Wealth Management Technology: What's Next?

THE PIPELINE OF FUTURE CLIENTS MAY DEPEND ON LEVERAGING TECHNOLOGY

By Ed McCarthy

Evolutions in technology continue to have a major impact on private client wealth management. To get perspective on notable and overlooked developments in this area, *CFA Institute Magazine* asked Joel Bruckenstein, president of Technology Tools for Today in Miramar, Florida, and Jamie McIntyre, founder of Rewire Capital in Darnestown, Maryland, for their thoughts on the major current and developing tech trends influencing private wealth managers' work with clients.

KEY POINTS

- Adopting some aspects of the robo-advisers' technology may improve workflow for traditional wealth managers and improve client retention.
- From micro-IPOs to new applications for big data, evolving technology has the potential to transform wealth management.
- Crowdfunding technology and regulatory changes are opening up new investment opportunities for non-accredited investors.

LIVING WITH ROBOS

Joel Bruckenstein (Technology Tools for Today): When robo-advisers first came out, there was a little bit of a misconception about what they were. I think most people in the industry looked at it as a business model, and they said, "This business model is never going to work." I look at it differently from most people because I'm a technologist and I'm agnostic on the business model. But I always thought that the technology in some instances was superior to what the typical adviser was providing to his or her clients and something that advisers should be embracing.

For example, I think the onboarding experience that you get with a robo is superior to what you get if you go to an RIA [registered investment adviser] firm. If you go to an RIA firm and a lot of other firms, you still have to print out paper, fill out the paperwork—fill it in with a pen—and get a wet signature. Some folks are still either faxing or emailing that stuff over to the custodian or the broker/dealer. I may be waiting a number of days for an account to open and get funded, whereas with the robo-adviser, if you're funding it with cash, you can pretty much do it just about instantaneously. Another difference is the client portal experience. The robo-adviser's client can log on and see what they have at any time, 24/7, on any device.

I think there are two alternatives with robos from a business perspective. You either have to embrace them or not, and if you don't, it's probably going to be detrimental to your business in the long run. The way I look at robos is, it's not just about serving your current clients; it's also about the pipeline of future clients. When I started in this business, people didn't approach advisers until they had what they thought was a reasonable amount of assets, and then they went maybe from a self-service model or a balanced mutual fund or something like that to an adviser.

I don't think that's the way it's going to be in the future. A lot of Gen X and Gen Y [people] are going to go, whether we like it or not, to some kind of digital platform. It can either be your digital platform or something that's a direct-to-consumer platform. If they go to a direct-to-consumer platform, they may never take the step then to go to an adviser; they may go instead to that direct-to-consumer provider for those services.

CROWD-ENABLED TECHNOLOGY

Jamie McIntyre (Rewire Capital): I'm passionate about the impact that crowd-enabling technologies are having on finance. The majority of the advisers I speak with don't have a clue that this is happening. Not only do they need to be aware of these new platforms before their clients are, but I believe they should be advising and allocating a small portion of clients' assets in these new offerings.

In 2012, the JOBS [Jumpstart Our Business Startups] Act set forth legislation on crowdfunding. The SEC has provided a ruling that gives guidance on how to use Title II of the JOBS Act. That ruling allowed people for the first time to generally solicit private investments, online primarily, but they could only do it to accredited investors. But even still, this was a massive change in the industry.

You see some hedge funds starting to use this mechanism, but for early-stage investing, it became a new mechanism to find angel investments and series A investments in private companies. Prior to that, you had to work your own local networks and angel groups. A very, very limited number of people were involved, and there was no real way to be able to get at those people unless you went through your own networks. That is one reason Silicon Valley was able to boom, because they became a hub for that angel investment. Now what you see are online portals that have taken these potential private equity investments and are soliciting them online to accredited investors. One portal that I have invested in is called SeedInvest.

SeedInvest's vision has always been to foster a private market for the masses. Recent regulation changes have enabled them to use their platform to facilitate the first online private equity offering to non-accredited investors. In June 2015, the SEC updated one of their rules and created something called Reg A+. Reg A+ is outside of the JOBS Act, and it lets people do something that is being referred to in the industry as a mini-IPO. A private company can now raise money from non-accredited investors if it follows the process that's set forth in Reg A+.

It's a two-stage process. The first stage is what they call "test the waters." Companies can solicit interest. They test the waters to see if there is enough investor interest in their company to go through the process that it's going to take to launch a mini-IPO. On SeedInvest, I've seen two companies that have already gone through this phase. One's called WayBetter, which has an application called DietBet. It's an online app that allows people to bet [on themselves] to lose weight. They have over 270,000 players from around the world that together have lost a total of over 3 million pounds. The other one is called Snapwire, which is a new way for photographers to compete on mini-proposals. It's crowd-focused online photography. Buyers submit a certain job that they want to get photos for. People post their photos and then the buyer selects the photos that they like. Both of those companies have indicated interest north of $10 million.

I talked with the CEO of WayBetter [Jamie Rosen in New York City], and he said that investment interest is primarily coming in chunks of $1,000. This is really his customer base, the people that are using his app to lose weight, who are saying, "We want to participate and buy a piece of this company." That's going to create a massive band of incentivized evangelists, if you will, inspired to help grow his company. So, not only is he getting the capital for the company, but he's getting capital from the people that use his apps and can actually make a difference in supporting his company in growing its community.

It's a fraction of the cost of a traditional IPO, especially from a legal standpoint, and there's really no investment bank involved. The platform that would be driving this mini-IPO forward gets paid a fee to help raise the money that is minimal compared with what an investment bank would charge.

With regard to why financial advisers should be leading the charge, one reason is that clients will have questions because of the amount of attention that I think this space is going to get over the coming year. I also believe that early-stage investing makes sense to be a part of certain people's portfolios, because it reconnects people with the fundamental principles of investing—it allows them to invest with purpose. [It's] not necessarily impact investing, but they can invest their money with a purpose.

ADDING ADVISORY VALUE

Joel Bruckenstein (Technology Tools for Today): Another trend goes hand in hand with the robos. If you believe, at least for the mass affluent clients, that investment advice is being commoditized, what's left? What's left is true financial planning. So, you see all kinds of firms that were primarily investment driven—and not so interested in providing financial-planning advice—much more interested in it today. For the first time in many years, you're seeing a renaissance in financial-planning software. There are more players trying to come into the market. Envestnet just bought Finance Logix, for example. A lot of independent broker/dealer (IBD) firms that weren't really encouraging their advisers all that much to do true financial planning are now encouraging them to do it. I think it's going to be harder and harder to add value versus a market benchmark or a blended market benchmark, but there's still a lot of value to be added in other areas of financial planning, whether it's income tax planning, estate planning, risk management, etc. That area of the marketplace is heating up.

A NEW REAL ESTATE PLAY?

Jamie McIntyre (Rewire Capital): Another example [of crowd-enabling technologies] is Patch of Land, which is somewhat similar to Lending Club, an online peer-to-peer lending platform. Instead of funding personal credit card debt like Lending Club loans, Patch of Land funds refurbishing projects for housing. They take a single-family home that a developer wants to purchase, refurbish, and then sell. Patch of Land's underwriting system will determine the viability of that developer being able to do that, doing it on time, being able to sell it at a profit, and then they will back that developer. They pre-fund and give that developer the loan. They then put all of their research (about the property and the loan) online and let the crowd pick the individual investments that they want to back. Those investments are backed by not only the developer but by the actual asset, the house that was purchased. The typical loan period is maybe 12 months or so, but I'm seeing rates of return anywhere from 10% to 18%. Investments like these being offered online are brand new. Nobody knows about it, and it is often offering a much better return than the public markets, especially with the amount of assets that are backing these individual debt instruments. They seem like a very high-quality and high-interest-rate return that a lot of investors just aren't aware of.

BIG DATA'S IMPACT

Joel Bruckenstein (Technology Tools for Today): Another trend that's sort of still on the horizon that everybody talks about but in the financial service space is still underutilized is big data. Over the next year or so, we'll start seeing a lot more firms emerging, both existing firms and new firms, that are trying to help people that have the data—from the individual RIA firm up to the custodians—make better use of the data that they already have. Think about how much data the custodians and the IBDs have. Are they really making the best use of that data, or are there things that they can monetize in some form to help their advisers grow?

For example, the CRM (customer relationship management) vendors to advisers are starting to put what they call analytic dashboards in their software to show some very simple metrics, like the average age of your client, just to see who's doing what in the office, who your best clients are, where your growth is coming from (if there is growth), so you can find more clients (like the ones who are growing) faster and spot problems in workflows.

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KEEP GOING

"Little Big Data: Can Big Data Benefit Smaller Private Wealth Managers?" *CFA Institute Magazine* (November/December 2014) [www.cfapubs.org]