GRANT'S
INTEREST RATE OBSERVER®
Vol. 39, No. 17b 233 Broadway, New York, New York 10279 • www.grantspub.com SEPTEMBER 17, 2021

Digital Beanie Babies

After warning its artists not to sell their comic characters as non-fungible tokens, Walt Disney Co.'s mighty Marvel unit last month took its own cannonball dive into the hottest digital art market. NFT investors can brace themselves for a tidal wave of new supply.

What's an NFT? Why, a unique digital image—say, of a rock or tulip or a video of a close play at home plate—the ownership of which is registered on a blockchain.

And what does the buyer of an NFT own? Nothing that one might call income-producing, unless under special arrangement with the seller. Ordinarily excluded is ownership of the underlying copyright or intellectual property. Think of your perhaps seven- or eight-figure purchase as bragging rights on the blockchain.

While NFTs are unique—non-fungible is in the name—they aren't always distinct. A digital artist can create one design, then, through a process called "generative art," follow up with 10,000 variations, as the makers of CryptoPunks ("a cultural icon for the crypto community") have done. Other vaunted NFT series include EtherRocks ("it's so stupid that it's perfect," raves a fan) and the Bored Ape Yacht Club (a two-lot sale of BAYC tokens, along with a kind of warrant to allow the creation of new ape variants, fetched $26.2 million at Sotheby's last week).

There's no smirking allowed. In August, NFT sales climbed to $3 billion on OpenSea, the largest online marketplace for NFTs, up more than tenfold from July. The pace of trading has achieved such a level of frenzy that the average daily transaction fee on the ethereum network (on which the digital art is minted and sold) leapt to almost $60 on Sept. 7 from a low of $2.42 on July 11.

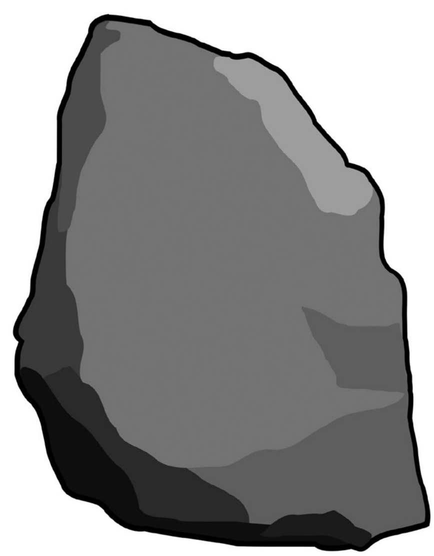
The secret envy of the digital scoffers comes free with every NFT purchase. "In the past, people probably flexed using a Rolex or expensive car," crypto investor Benjamin Tan tells Bloomberg. "The new 'it' way to flex now is a very exclusive profile picture [a type of NFT]." A separate Bloomberg report finds that NFT activity is sapping volume from day-trading in stocks and such suddenly rather boring cryptocurrencies as bitcoin.

In the clamor for NFTs, as in most gold rushes, the Ten Commandments take a back seat. Some creators are reportedly painting the tape (buying and selling their own digital works) to goose prices higher. Some vendors offer images to which they have no rightful claim. And some promoters, queasy at the prices or guilty about the value proposition, make jokes.

Thus, you can find NFTs of Beanie Babies, tulips, dogecoins, among other tokens of bubbles gone by. As for the aforementioned EtherRocks, its website bears the helpful disclaimer that those assets "serve NO PURPOSE beyond being able to be brought [sic] and sold." The descriptor attached to *Pixel Tulip #23* strikes a similarly confessional note: "Tulip mania (Dutch: *tulpenmanie*) was a period during the Dutch Golden Age.... It is generally considered to have been the first recorded speculative bubble or asset bubble in history. In memories [sic] of all the brave investors, we created the Pixel Tulip."

All of which prompted a call to Zac

CryptoPunk #8857
$6.55 million on OpenSea



EtherRock96
$2.26 million on OpenSea

Bissonnette, securities analyst and author of the greatest book ever written on Beanie Babies, *The Great Beanie Baby Bubble: Mass Delusion and the Dark Side of Cute*.

Ty Warner brought the first of his creations into the world in the early 1990s, Bissonnette says. The founder of Ty, Inc., in Oak Brook, Ill., began selling them through hospital gift shops and toy stores (pioneering online sales came later). Local ladies began collecting them, not with diamond hands but for the fun of it.

Such was the innocent match that ignited the speculative fire. Warner himself, a perfectionist, blew air on the flames by discontinuing, or "retiring," one Beanie Baby design to replace it with a cuter, cuddlier, squishier upgrade. So the obsessive creator egged on his compulsive collectors, who had to own each and every one of Warner's plush offspring.

Fan magazines, such as *Mary Beth's Bean Bag World Monthly*, duly followed, along with speculation. At one time, trading in the stuffed animals accounted for 10% of sales on the novel digital platform called eBay. In 1998, a USA Weekend poll found that 64% of Americans owned at least one Beanie Baby. (A survey last week by Pipslay Research purports to show that 18% of online respondents own at least one NFT.) Rising prices did nothing to enhance the purity of that marketplace, either: Of the Beanies that commanded a price of $1,000 or more, no fewer than 25% turned out to be fakes.

"Ty would do this thing," recounts Bissonnette, "where, every few months—this was in the early days of the internet—he would post an announcement on the website about which pieces were being retired. He wouldn't ship any more of them. The way you could make money in Beanie Babies (and people actually did this) was, if you could guess which pieces he was going to retire, you could go to a bunch of Hallmark stores and buy them for $5. And then wait for the announcements on the website that they were being retired, and then go to a flea market and flip them for $30."

By the late 1990s, the Beanie Baby market, like the Nasdaq, was on the boil. The U.S. Trade Representative Charlene Barshefsky made news by returning from a trip to China with 40 Beanies only to be told that her plush prizes were contraband; Warner himself had engineered the import quota of one Baby per returning traveler.

The Nasdaq peaked in March 2000, but overproduction toppled the Beanie Baby market first. One of Warner's retirement announcements sent collectors rushing into stores to buy up the creatures that, on form, would soon command a scarcity premium. But prices failed to follow the customary script, as the Beanie press did not fail to report: "Ty Warner, if you are listening," wrote Mary Beth Sobolewski herself in the September 1999 issue of her *Bean Bag World Monthly*, "there are simply too many Beanie Babies on store shelves everywhere!"

"And that was essentially the end of it," says Bissonnette. "You had people who had hoarded something that they found out they couldn't flip, the prices just tumbled, and the whole thing went away almost instantly."

Bissonnette draws an investment lesson: "It is almost impossible for any product within the collectibles category—I think it actually is impossible—to sustain a market where the primary motive driving interest is economic. So, if you look at the collectibles categories that have had long and sustained runs of either stable or rising values, those are categories where there are absolutely speculators in them. You can have that, and that's fine. But there is also a large amount of connoisseurship, and people who are collecting the pieces because it's meaningful to them for reasons that aren't economic."

Note to NFT collectors: Daily trading volume on OpenSea collapsed to $52 million on Sept. 9 from a peak of $323 million in August. And now here comes Marvel.

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