

# TOKENIZATION:

The Next Great  
Investment Frontier



# Tokenization: The Next Great Investment Frontier

By Ian King, Editor, *Strategic Fortunes*

I had to send a bank wire recently and found myself waiting in line at the bank. This is not a common occurrence for me as most of my banking and bills are handled digitally.

I rarely even go to the ATM because I don't normally carry cash.

As I waited for the teller to help the customers in front of me, I was also reminded how much I don't like waiting in line at banks.

Don't get me wrong — banks serve a purpose. They take deposits from Paul, pay him to borrow the funds and then lend those deposits to Peter at a higher interest rate.

They also hand out lollipops to kids and Milk Bones to our furry friends.

Banks have been doing this for 4000 years, dating back to Mesopotamia (the lending part, not the lollipops!)

Today, we are going through the Information Age — one of the most radically transforming periods in human history.

The way we collect, store and move information around the world at light speed is disrupting every industry.

We've seen how e-commerce transformed retail. Early investors in Amazon have made 198,000% since its IPO in 1997.

We've seen how streaming transformed cable television. Early investors in Netflix are up 56,800% since its IPO in 2002.

We've seen how social media transformed traditional media. Early investors in Meta are up 1,284% since its IPO in 2012.

And now, thanks to big breakthroughs in blockchain technology, traditional finance is on the verge of a once-in-a-millennia disruption.

And I've honed in on the perfect investments to ride this wave of financial disruption.

In 2018, I was invited to give a crypto presentation to the sales and trading floor at Deutsche Bank. Crypto was this novel idea back then and most financial professionals didn't know what to make of it.

Back then, I warned them what was coming. Some of them took my advice seriously. Others weren't so amused.

The fat cats on Wall Street now see what I've been saying for nearly a decade — cryptocurrency allows anyone with an internet connection to be a lender or a borrower. They also allow you to trade anytime, anywhere in the world, with anyone else.

If you have assets, you can be a lender.

If you want to borrow, you can find a willing lender.

The middleman is gone, replaced with code.

DeFi has recently been growing in popularity because Wall Street and more financial institutions are realizing that crypto is a threat to their business. Just as streaming was a threat to cable TV, e-commerce was a threat to Walmart.

Put simply, DeFi is a way to recreate the traditional banking system, a decentralized blockchain network. It allows users to access financial services with full transparency without the need for middlemen such as banks.

Bringing the world of finance into crypto comes with several benefits:

- **Decentralization** — Traditional markets rely on centralized intermediaries, such as exchanges, clearinghouses, brokers and agents, all of which introduce complexity, costs and potential points of failure. But on a blockchain transactions can occur directly between participants, eliminating the need for intermediaries.
- **Transparency** — Without intermediaries in place to record and safeguard transactions, the recordkeeping tasks fall to the distributed ledger system on a blockchain. This keeps track of every transaction in a way that can be verified by other participants on the blockchain, taking out the need to trust an intermediary.
- **Security and Immutable Records** — Traditional markets are susceptible to various forms of fraud, including insider trading and market manipulation. By utilizing a blockchain's cryptographic techniques and consensus algorithms, transactions can be recorded in a tamper-proof and immutable manner. This enhanced security can instill confidence in investors and create a more level playing field for all participants.
- **Enhanced Efficiency and Lower Costs** — Blockchain-based platforms have the potential to streamline and automate the entire transaction process, resulting in increased efficiency. And by eliminating intermediaries and automating these processes transactions can be settled in real time, reducing clearing and settlement times from days to minutes. This automation can also reduce paperwork and operational inefficiencies, leading to significant cost savings for market participants.

In fact, the benefits of DeFi are so compelling that the big players in traditional finance are now looking to replace elements of the traditional financial system.

Wall Street titan and Blackrock CEO Larry Fink gave away Wall Street's playbook in a CNBC interview earlier this year: *[crypto] ETFs are step one in the technological revolution in the financial markets* and that *Step two is going to be the tokenization of every financial asset.*

The concept he's discussing here is that you can create tokens on a blockchain that represent ownership rights to real-world assets (RWAs), such as fiat currency, precious metals, real estate, art, bonds or stocks.

Essentially, this blockchain could then be used as the network by which we can trade ownership stakes over these RWAs the same way we trade ownership stakes in companies via stocks on the New York Stock Exchange.

Citigroup is also interested in blockchains' potential ability to tokenize real-world assets.

Citigroup and crypto project, Avalanche led a proof-of-concept project that showed it's possible to issue and store tokenized versions of private equity funds on behalf of clients in a way that's compatible with existing bank systems.

While this project is still in its early stages and not yet ready to be implemented, the implications of this successful test are huge.

This opens the door for more Wall Street firms to experiment with RWA tokenization.

The market for RWA tokenization is massive. By some estimates, it could be worth between \$3.5 trillion and \$10 trillion by 2030.

If these types of projects can work out the current shortfalls in the user experience and the lack of infrastructure to connect such systems to banks and exchanges, this could be how we trade all assets in the future.

But while we wait for Wall Street to catch up, there are blockchains that we can invest in today that are making the tokenization of RWAs a reality.

## Ethereum (ETH)

In late 2013, a 19-year-old computer science prodigy named Vitalik Buterin rocked the crypto world when he published the Ethereum whitepaper.

It was the most consequential event in crypto since Satoshi Nakamoto introduced the world to bitcoin in 2008.

Before the arrival of Ethereum, cryptocurrencies had one functionality: they were an immutable form of digital money that could be sent anywhere as easily as sending an email.

Ethereum changed everything. It has all the properties of bitcoin — it's decentralized, portable and immutable. However, it's also programmable. It allows for smart contracts that contain “if this, then that” conditions.

Ethereum is known as a Layer 1. It's like a Lego set. It allows developers to build new applications on top of a blockchain.

For instance, if my Uber doesn't arrive on time, then the fare is refunded. Or if my Uber arrives on time, and if the driver doesn't speed along the way, then a payment is made from my account.

Transactions can be programmed to run autonomously when specific conditions are met without a centralized intermediary.

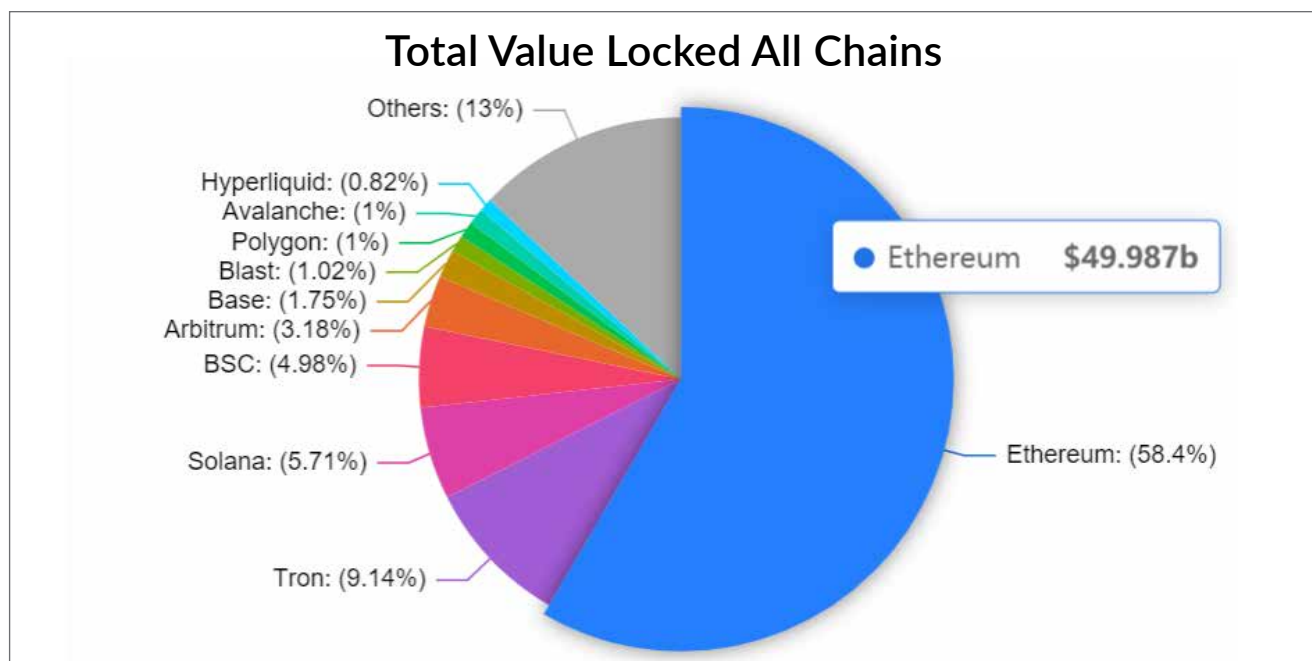
Ethereum also created a standardized token, called the ERC-20, that allowed developers to build other tokens with specific uses in the Ethereum network.

Since ERC-20 was born, tens of thousands of these Ethereum-based tokens were created. These are used to provision digital resources like cloud storage, computational power and network bandwidth.

Ethereum's programmable language also led to several DeFi applications being built on it.

In fact, today, Ethereum leads the pack in terms of the number of DeFi applications on the blockchain and the value held in those DeFi apps.

This is measured using a metric called total value locked (TVL) which measures the total value of digital assets that are locked or staked in a particular DeFi app.



If you tally the TVLs for all DeFi apps based on the blockchain they are built on, Ethereum is the clear winner with nearly \$50 billion in value locked up on chain, representing a market share of 58% compared to other blockchains.

It's clearly both the top choice and the legacy choice for developers looking to build DeFi apps and users looking to utilize DeFi apps.

So, it's only natural that Ethereum would look to maintain this edge with the latest development of tokenized RWAs in DeFi.

## A New Standard for RWAs

Seeing the direction RWAs were taking, back in December of 2023, Ethereum community members approved ERC-3643 standard, making it the first-ever standard for tokenization to earn approval from the Ethereum community.

ERC-3643 is an open-source protocol that enables the issuance, management and transfer of tokens associated to RWAs.

ERC-3643 utilizes ERC-20 tokens and Ethereum's smart contract infrastructure to enable the creation of programmable agreements containing essential asset information such as ownership and compliance details.

ERC-3643 also ensures compatibility with existing DeFi platforms, allowing for seamless interaction within the blockchain ecosystem.

In other words, ERC-3643 is a freely available tool that developers can use to set up tokenized RWAs on Ethereum in a way that's legally compliant and fully integrated into the Ethereum blockchain.

This will lead to the rise of RWA trading apps built on Ethereum, just as there have been booms in DeFi apps in the past.

## Tokenomics

The first thing to consider when buying a cryptocurrency is that you aren't buying a currency or a stock — you're buying a share in a network.

The more demand for the network, the more valuable the network's cryptocurrency becomes.

This is especially the case with Ethereum. Unlike bitcoin, Ethereum has no maximum supply.

New ETH tokens are created all the time to reward participants on the blockchain, known as "validators".

Validators are randomly picked to verify transactions on the Ethereum blockchain.

If they do their job properly and accurately verify the transactions on a block, they are rewarded with new ETH.

Validators may then choose to sell this in the market in exchange for fiat currencies or other cryptos.

But this mechanism alone would create runaway inflation if left unchecked, which is why there is a counterbalancing mechanism called "burning."

When participants on the Ethereum network make transactions, they have to pay fees in ETH to make that transaction possible.

These fees are burned. When ETH is burned, it is rendered useless and is taken out of circulation.

This means that if something new on the Ethereum blockchain drives up usage, such as new RWA projects, the rate of ETH burned will rise.

This will offset the inflationary mechanism and make the blockchain more valuable.

Currently, Ethereum is the second largest crypto in the world, with a market cap of \$319.46 billion and each ETH token worth \$2,650.

But it could easily grow from here if it becomes the dominant home for RWA projects, the way it has become the home for most DeFi projects in the past.

**Action To Take: Buy Ethereum (ETH) on Coinbase.**

## Arbitrum (ARB)

As I mentioned before, the blockchain that manages to on-board RWA projects and uses its infrastructure to enable trading would become the next iteration of a stock exchange.

It will become the destination that traders and investors go to trade shares of their ownership stake in companies, art, real estate and much more.

But in order to become an entity as large as a stock exchange it also has to be able to handle millions of transactions a day.

For this, you need a fast and efficient blockchain, and this is where Ethereum can use some help.

Ethereum is what is known as a layer 1. Layer 1s are essentially blockchains on which projects can be built.

The problem is that layer 1s tend to be quite slow and inefficient. One part of the solution to this is upgrading the layer 1 so it can handle higher volumes of transactions.

This process is already underway with Ethereum, through a series of upgrades that will eventually enable the blockchain to handle 100,000 transactions per second.

The other solution is layer 2 protocols.

## The Layer 2 Scaling Solution

As the name suggests, layer 2s are blockchains built on top of layer 1. They ultimately connect back to layer 1 but improve upon the speed and efficiency problem.

Layer 2 solutions can scale up the layer 1 blockchain by delegating complex computational tasks, such as transaction processing and data storage, to the second chain.

This is where **Arbitrum (ARB)** comes in.

Arbitrum is a Layer 2 scaling solution for the Ethereum blockchain that enables fast transactions while reducing transaction costs.

Arbitrum processes multiple transactions, rolls up the data about those transactions into batches and sends those batches of data back to the Ethereum blockchain, where it can be verified.

By handling these transactions on Arbitrum, the Ethereum blockchain is less congested, and when congestion is reduced, it also reduces the cost of processing a transaction, which goes up as congestion rises.

Arbitrum is already a leading layer 2 solution that's at work behind the scenes of several DeFi apps built on Ethereum that value speed and low costs.

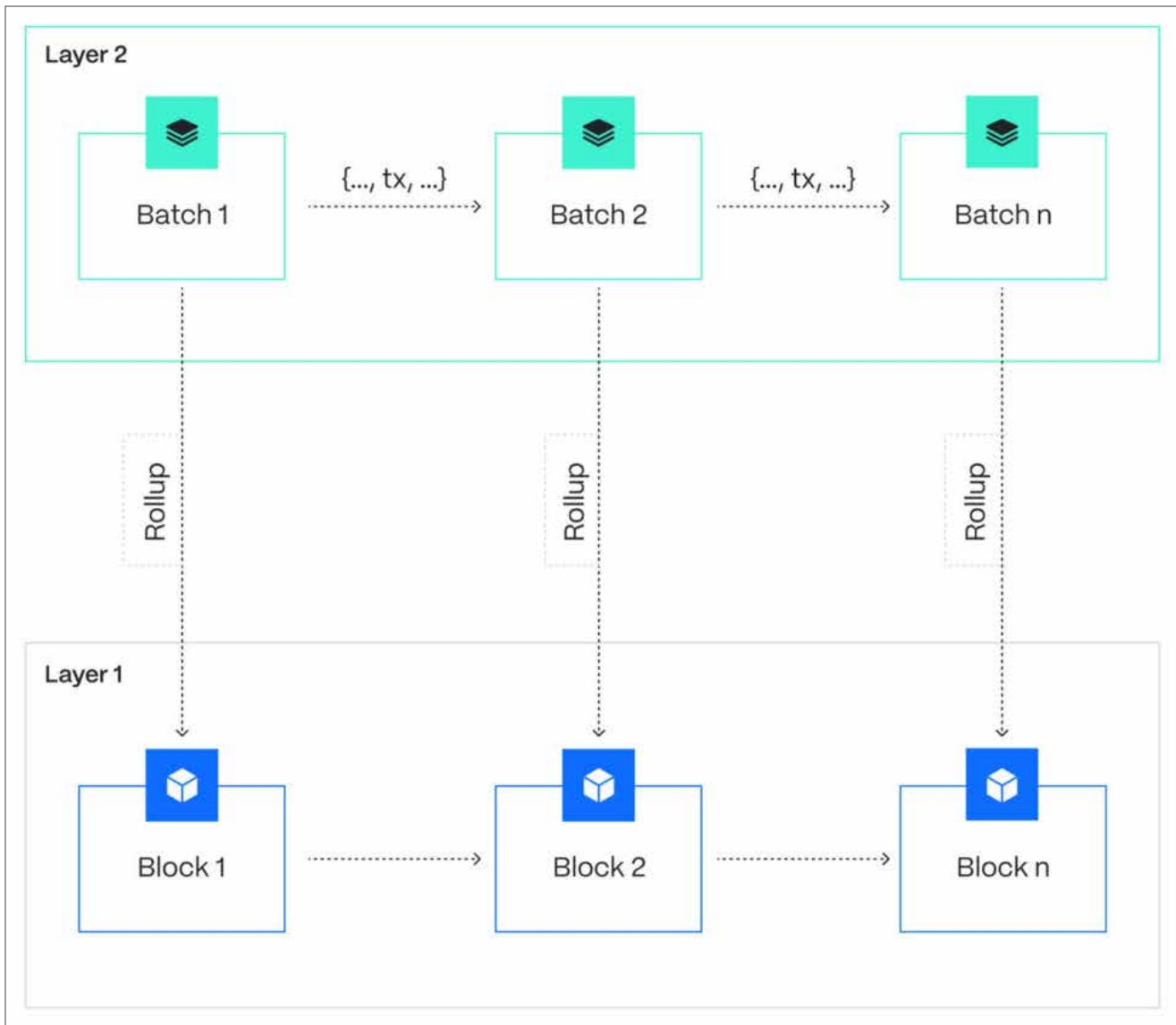
Currently, Arbitrum has 41% of the layer 2 market share and has \$14.8 billion worth of digital assets locked up on its blockchain through several DeFi apps.

## Tokenization Is Coming to Arbitrum

But Arbitrum isn't just happy helping Ethereum scale up for existing DeFi apps, it's also expanding into the realm of RWAs.

The Arbitrum Foundation has been collaborating on RWAs with global asset management giant Franklin Templeton.

This culminated in Franklin Templeton launching its OnChain U.S. Government Money Fund (FOBXX) on Arbitrum in early August.



The fund is designed to offer a competitive return by investing in government securities and related instruments.

While Arbitrum isn't the first layer 2 that Franklin Templeton launched FOBXX on, it's the most consequential because it has the highest market share.

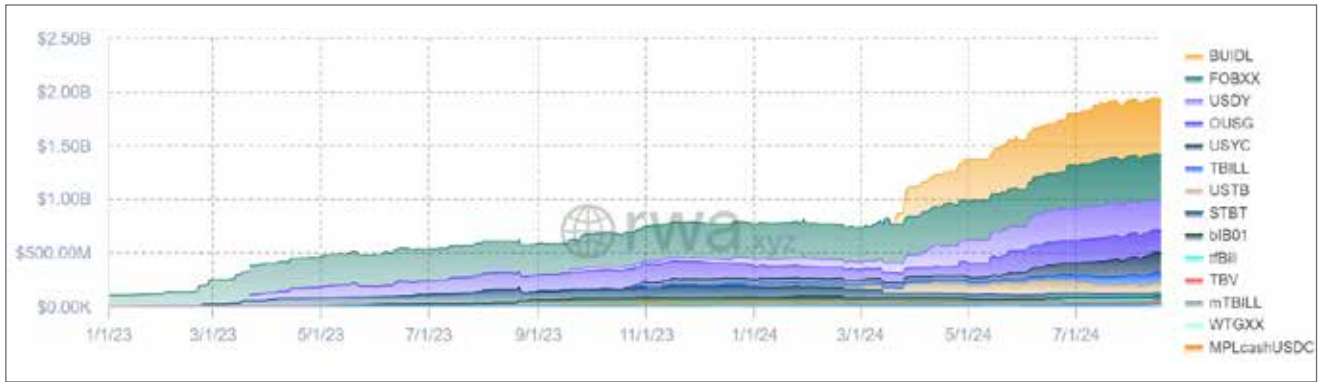
The fund's integration with Arbitrum will allow investors to utilize the Arbitrum blockchain to trade tokens of FOBXX with other investors. FOBXX was the first U.S.-registered fund to use a public blockchain to process transactions and record share ownership back in 2021.

This monumental partnership with the first such fund from a major institution is likely to attract more asset managers who want to launch RWA projects on Arbitrum.

These types of treasury-related products are currently the most popular and fast-growing RWAs to be tokenized for trading on blockchains.

The market cap of on-chain treasuries has surged by 150% in 2024 from just \$767.93 million at the start of the year to \$1.92 billion today.

But it's still early days for these kinds of RWAs, considering that between individuals and organizations, there are just over 5,500 total holders of these tokenized treasuries.



And this is just the market for on-chain treasuries. Projects pursuing ideas such as on-chain art and on-chain real estate haven't made as big a splash yet.

Arbitrum is the largest layer 2 in terms of market share, which facilitates faster and more efficient DeFi applications and it sits on top of the largest and most dominant layer 1 (Ethereum).

This is what makes Arbitrum a great bet on the future of RWAs.

**Action To Take: Buy Arbitrum (ARB) on Coinbase.**

That's all for now. If you have any questions about these recommendations, please send them to [StrategicFortunes@BanyanHill.com](mailto:StrategicFortunes@BanyanHill.com). We'll try to answer them in your weekly updates.

Regards,

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