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Things to Consider Before Investing in NFT Projects

Original:

<https://www.btcc.com/en-US/academy/crypto-basics/things-to-consider-before-investing-in-nft-projects>

Too many NFTs digital art and collectibles projects popping up? Here are some questions to consider before making your next NFT investment.

Who would have thought ten years ago that we will become so entrenched in the virtual world so much so that buying an art piece or a collectible that is solely in digital form is increasingly considered a cool venture?

Interestingly enough, it is not just “geeks” or tech-savvy people actively participating in this market. Chances are that your favorite brand or celebrity has already caught the non-fungible token (NFT) bug, such that we have begun to lose count of the number of high-profile brands and individuals that had either invested in NFTs or launched a collection of their own.

As such, it is easy to get caught up with the glitz and glamor of the NFT industry and forget that, like every investment venture, investing in NFTs comes with its own sets of risks. Apart from the aesthetic appeal of an NFT-based item or the “clout” that comes with owning one, an investor would likely buy into an NFT project, with the hopes that the digital asset will be worth more sometime in the future.

While this is a given, it is not as easy as it seems to gauge the long-term viability of an NFT. There are just too many of them these days, and there is no framework put in place to ensure that investors are protected from risks associated with fraudulent or generic NFT projects.

And so, individual investors must take up the responsibility of carrying out due diligence before investing in NFTs. In other words, you have to sieve through the plethora of NFT projects vying for your attention to identify the gems. To put the scope of this task into perspective, OpenSea, which is one of the many NFT marketplaces operating today, houses over 6,600 collections.

Check out our article on [the most expensive NFTs sold in history](#).

Bearing this in mind, here are the questions you need to be asking before you invest in an NFT project.

Do You Like it?

Like every venture you will embark on, the NFT project must strike a chord with you. You do not want to be entangled in a project that does not inspire any emotional connection whatsoever. Although some say that emotions are bad when making business decisions, one may argue that it does not apply in this case.

You will come to discover that a majority of the best-selling NFT projects integrate some form of artistry and creativity. A bland project would most likely fail to appeal to gamers, collectors and art lovers who make up a high percentage of the NFT community.

“Do I find it interesting – do I like it – do I like the concept – the idea – is it something I look at and say yeah, my brain works like that, I can see what they’re going for with this, it’s something I would be fine with launching myself, because I think people would find it interesting and would want to be a part of it,” said PeterShankman, the host of The Faster Than Normal ADHD Podcast.

According to PeterShankman, emotions come to play when analyzing the viability of products targeting regular people. Hence, the question you should be asking is: Will the NFT project in question appeal to everyday people?

For PeterShankman, the best way to test the appeal of NFTs is on yourself:

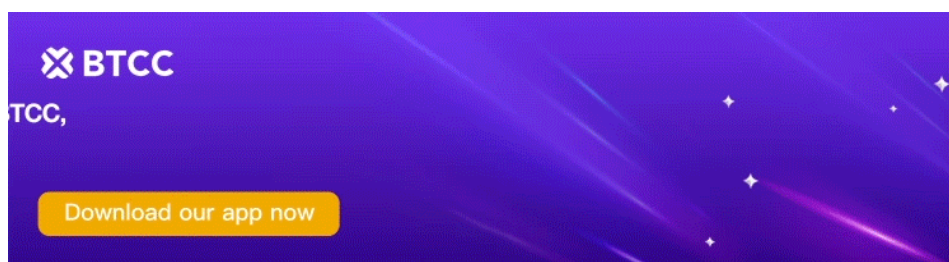
“It sounds so freaking basic - but it works. Too many people don’t use all of their brain in business - they think they are only allowed to listen to the business part of their brain - but in fact, when people buy things, regular people - consumers - they’re guided by emotion, by a connection, by a ooh, I like that feeling more than anything else. I like to think there are people similar to me - i.e., who like the things I like, because they have a similar brain. Thus, there you go. My massive ADHD helps me here as well - ADHD brains are known for thinking differently about virtually everything - not doing what’s expected just because it’s expected.”

While reiterating PeterShankman’s thoughts, Christiaan Huynen, CEO and founder of DesignBro, an online design marketplace, advised that taste has got to be one of the core considerations when picking an NFT project. In simpler terms, go for NFTs that align with your interests:

“Invest in NFTs that you genuinely like. Most people nowadays invest in NFTs for the sake of money. While this is not actually a harmful thing to do, it can make you regret the action in the future. Choose NFT projects that you understand deeply. For example, you are an avid basketball fan. Start there and build your NFT portfolio according to your interests.”

Additionally, Gytis Trilikauskis, the General Partner of MEV Capital, a digital asset manager focused on DeFi, believes that it is important to streamline your NFT portfolio to a few collections so that you can effectively master their traits and rarity factors.

“Choose a project/collection you like and become an expert of the attributes/traits and their rarity factors - this will give you an edge to spot a good deal when there is one,” said Trilikauskis. “Generally sticking to one or two good collections that you’re an expert in would give you more of an edge than spraying and buying NFTs all over the place.”



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What about Originality?

One look at the NFT market, and you will notice that there is no real structure in place to ensure that copyrights are not infringed upon or to set a standard that eliminates a copy-and-paste-anchored economy. Since there are no industry standards, it is no surprise that teams tend to rehash successful collections with the hopes of capitalizing on their buzz — just look at the number of Punks and Apes duplicates.

In most cases, such projects do not attract as much buzz as the original. Simply put, when choosing an NFT project, one of the factors you should consider is originality. Try as much as possible to confirm that the project you have in mind has come up with an original or innovative idea that would set it apart from the rest.

The originality test is one thing you should not take lightly when exploring new investment opportunities in the NFT space, according to Chris Gale from MetaEdge Ventures, a Web3 and

metaverse-focused venture studio. Gale explained that NFT projects with unique backstories tend to be the most engaging:

“We are seeing a lot of “me too” projects. Different versions of artwork copying previously successful communities. We like to see original projects with interesting and engaging backstories.”

Is it Active on Social Platform?

Whether we like it or not, social media remains a critical tool for crypto projects for obvious reasons. If the goal is to create an active community around a platform or a product, it is impossible to diminish the importance of social media engagement. Here, it is not just about the number of followers. Instead, more focus should be on the quality of activity that the project attracts on social media networks.

Bekir Cagri Celik, co-founder and Elif Hiz, Marketing & Comms Manager of Ninja Squad, took time to explain the most effective way to gauge the social media influence of NFT projects. According to them, the best way to go about this is to analyze the number of followers against the activity stats like retweets, likes and comments. When doing this, note the impact of giveaway posts and bots.

“Look into who is following the project’s Twitter account and how the audience engages with the content, versus how many people are following or how many RTs a giveaway post has received. Quality over quantity. Do a keyword search for the project you’re looking into on other Discord channels you’re a part of where there are discussions on NFT projects. Read previous discussions and top it off by asking the community about their thoughts on the project - crowdsource your research and do cross-checks with other people.”

While you are at it, confirm that the buzz surrounding the project can not be attributed to celebrity endorsements. NFTs are increasingly engaging influencers and celebrities to build hype around their offerings. More often than not, the hype generated from such marketing propaganda is unrealistic. In other words, organic hype always trumps celebrity-induced buzz.

However, Twitter is not the only main talking point when analyzing the size of the community backing an NFT project. For Gale, assessing both Twitter and Discord accounts would help paint a more accurate picture of the state of the project’s community engagement. “Discord and Twitter are where it is all at within the NFT community,” said Gale. “You want to see a popping Discord with a lot of excitement and active users. Be wary of servers flooded with bots! Twitter is also key. The bigger the community, the more the buyers.”

Harrison Jordan, COO of NFT Marketing Pros, added that activity on Discord provides an avenue to carry out in-depth analysis about the quality of the community built around the project as well as the

team's commitment to its growth:

“How active is the Discord? I’m not talking about how many users are in the Discord - That can be easily botted. How many people are talking on the Discord? Is it a consistent stream of comments throughout the day? Does the leadership team interact with users, answer tough questions, and don’t just call out critical comments and questions as FUD?”



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Are the Team Doxxed or Trustworthy?

Speaking of teams, reputation and experience are critical factors that should come to the fore, especially in an industry where it is somewhat common for developers/creators to opt for anonymity. Here, you may have to decide whether projects anchored by an anonymous team are worth taking the leap of faith for. While making this decision, have at the back of your mind that projects that are not doxxed (ie have not made the information about the team public) are harder to analyze objectively. Since the identities of the members of the teams are shrouded in secrecy, you can not base your assessment on the experience of the team and their past successes/failures.

Gale reiterated this while speaking on the importance of opting for doxxed NFT projects. According to Gale, it makes a lot of sense to put the spotlight on the “background and long term commitment” of teams behind NFT projects, especially if the project involves blockchain interactions and development:

“Many teams are anon in the NFT space. This comes with its own issues of understanding their backgrounds and long term commitment to the project. If a team is promising a game, we want to see their experience in designing and developing games. It’s easy to sell an NFT but a lot harder to launch a blockchain game. Look for previous experience in the appropriate field including blockchain development.”

Harrison Jordan added that developers and creators who “dox themselves have more to lose with a project that fails than teams that don’t dox themselves.”

Are all the Aspects of the Project On-Chain?

Note that not all NFT projects or collections are created equal. Some are more complex than others. “Projects that have aspects of their artwork or payload on-chain demonstrates a higher level of technical prowess than projects that have their works entirely off-chain,” said Jordan. As such, it is advisable to do some digging about the technical aspect of the NFT projects you have on your radar.

At this junction, you need to find out the blockchain status of the project, the benefits of incorporating on-chain features, the specific blockchain being used, and why the team has opted for that blockchain option. When you find the answers to these questions, you can determine the level of intricacy involved in the development of the project and whether the team possesses what it takes to get the job done.



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Do they Have a Whitepaper or a Roadmap ?

It is difficult to understand the complexities and technology involved in the creation or development of an NFT project if the team has refused to publish a whitepaper or roadmap. If you are going to be doling out your hard-earned money to invest in some project, then at least you should be able to gauge the seriousness of the team and the long-term feasibility of the roadmap.

“An NFT whitepaper gives you a clearer idea of why the project exists, what research the development team has conducted, and how the brand plans to continue scaling in the long-term,” according to Patrick Casey, director of growth marketing at Felix Health. “Demonstrably low effort projects are best avoided, and you can see them from a mile away.”

Elana Dickman, venture associate at Red Beard Ventures reiterated that viable projects would most likely do everything within their power to keep existing and potential investors updated about core operations, knowing fully well that the success of NFT drops hinges on their ability to convince investors to buy into the projects:

“NFT drops make the company millions of dollars - they should be already acting like a start-up and telling the individuals their vision and what they are planning to do with the money they raise,”

Is it Rare?

Digital traits and rarity factors are vital components that make NFT a worthwhile venture. NFT would not command this much buzz if it has not established rareness in the digital space. The appeal of NFT as a technology lies in the possibility of confirming that digital assets are indeed one-of-a-kind or that they exhibit unique traits.

As such, the rarer the NFT is, the higher the price it fetches on NFT marketplaces. This is why it is crucial to consider the rarity of NFTs before buying them.

Preferably, opt for projects that have launched a limited collection of NFTs or those with a collection with varying levels of rarity. Note that the goal is to buy rare NFTs at a bargain and not to pay an outrageous amount that you may likely not recoup.

For an experienced NFT participant like Jon Reynolds, a marketing director at TreatDAO, an investor needs all the help he can get to identify rare NFTs and acquire them at the best price, which is why he relies on specialized tools:

“One of my favorite ways is by figuring out if there is some mispricing for rarer items, say floor NFT that are in the 85th percentile or higher for rarity. In layman’s terms, I’m looking for exceedingly rare NFTs that are mistakenly priced close to the lowest prices. There are a handful of NFT rarity tools that I use, such as Rarity Tools and Rarity Sniper. I’ve used both of these this week to purchase some really rare NFTs that were near the floor price, making them a great acquisition.”

As highlighted by Reynolds, investing in NFTs will more likely become profitable when you start picking up the rare digital items at bargain prices.



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Should You Invest in NFTs?

As you must have noticed, investing in NFT is not a walk in the park. However, with the right information and tools, you can sidestep all the risks involved. Although the points raised in this guide are not the official blueprints for navigating the fast-emerging NFT space, they have, however, proven to be effective in an unregulated and fast-paced market.