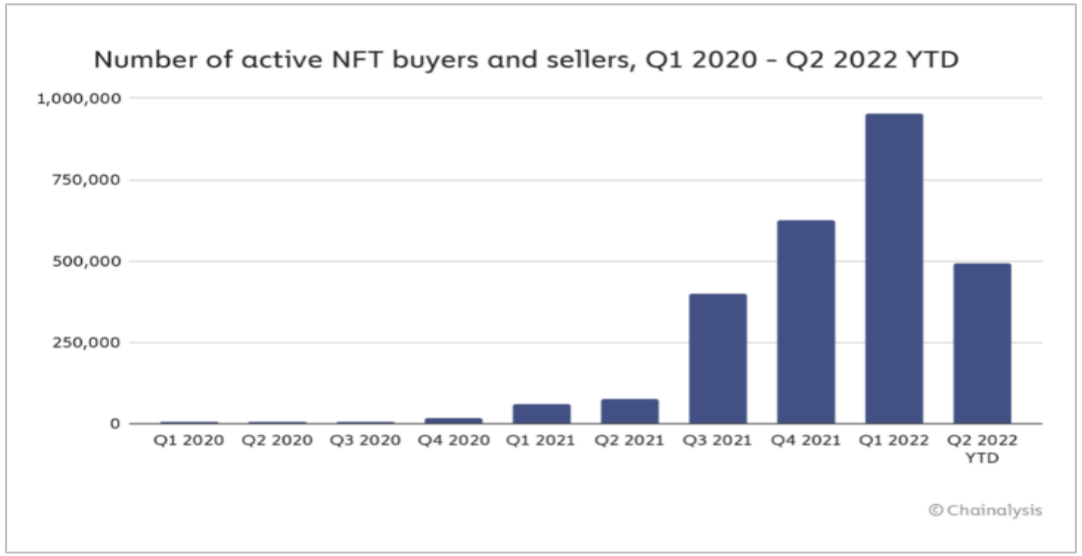
Source: Chainalysis "NFT Transaction Activity Stabilizing in 2022 After Explosive Growth in 2021", OpenSea

NFT Sales – May Update

NFT Sales Fall Significantly

- NFT volume has fallen off in recent months corresponding with global risk-off sentiment
- NFT sales have fallen 92% from a peak of 225,000 sales a week in September 2021 to 19,000 in the first week of May
- The number of active wallets has fallen 88% from 119,000 in November 2021 to 14,000 in the first week of May
- Google searches NFTs have fallen 80% since January
- The supply v. demand imbalance between buyers and sellers may be hurting prices – of 9.2MM NFT sales in April, there have only been 1.8MM buyers
- For reference, from the time period of Nov. 8, 2021, to May 10, 2022, ETH has lost 53%, Bitcoin has lost 49%, and the Nasdaq is down 26%





Source: Wall Street Journal, Chainalysis

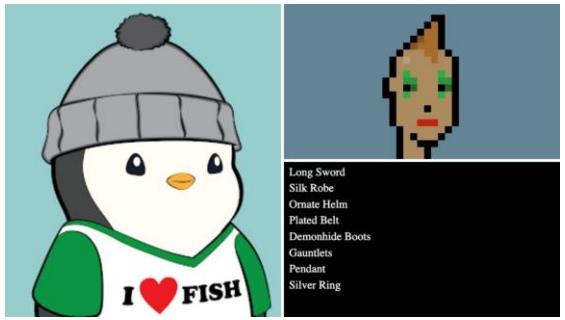
Are NFTs Assets?

ARGUMENTS FOR:

- Viewed as a store of value
- Global
- Portability across platforms increases their use case in the metaverses
- Can see traditional asset signals (i.e. announcement effect, news catalyst, market momentum, etc.)

ARGUMENTS AGAINST:

- No cash flow
- No intrinsic value/use (these are modern tulip bulbs!)
- No artistic merit (my kid could do that!)
- No barriers to entry – how rare or collectible are they?
- No historical consensus on value (Unlike Fabergé eggs)



Are NFTs Investible?

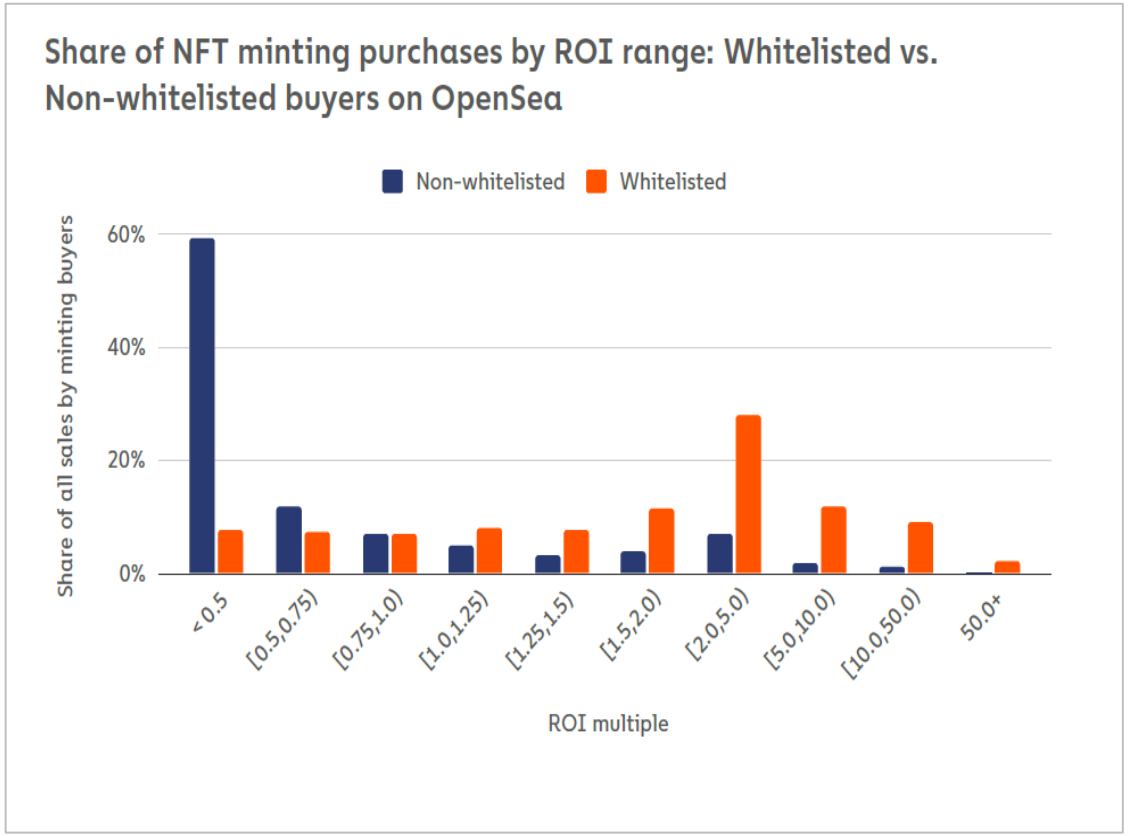
- Still too speculative to be able to have real price forecasts; remain a speculative and hobby area of the market (for now)
- Some clear strategies for success appear to be emerging:
  - Mintings/drops are not that good a time to buy (most who buy NFTs at minting do poorly)
  - Whitelists have strong results (think pre-IPO)
  - Secondary trades do better than mintings and worse than whitelist (likely due to momentum)
  - Extraordinary gas fees (transaction costs) make this data very noisy and hard to parse currently

Takeaway: The most successful NFT flippers invest in diverse collections and generally more expensive NFTs

Investing in “New” NFTs

FOR NEWLY MINTED NFTs:

- Since NFT project growth is driven by the strength of the community and word of mouth, successful projects will cultivate followers on Discord and Twitter before minting new projects
- NFT creators will reward loyal followers by whitelisting them or allowing them to purchase NFTs at discounted prices during minting
- Whitelisted investors have recorded a profit 75.7% of the time when they’ve sold vs. 20.8% for non-whitelisted users
- 59% of non-whitelisted sales result in losses greater than 50% of initial investment



Source: Chainalysis 2021 NFT Market Report, OpenSea

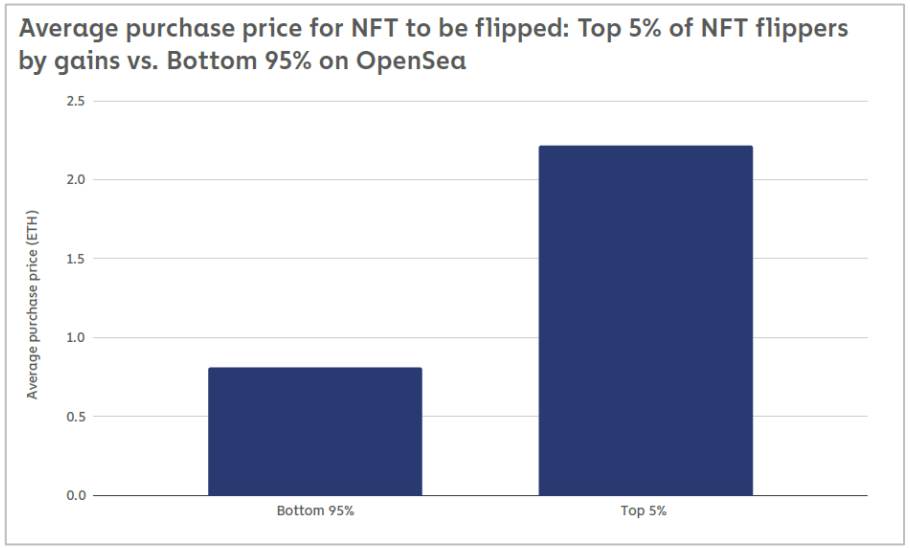
Investing in Repeat Sales

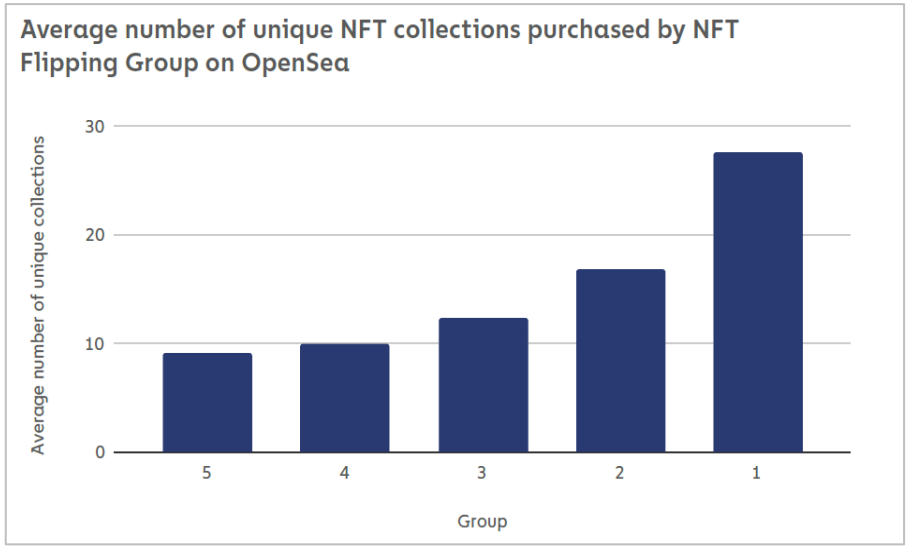
REPEAT SALES / FLIPPING NFTs

- Flipping NFTs has a significantly higher success rate than reselling NFTs purchased during minting – flippers on OpenSea made a profit on 65.1% of transactions

- The top 5% of NFT flippers on average buy more expensive NFTs than the bottom 95% of flippers
  - The top 5% average purchase is 2.2 ETH vs less than 1.0 ETH for bottom 95%

- The top quintile of NFT flippers have more diversified collections than the bottom quartiles



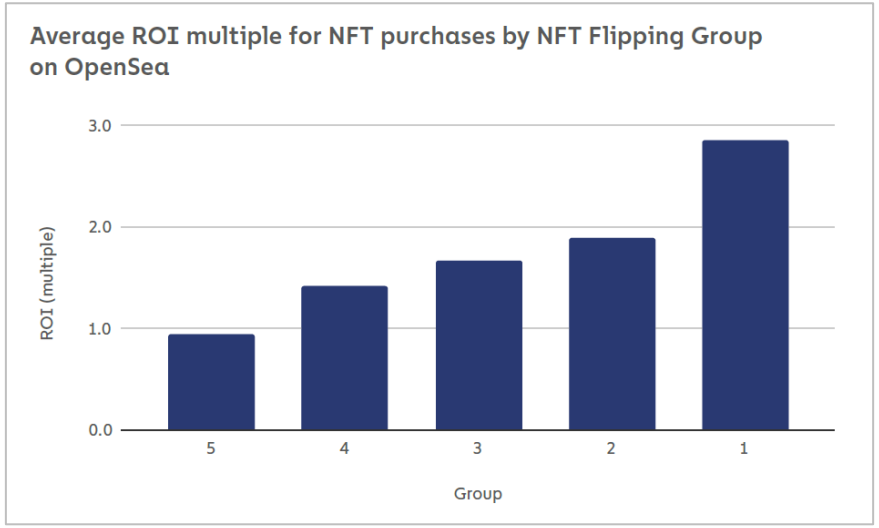


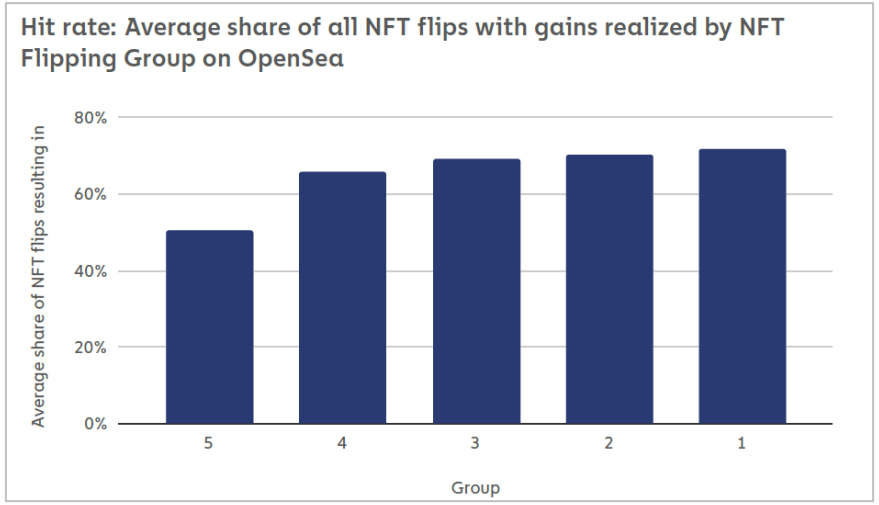
Source: Chainalysis 2021 NFT Market Report, OpenSea

Investing in Repeat Sales – Cont.

REPEAT SALES / FLIPPING NFTs

- The top quartile of NFT flippers on OpenSea have generated a 2.9x ROI on their trades
- This data excludes NFTs which were purchased, but not sold again
- Real returns by quartile are significantly weaker when factoring in NFTs which are not resold
- While each quartile has a greater than 50% hit rate (profitable resells) these numbers do not include the significant number of NFTs which never see the market again





Source: Chainalysis 2021 NFT Market Report, OpenSea

So What?

NFTs will be very volatile as a new form of trading and collecting emerges and the market searches for a true price; intellectual property might be the most prevalent use for this new technology

Like with fine art, humans want to collect, express prestige, and engage with art/images/moments. NFTs do this and should be seen as a part of the art market enabled by blockchains (rather than simply a new type of crypto)

This is not a market to ignore. The market is changing fast: digital assets issued with physical assets (fashion brands); smart contracts; experiences (BAYC) and membership-think metaverse

Some NFTs will be very valuable over time

Where is the NFT Market Today?

Evolving Market

- NFTs burst on to the scene as a technology (blockchain) and an approach (DEFI) collided with a moment of cheap money and broad market speculation
- The exuberance of the past 12 months has been met by a decent hangover in the last 12 weeks
- The future is uncertain, what we do have is a new technology and approach to exchanging intellectual property – a technique that eliminates or minimizes the gallery, the banker, the advisor, etc.
- We believe that the technology behind NFTs, and the ability to own the intellectual property we interact with, merits continued attention

Appendix

Virtual land and spaceships: NFTs and the new crypto frontier

A new twist on the American dream is taking root in virtual worlds, where investors buy parcels of land and strong communities boost desirability.

APPENDIX ONE

Fractionalization

And the rise of Masterworks and Fractional.art

Masterworks charges 1.5% of assets annually plus 20% of profits, payable when they art is sold. Those changes come on top of the initial 10% premium payable to Masterworks.

The timing of any art sale is entirely at Masterworks' own discretion

By the numbers: average investor puts about $30,000 into Masterworks. Out of 150,000, very few are art world people.

Market

Masterworks, a Company Offering Fractional Shares of Major Artworks, Is Now Valued at Over $1 Billion

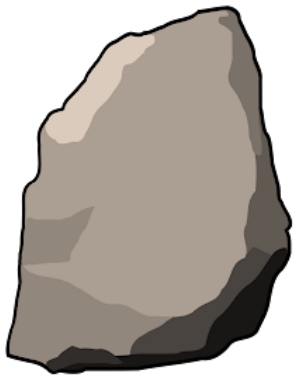
The company, which now counts top collector Glenn Fuhrman among its investors, is officially the first art-startup unicorn.

Taylor Dafoe, October 6, 2021

MASTERWORKS

APPENDIX TWO

My Portfolio



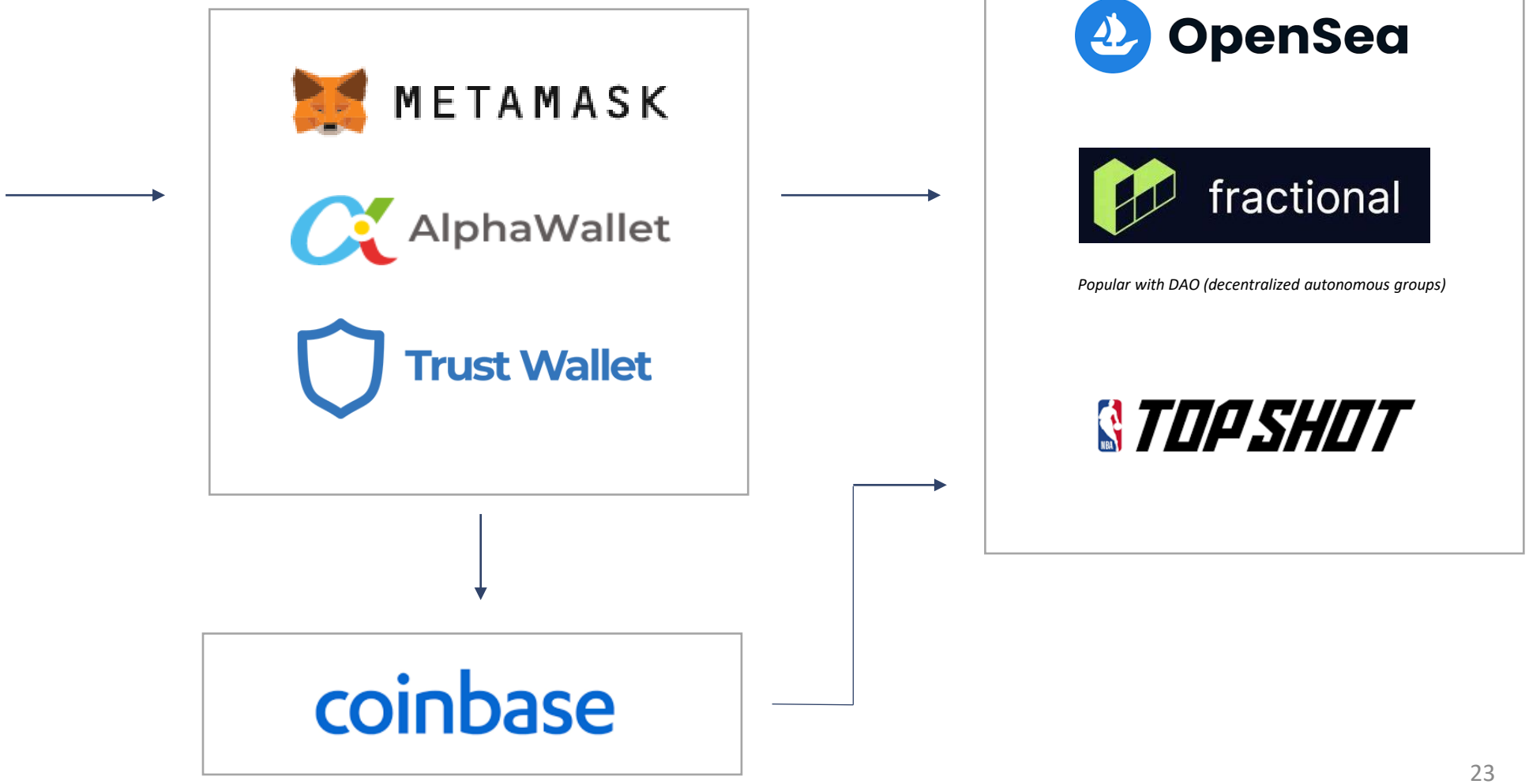
APPENDIX THREE

How the Market Works

Collector

Enthusiast

Speculator

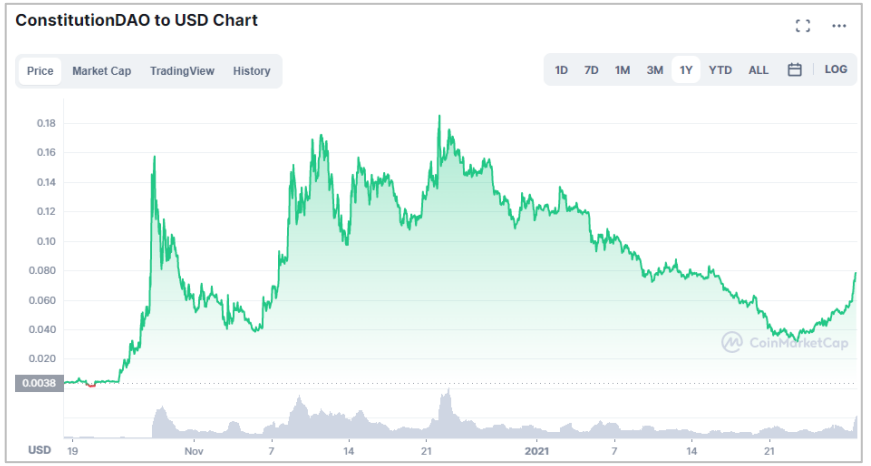


APPENDIX FOUR

ConstitutionDAO Case Study

- In November 2021, a group called ConstitutionDAO raised $47MM to attempt to purchase a copy of the Constitution being auctioned by Sotheby's
- The group raised this money by issuing digital tokens called $PEOPLE on blockchain
- Each token represented a vote for where the copy would be held if they won the auction
- While ConstitutionDAO was ultimately outbid by Ken Griffin, the effort showed the ability to successfully raise funds by issuing decentralized ownership units on the blockchain
- PleasrDAO, an earlier DAO, successfully acquired the $4MM, one-of-a-kind Wu-Tang Clan Album Once Upon a Time in Shaolin

ConstitutionDAO



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