

# The Augmented Investment Management Industry

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Since we are currently experiencing the fourth industrial revolution, we should not be surprised that wealth management is entering a fourth epoch as well. What is particularly exciting about this era is that it offers an opportunity to fundamentally rethink the business of wealth management, rather than simply providing a more efficient replication of what went before.

A brief reminder – the World Economic Forum has defined the four industrial revolutions as: the rise of mechanical power; the advent of electricity and communications; the digital age and the development of modern computing; and finally a new era that builds and extends the impact of digitization in new and unanticipated ways.

The four stages of wealth management are slightly out of step with these. Technological advances have been a constant in the financial services industry, as investors have sought to find the most efficient and effective means of putting capital to work, but we can also discern significant step-changes in the way wealth management was conducted.

The first three epochs of wealth management were, broadly speaking: the hand delivery of documentation; the mechanization of those hand-to-hand processes; and the development of computing solutions.

That first involved the old coffee-house method of investment, where company documents were handwritten and exchanged among patrons. This developed into the old stock exchange trading floor, complete with jobbers and runners to distribute the news. Paul Julius Reuter opened his first office just behind the Royal Exchange in London (it still stands today). The boys he

employed to carry news back and forth between the trading floor and his offices were perhaps the first low-latency trading solution.

The second stage was the laying of telegraphic cables across the world, and the use of ticker-tape machines to send information across huge distances. Again, pioneers such as Reuter effectively shrunk the world, providing a new richness and depth of information for investors.

The third era came in the 1960s, when computer networks began replacing the ticker-tape machines and systems such as ILX and Quottron were developed, providing processing power at speed and gathering information from price sources around the world. In the 1990s the internet and the rise of the home computer was followed by the development of online retail brokerage systems, but perhaps more significantly democratized access to data about companies and other investment opportunities. A lot of the information previously prized by wealth managers as sources of insight was now available to the investing public at the click of a mouse.

As wealth management progressed through its various eras, the value proposition also changed. At first, just having a stock price or news was valuable in and of itself. Then, the value came from having information faster. Once data (such as stock prices) became more of a commodity, value was created by analysing the data or combining it with other information such as news or earnings, quickly acting on the analysis.

We are now entering a new era, a fourth epoch, driven by technological advances such as cognitive computing. Whereas the previous eras developed efficiencies in an established process, the technologies available or in development today enable us fundamentally to rethink the process. Rather than simply replicating the established methods of managing wealth, they offer an opportunity to augment these in new ways.

We are at a point where advances in computing power and lower computing costs enable us to apply artificial intelligence, machine

learning, natural language processing, neural networks and a host of other tools to everyday tasks. The opportunities for wealth management are genuinely epoch-making.

## Clients are Changing

The practice of wealth management basically involves finding ways to protect and build wealth in order to pass it down the generations. As this wealth grows, and as clients' family trees grow new branches, the number of clients expands exponentially.

The average US investor is in his/her early 60s and that is likely to rise to over 70 within the next few years. More than half of assets managed (53%) are already held by clients who are over the age of 65, "leaving us poised on the precipice of the greatest wealth transfer in history", as *The Fountain of Growth* puts it.<sup>1</sup>

Meanwhile, the average advisor is in his or her early 50s, with a quarter of advisors already at the typical retirement age. These advisors control 25% of assets. This is therefore a second aspect to generational wealth transfer. Both represent risks to wealth management firms.

First, assets will flow from parents to their children. In this case, wealth management firms need to position themselves to keep these assets in-house. The challenge is in addressing the "my father's advisor" syndrome, in which a son or daughter feels that their parents' advisor is out of touch with their views on investing, risk tolerance, how they choose to invest and how they prefer to communicate.

Second, for advisors the risk is that, without proper succession planning, customers may switch wealth management firms – or wealth models altogether – when their advisor retires.

Unless there is a material market correction, the US wealth market will continue to grow across numerous metrics (assets, accounts

and investors) through 2020 and beyond.<sup>2,3</sup> At the same time, there is evidence that the number of advisors will decrease.<sup>4</sup> Hence the need for wealth management firms to leverage technology to achieve the necessary scale.

The good news is that the expectations of the coming generations are very different. Younger clients are not looking for as much one-on-one attention. According to one study, millennials and generation-Xers (gen-Xers) are less likely to want to discuss investing strategies with a professional (49% and 48%, respectively) compared with baby boomers and mature clients (61% and 67%, respectively).<sup>5</sup>

To focus on that millennial opportunity for a moment, we can predict with some confidence that their personal wealth will grow. By 2020 the net worth of global millennials is predicted to more than double compared with 2015, with estimates ranging from \$19 trillion to \$24 trillion. The same study (by Deloitte) noted that millennials (those currently aged between 18 and 34) are about to enter their prime earning years.

It may also be worth noting that the majority (54%) of this generation in developed countries are self-employed or are planning to start their own business. This means that the option of employer-assisted wealth-building strategies will not be open to

<sup>2</sup> *Global Wealth Databook* (Credit Suisse Research Institute, 2016).

<sup>3</sup> *Global Wealth 2016, Navigating the New Landscape* (The Boston Consulting Group, 2016).

<sup>4</sup> *The Cerulli Report Advisor Metrics 2015: Anticipating the Advisor Landscape in 2020* (Cerulli Associates, 2015).

<sup>5</sup> *Man and Machines: How Different Generations Approach the Use of Technology in their Personal and Investing Lives* (Charles Schwab, 2015). Kobler, Hauber & Ernst, <https://www2.deloitte.com/content/dam/Deloitte/lu/Documents/financial-services/lu-millennials-wealth-management-trends-challenges-new-clientele-0106205.pdf>. Hugo Greenhalgh, *Financial Times*, <https://www.ft.com/content/da7f0a1e-a4bf-11e5-a91e-162b86790c58>.

<sup>1</sup> *The Fountain of Growth* (PriceMetrix, 2015).

them. When it comes to planning their financial futures, they are on their own (less than 30% of millennials' wealth is invested in stocks).

Younger clients' expectations tend to be very different: they are neither looking for nor expecting as much one-on-one attention and they view technology as an important aspect in wealth management. Some 57% would change their bank relationship for a better technology platform solution, for instance. That is not surprising, given that in 2015 more than 80% of millennials owned a smartphone, and of those 89% would check their mobile devices within the first 15 minutes of waking.<sup>6</sup>

The expectation is therefore that millennials will prefer to be self-directed investors, who can call on expert advice if needed. They will be significantly more comfortable with robo-trading than older generations. Millennials and gen-Xers are more likely to prefer a computer algorithm over a financial advisor (40% in each case) than baby boomers and mature clients (30% and 24%, respectively).<sup>7</sup>

Part of this may be driven by the fact that 44% of millennials and 47% of gen-Xers would rather not pay for personal services, while mature clients and baby boomers are still content to do so (56% and 55%, respectively).<sup>8</sup>

There is one constant among the generations, however: as life becomes more complex, all investors, millennials and gen-Xers included, become more interested in speaking with an advisor. This applies most around tax questions and estate planning (71%), followed by the approach of retirement age (64%), life events such as births, deaths and marriages (60%) and when a person has new money to invest (58%).<sup>9</sup>

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<sup>6</sup> Ibid.

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

<sup>9</sup> Ibid.

## Connecting Market Data and Client Data

The amount of information, data and news that is generated and delivered daily is massive – and increasing.

As technology becomes more prevalent in our life, so does the amount of data generated, either intentionally or as a by-product. According to IBM, we create 2.5 quintillion bytes ( $2.5 \times 10^{18}$ ) of data each day, and 90% of all data has been created in the past two years alone.<sup>10</sup> More photographs were taken in the last 10 minutes than were taken in the whole of the 19th century, according to Google's Eric Schmidt.

In the financial services industry, our traditional definition of data has usually included asset prices, earnings data, news and the like. However, data from other sources can now be brought together, with the advent of greater computing power to provide a much richer view of the world and the investment opportunities it affords. Whether it is sensor data from a factory line, or sentiment sensed by a chatbot or in a tweet, the world of useful data is exploding.

This wealth of data, and the advent of greater computing power, place the onus on the wealth manager to identify the most relevant information and to filter out the noise. This is where cognitive computing can assist. Tools such as intelligent tags, entity identifiers and other tools help to clean and process data to ensure that powerful algorithms deliver insights to investors.

## The Fourth Epoch – The Marketplace of Wealth Management

The opportunity for the wealth managers of the future is to operate as a marketplace rather than as an individual vendor.

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<sup>10</sup> "What is Big Data?", <http://ibm.co/2aYLZfW>.

As the potential client base grows, wealth managers can collaborate to provide a wider range of services to attract and retain potential clients. Collaborating with others, to combine data to yield new insights for investors, is an enormously attractive option for potential clients. WealthTech is a rich and diverse ecosystem and there is no reason why a wealth manager would limit his or her potential access to this. The value comes from knitting content and workflow together for the benefit of the client.

As wealth technology has evolved, so then has the value proposition it delivers. In the marketplace model, it evolves

once again, enabling wealth managers to inter operate for more efficiency and greater insight by linking multiple solutions, from multiple sources, together on one wealth management platform.

Future investors will be looking for opportunities beyond conventional investment strategies. As digital natives, they will also be highly aware of the data, news and events that generate investment opportunities. The successful wealth managers will be the ones who can demonstrate that they have access to all of that information as well, combined with the capability to use it to drive investment solutions.