An Introduction to Tokenization — Video Transcript

Tokenization is the process of representing the value, rights, or ownership of a real-world asset as a digital token on a blockchain.

A blockchain is a digital, highly secure record-keeping system, where encrypted data is stored in sequential blocks and shared across a network of computers, creating a transparent record of transactions.

Think of a token as a digital certificate of ownership.

Examples of real-world assets that can be tokenized include stocks, bonds, mutual funds, exchange-traded funds, real estate, commodities, art, and intellectual property.

So, how does an asset become tokenized?

First, an asset needs to exist, for example shares of a company's stock.

Next, a financial institution or approved platform creates a digital token to represent that asset, or a fraction of it. Each token is backed by the actual asset, meaning it is tied to something real, not just created out of thin air.

Once tokenized on a blockchain, an asset can be bought, sold, and transferred on an exchange.

One major benefit of tokenization is fractional ownership. For example, instead of needing enough money to buy one full share of an expensive stock, an investor may be able to buy a fraction of it through tokens. This can make investing more accessible.

Another benefit is the possibility of extended trading hours.

And tokenized transactions may offer potentially faster settlement times than traditional markets, thanks to the secure and efficient tracking provided by blockchain technology.

However, it's important to remember that tokenized assets still need regulation, trusted custodians, and legal systems behind them. A token is only valuable if it clearly represents a real claim on the underlying asset.

In sum, tokenization is about using blockchain technology to represent and manage ownership of financial assets in a more digital, flexible, and potentially more efficient way.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

Centralized crypto exchanges rely on a third party or intermediary account to monitor and confirm that all transactions are secure. With a centralized crypto exchange, traders deposit their assets into an intermediary account for a specified period. Centralized crypto exchanges give their platforms greater control over their users and could be susceptible to fraud or compromise. Decentralized crypto exchanges, on the other hand, use peer-to-peer systems that give users full control of their accounts. Many, but not all, crypto exchanges are regulated.