

Asset Tokenization:

How blockchain will change the way we invest

Ten years ago, it was unfathomable for the average man on the street to own an Andy Warhol painting. With an entry price in the millions of dollars, it would take multiple lifetimes to accumulate the wealth needed to make such an acquisition.

Now imagine that there was a way to acquire a fragment of ownership of one of Warhol's famous paintings: "Marilyn" (1967), "Double Mickey" (1981), "Mick Jagger" (1975), or "Rebel Without a Cause (James Dean)" (1985).

Welcome blockchain tokenization, whereby non-traditional assets are "securitized" or "tokenized" into thousands, if not millions of "fragments" or "tokens", each bearing a right of ownership to the underlying assets.

This is not a theoretical idea, but a real live concept that is being incubated within blockchain technology that was built and developed over the last 10 years. Just to illustrate how far this has progressed: the investment fund giant Franklin Templeton launched the Franklin OnChain U.S. Government Money Fund in 2021. It was the first U.S. registered mutual fund to use a public blockchain to process transactions and record share ownership.



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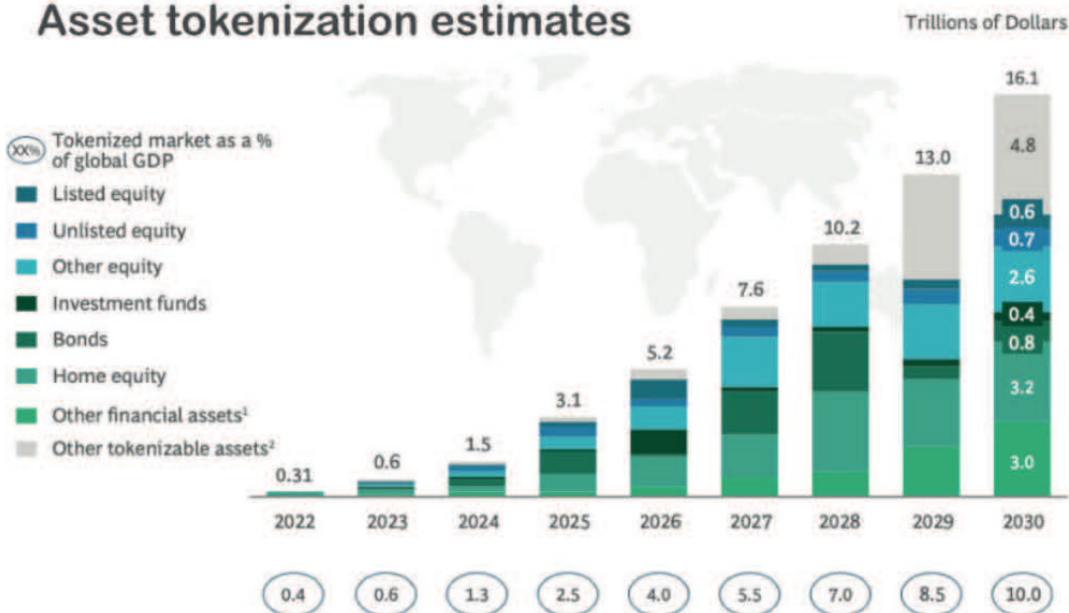
How does Tokenization work?

The core idea of asset tokenization is to create a virtual investment vehicle on the blockchain linked to tangible things like real estate, precious metals, art and collectibles.

So instead of the deed to a house being a physical piece of paper, the ownership is put on-chain. This ownership can then be traded between two parties directly, or fractionalized and offered to many people to buy or trade.

If we were to contrast the above process with the traditional securitization process, blockchain tokenization removes the need for a custodian, an exchange, a clearing house, and a broker, by migrating all the trust bearing actors' roles into that of a "Smart Contract". These Smart Contracts exist on the blockchain without the need for any policing entity as they are self-executing and impartial. As they say in the industry: "Code is Law".

Asset tokenization estimates



Source: BCG, ADDX

The Advantages of Tokenization

Tokenization is a game-changer for the modern financial markets. The benefits that it brings can be roughly categorized as follows:

1. Cost Reduction

Tokenization slashes costs by removing intermediaries like brokers and lawyers, streamlining the entire trading process. The Investor is the owner and can directly purchase and buy from the market through a Smart Contract.

2. Accessibility

It democratizes investment opportunities, allowing even small-scale investors to partake in markets previously out of reach due to high entry barriers. Investors can trade fragments if not cents of assets that were previously the realm of the wealthiest of individuals.

3. 24/7 Trading

Unlike traditional markets, digital tokens can be traded round the clock, offering unprecedented flexibility. There is no more US, European or Asian markets that have their own schedules and trading rules and restrictions.

A Leap Toward Transparent and Efficient Trading

The transparency of blockchain technology not only fosters trust among traders but also ensures a secure and accountable trading environment. This process of tokenization injects more liquidity into the market, making the trading of traditionally illiquid assets like real estate and art smoother and more efficient.

And all of this is made possible through Smart Contracts that play a crucial role in the tokenization of real-world assets. Like we previously explained, these are self-executing contracts with the terms directly written into code, automating, and managing the process of token ownership and transfer.

But elaborate more on the value created through Smart Contracts without going too much into the technical aspect of things, let's have a look at two features that have the most relevancy for our article:

1. Automated Management

Smart Contracts can handle processes such as continuous ownership transfers recording and dividend payments to small shareholders. These functions were previously the realm of registrars who are physically unable to process live ownership transfer due to the sheer trading volumes on exchanges, and the prohibitive friction cost to pay out dividends through the banking systems to owners with only cents' worth of shares.

2. Security and Compliance

Smart Contracts ensure the security of tokenized assets using cryptographic techniques and facilitate adherence to regulatory standards like AML and KYC policies. A tokenized assets issuer can programmatically whitelist or blacklist certain users from accessing a particular asset or market without the need for any human intervention.



The Future Landscape of Tokenized Assets

At Stewards Investment Capital, we eagerly welcome the development and inclusion of tokenized assets into traditional finance as we firmly believe that this is the future of finance.

Our research desk is currently predicting an exponential growth in tokenized asset market that has the potential to reach \$16 trillion by 2030. This growth trajectory indicates a seismic shift in how assets will be perceived and traded globally.

And as tokenization continues to gain momentum, it's poised to reshape not just individual sectors but the entire global economic landscape. The blend of traditional finance with innovative blockchain technology will pave the way for a more inclusive, efficient, and transparent financial ecosystem.