PART One

The New Business Environment

CHAPTER 1

How Is Social Media Changing Investor Behavior?

"If you're not on social media, you don't exist."
—Jeremy Ransom, 24, Texas Tech personal financial planning student

You remember that small innovation called e-mail? It changed everything from how we behaved to how we managed our workloads.

In e-mail's early days, many compliance officers insisted, "We'll never adopt this." But soon enough, e-mail became a part of their daily lives. Compliance officers and marketers were forced to embrace it as the rest of the world did, leading them to invent new policies and procedures in order to remain compliant with regulators.

Imagine where your business would be today if you hadn't adapted to e-mail. The service is such a part of the landscape that nobody bothers to give it much more than a second thought. That's how it is with transformative technology—it upends the market, the market adapts, and its use is taken for granted.

Now fast-forward another two decades or so, and have a look at the latest game-changer: social media. Today, it's a New Tech World Order, as I call it. Our society has never seen anything like it; information can be sent in nanoseconds and shared in ways that are empowering people and upending traditional ways of doing business. In the financial world, that can be information shared between investors, from a company to investors, or vice versa.

For you or your business, that dynamic can be both a blessing and a curse. The blessing, for those who embrace it, includes getting out of the starting gate early as the market evolves. The curse is the uncertainty of the new—Am I doing this right? How do I prepare for risks I don't fully understand right now?

One way to understand what social media means in the New Tech World Order is to look more closely at how it's affecting the lives of the clients on whom the financial industry depends.

HOW INVESTORS ARE GETTING SOCIAL

First, let's take a look at how today's investors are behaving. They are using the online, social world to engage in five key ways:

1. **Convening—**Connecting with others like them. You're familiar with online gatherings around a profession. Even the old-fashioned investment club is more active online, with greater access to tools and content for more efficient exchanges. Consumers are increasingly gathering with those like them, whether it's to engage in impact investing, to encourage more women to move into our industry, or to call for a greener world. Yes, the online world now makes niche convening with people truly "like me" more possible than ever before.
2. **Sharing—**Thanks to the new federal Jumpstart Our Business Startups Act, firms and investors are increasingly sharing information and investment opportunities. They're doing it through online investment sites that allow them to discover Warren Buffett's latest investment. Soon, they'll be accessing prospectuses of investment opportunities that previously were available only to sophisticated investors.
3. **Reacting—**You've wanted to react many times. To a bad product or service or a rude professional, or, on the flip side, a great experience. Now, imagine that reaction shared online, magnified by thousands if not millions. It's happening, especially through Facebook and Twitter, as we'll discuss in the coming pages.
4. **Opining—**Perhaps the biggest surprise to some is the new ease with which overnight investment gurus can emerge. Many are springing up either with their own blogs, on sites like SeekingAlpha where professionals can share their investment insights, or on financial news sites and networks, from Dow Jones' MarketWatch to Motif, a consumer-oriented social investing platform.
5. **Protecting—**One of the greatest empowerment moves is the ability to help consumers make better decisions—from choosing restaurants to

hiring a handyman—and protect them from bad actors. I was once asked if online networks will pose a greater threat to investors who might be prey to the next Bernie Madoff. Interestingly, in Europe, a social network for investors called Unience (sister to Finect in the U.S.) discovered that members actually acted quickly to protect fellow members from bad investment products or people. Just as one can instantly flag a spammer on Yelp, so too can they instantly call out a disreputable professional.

These behaviors aren't occurring in a vacuum. It should come as no surprise that they've helped shape the way investors approach financial advice and related services.

INVESTORS ARE DEMANDING MORE WITH TRANSPARENCY AND REAL-TIME ACCESS

Starting just a few years ago—after the financial crisis, and as social media usage picked up—investors became increasingly drawn to the Internet as a source of investment advice. This was due in large part to a massive loss of trust in major U.S. banks. Nearly 50 percent of investors now rely heavily on financial websites and blogs—ahead of financial newspapers, periodicals, and financial planners—for their investment information (see Figure 1.1).

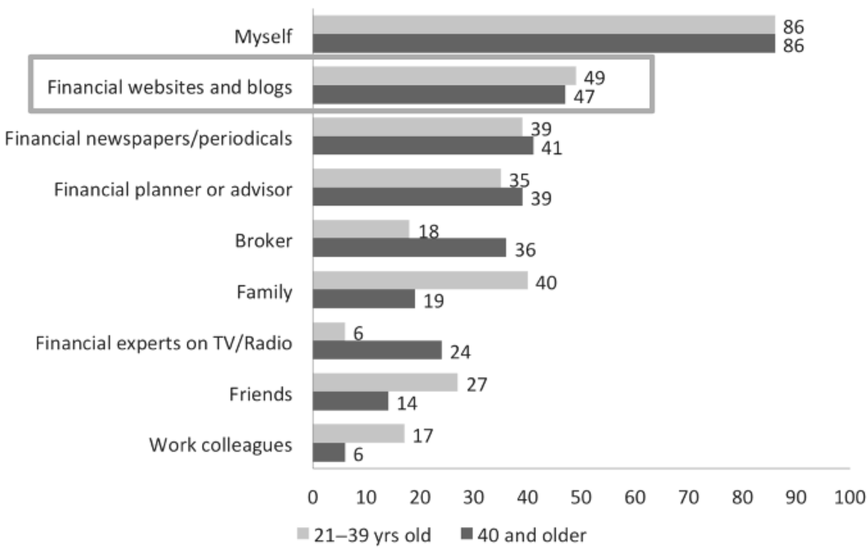

FIGURE 1.1 Sources of Investment Advice
Source: ING Direct USA's Sharebuilder Survey

It's clear that investors, especially younger ones, are actively engaged in the online world in other ways:

- **They're reallocating.** According to a survey conducted by Cogent Research of 4,000 investors with more than $100,000 in investable assets, nearly 70 percent of wealthy investors have restructured their investments, started, or altered relationships with investment providers, based on content found through social media.
- **They're researching electronically.** Just in the last few years, consumers have had more access to real-time information, from scrolling through Twitter on their smartphones to pulling out their iPad while at the gym. In fact, a Fidelity Investments survey found that two-thirds of the millionaires surveyed said they would like to use electronic media with their advisors. And young millionaires—those ages 44 and younger—are three times more likely than millionaires of all ages to select a financial professional through a website providing detailed information on advisors, according to Spectrem Group.
- **They're engaging online.** Young millionaires are four times more likely to express interest in a blog or tweets from their advisor, and nearly six times more likely to say they'd like their advisor to be on Facebook. "The overall percentages of young investors wishing to connect with advisors via social media remain small, but the differences in attitudes between young millionaires and millionaires of all ages are striking," Spectrem Group says.

Indeed, investor involvement with social media will play out profoundly in the years ahead, with serious implications for advisors who fail to take the trend seriously.

WHAT INVESTORS REALLY WANT: FIND THEIR ADVISORS ON SOCIAL MEDIA

Think about it. Suppose an investor decided the time had come to begin working with a financial advisor. It's natural to start such a search on the Web. Would the investor be able to find your business on the Web? And if so, would he find the information on your site that he really wants to know?

It turns out this may be harder for the investor than you would think. In late 2013, a survey with investors uncovered some surprising findings (Figure 1.2). Nearly half of those surveyed want to connect with their financial advisors through social media, but they either cannot find advisors or they conclude the advisors don't operate through this online channel.

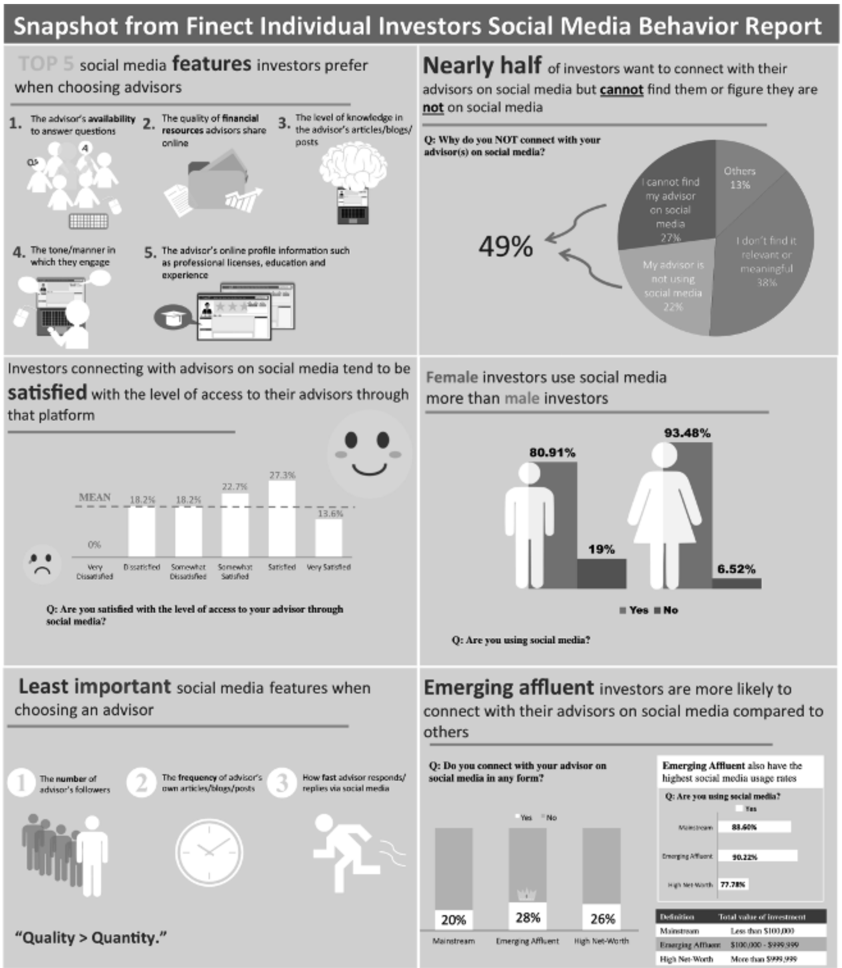

FIGURE 1.2 Investors' Preferences for Financial Advisors on Social Media
Source: Finect Inc.

The survey also found that those investors who *do* connect with their advisors through social media are generally satisfied with their interaction. Among the key findings:

- Investors age 44 or younger are more likely to connect with their advisors on social media than those over 45.
- Emerging affluent investors (more than $100,000 to under $1 million in assets) use social media more than mainstream and high net-worth investors do.

- Investors who connect with their advisors on social media tend to be satisfied with the level of access to their advisors.
- Female investors are 11.5 percent more likely than male investors to connect with their advisors on social media.
- Investors do not care about the details of their advisors' personal lives on social media—which is not to be confused with being personable.
- The *most important* social media interaction with advisors, according to investors, is sharing trending investments or personal finance news.
- The number of social media followers an advisor has is the *least important* feature for investors when choosing advisors through social media.
- An advisor's availability to answer questions is the *most important* feature for investors when choosing advisors through social media.

The message is clear. Successful American industries have adapted when consumer preferences and behaviors change. Automobiles are safer to drive, restaurants serve healthier food, and home computers operate more quickly and with more sophisticated software. The financial industry now faces new demands from investors who are more empowered via social channels. As the survey underscores, younger investors already expect their advisors to interact with them in this medium. Clearly those advisors who do so will be the ones who thrive as the future inevitably closes in. The financial industry has adapted to paradigm shifts of this sort in the past, and will continue to do so. Advisors and other professionals who adapt to the trend will have a leg up on their competitors. What are you waiting for?