

# The Investment Network

“David versus Goliath II”  
or, “Is the future digital?”

# The Goliaths

- Vanguard Personal Advisory Services
- Schwab Intelligent Portfolios
- Fidelity Go (soon to launch)
- Hargreaves Lansdown ???

# The Davids

(a small select of digital platforms)

## UK

Lifescale  
Money on Toast  
Moneyfarm  
Wealth Wizards  
Wealthify  
Wealth Kernel  
MOO.LA  
Fundment  
Scaleable Capital  
Investorbee  
evestor

## US

Betterment  
Hedgeable  
Polly Portfolio  
Gold Bean  
FutureAdvisor  
LearnVest  
Stash Invest  
Stock Twits  
Envestnet  
Wealthfront  
AdvisorSoftware

# What will the future of advice look like?

- Digital?
- Cyborg?
- Traditional?

## The clients' ideal financial advice experience

|   |            |
|---|------------|
| <b>Mostly online with access to adviser</b> | <b>26%</b> |
| Mostly adviser with online component        | 39%        |
| Only through advisor                        | 23%        |
| Online only                                 | 9%         |

Two-thirds expect digital content today!

Source: Vanguard & Wells Fargo/Gallup Survey 2015

# How crucial will brand be?

- Schwab
- Blackrock
- Betterment
- Vanguard
- Scaleable Capital
- Hargreaves Lansdown
- Nutmeg

# How crucial will price be?

- Vanguard charges about 35bps (30 + ETF) including advice, 'platform' and asset management
- Schwab is 'free' - profit from ETFs and cash (VI model)
- Betterment charges 25bps - some scaling
- Wealthfront - First \$10,000 free, then 25 bps
- Q. What price is Hargreaves?
- A. 45 bps to £250,000

# How big will you have to be?

- £5 billion?
- £30billion?
- £70 billion?
- Morningstar reckon \$40 billion is the break-even point

“The leading wealth management and investment businesses (TD Ameritrade, Schwab, B of A etc) have 1,000 the assets of all the robo-advisors together”

Source: Morningstar



# What rate of return will be needed to attract capital?

- 15%
- 25%
- 0%

# Do you have to differentiate?

- iPad - utter innovation
- Vanguard - first class “me too”
- Betterment - slightly innovative at outset
- Google? - could disrupt who value chain
- Blockchain ???? Who knows

# How will you attract clients?

- Advertising cost is \$300 - going to over \$1000 with attrition
- Social networks - not proven
- Word of mouth - not proven
- Data???? - Facebook, LinkedIn

# Will the proposition be:

- Investment only - Nutmeg
- Investment plus goals - Betterment
- Financial planning - Lifescale

# What will be the target market?

- Boomers
- Gen X
- Millennials

The investment world appears to want to ditch rich boomers and leap ahead to skint Millennials

# How long will the onboarding take?

- 10 minutes
- 20 minutes
- 45 minutes

## The challenge

How do you measure suitability (thinking MiFID II), when you have somewhere between 10 and 20 minutes to onboard the client?

“If you’re onboard process takes over 20 minutes, you have lost the client.” Andrew Rudd, Chair & CEO, Advisor Software

# How will these businesses make money?

Morningstar calculate that \$45 billion is minimum scale.

Are they right?

- 25bps on £40 billion is £100 million
- The cost of acquiring a client is £300 without attrition
- Up to £1,000 with attrition
- Assume an average portfolio of £50,000
- £1 billion of assets cost £6 million
- Revenue on £ billion @ 25 bps = £2.5 million

# Easy way to profit? - Sell!

- Parmenion to Aberdeen
- eMoney Advisor to Fidelity
- Future Advisor to BlackRock
- Jemstep to Invesco
  
- Also
- Gold Bean is white labelled by banks
- LearnVest and Betterment have a referral relationship with Fidelity



# Who will benefit most from regulatory change?

- D2C e.g. TD Ameritrade, Schwab, HL. Chas Stanley
- The traditional adviser
- The vertically integrated business e.g. Towry, SJP, OM
- F2F with a digital engine e.g. United Capital
- Traditional revisited e.g. Vanguard PAS, Schwab SIP, HL?

# A perhaps controversial thought

How much profit does Betterment need to show?

- Zero
- Its a data business

# And finally

- Can the digital world succeed if RDR is unchanged and MiFID II is introduced along current lines?