

# Metaverse Game Investing Is High Risk With Little Regulation

By **Brett Sager** (November 22, 2022)

The metaverse is the hot, new frontier for investment. Investors from all over the world are rushing after multimillion-dollar virtual real estate transactions, non-fungible token art and avatar outfits from major fashion brands.

It may surprise you to learn that gaming is the fastest-growing sector of the metaverse. Specifically, play-to-earn, or PTE, games are creating opportunities for gaming investors to earn significant yields on digital assets.



Brett Sager

For example, "Axie Infinity," a popular PTE game, has a 24-hour trading volume of approximately \$45 million and a live market cap of approximately \$675 million as of Nov. 18. Virtually every aspect of a PTE game is built upon NFTs, which are created by, and unique to, each gamer.

From the outfit a gamer's avatar wears, to a hotel the gamer constructs on digital land, everything is unique to the gamer and secured by the blockchain.

Time spent within a PTE game can be lucrative, as a gamer's NFTs can be traded and sold for digital currency. Last year, a swanky digital mega yacht sold for \$650,000 in the PTE game "The Sandbox." [1] Digital transactions of this magnitude are becoming more commonplace with the increasing popularity of PTE games.

## New Developments Signal Possible Regulatory Headwinds

Although PTE games create an opportunity for significant rewards, they invite potential risk for gaming investors. That risk exists because the digital asset industry does not presently face the same federal oversight as traditional investments such as stocks and bonds.

For now, a PTE game investor probably won't receive the same financial and nonfinancial disclosures they would otherwise receive if they were purchasing a more traditional investment. This present lack of federal oversight exposes PTE game investors to fraudulent schemes.

Though, that may soon change due to recent actions by all three branches of the U.S. government. In March, President Joe Biden issued the Executive Order No. 14067 on responsible digital asset development, which set forth a framework for digital asset policy. [2]

In addition, Congress has more than 70 bills before it concerning digital asset regulation. Furthermore, just over two weeks ago, U.S. District Judge Paul J. Barbadoro in U.S. Securities and Exchange Commission v. LBRY Inc., **found** in the U.S. District Court for the District of New Hampshire that a digital token qualifies as a security and its issuer is subject to SEC regulation.

Although it appears that regulation of digital assets is on the horizon, federal oversight of PTE games is presently lax at best. How, then, can one know whether they're investing in just another digital Ponzi scheme or pump-and-dump campaign? Well, they probably can't.

But there are many factors investors can consider when assessing their individual level of risk. Five of those factors are discussed below.

## **5 Cautionary Considerations for Metaverse Gaming Investors**

First, how long has the game existed? Like any other new investment, a new game brings more uncertainty than a game with an established track record. Although not always the case, a game with a short lifespan could be a sign of nefarious behavior.

On the other hand, a legitimate game with a short lifespan could present opportunities for an investor that do not exist in older games since older games usually have more established player competitors.

As of Nov. 18, there are more than 1,700 PTE games, including more than 50 PTE games added to the metaverse in the previous 30 days alone. Though a new game is riskier, an investor may generate more profit than they would from a more established game, which has more players and competition.

Second, how many active players does the game have? If a PTE game has a large pool of active players, it is more likely that the game is legitimate.

A larger pool of active players means more eyes on the PTE game's development and management teams. For example, "Axie Infinity," which launched in 2018, has more than 680,000 active users as of Nov. 18.

In contrast, "League of Kingdoms," which launched in 2020, has only 80,000 active daily players. Yet, League of Kingdoms has an average daily trading volume of approximately \$1.1 million and a market cap of approximately \$20 million.

Although a small pool of active players can indicate that a PTE game is not yet established, that small pool of users can generate significant daily transactions, as demonstrated by "League of Kingdoms." On the other hand, a small pool of active users may also indicate that the PTE game is illegitimate and steeped in fraud.

Third, what cryptocurrency does the game authorize for transactions within the game? Some PTE games only allow users to transact with the game's native token.

More established games permit users to transact with more commonly known cryptocurrencies such as bitcoin, ether, or stablecoins. If a PTE game does not permit its users to transact with cryptocurrencies other than the game's native token, that could be a sign of a fraudulent scheme.

Fourth, does the PTE game have an experienced development, marketing, or management team? Established PTE games are at least supported by a credible management team comprised of members who are known and experienced in the NFT community.

Furthermore, credible PTE games publish their management and development teams on their platform, allowing users to understand who is managing the back office of the game. A PTE game's lack of a credible development, marketing or management team should raise an investor's level of concern.

Fifth, are credible investment groups associated with the PTE game? Like individual

investors, well-known investment groups are making their stake in metaverse gaming. Many of these investment groups publish their participation with PTE games.

For example, "Mars4," an upcoming PTE game, lists on its website more than 20 known venture capital firms that have invested in the game's development.[3] As part of their due diligence, investors can research whether accredited investment groups have a stake in a PTE game.

In conclusion, PTE gaming provides investors with the opportunity to make significant profits while having fun. However, until regulation of digital assets becomes more defined, investors should exercise caution when staking their digital assets in metaverse gaming.

---

*Brett Sager is a partner at Ehrenstein Sager.*

*The opinions expressed are those of the author(s) and do not necessarily reflect the views of their employer, its clients, or Portfolio Media Inc., or any of its or their respective affiliates. This article is for general information purposes and is not intended to be and should not be taken as legal advice.*

[1] <https://www.gadgets360.com/cryptocurrency/news/mega-yacht-sold-usd-650000-metaverse-most-expensive-nft-sandbox-virtual-world-2630187>.

[2] <https://www.whitehouse.gov/briefing-room/presidential-actions/2022/03/09/executive-order-on-ensuring-responsible-development-of-digital-assets/>.

[3] <https://www.mars4.me/>.