



## Value in Naïve Appraisal Advice

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November 9, 2005

A number of domain name forums offer “appraisal by peers” services.<sup>1</sup> Although such advice can be characterized as naïve, it is useful. However, such appraisals are not a substitute for professional appraisal reports.

On the surface, peer appraisal advice sounds biased, as owners of domain names have an incentive to over-state value, while potential buyers prefer a depressed market. Moreover, appraisal postings tend to be few, even when some forums provide incentives to members to post opinions. Under such circumstances, making inferences about statistical characteristics of naïve appraisal data – without making heuristic assumptions about its probability distribution – is futile. Nevertheless, there is experimental evidence that naïve advice is valuable and tends to be followed.

Andrew Schotter has examined experimental evidence and postulates that “subjects learn better when they give advice, and that advice is therefore worth listening to. [Moreover], a person receiving advice must contemplate whether or not to follow it, and this process may also foster learning.” Furthermore, Schotter adds that “advice tends to be followed, [and] changes behavior.”<sup>2</sup>

I look at the value evidence in naïve appraisals as analogues to stock market analysts’ stock picking. Although there isn’t a consistently superior stock picker,<sup>3</sup> analysts, in aggregate, make the market more informationally efficient.

This efficiency, however, does not imply that naïve advice is a substitute for expert appraisal advice, especially for pricey domain names. Moreover, an experts’ appraisal can provide a solid basis for negotiations between buyers and sellers, as an expert appraisal’s report should point out the sources of value creation and the associated risk. For example, in the art market, which is more subjective than domain names, the evidence suggests that “art experts provide extremely accurate predictions of market prices.”<sup>4</sup>

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<sup>1</sup> For your free membership at most domain name forums, a simple registration is required.

<sup>2</sup> Andrew Schotter, “Decision Making with Naïve Advice,” *American Economic Review: Papers and Proceedings*, 93, 2, May 2003, p. 201.

<sup>3</sup> There may be few exceptions such as Warren Buffet!

<sup>4</sup> Orley Ashenfelter and Karthryn Draddy, “Auctions and the Price of Art,” *Journal of Economic Literature*, XLI, September 2003, p. 765.