Twitter Thread by Jake Brukhman



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1/The next major problem set in #DeFi is #NFTLiquidity.

It has become very clear that, like fungibles, nonfungibles are their own financial asset class.

One path to see this is to envision the future of NFTs as “liquid

2/Some say that NFTs “shouldn’t be” liquid, yet the innovation process continues.

Just like photography has become much easier to create in the last 100 years, liquid NFTs will surely bring down price points of tokenized digital content but will also open expansive new markets.

3/The key observation is this: #NFTLiquidity is merely a technical problem for #DeFi, and the entire set of economic mechanisms is its solution space.

■■ In particular, because of tokenization, *the NFT liquidity problem reduces to the NFT price discovery problem.*

4/In other words, if we could reliably price a set of NFTs, we could issue a token backed by their reliably priced future resale value.

This is a core mechanism that today is underutilized in the market, and one that — we will soon see — applies to all illiquid assets.

5/Today, NFT price discovery proceeds via three main mechanisms: sales, auctions, and ERC20 fractionalization.

And the fundamental problem with each of these mechanisms is capital efficiency: in each mechanism, participants need to spend *at least* $N to value something at $N.

6/If we could find a mechanism which could appraise any NFT for a fixed price (or just a low one!) we could achieve capital efficiency, tokenize the value of the assets, and ■■■ boom we are liquid.

7/This appraisal mechanism can essentially be implemented using prediction markets, oracles, appraiser networks, or ML models.

But one super cool approach uses peer prediction oracles created by @nick_emmons and @UpshotHQ. https://t.co/HleEMPpgcq

> It\u2019s no secret that pricing NFTs is really difficult, so we built an NFT appraisal product powered by peer prediction.https://t.co/uWFZq4aeGs
>
> — Upshot (@UpshotHQ) December 23, 2020

8/In this model, a “hot or not” game is played by appraisers who continuously compare and rank NFTs. Eventually, this ranking places the NFTs into a partial ordering which can be calibrated to price.

Prices can then be reported on-chain through @UpshotHQ’s mechanism.

9/Read more on this approach here.

https://t.co/wrcDl1L2LV

10/These kinds of #AppraisalGames will go a long way toward achieving liquidity for the NFT asset class and can extend into other illiquid assets — used cars? Homes?

This is just the beginning but we’re about to go into yet another exciting innovation cycle of #NFTLiquidity.

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cc @NFTX_ @nftfi @rariblecom @UpshotHQ @opensea @fluxprotocol @NFTbank_ai @mike_bosworth @nick_emmons @DrNickA @sbmckeon @AsyncArt @sambrukhman @dapperlabs @rohamg @DavidVorick @alexgausman @arkgalleryDAO @FLAMINGODAO @pridesai @Mable_Jiang @jessewldn @AndrewSteinwold