

FINance & **TECH**nology **Robo-advisors and Goal-based Investing**



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Director Wealth Management Risk
Analytics and Thought Leadership



1 What do we know today about FinTechs and robo-advisors?

Financial TECHNOlogy

Some examples not exhaustive of industry reality.

FinTechs focus on the digitalisation of the financial systems:

- Lending: LendingClub, Kabbage, OnDeck, Borro, Kreditech, Funding Circle, Wonga, Nimble, ...
- Transactions & Payments: Klarna, Square, Stripe, PayPal, TransferWise, SumUp, ...
- Research & Big Data: Yodlee, Kredit Karma, ...
- Private Equity & Venture Capital: CircleUp, Our Crowd, AngelList, ...
- Investments & Advise (**robo-advisors**): Wealthfront, LearnVest, Betterment, Nutmeg, FutureAdvisor, MoneyFarm, Vaamo, Jemstep, Wisebanyan, Money On Toast, Schwab Intelligent Portfolio, ...

robo-advisors

Robo-advisors can be a disruptive global trend

The display order doesn't represent establishment date, quality nor business dimension.

AUM 0.01%

2010-2012: got noticed (venture capital research conferences)

2013-2014: matured (+100% AUM)

2015-2020: will transforme (from robot-advisors to robo-4-advisors)

\$2 Billion

Robo-advisors are expected to grow fast.

Source MyPrivateBanking: "Robo-advisors: threats and opportunities for the global wealth management industry" (2014).

Source Wealthfront: comparison of AUM growth versus Charles Schwab.

STANDING ON THE SHOULDERS OF GIANTS

\$1 Billion in 2.5 Years

2 Are robo-advisors truly disruptive?

Are robo-advisors truly disruptive?

Sustaining and Disruptive Innovation

- Rate of improvement** a client can absorb and a variability around (Retail, UHNW)
- Sustained innovation** makes better products with higher prices for high end customers, until extra value can't be priced up (HI-FI, personal advise)
- Disruptive innovation** introduces not so good products/services, but simpler and less expensive to appeal to new or less-demanding customers (Pod, robo-advisors)
- Higher margins** and more demanding customers once products gain foothold, improvement cycle restarts (Pod, robo-4-advisors)

Who feels threatened? Not only humans.

Indexing 2.0	Indexing 3.0	Robo-advisors	Robo-4-advisors
Mutual Funds and Index ETF	Active managers (not so active ...)	Human Advisors	Platforms and custodians
<ul style="list-style-type: none"> > automation of portfolios (Indexing 2.0) > transaction costs are approaching zero > tax harvesting can be maximised. 	<ul style="list-style-type: none"> > personalised smart-beta and rule-based algorithms (Indexing 3.0). 	<ul style="list-style-type: none"> > Millennials are more digital and social than Baby Boomers. 	<ul style="list-style-type: none"> > All-In-One Vertically integrated Platforms and the shift to robo-4-advisors

Only "true active managers" will be capable to differentiate.

The next generation of advisors will focus more on adding value in financial planning ("gamma") rather than investment management ("alpha").

3 How do we see the future of robo-advisors?

What is the future of robo-advisors?

From disruption to sustained growth.

by Nobel Prize **Robert C. Merton**: The Crisis in Retirement Planning (HBR, 2014).
"The customer needs worry about three things only: her retirement income goals, how much she is prepared to contribute from her current income, and how long she plans to work. The only feedback she needs from her plan provider is her probability of achieving her income goals."

EDHEC-RISK

Merrill Lynch's 'Merrill One' Platform Raises the Bar on Investment Solutions

Merrill Lynch 'goals-based' accounts to reach \$200 billion milestone

IBM Investment Design for Wealth Managers

A true goal-based approach for asset allocation

All robo-advisors ask to state your **age**, your **financial goal** and your **risk tolerance** ... but they use **Modern Portfolio Theory** which is not goal-based.

Model Portfolios

A: Exp. Return 4.5% pa, Volatility 20% pa

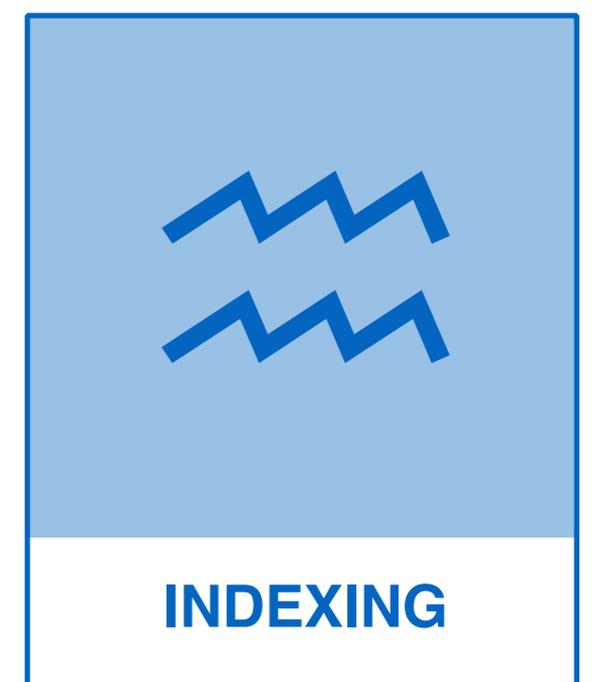
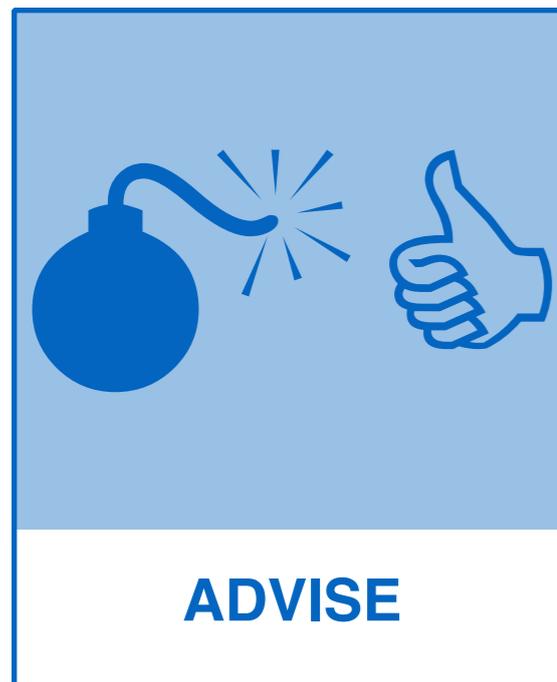
B: Exp. Return 5.5% pa, Volatility 30% pa

Advanced goal-based Investing

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robo-advisors



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AUM

0.01%

2040
2030
2020
2015

transformed

from robo-advisors
to robo-4-advisors
and GBI

2014

matured

+100% AUM

2013
2012
2011
2010

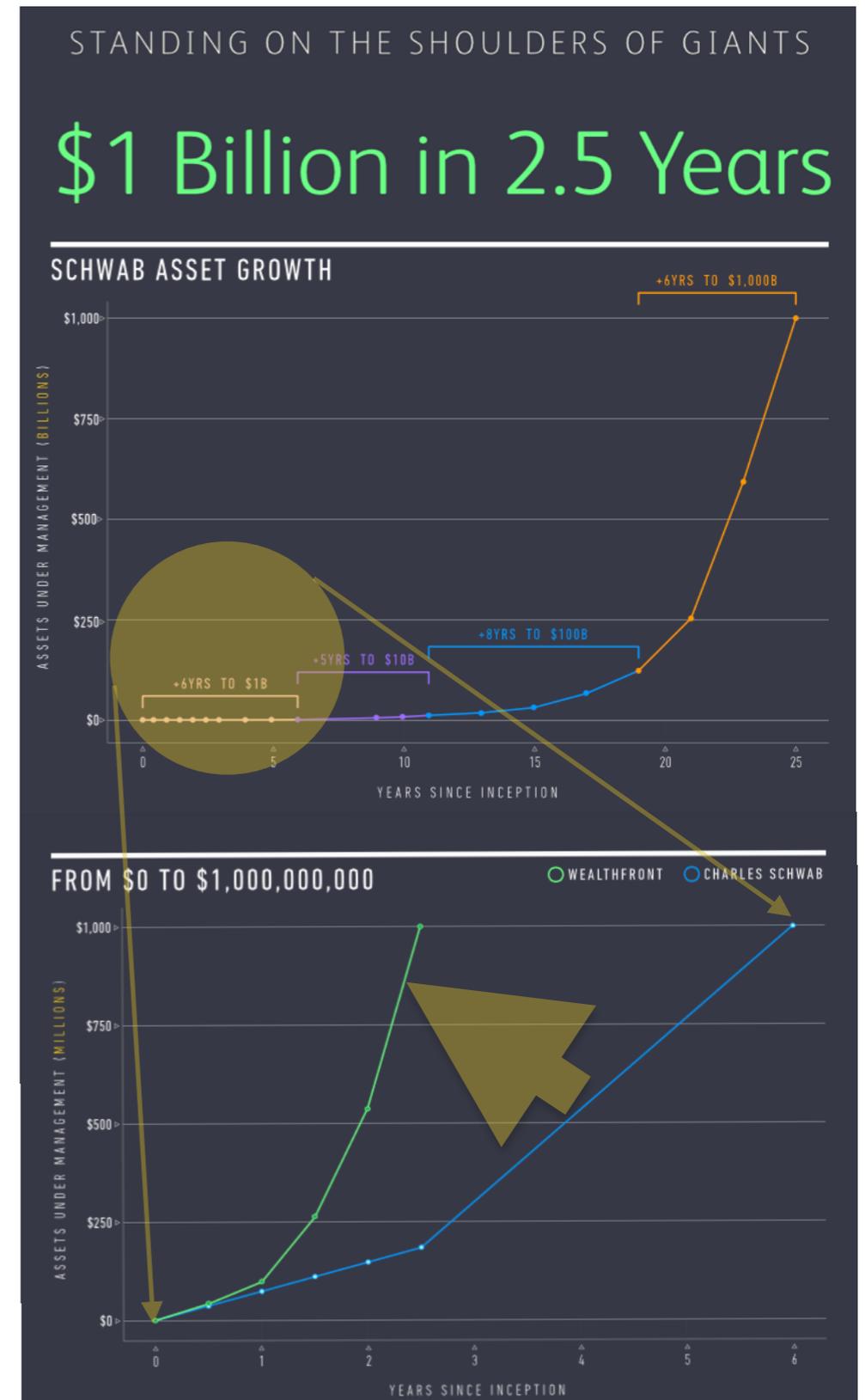
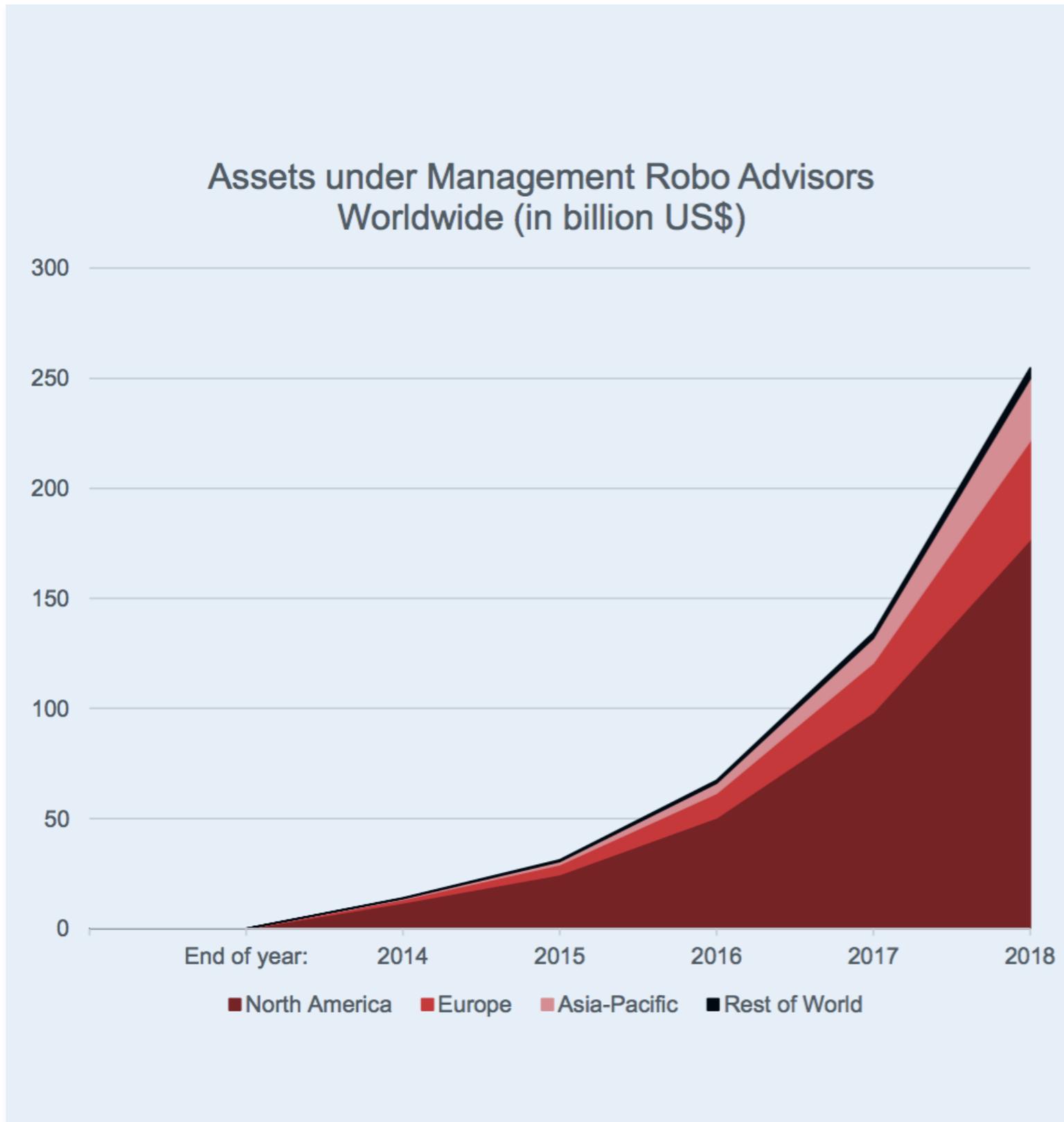
noticed

venture capital
research
conferences

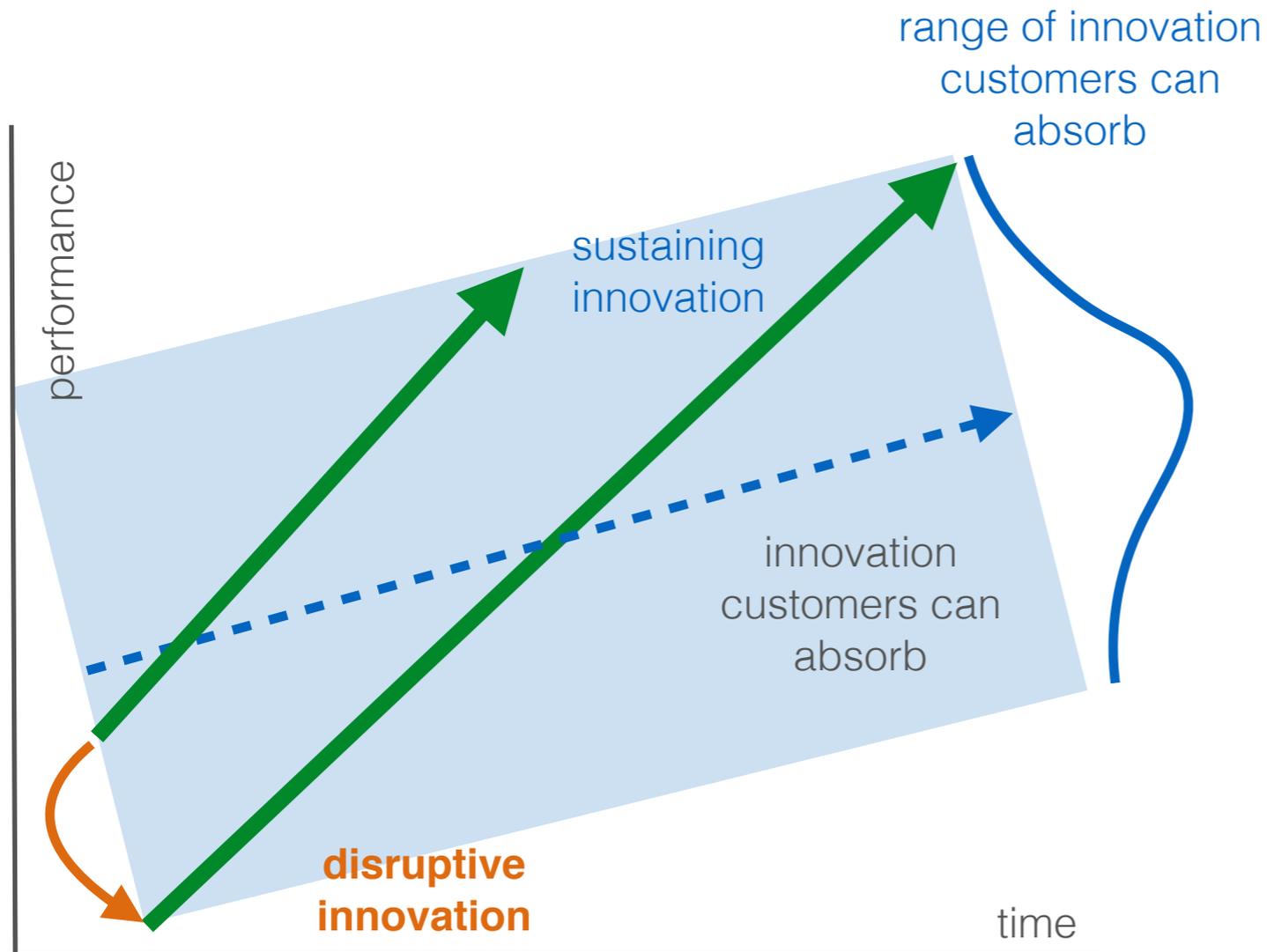
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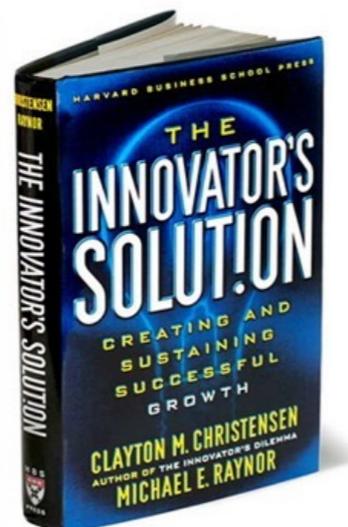
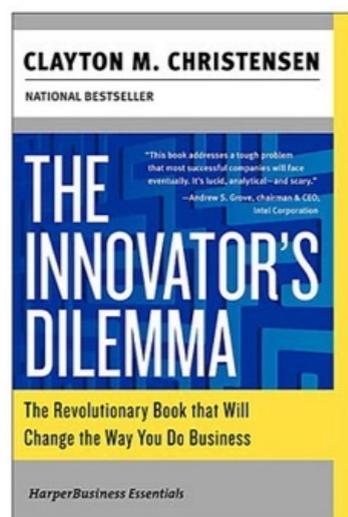
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**Are
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2. **Sustaining innovation** makes better products with higher prices for high end customers, until extra value can't be priced up [HI-FI, personal advise]
3. **Disruptive innovation** introduces simplified and less expensive products/services, to appeal to new or less-demanding customers [iPod, robo-advisors]
4. **Higher margins** and more demanding customers once products gain foothold, improvement cycle restarts [iPad, robo-4-advisors, GBI planning]



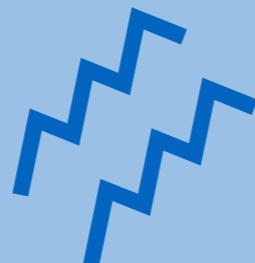
Indexing 2.0



Mutual Funds and Index ETF

- ▶ automation of portfolios (Indexing 2.0)
- ▶ transaction costs are approaching zero
- ▶ tax harvesting can be maximised.

Indexing 3.0



Active managers (not so active ...)

- ▶ personalised smart-beta and rule-based algorithms (Indexing 3.0).

Robo-advisors



Human Advisors

- ▶ Millennials are more digital and social than Baby Boomers.

Robo-4-advisors

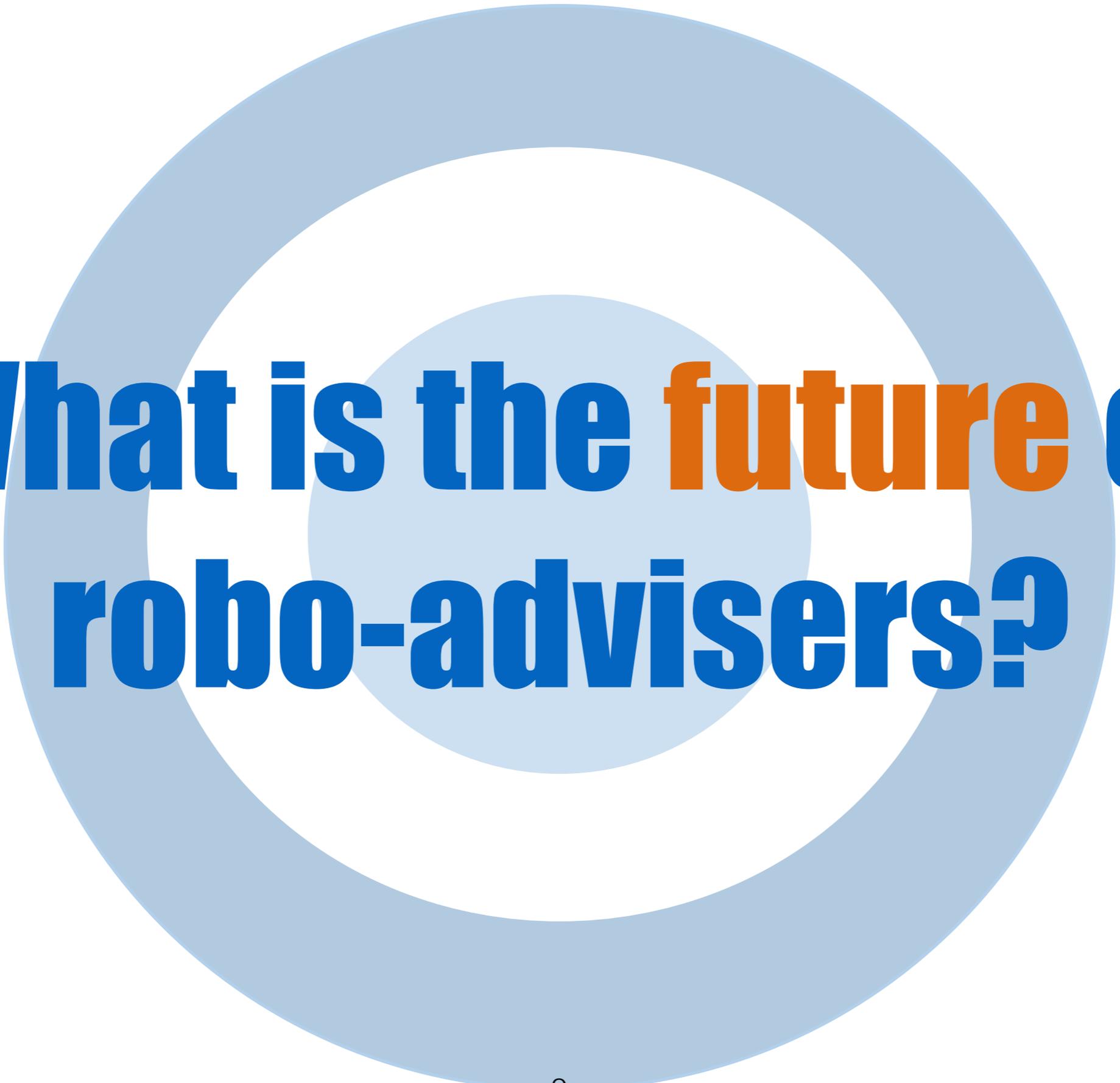


Platforms and custodians

- ▶ All-In-One Vertically integrated Platforms and the shift to robo-4-advisors

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What is the **future** of robo-advisers?

From disruption to sustained growth

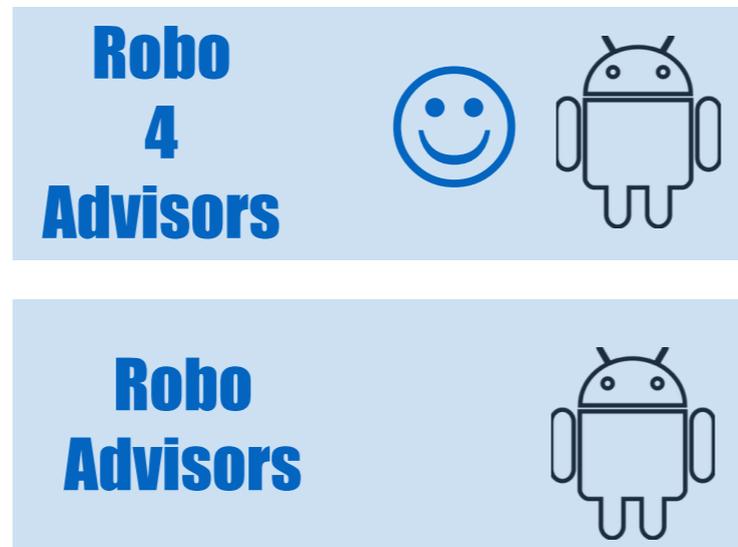
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**sustaining
innovation**

**Goal
Based
Investing**

**disruptive
innovation**



Press Release London, Nice, Paris, Singapore, November 12, 2014

50% greater probability of achieving objectives with goal-based investing compared to traditional private wealth management approach

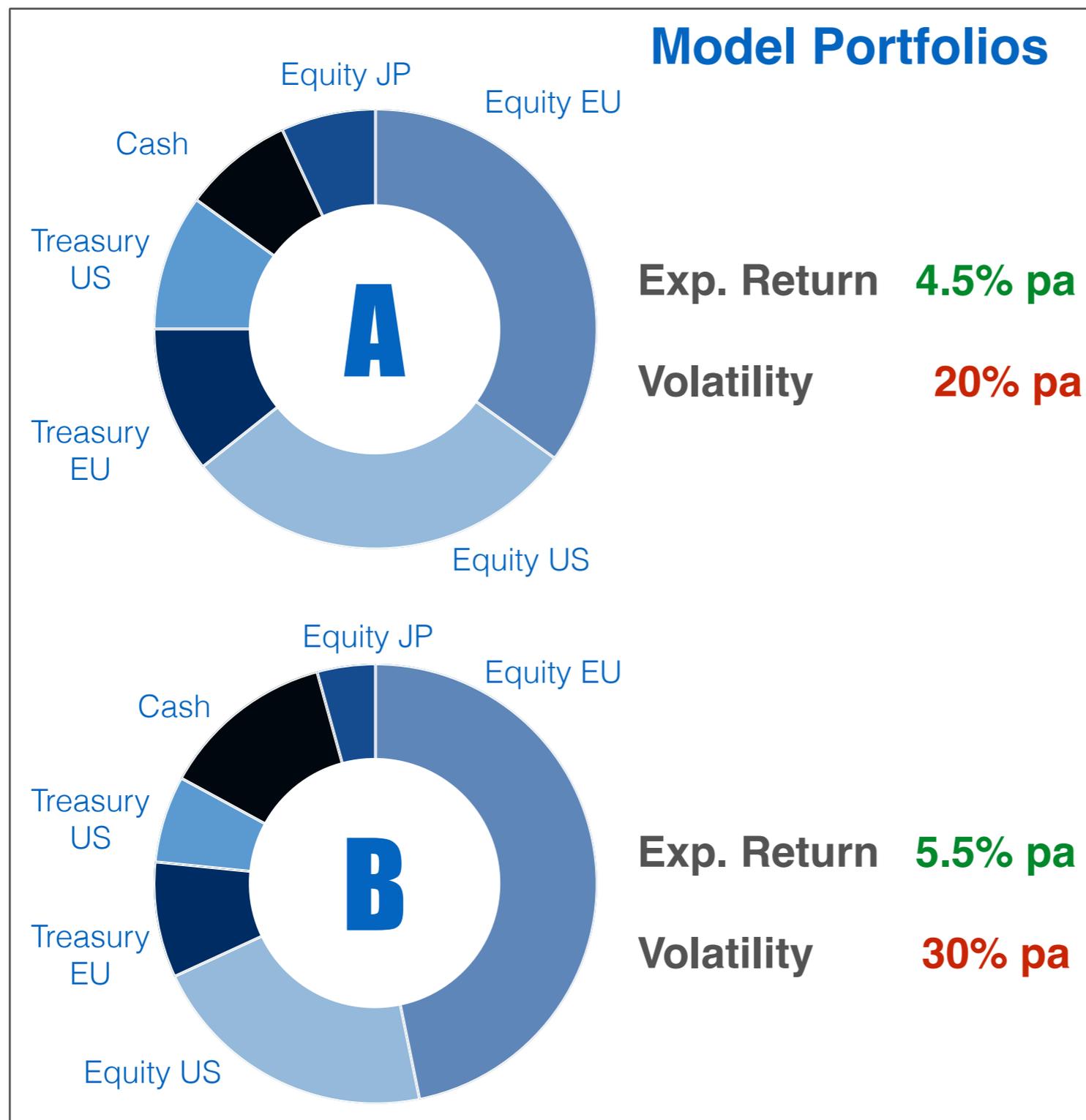
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Thank you



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www.riskbooks.com/modern-portfolio-management-from-markowitz-to-probabilistic-scenario-optimisation

