MICHAEL CYGER: Liquid domain names are the types of domains that are actively traded in the domain name industry because the market value is known. Which categories are up, which are down, and what are the opportunities you should be considering? Stay tuned for the latest research and market analysis.

I have three sponsor messages before we get into today's show.

First, if you're buying or selling a domain name or portfolio and you want an estimate of it's value, Estibot.com is the place to go. Just like you'd visit Zillow.com to get an estimate of a house value, Estibot.com provides key information about the most important statistics so you can make an informed decision based on data.

Second: Serious about online trading? Secure your funds, keep your merchandise safe, and use a company that keeps the buyer and seller protected the whole way through. That's Escrow.com. Payments you can trust.

Finally, if you're a domain name investor, don't you have unique legal needs that require domain name technical know-how and industry experience? That's why you need David Weslow of Wiley Rein. Go search for David Weslow on DomainSherpa, watch his interview and you can see for yourself that he can clearly explain issues, can help you with buy/sell agreements, deal with website content issues and UDRP actions, and even help you write your website terms and conditions. David Weslow is the lawyer to call for Internet legal issues. See for yourself at DavidWeslow.com.

MICHAEL: Hey, Sherpa Network. Thank you so much for joining me today. My name is Michael Cyger, and I'm the publisher of DomainSherpa.com, the website where you can learn how to become a successful domain name investor or entrepreneur directly from the experts. Today, I'm joined by two experts in the domain name industry that are going to walk us through their latest industry report entitled "Liquid Domains Market Overview." I'm
pleased to welcome Ivan Rasskazov, part of the Intelium team, makers of Estibot.com, DomainIQ.com, and NamePulse.com. Prior to the Intelium, Ivan spent a number of years in the finance industry providing wealth management, investment analysis, and operations support. And Giuseppe Graziano, founder and CEO of GGRG.com, a domain name brokerage firm specializing in liquid domain names. Giuseppe was named one of the top 10 highest-grossing brokers in 2016 by escrow.com.

Welcome, gentlemen.

GIUSEPPE GRAZIANO: Hey.

IVAN RASSKAZOV: Hi, Mike. How are you?

MICHAEL: Great. Good to have you two here. So the "Liquid..."

IVAN: You bet.

MICHAEL: "...Domains Market Overview" report tracks the aftermarket sales of liquid domain names, what I typically refer to as acronym and numeric domain names. But that definition is going to be expanded today, as we'll find out.

I want to start this show with the disclaimer that this interview is not and should not be regarded as investment advice or as a recommendation regarding any particular domain asset class or investing course of action. All right? I know I put that on the page on DomainSherpa, but if you're downloading this on your iPod and listening, just wanted to make that clear.

All right. Let's start with the sales data, gentlemen. Giuseppe, let's start with you. If we look at the aggregate value of all sales for the second quarter of 2017, did the sales go up, down, or were they flat as compared to the prior quarter?
GIUSEPPE: Mm-hmm. Yeah, Mike. So, actually, as we said last time, we actually look at two types of data. So we look at the data of, like, the public disclosed sales as reported by shortnames.com, and then we look at the escrow.com data, which I'll...you know, both transaction are not disclosed or undisclosed. And for this quarter actually, both of them went up. But it's important to make a disclaimer that since, as you said, we actually expanded the definition of liquid domain names, so we added another 28,000 domains, this kind of adding, like, actually affected a little bit, like, the sales.

So for shortnames.com, the sales went from 8 million to almost 13 million. So it's like a huge increase, more than 50%. And for this data, like the three characters dot com, there was just like a little influence on it. It was about 700,000. And instead, for the escrow.com data, the sales was quite stable. It went from 16 million to 17.5 million. And there was, like, actually a huge increase, which was due by, like, the three characters dot com sales, which, well, added, like, quite a bit.

MICHAEL: Interesting. So we saw a bigger increase in three characters on the escrow.com, but we didn't see it on shortnames.com

GIUSEPPE: Right. That's correct.

MICHAEL: Okay. So private sales going through escrow.com versus the public sales going through shortnames.com.

GIUSEPPE: Right.

MICHAEL: Interesting. All right. Hey, Ivan.

GIUSEPPE: Yeah.

MICHAEL: Of this increase, was there a single or multiple categories that impacted the most?
IVAN: Well, I think if we look at the numbers overall, obviously, the LLLs are interesting, but they're bolstered by at least one very, very unique sale on fly.com. In fact, I almost feel...I don't know if it should be included in the liquid domain categories. It is a great one-word dot com sale. But also, interestingly enough, if you look at NNNNNs, the overall volume of NNNNNs did go up. Even though, if you look at the volume, I would say the 5th percentile was down. But the volume, the total volume, for NNNNNs went up.

MICHAEL: Interesting. Okay. So the NNNNN volume went up, so those are definitely being traded. Fly.com, F-L-Y, obviously, that's a brand that can be used in a...in, you know, a great number of categories. So brands typically get more than a liquid value for domains. But some of the other three letters that happen, pep.com, dcc.com, lev.com, are those selling at brand value, retail values, or are they selling at trading value? You know, back to your point, like it almost feels like we should exclude a single domain name. But are LLLs being bolstered because some of these other ones are acronyms for a company or because they're brands?

IVAN: Pep.com, xyb.com, some of the others, I believe, that sell in the six-figure range are, obviously, end user-driven. End users historically will absolutely pay a lot more for a domain, and that's reflected there. We can't separate them all out, but I think in fly.com, in that particular case, it's very unique, you know, so you'd have to take that into account, of course.

MICHAEL: Yeah. Okay. That makes sense. So those LLLs are being bolstered by that. Giuseppe, what other categories went up or down that was notable during this quarter?

GIUSEPPE: Right. So if we look at ShortNames, actually the numbers didn't change much compared, like, to last quarter. Where there was like a big a change was, like, in the escrow.com data. And so, for example, we saw that the two letters dot com, they decreased by almost 1 million. And then we saw the two characters dot com, it actually went down almost by 2 million. So
there was like a big decrease on those. But at the same time, I mean, those are like the most developed categories. So it's, you know...we can assume they're like a bit more volatile because a big, you know, one or two end-user sales can make a huge difference in the sales data.

Instead, if we look at the actual 5th percentile value, we saw that it actually went down quite a bit, especially in the least-developed categories. So if we look at the five numbers dot com, it went down, like...I think it was minus 11%. The four letter dot coms, it went down, like, minus 15%. And the three-letter dot com, it was the only one actually that went up a little bit. So it went up to 9%. But again, I mean, we really have to be careful with the data because, like, some large end user transaction can, like, skew the data a little bit.

MICHAEL: Yeah, definitely. So is it fair to say that even though this is a liquid domains market overview and we're talking about short numerics and acronyms, it's the acronyms that are more of a...brands that are pushing the average values higher, and the wholesale, you know, trading of these domains at market values, the NNNNNNs, the LLLLs, it's being pushed down slightly?

GIUSEPPE: Right. That's fair to say. Also we need to consider that the 5th percentile, it's a kind of value that doesn't take in consideration too much the average. But in this case, since three-letter dot coms, they were just...I think there were like 34 sales or something like that. You know, that kind of sales, like fly.com actually influences, like, a little bit. So that is the kind of, you know, consideration we need to make.

MICHAEL: Yeah, definitely. Awesome. All right. Let's turn our attention to the topics, to other topics in the liquid domain market overview. Ivan, as I mentioned in the introduction to the show, and we talked about briefly, there's a new category of domain names this quarter besides numerics and acronyms. We talked about characters in the last report. And this report has
three-character domain names now included. What are they, and why did you feel it was important to track them going forward?

IVAN: So, to answer that question, the reason why, first of all, we included them is when we, me and Giuseppe, we discussed kind of the way the liquid market is organized and what our report is supposed to show, we noticed that there's quite a bit of trade in these three-character domains. And what three-character domains are effectively the combination of letters and numbers. It can be LNN or NLN. And there’s about a little over 28,000 of them. And so when we started to look at the numbers, we saw that there was, in fact, a demand there, an organic market mechanism. And I was a bit surprised by the escrow.com number, being what it was. I didn't expect a seven...a solid seven-digit number in that regard. And I think if we look at that, we have to measure over time to see if this was an individual sale that drove that. Like fly.com is not necessarily a three-character domain, but something similar happened there.

MICHAEL: Oops. We just had a freeze. Giuseppe, can you hear me okay?

GIUSEPPE: Yeah, I can.

IVAN: The data [inaudible 00:09:05].

MICHAEL: Okay. Let's wait. Ivan, hold on one second. We just had you freeze up. Could you back up for just a second and continue with that?

IVAN: Sure.

MICHAEL: Thanks.

IVAN: So which part...

MICHAEL: Just where you were starting... Like you added the.... So the three characters are "LLN," "NLL," "LNNL," and it surprised you that escrow.com
had such a high volume of sales coming through there. And then we lost you right after that.

IVAN: Got it. So it was surprising to see 5.8 million, obviously, from Escrow. And what we have to do is, over time, really see if this was driven by any individual or very particular sales, or if this was a large portfolio that moved from one seller to a buyer. So in order to really appreciate or evaluate this category, you need a little bit of time and analysis. But the reason we included it, and I think is justified, is there is a market for it. Even in public sales, they still had a solid 700,000-plus in transaction volume. So that, we felt, should be tracked along with the other categories.

MICHAEL: That makes sense. All right. Time will tell if it continues to grow or not. We'll find out.

Hey, Giuseppe, let's talk about geography and development. Development is often cited as an important factor in domain names' valuations because it anchors the value of a category. Obviously, if fly.com is getting a, you know, a $2 million, almost $3 million, valuations because somebody wants to develop a business on top of that... And if businesses are using them in their internet locations, then they have more value. Has anything changed with respect to which countries dominate development?

GIUSEPPE: Actually, no. I mean, the first consideration is that for this quarter, a lot of detail was not available on the registries. And maybe Ivan can tell, like, a little bit more about that. It was quite surprising. But, I mean, if we actually look at, like, the past quarters, we see that, you know, China is still like, you know, the first clear place in, you know, in owner of liquid domain names. So China owns about, like, 37% of all the liquid domain categories. And then this is followed by the U.S., which has about 32%, the rest of the world, which is about 22%. And then, as the last one, we have Europe, which is only 9%. And if we look at these numbers, yes... I mean, like the U.S., it's clearly, like, you know, the biggest owner of the categories that are most developed. So, for example, like, you know, two letters, three letters, and also
like a very large percentage of two characters, you know, the U.S., it's more than 50% [inaudible 00:11:40], while China dominates still all, like, the categories which are, like, numeric, or, like, you know, least developed. So, for example, the five numbers, or the four numbers, and the two numbers, and so on.

MICHAEL: Yeah.

IVAN: [inaudible 00:11:54]

MICHAEL: Before I go to you, Ivan, I want to ask Giuseppe... I'm always amazed when I see, like, five-number domain names being developed, or two characters. Do you have a couple of examples of two-character domain names that are developed and used around the world? Any come to mind, Giuseppe?

GIUSEPPE: One that's...I think it's quite famous, and I use it quite a bit, and probably a lot of people in the startup world, like, should know. It's f6s.com

MICHAEL: 6s.com?

GIUSEPPE: F...

MICHAEL: F.

GIUSEPPE: F as in "force," 6 as in the number, and S as in...

MICHAEL: Got you.

GIUSEPPE: "...Sherpa."

MICHAEL: F6s.com. I'll have to go check it out. What would I find there?
GIUSEPPE: So basically, it's a platform where every startup can list... They can find both jobs, can find like, you know, investors, can connect to accelerators. It's quite well-known, actually, and it's, you know... I think the owner, the founder was French, if I'm correct. But it's really used, like, everywhere. So there was, like, a Techstars. There are, like, a lot of, like, big, you know, like, accelerator and startups are there. So...

MICHAEL: Yeah. Cool. Ivan, Giuseppe mentioned that some of the registry data was not available for this report and that impacted it a little bit. Why was that?

IVAN: Well, it's become increasingly difficult to collect individual whois records from specific registrars and registries. In this instance, we felt that that while we could have estimated that most of the unavailable records were likely in China or likely dominated by individual countries, but because we couldn't 100% confirm it, we would have preferred to defer that aspect and simply say, "This record was not available." But it's become increasingly technically difficult to gather data, and I'm sure there is reasons for that. But we felt the best way to go forward is just to simply say, "Well, for this percentage of domains in, let's say, the NNNNNs or the CCCs, which are historically dominated by Chinese registrants, we simply couldn't collect the records at this time."

MICHAEL: Got you. All right. And, Ivan, looking into the future for domain name investors looking for the greatest upside potential in liquid domain names, and I know this isn't an investment, you know, show, are CCC domains where they should consider playing?

IVAN: I think it's an interesting area to consider. Obviously, when you look at the escrow.com number, that should turn anybody's head and really look into it. But I'm always very cautious and very kind of slow in my analysis and methodology. Right now, I think it's important for investors to control for their acquisition costs. I think you really have to look at categories and see how prices are developing over time. Giuseppe mentioned when we look at
the 5th percentile, historically, so far, when we've done these reports, so a little over a year, the numbers are trending a little bit down. And so you have to pay a little better attention to what you're paying for these domains. But CCCs, I would say, are an interesting category. I think it's also interesting there's a bit more of a volume in NNNNNNs. I think that should be looked at a little more carefully to see what is going on there. And I think once an investor has that information, they can make a more informed decision from that.

MICHAEL: Yeah. Is it fair that if newer investors are putting money into these CCCs, which have a floor value, a 5th percentile of around $220, that they should consider it very similar to money that they might put into bitcoin, and hoping that bitcoin is going to rise? Like, it's very volatile. You don't know where it's going. You know, you're basically placing a lottery ticket on it. It could go up or it could go down.

IVAN: I think a part of that, definitely, but I do want to caution... See, the difference between bitcoin and domains, we can make more bitcoin in theory. But on the flip side, there is also a much bigger market for bitcoin.

MICHAEL: That's true.

IVAN: If we look, let's say, in six months and see that the escrow sale was dominated by a single buyer, that really kind of makes you wonder, well, what is the real liquidity here, right?

MICHAEL: Right.

IVAN: And that's why we bring up the really...the importance of looking at things over time. So, on the flip side, domains, you can't really manufacture more of them per se. There are some substitutes, but it's never quite the same for liquid domains. But at the same time, there's a much greater exposure and a bigger market for bitcoin, let's say, than domains. So you really have to measure those risks and think accordingly.
MICHAEL: That's a great point. And on a recent DomainSherpa review, one of the Sherpas brought up the fact that, you know, there are investors that will see domain names at a certain price, and they'll just buy them up because they want to make sure that the, you know, the floor value is always above a certain point that the domains are selling. And so investors need to be aware that that does happen even in categories that have 28,000 domain names available.

IVAN: Right.

MICHAEL: So, you know, great point. Giuseppe, one of the summary points of this report is that quantity is out and quality is in for the 2nd quarter of 2017. Does that mean that investors should try to work their way towards shorter domain names in all the categories? For example, invest in fewer CC dot com domains instead of more CCC dot com domain names?

GIUSEPPE: Mm-hmm. I mean, well, it's like Ivan said. So we look at all the data, like, you know, starting from the beginning of 2016, you know, the 5th percentile data, and for the most critical categories, you know, the four letters, five numbers. And, I mean, the trend is quite clear. I mean, it's been like, you know, decreasing. At the same time, we saw this quarter that there is a lot of interest again, like, you know in high-quality domains, like flurry.com[SP]. We see, like, you know, big end-user sales.

And so if I had to look from an investor perspective, I see that if I want to invest as a stock and I kept hoping that, you know, that the domains that I buy, like, as a portfolio will appreciate, then probably I'm not in the right spot. But if I try to pick and choose what I like, you know, good domains that have, like, good end-user potential, that's where I think, you know, it can have, like, a little bit more edge. So that's why I think, you know, it's better to look at quality as opposed to, you know, by quantity, you know, without looking at the actual quality of the domain.
And, again, I think this is, you know, it's been driven by China. Because, like, also Chinese investor are starting to become smarter and they're starting to look at domains with end-user potential. And they're not buying portfolios just like as a whole as before, just like blindly. So I think it's just...it's the market is becoming more sophisticated in that.

MICHAEL: Yeah. So if you can buy a domain name that's being traded, and you're getting it close to the floor value, but it has end-user potential sales opportunities that nobody else realized, then that's a good buy is...

GIUSEPPE: Right. Correct.

MICHAEL: ...what I hear you saying. Great.

GIUSEPPE: Yeah.

MICHAEL: Ivan, there's a new feature in this report where you can pair the percentage change of the floor values for last quarter and the rolling 12 months and compare it to, pretty cool, major indexes like Nasdaq, SBX, Bitcoin, Shanghai Composite, and a basket of domain companies. What are the takeaways from this segment of the report?

IVAN: Well, I think the takeaways, other than I was able to pull...most of this data is from Morningstar...is that domains are really a unique asset class and is a frontier market. They will go through cycles that are not always connected to the global investment industry, but it's always important to compare those numbers as they develop over time. In investment terms, 12 months is really not a long period of time. It's still short term. But if we continue to put these reports out, maybe two years, three years, five years down the road, hopefully we will see some interesting trends, and we'll see how there may be a correlation between domain names. Maybe it's specific asset classes, like the global economy as a whole. But as a frontier market, I think right now, it's fairly insulated, for the most part, from what the other assets are doing.
MICHAEL: Yeah. That makes sense. Well, I'm looking forward to looking at that and seeing it long-term. And this will be the Morningstar for the domain name industry. So that will be cool, to watch it evolve over time. Is there anything else in this quarter's report that I didn't ask you two about that you want to bring up?

IVAN: I think that just looking at the numbers, I mean, they're not all red, obviously. There is some interesting things that hopefully will develop over time. Some of the sales volume is up. And some categories, like the LLLLs, for example, if we compare it quarter over quarter, has to be observed over time. Again, it could be driven by individual buyers or portfolio sales. But you can see a little bit of that. It will be interesting to see whether the decline in the 5th percentile will slow in the next quarter and what that would look like, because that could be a sign of a rebound.

I can tell you from being in the market side in 2008, for example, even the most dire and absolute just apocalyptic predictions don't generally come true. There is always things that develop over time. Like you said, the markets become sophisticated, adjust, and usually those adjustments can then result and pull on things back up eventually. Because if we look at, for example, Giuseppe said quality, quality will always do well. But eventually scarcity also becomes a factor, even if it's not a factor at this time. So those are the little signs that we want to keep track of in the next quarter, to see if the...where the 5th percentile values are, see if the volume continues to maybe get a little bit better, things like that.

MICHAEL: Excellent. All right. I'm going to include a link below this video to a location where you can download the latest report for yourself, and you can read it after listening or watching this video. If you have questions about the report or anything we discussed today, please post them in the comments below this video, and I'll ask Ivan and Giuseppe to come back and answer as many of them as they can.
Again, if you found educational benefit from the show, please take a few moments, just post a quick comment of thanks to today's Sherpas for their time for coming on here and explaining the big changes that they're seeing in the market. Or you can click on the Facebook like, or click to Twitter, post it. That's appreciated as well.

I'm going to be the first to thank today's Sherpas, Ivan Rasskazov and Giuseppe Graziano. Thank you for coming on the DomainSherpa show...

GIUSEPPE: Thank you.

MICHAEL: ...sharing your knowledge of the domain name liquid market, and thanks for being Domain Sherpas for others.

IVAN: Thanks for having us.

GIUSEPPE: Thank you, Mike.

MICHAEL: Thank you all for watching. We'll see you next time.

Three more quick sponsor messages of today's show:

First, if you're buying a domain name from a private party and want to know what else they own, DomainIQ.com is the tool you should be using. View their entire portfolio, filter by Estibot value and be a better investor. $49.95 for 250 queries per month. Visit DomainIQ.com/portfolio to learn more.

Second, Efty was built by domain investors to increase your inquiries, sales and profit. Forget spreadsheets and archived emails — manage your entire investment portfolio in one place using a secure and completely confidential platform. Learn more at Efty.com, that's e - f - t - y, Efty.com.

Finally, if you're struggling with how to buy, sell, and value domain names, you need to check-out DNAcademy.com. Published by me, Michael Cyger of
DomainSherpa, and trusted by Uniregistry to train their new employees, you too can learn using the DNAcademy accelerated learning system for domain name investing. Learn more at DNAcademy.com.