Episode 06:

How (and Where) to Find Attractive Investment Properties

A transcript of this episode.

Welcome to the Professional Website Investors Podcast, the show where we talk about what it takes to successfully buy, operate, scale, and sell a thriving E-commerce business. When it comes to doing business online we believe that buying an existing website is far superior to building one from scratch. If you're a career professional who's looking to become an E-commerce store owner, listening to this show will give you the knowledge, tools, and community support you need to be successful.

My name is Ryan Cowden, and we're joined again today by Ian Bond. We've got another great episode for you today, so without any further ado, let's get into today's discussion. I'll be back on the other side to tie up any loose ends.

RYAN: I called you today to talk about website investing, and buying websites in 2019, and you've thrown a wrench in my whole plans, so what's going on here?

IAN: Well, I've been thinking about this, and we great plans to talk about what it really costs to buy online business in 2018, and I'm changing everything. This episode's now going to be titled Why You Shouldn't Buy a Business in 2019 … unless. That's what we're going with, okay?

RYAN: You're blowing everything up. What changed? What made you change your prediction so much?

IAN: As you know, I've been over three dozen years in the wealth management industry. In my day job I look at traditional investments and the markets globally on a daily basis, and I look at deals on a daily basis. As a matter of fact, I had a phenomenally interesting manager in today, a Palo Alto firm, and Chicago based venture capital guys.

I can tell you that in the month of October and the month of November the equity markets in the globally, but particularly in the U.S., have given up all of their gains. The G20 meeting has kicked off with Christine Lagarde coming out and saying that the greatest risk economically now is for a downturn.

Simultaneously to that, both Sweden and Switzerland announced third quarter GNP numbers that were down. No one had those numbers down. No economists in either country had those numbers down. I'm telling you that every website that's listed today, as of November 29th, it's over priced. Why? Because for the last nine and a half years, since March of 2009, we've had money gushing through the system, and we've had increasing expectations for growth.

If you were going to buy a website at 25 or 30 times monthly profit, you were pretty much assured that you'd have a real nice economy to buttress that. I'm telling you you don't, okay? As a matter of fact, I'm telling you that based on what Jerome Powell in the Fed said yesterday, I think the greatest risk is to the downside in the economy, and not to the case that I just made, which is more of a Goldilocks, not too hot, not too cold market, which is where I think probably the bulk of strategists are at at this point, on November 29th.

I'm telling you I think the downsides are even more pronounced than maybe what's socialized as of today. That's why I'm saying don't buy a website at the posted prices today because you're getting a bad deal.

RYAN: Wow! Now, just to clarify something you said, you said people's earnings have been wiped out for all of 2018.

IAN: Yeah, the returns in the marketplace, whether you look at the S&P 500 or the tech-heavy NASDAQ, essentially, had been up quite nicely, double digits in NASDAQ, and now they're back down to flat, to small single digits, depending on what happened in the market yesterday, today, tomorrow. So yeah, you're basically back to a flat market.

I'll give you a great example. In the last year I have purchased Amazon twice for my daughter's trust account, which is what I talk about. In last December I purchased Amazon at under 1,100, and in the last three months I purchased Amazon at 1,500, and it's closer to the latter than it is the former, unfortunately. It's probably maybe in the middle. So Amazon is something that we're going to hold long term but that's how volatile the markets have been.

When something as big and important as Amazon is under that kind of pressure I think you've got to wake up and smell the coffee, and be careful, don't you? As a layman, I think you do.

RYAN: Right. Are we looking at another recession, another downtrend? Do you know how long term this is projected to be?

IAN: Okay, that would not be my specialty, but I would tell you, I think that, in general, most people, most credible people are not calling for a recession next year, and quite frankly, probably the following year. But again, I think that this is all new news, relatively new news, and I think you will start to see, potentially, as you move into 2019, you may see some people that take that tack.

Let's just tick off some of the things people are worried about. First of all, we're not going to need three Fed hikes next year. Jerome Powell put that to bed yesterday. You'll get a Fed hike in December, but you won't get three next year. Right now, the markets are saying that you'll probably get one, not three.

You have trade tensions still, and you have a dollar strength, although it's withered, probably holding back the U.S. economy. There's enough stuff to be worried about out there that you already have experienced the peak auto sales, the peak housing sales; they've already happened. GM just laid off 15% of their workforce. They're not doing that because they've blowing cars out the factory parking lot. They're thinking about right sizing themselves for what the new reality is.

I'm just saying that if you go back even 90 days ago this wasn't socialized. If someone who's a seller was on the phone with a website broker, they were probably thinking trees were going to grow to the sky. I don't believe they're growing to the sky. That's just my personal opinion. I would say to you you cannot buy a website based on trailing earnings, which is what they're going to try to sell it to you at, when you are looking at the situation I just described.

Now, to put it in perspective, the S&P 500 bottomed in March of 2009. Here we are at the end of 2018, nine and a half years later. Bull markets don't end of old age, they end for other reasons, but we are getting long in the tooth in terms of a market. The market is always anticipating what the economy is going to do next.

While the question you ask me is will there be a recession, and what's going to happen to the economy, the market's telling you that it's less ebullient than it was 90 days or 120 days ago.

RYAN: Wow. For the people who are following this podcast and trying to get into website buying and selling, how do things play out from here for the rest of 2018 and the beginning of 2019?

IAN: Thank you for asking Ryan. I said the title of the podcast episode is Do Not Buy a Website in 2019 … unless. The "unless" is you're able to extract a really great deal, and the "unless" is there's blood in the streets. The "unless" is you've got a distressed seller who really needs the money. My first website purchase was from a digital nomad living in Thailand who wanted to fund two more years of living in Bangkok. He was very pliable when it came to price and terms.

You're going to have to extract something from the seller, on the one hand. You're going to have to offset that with whatever you think the risk are at the time. I framed a unspecific forecast for you. That certainly isn't my background to make economic forecasts, but I respect when other people that are strategists and economists do.

We don't know exactly what the economy is going to hold over the next couple of years. It's probably just not going to be as ebullient as it has been.

So there is an opportunity for you to get to a rational price, or even a really great price, when you're looking at a website. But you're going to have to find someone that understands the math that I just mentioned.

I think that what you want to avoid is finding that perfect website where you can improve it 20 or 30 or 40%, but that only gets you back to even, because you overpaid for it. You don't want to do that. You want to be able to go shopping armed with the fact that probably, as we move in to 2019, expectations for sellers are probably going to have to come down, and they will come down. Website brokers, it's going to become much less of a where have you sold similar sites in the last 12 months, as opposed to where can you sell this site today?

That's a very different conversation because I think a lot of the headlines that the website brokers have been using to lure sellers is, "Look, we've just sold in the last six months a bunch of websites at 30X monthly earning that looked just like yours." Well, that was very different last April, May, or June that it is today. Again, when you buy a website, you're buying something where you're really counting on the next two, three, four years of earnings to be there to justify your purchase.

It's going to be a very different conversation. I think there's going to be a much more interesting market to be an investor in than it has been for the last six months to two years, to be honest with you.

RYAN: Really? How so? What do you mean by that? Why more interesting?

IAN: Well, I think that people are going to become more creative. There's going to be more deals done. There's going to be people that are going to be able to spot opportunities, and there's going to people that are owners of websites that are clearly not long term owners, but they're going to become more realistic. They're going to have to get realistic with the price they're looking.

RYAN: For people who are looking to sell websites, what does that market look like? Is there a chance that they could sell off maybe before people realize that the price should be going down?

IAN: I would tell you that my bravado here stems from what I see going on in the public markets. When you look at privately traded websites, oftentimes people are looking for things with very specific characteristics. Usually, people have some ideas on how they can specifically improve things. So when a buyer sees those specific set of characteristics, they're much more interested to disregard some of the macro things.

I'm not ringing the bell, saying that Armageddon's around the corner. I'm a positive guy. I just said that I don't see a recession in the next two years, where I don't see it today, okay. But I do think that there are risks to the economy, and as I said, I think that there's going to be more with dialogue.

I think that if I were a seller I would be looking at how I could best showcase my website for the opportunities, and I'd be looking probably at a prolonged period of time to market my website on the one hand. On the other hand, I'd probably become flexible with the terms I'd be willing to take in order to sell the website, if it got into a prolonged negotiation and I didn't see interest right away.

RYAN: Earlier you said you were thinking of this as a Goldilocks economy. Could you explain what that term means?

IAN: Yeah, so back in the day, before the global central banks unleashed torrents of liquidity, the Federal Reserve Banks around the globe would manage the economy so it didn't heat up too much and it never cooled down too much. It wasn't too hot and it wasn't too cold. Now people are thinking well, we're comfortable going back into an environment where, hopefully, the central banks are ahead of the curve.

I think the admission that Jerome Powell made, that maybe we're not going to hike three times next year, which has been the Fed's hard line for as long as I could remember this year, I think people are hopeful that now the Fed sees some of the risks that I articulated at the beginning the episode here. And that the central banks are ahead of the game, and we won't spill into a recession, and we certainly won't overheat. A big positive if we get back into that, what they call a Goldilocks environment.

RYAN: Okay. There's obviously lots of different types of E-commerce websites out there. You can be selling physical products or you can be selling services. Do you feel like this uncertainty might affect certain types or websites more than others, or certain markets more than others?

IAN: Yeah, it's a great question. Look, I think that there are cases to be made for niches, and we can't get into them; niches where you are much more differentiated than commodity types of things, where there are unique and specific circumstances where opportunities exist for people.

On the one hand, we're all believers. Everyone listening to this is a believer in E-commerce, okay, and there's a massive mega trend. I am certainly not suggesting that people shouldn't buy E-commerce sites. All I'm saying is be cautious and don't buy them based on trailing 12-month earnings because that could be questionable right now.

The E-commerce revolution will continue. It will become a bigger chunk of the economy than it is today. It will be bigger in one year, three years, and five years, and yes, there will be winners and there will be some that aren't as bigger winners. And clearly, there will probably be some sites and some strategies that are losers. We don't have the time to get into all of those. Maybe we could do that some other time, but yeah, absolutely.

RYAN: You have this phrase "Don't buy based on trailing earnings." Are there any gold nuggets that you're looking for, like you should buy based on … blank?"

IAN: Yes. We've talked about it before. I think when you had your shopping list for what you're looking in a website, and you know exactly what you're going to do to improve it, we have, philosophically, things that we like to do to a website. When see something that is devoid of what we think are very easy strategies to improve things, and it ticks the boxes, we're going to still be very interested. We're just going to be interested at a cheaper price, and we're going to try to factor in this uncertainty that now exists.

Now, we're going to watch real carefully whether this uncertainty, how far the pendulum swings, right? We don't want to see the pendulum swing too far away from what we think the central path will be. The central path will be some modest economic growth in 2019 and 2020, but it won't be the unbridled growth, it won't be the unbridled amount of cash that's been dumped in by the central banks that we've all been living off of for the last X number of years.

RYAN: Are you expecting that pendulum to swing a lot in the next couple of months? If we look at December and January, is that usually a pretty active time?

IAN: Yes. Here we are at the end of November, beginning of December. I think there's a natural tendency … Well, first of all, as we mentioned, you've had a draw down in the equity markets. It's basically erased most of the gains for the year, so people aren't feeling nearly as sporty as they were when the NASDAQ was up 15% and everyone felt wonderful, right?

RYAN: Uh-huh (affirmative).

IAN: Well, they don't feel good about that. Secondly, on Wall Street, being the marketing machine that Wall Street is, the strategists and economists are going to posture themselves coming into 2019. I'm sure you're going to see some people take the very public profile to be more negative that what I spelled out to be the center of the fairway case. I think you're going to have to live through that.

Now, we're going to watch data, like we always do, and we're going to see what happens, but there's going to be more conversation like we're having right now. Depending on when this episode is published, this may be old news to some people. Hopefully it won't be, but I think you're going to have more conversation like this that you just haven't had, Ryan, at all for nine and a half years.

RYAN: Okay, right.

IAN: Right?

RYAN: Right, yeah. How long have you been doing this website investing?

IAN: Website investing for now … I've been shopping for five, owning and operating for over three, and investing in traditional and alternative markets for over three dozen years. Built wealth management platforms on … This is the fifth one on four continents. I looked at all kinds of other investments. I think one of the things that scares me about website investing is that you look at a lot of the gurus that are running some of the big website brokers. This is a new industry, so this is a new phenomenon.

Everyone in this world has seen nothing but straight up for quite a long period of time, and that's a little bit scary. I may be a pariah after this is published, or shunned by people that I've been close to in the past, but you've got to call them the way you see them.

RYAN: Well, these are staggering reports. The numbers that you're sharing; you didn't make them up?

IAN: No, I did not make them up. No, no. It was on the Bloomberg Today that both Sweden and Switzerland reported negative growth in the third quarter for most of their GDP numbers. Christine Lagarde at the G20 meeting, which just kicked off yesterday or today, said that economic growth is the biggest risk in the G20 right now. Jerome Powell just lowered everybody's expectations for the number of hikes next year. That's hot off the press; didn't make any of that up, okay.

RYAN: Yeah. What I'm thinking about here again is your financial and investing experience outlasts this bull market. I'm wondering if there are people who are listening who maybe all they know is the bull market. If you could go back in your mind to prior to the bull market, what were some of the habits or strategies that you used to survive in a different type of market setting?

IAN: Look, forget me. You've got to be Warren Buffett. Pile up cash. Wait for that baseball pitch to come, and you have an unlimited number of swings. Wait for the baseball pitch … perfect. Access all of the resources and get your shopping list ready. Don't do anything until you feel absolutely comfortable. The old Warren Buffett-ism is … Let me see if I can quote him correctly. He has a few of them, but one of my favorites is, "You don't know what anybody's wearing until the tide goes out at the beach," right? That's one of Warren Buffett's.

I think the other things that Warren Buffett is always fond of saying … Well, he just talks about risk all the time. He was the guy that, during the financial crisis, cleaned up because he had the resources to lend some of the most prominent financial and industrial institutions money to bail them out. He cut phenomenal deals. While he's done well during the general economy, he did really, really well during the crisis. Crisis investing is something Buffett's done incredibly well for eons. Forget Ian Bond. Watch Warren Buffett, I would say.

RYAN: Okay, we'll do that. All right, well thanks-

IAN: You can quote me on that; forget Ian Bond and watch Warren Buffett, okay?

RYAN: I will. I will do that. Well, thank you so much, Ian. This is a wake up call. This is good information, and you gave us some good strategies to take the next steps. Thanks for sharing this with us.

IAN: Just remember don't buy it based on those trailing number … unless, and there are a number of unlesses. Let's just tick off a few. We become more comfortable with the economy. There's blood in the streets, and you're able to get a phenomenal deal. You see the perfect site that has come down the center of the fairway, or the perfect pitch has come down the center of the plate, and it's something that you've been looking for.

You feel confident, and you have a good group of people around you to try to talk you out of it, or at least talk you through it. You don't do this alone. You have those people that will take the other side of the coin and say, "Have you thought about this?" We've talked about engaging third parties. We've talked about having a group of peers in a community where you can have these conversations. So … unless some of those things fall in place for you.

Be careful out there. It's going to be a lot more fun in 2019 than it's been for the last few years, okay?

RYAN: All right. Well, we're looking forward to hearing more from you as we get into that season.

IAN: Okay, thanks, man.

RYAN: All right, thanks a lot, Ian.

IAN: Good talking.

RYAN: Yeah, you too.

IAN: All right folks, there you have it. That wraps up my conversation with Ian Bond of Professional Website Investors. He shared a ton of valuable insights and advice today on how recent economic reports should cause you to adjust your expectations as we head into 2019. There was a lot of timely content in our episode today, so let's quickly recap what we talked about.

First, based on recent economic reporting from across the globe, Ian is recommending a cautious approach to making investment purchases as we head into 2019. As Ian said, right now investment properties are over-priced because their evaluation is based on bull market growth when the likely indicators point to either stability or aggression in 2019.

Second, Ian told us not to buy in 2019 … unless you see some certain indicators. Those indicators can include a general feeling of comfort with the economy, getting a phenomenal deal, seeing the perfect opportunity that you've been waiting for. Ian also reminded us not to go through with an investment until we've talked it through with a trusted circle of advisors.

Third, Ian gave us some insights into how sellers might want to think in this kind of market. Ian told us that you want to look for ways to showcase the best of your website, expect a prolonged period of marketing, and told us to be flexible with the terms of the sale in the coming year.

Finally, Ian said he's a positive guy. He's optimistic, and he thinks this is going to be a fun and interesting market to be participating in. Don't expect 2019 to be another 2018. Be prepared to adapt and learn and grow.

We also shared some tools and resources which will all be linked up in the show notes at ProfessionalWebsiteInvestors.com. I hope you enjoyed our conversation. Please consider subscribing, sharing with a friend, or leaving us a review in your favorite podcast directory.

Until next time, best of luck in all that you do. We look forward to seeing you on the next episode of the Professional Website Investors Podcast.

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