

# LIQUID DOMAIN NAME MARKET REPORT 4TH QUARTER 2016



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Episode 375

Michael Cyger: Liquid domain names are the types of domains that are actively traded in the domain name industry. Stay tuned for the latest research and market analysis.

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Michael: Hey Sherpa Network. Thanks 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 and 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 Intelium, Ivan spent a number of years in the financial industry, providing wealth management, investment analysis, and operation support.

And Giuseppe Graziano, founder and CEO of GGRG.com, a domain name brokerage firm specializing in liquid domain names. And Giuseppe was just named Master of Domains by Escrow.com at NamesCon in Vegas because he was one of the top 10 highest grossing brokers in 2016. Welcome gentlemen.

Ivan: Welcome, it's nice to be here.

Michael: So for those in the industry not aware that you've been publishing these industry reports in the past for liquid domain names. How many of the quarterly reports have you generated?

Ivan: Well this is now our third report. We started in the second quarter of 2016. And the goal is really to make sure that we provide domain investors with a look at what has happened, but also some things to be aware that are maybe happening at the moment.

Michael: Sounds good. And then how did you guys come to collaborate on this report?

Ivan: Well you know, for us we're big fans of data, as you know, and so we wanted to do some type of a market report for a really long time. And in 2015, I came across Giuseppe's work, and we're a fan of the analytical approach, and Giuseppe does some fantastic work in terms of really analyzing what happens in domain sales in the markets. And so we actually met at NamesCon in 2016, so it seems like only yesterday, but it's really only been a little over a year at this point, which just feels very odd.

And so what we decided to do is try to advance a conversation around domain names as an investment. You know, Mike, my background is in investment finance so it was very customary to see analysts come in and discuss their ideas, present data, discuss what happens in the markets, and

we really felt that this type of a conversation would be beneficial for domain investors as well.

Michael: Yeah, definitely.

Giuseppe: And actually, another thing that we would like to do is just like give better idea to like investors about what is driving the supply and demand. And in order to do that, we actually like some indicators. So for example, we look at, you know, to understand demand, we look at the development analytics, which is the percentage of domains in a specific category that is developed because that kind of gives an idea about how much those kind of domains are in demand from companies as opposed to investors.

Then we look also the concentration index, which is how many owners are for a specific category domains, and that gives us an idea about the actual supply because if there are very few owners, let's say, for true numbers, true letter .coms, which are only 676, and one owner decides to put a lot of them on the market, then we see a sudden surge in supply, and that can drop the prices down. So that was also actually very helpful.

We look at the total of this volume and we look at the quarterly turnover, which is, you know, good for measures of supply and demand. And then together, we look at, it was 5th percentile quarter variation. So the 5th percentile, it's kind of like, and I won't go like into the mathematical formula, but it's a way to understand what is like the bottom range of a specific category is actually training for. And by looking at the difference between, let's say, you know, the first quarter and the second quarter, or the second quarter and third quarter, then we can kind of get an idea about where the market is heading. Is it going up or is it going down? And yeah, that was the purpose.

Michael: Awesome, well I love that. I love the fact that you guys are putting your thought leadership going forward on these liquid domain names. I should preface the entire conversation that we're gonna have by saying this is not investing advice. You know, make your own decisions about investing.

You guys are volunteering your time to share your insights on where the market has been, and maybe some insights on where it's going. But again, you know, you are not providing specific investment advice into individuals.

The Liquid Domain's Market Overview, we should probably start making sure the readership, the audience, knows exactly what you mean by liquid domains. Can one of you define what a liquid domain is?

Giuseppe: Sure, so a liquid domain is actually a domain that has liquid value. And by that, I mean that there's basically an established market for that specific category. So let's say you own like fluid .com and you want to sell it. Pretty much within like, you know, two or three weeks, you get that for at least floor price, and that will give the decreased domain name. So that is pretty much the definition we use.

Michael: Got it. So Ivan, from your past background in financial services, you know, liquid for a stock would be, you know, I can put those shares on the market today and get the value of the, you know, the current market value of those today. But the floor price for a liquid domain isn't necessarily as liquid as what you've seen in the financial markets.

Ivan: Well I mean, Michael, that sort of depends on what category of stocks you're referring to. For example, if you're compare Russian company stocks supposed to add value stocks, you have a very different version of liquidity, or definition of liquidity that arise in each category. And so the domains are no different from that. You have domains that trade more frequently and domains that trade less frequently. So that definition really needs to be put in perspective of the category you're referring to. In this particular case, these are domains that consistently sell. So we see thousands of sales every quarter. And so that's why we're really starting with this particular category as the liquid category.

Michael: Okay, that makes sense. And so what are the types of domain names? If somebody goes and downloads the report and looks through it, what are the types of domain names that they'll find in there?

Giuseppe: Yeah, so in our report, we actually look at eight categories, and we look at twoletter.com, threeletter.com, fourletter.com. We also look at twonumber, threenumber, fournumber, and fivenumbers.com. And we also look at the letternumber, and numberletter.com, which is called a different category that some people might call the truecharacters.com. And it's important to make this, you know, the note that, you know, these are liquid domains, but this does not include all the liquid domains because, for example, twonumber.net, or threenumbers.net are also liquid, but we just do not include in the report because those are like more, like [inaudible 00:07:26] value of the .com. So that's why they're not included.

Also, for example, threecharacters.com, for example, like FGH.com. It's also liquid. And that is not included in the report. So like the definition liquid is not just the domains that the report. There's quite a few categories that are liquid. We just focus for simplicity on these ones because they are the most traded and most known.

Michael: That makes sense. So the most traded. So in the future, if the industry continues to grow, and more of these liquid domains are traded, you might add more types of categories of liquid domains to the report.

Ivan: Right, that's correct. And really as I kind of mentioned, that's the point of starting the conversation is you have to start somewhere. So this was the most logical set of domains to start. Obviously as the industry grows or develops, then you have more categories, more discussions.

Michael: Yeah, so what was significant? This report that we're talking about today was from 4th quarter 2016. So October, November, December of 2016. What was significant, most significant to each of you? Giuseppe, let's start with you?

Giuseppe: So one of the things that we continued to notice like over the quarters, and this is kind of common news, but a lot of the domains are actually moving to China. And this comes like at a expense of like US, Europe,

and the rest of the world. One thing that actually was quite interesting to me was that the development index, the global development index of, you know, the percentage of all liquid domains that is developed, actually went down a little bit. And this was, you know, like we started to formulate some hypotheses about why this could happen. And one of the reasons will be that, for example, companies are seeing value in actually selling to investors. There are one maybe like companies are less willing, like to invest in domain names because of the down spiral down like economical situation. And the third one, the third reason we look at, it's also because there might be competing with the supply of also like the new extension will come out. So that was something that we know at it.

Michael: Yeah, that makes sense. So for example to support the second statement, development percentage has gone down of these liquid domain names. I know it was in the news that Central Nick [SP] has, you know, they used to sell domain names off of their twoletter.com domains. They would sell third level domains. So something.twoletters.com in what was in their inventory. And they've actually pulled back some of those domain names because they're looking to sell them because they're worth more as a domain name than they were as a business. So that's a good point. But there's only [inaudible 00:10:05] two letters was the percentage development decreasing across all of the liquid domain names?

Giuseppe: Yeah, to actually...like let me pull the data. So we saw...it's actually the decrease is very tiny, and it was from 14.65% to 13.93%.

Michael: Okay, so it's not a massive decrease.

Giuseppe: It's not a massive decrease. And also like for two letters that you said are at 676 we saw coming down from 39.35% to 37.57%

Michael: Yeah, makes sense. So we're continuing to see domains going from primarily US or non-China based ownership to China?

Giuseppe: Correct.

Michael: So even though we saw a major peak in the end of 2015, domains are still going there. They're not going there as fast as they were in 4th quarter 2015, but they're still moving in that direction.

Ivan: Right, that's accurate. And I think that the greatest changes tend to be on the multiple character domains, especially like five Ns and four Ls. And that's another interesting break that we've noticed, that the split between character domains and number domains. I think that this point, the United States registrants still compose the majority of the letter domains for the most part, but the number domains are most definitely the major are in fact Chinese registrants.

And the other part that I think was important to notice in this particular quarter is really good to see some positive momentum in terms of sales volume. Third quarter had some red numbers. I believe there was a 35% decrease in total sales volume. So it was good to see an 8% increase even if perhaps the sales could have been concentrated, it was still nice to see a break in that momentum.

Michael: Yeah, definitely. You know, as an investor and somebody that teaches others how to invest through DomainSherpa and DNAcademy, you know, clearly the value of the two L, three Ls, two Ns, three Ns, is there, and four Ns. And when you get into the five numbered domains and the four letter .coms, you get to, you know, it becomes a little bit more fluid, right? What does the industry report say about the volatility of those lower priced investment vehicles that are liquid?

Giuseppe: So I think actually, you know, there is more...because there's a lot more trading, we see that...so for example, in this quarter was very positive because we kind of predicted that the four letters and the five numbers we check at support level. And in Q4, we actually saw a slight increase in actually the floor value. So we see...let me pull the data. I think it was...so we saw like a 6.51% increase in fourletter.com floor value, and 8.27% increase in fivenumbers.com. So actually was very positive. The only category went



down was like the threeletter.com. It actually went down like 17% in terms of floor value, which was like quite significant. But also the number of domains, you know, the threeletter.com domains sold was actually doubled of the Q3. So that could also mean that the increased supply might actually like, you know, brought the prices down.

Michael: Yeah, yeah, that makes sense. You know, you guys gave me the preview. I'm looking through the notes that you provided. I love the statistical analysis part of it, having a background in that. And you've got the fifth percentile, which you describe in the notes of the report. So if anybody want the definition of that, they can go do that, and then go to their math books from college and figure that out, the sigma deviations. But the fifth percentile for, you know, the fifth percentile gives us what the floor value is mathematically. But I don't see, and I see the floor values for the threeL.coms, the fourL.coms, and the fivenumber.coms. Why don't I see floor values for the remainder of the asset classes?

Quick break from three sponsors of today's show:

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Michael: Why don't I see floor values for the remainder of the asset classes?

Giuseppe: Yeah, we don't see the floor value for like those asset classes because there are not enough transaction for us to actually obtain like a fifth percentile.

Michael: Yeah.

Ivan: And part of the problem, obviously, with all the domain sales, we do rely heavily on the public sales aspect of it. There is still a private element obviously that may come up later, but not necessarily at the moment. So we have to make sure that the data we analyze, that we stay consistent, and that are good.

Michael: Yeah, that makes sense. Because I would love to see what the floor value is of the other asset classes, the two Ns, the three Ns. Giuseppe, are you personally seeing a lot of activity around the LNs and NLs, so it like four B or, you know, B eight.coms? Is there a lot of activity?

Giuseppe: We do not see that much at TVTN. This is for a couple reasons. One, I think like in Q4, there was only one domain that was traded publically. I think it was like T4 or something. But the reason for that is that there are very few. There are only like 520, so it's [inaudible 00:15:42] category. And about that, I think 30% of them actually developed. So the remaining of 520, like only 70%, it's quite small. They don't trade very often, and we don't see those transaction very often. And likely, when like a domain goes to an end user, the transaction is not reported. So that could be a reason why we're not seeing that much trading TVT.

Michael: Yeah, that makes sense. So in case somebody's watching this show and they're like, "Oh, I wish there was better data. I should submit my private sales." Where should people go to submit their private sales, Ivan, to make sure that it gets into these reports?

Ivan: Well I think they can definitely get in touch with Estibot or Intelium team. It's very important. I can't stress enough the importance of this closing sales. I mean, I understand certainly that you want to protect your business. There's certain contracts that you have to respect. But at the same time, I really do feel the industry as a whole benefit if there's more disclosure in terms of sales because then valuation is improved and just the general perception improves. There's more analysis that can be done. And that's effectively how markets develop and commoditize. You have centralized information that we can eventually kind of observe how things evolve.

Michael: Yeah, and so if they wanna submit their information to Estibot to include it, it will be included in the public database of Estibot so people can search against it, right?

Ivan: It can be, yes. I do stress also the fact that if it's a sale that has to remain private, we can factor into our analysis, but we do not necessarily have to publish it.

Michael: Oh really? So you can actually take data, put it in your database, and mark it confidential so people can't look up the specifics of it?

Ivan: That is correct.

Michael: Wow, okay. So where should they email if they wanna submit some data, but not, you know, either publically or privately?

Ivan: Well they can certainly email me at [ivan@intelium.com](mailto:ivan@intelium.com). So that's I-V-A-N@intelium.com

Michael: Intelium, I-N-T-E-L-I-U-M. There's only one L in Intelium.

Ivan: Yes, that's correct.

Michael: Dot com, excellent. So where, you know, we're in February 2017. I keep messing up and writing 2016 on everything. So we're already halfway

into the first quarter 2017. Are there any factors that you noticed from fourth quarter 2016 as we head into 2017 that you're gonna keep an eye on for the next quarterly report?

Giuseppe: Yeah, so one of the factors that we consider is that, I mean, typically like the Q1 is actually quite slow because of Chinese New Year, and usually TVT between like you know the two or three weeks before that, and a couple weeks after that, are actually quite slow. So in terms of total sets volume, we might see a little decrease. And also, like I always try to keep an eye on like what is happening when the big [inaudible 00:18:35] because basically for China's investors, we're actually driving the investor side demand. They're looking like a different type of investments. So for example, and there is kind of like a reverse proportion. We don't know exactly like what is that fact, but there's a reverse proportion of how much Chinese investor, like you know, big concentrating, big clients as opposed to put domain names.

And we saw that, for example, with the stock market crash in China in the summer of 2015, which afterwards, there was an unexpected surge of demand from Chinese investors for liquid domain names. So that's something I'm looking on, like the trading volume of Bitcoins.

Michael: Yeah.

Ivan: And that goes both ways. If you gentlemen recall, a few weeks ago the Chinese government announced that in the audits, certain Bitcoin exchanges which led to some tremendous volatility in Bitcoins. So certainly how governments control, especially in emerging markets, like China how they control capital outflows or movement of capital that will come down and that will definitely affect domain name sales.

Michael: Yeah, definitely. So you know, knowing the prices, and people can go through the report and look at the average, they can look at the market cap of each of the asset classes, and can you define how you computed the Estibot market cap for each of those types of domains, Ivan?

Ivan: Sure, that's basically the entire class that's appraised with one small caveat. We do try to account for trademarks obviously. That's always a big issue. For example, if you have msn.com, things of that nature, that's a trademark. You're probably not going to be able to own that domain without an issue. A DRP action or some legal action that could result in a total loss of that, maybe zeroed out in Estibot. But other than that, basically it's the entire class of domains appraised in Estibot that's the market cap.

Michael: Okay, and I know a lot of people like to question the validity of the Estibot model, especially when it comes to brandables. Like you know, you guys can't follow the trends and find what brands are, what words are trending, like bot or things like that, and then put it together. But on these liquid domains, on the two letter, three letter, four letter, two number, three number, four number, five number, and the combinations, is it pretty...you know, what is the accuracy of Estibot in that respect?

Ivan: Well Estibot, Michael, as you know calculates fair value, and that's a little bit different than price. That's a very important distinction in markets. There is definitely a very real market element to valuing these liquid domains, and so they will tend to be more accurate. But again, if somebody goes out there and decided, let's say, Behr decides to pay a premium from Monsanto, the same is true for domains. If somebody really wants something, they will most definitely a much greater premium for a domain. So the same factors will apply to domain names.

Michael: Definitely, yeah. And I just had, you know, Noah Kagan on DomainSherpa last week talking about his purchase of Sumo.com and, you know, if I would have asked Giuseppe right before that show came out, how much do you think Sumo.com is? He probably would have said, you know, six figures, right? And that's a big range in six figures. But when the business owner who owned that domain name seven years ago told Noah Kagan that it was a \$10 million domain name, you know, everything sort of goes out the window. And then it's how bad does he want it, and how good is he

negotiating, and how creative can he get. And so the same is true with liquid domain names like you're discussing.

Giuseppe, when newer investors are coming into the market, and they're looking at liquid domain names, because they do know it has a floor price, and they can go to different websites, and they can look at the actual trading volume on a per day, what are your recommendations to them to look at? You're not making exact recommendations about buy this domain name, but where should they go to check out what's going on in the market, and what types of these liquid domain name classes should they look at if they're a newer investor and don't have, you know, tens of thousands of dollars to invest?

Giuseppe: Yeah, I think, you know, first of all, there's always this mistake that every beginner...and I did it, and I think a lot of people did it, so like when they're going like into market, they start to register like a bunch of domains and they've, you know, they think, "Okay, you know, I would register and maybe somebody's gonna buy it." And that is one of the biggest mistakes because, you know, you're basically buying something where there is a not an established market. And you don't know if there is buyers for that. While if you go for like a liquid domain, you know there's an established market. There is a lot of buyers that will buy your domain if the price is right. And there is a lot of people...in that you can check the price, you can check the trading ranges. So you have access to the data.

So my suggestion is that really like study the data. Like you know, use our reports, use like websites like Estibot, or NameBio, or like Shortnames. There are many resources out there we can actually learn what is going on in the market. And stick to the lower end, like you know, don't purchase like right away like a three number or a three letter. Maybe just go for like, you know, the four letter or like a five number, which is likely a lower price. And try to buy below a floor price. Because if you can do that, it's actually, you know, you can always...almost surely, you can make a margin out of it. So you buy below floor price, and you set a list for floor price, and you made a profit.

Michael: Yeah, yeah, yeah. And what's one tactic that a newer investor might want to employ to buy below floor market? Because it sounds, you know, like if I go to NameBio and I type in, you know, the pattern five N-N-N-N-N, five Ns, and look at the actual sales that are happening yesterday and the day before, and the day before, and I go to Estibot, and I type it in, and I look at the comps, and I look at that data, I might be paying, you know, floor market or the valuation of it. How do I try and get a better deal?

Giuseppe: Okay, there's one way, which a lot of people do but I would not recommend which is like [inaudible 00:24:48] and call the owners, which has been something that we, you know, we've seen over and over. So please don't do that. One we can do, it's actually like look at the different auction sites and see that certain auction sites, they actually like sell for lower amounts. I think also you had on DomainSherpa, with interview about that. I think it's like sell tactics like, you know, to find fourletter.com. I mean, that is great. There are several methods. You know, just check, be cautious in monitoring where it's selling at a lower price, and look at where it's selling at a high price, and you can arbitrage like that.

Michael: Right, very definitely.

Ivan: And part of that question also becomes there are multiple ways of acquiring domains. Some domains drop for example. I like drop catching simply because it's a market efficiency enforcement mechanism. It picks out domains that have value and it makes sure that they don't simply sit there as an idle property. Somebody picks it up and turns it around for a profit, I think that's very valuable for a market that that happens. So you really have to, as a first step, to become very educated. You have to understand what these domains are, what are the statistics, really view the statistics in the certain time periods as well. It's not enough to just see what happened yesterday. You have to take a look at what happened a year ago, how have prices changed, what factors may be driving it.

So the first step is always education, which is why I'm actually a big fan of DomainSherpa because there's quite a bit of very key important content that

is extremely valuable to domain investors. So after that step, then you can enter the markets with a little bit of an idea of where you want to approach because part of the issue too, we're talking about one part of the domain segments, the liquid domains. But there really are quite a few segments to domain investing. And each has its own nuances, so you really have to understand what you're entering, not treat every domain the same really.

Michael: Yeah, great advice. Anything that you guys want to talk about that I didn't, you know, bring up, and ask you about?

Ivan: Well I think in my case, just the general strategic viewpoint, there's a quite a great deal of uncertainty in the world today in terms of economics, in terms of markets, like in of the political regime or changes that may or may not occur over the next few years. And all these things are really important to keep in mind in how they may influence domain markets. Again, that really comes down to the education component. It's very important to be aware what you're surrounded by and where the trends are going, not just in the small...or not small, but within the industry itself, but also outside of it that could have effect. And so that would be the first kind of thing to be aware of.

And the second is really I, you know, I'm a big fan of domain names. I think the industry has tremendous potential. It has the potential to commoditize and become an asset no worse than equities or other types of commodities. And I think the blueprint is there. So I'm a big believer in domain names.

Michael: Excellent. All right, and if investors want to download the Liquid Domains Market Overview Report, where can they go and do that?

Giuseppe: So they can go to [GGRG.com/industry-report/](http://GGRG.com/industry-report/)

Michael: Yeah, slash. [GGRG.com/industry-report/](http://GGRG.com/industry-report/) and I'll have a link just below this video so you can click on that button and immediately download that report. If you are watching this report and you have questions about the report that you downloaded or something that you saw on the show, please post them in the comments below this video on DomainSherpa, and I'll ask



Ivan and Giuseppe to come back and answer as many as they can. Obviously, if it's related specifically to investments and advice, they cannot provide that. So if it's generally market related to the report, that's what we're looking for. If you found educational benefit from the show, please take a few moments and post a comment of thank to today's Sherpas, or click the links to share it with your friends on Twitter and Facebook. I'm going to be the first to thank you two. Ivan Rasskazov and Giuseppe Graziano, thank you for coming on the DomainSherpa show, sharing your knowledge of the domain name liquid market, and thanks for being Domain Sherpa for others.

Ivan: Yep, thank you for having us.

Giuseppe: Thank you for having us.

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