

# Welcome to WealthTech 2018



MORNINGSTAR®

# Fintank's WealthTech 2018

## How Technology Is Impacting Investing

- Welcome
- Speakers and Participants (present and watching globally)
- Dean DeLise and Team – Social Jack – Live Stream
- Education -- NVISIA
- Participating FinTank Companies (Coinifide and Crypto Markets)
- Disruption Joe – “Voice of Blockchain” event
- More about FinTank (membership, meetups and Blockchain/Cryptocurrency events)
- Thank you to the volunteers for making this happen



**George Vukotich, Ph.D**  
**Founder - FinTank**

## How Technology Is Impacting Investing

- Agenda
  - How Robo-Advising is Disrupting Wealth Management
  - How AI Can Enhance Investment Returns
  - Keynote – How Technology Can Increase Profits for Financial Advisors and Their Clients
  - An Exchange Perspective on Crypto Investing
  - How to Analyze an ICO
  - Speed and Open Networking



**George Vukotich, Ph.D**  
**Founder - FinTank**

# Fintank's WealthTech 2018

## How Technology Is Impacting Investing

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**Rick Schmehl**  
**Director of Business Development**  
**Morningstar**

# Fintank's WealthTech 2018

## How Technology Is Impacting Investing

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**David Carman**  
**Angel Investor**  
**Co-Founder - FinTank**

# WealthTech is Hot

**“Global WealthTech funding is on track to surpass 2017’s record of \$2.5B with over \$2B already invested in the 1st quarter of 2018.”**



**(FinTech Global—May 16, 2018))**



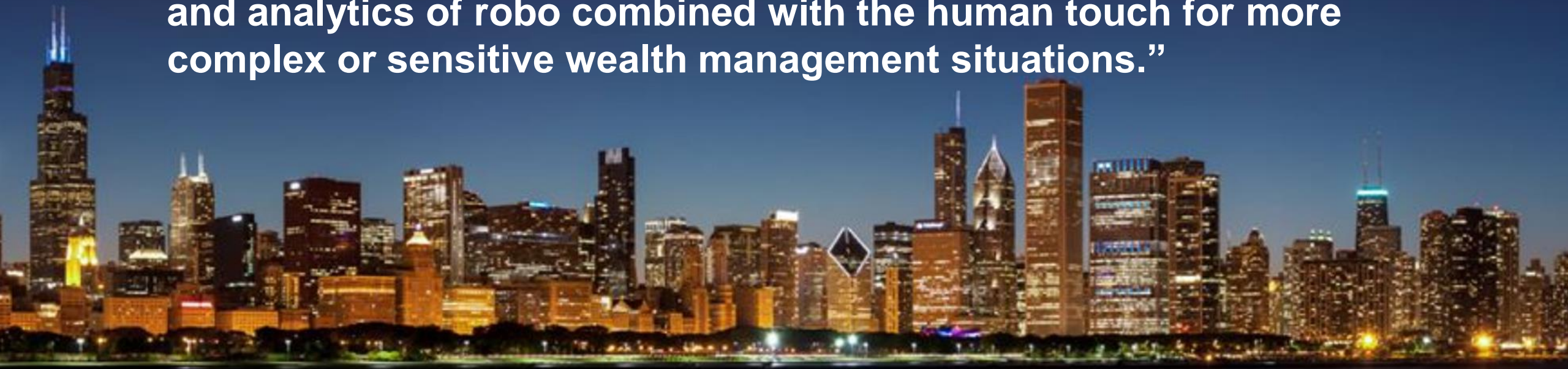
# Robo is Red Hot

“Robo-advisors, which were introduced in 2008, are steadily eating up market share from their human counterparts. A study by Deloitte estimated that assets under automated management in the U.S. will grow to \$7 trillion by the year 2025 from about \$300 billion today.”

(Harvard Business Review—January 12, 2018)

# Hybrid Model

**“Investors prefer the best of all worlds. Investors want the low cost and analytics of robo combined with the human touch for more complex or sensitive wealth management situations.”**

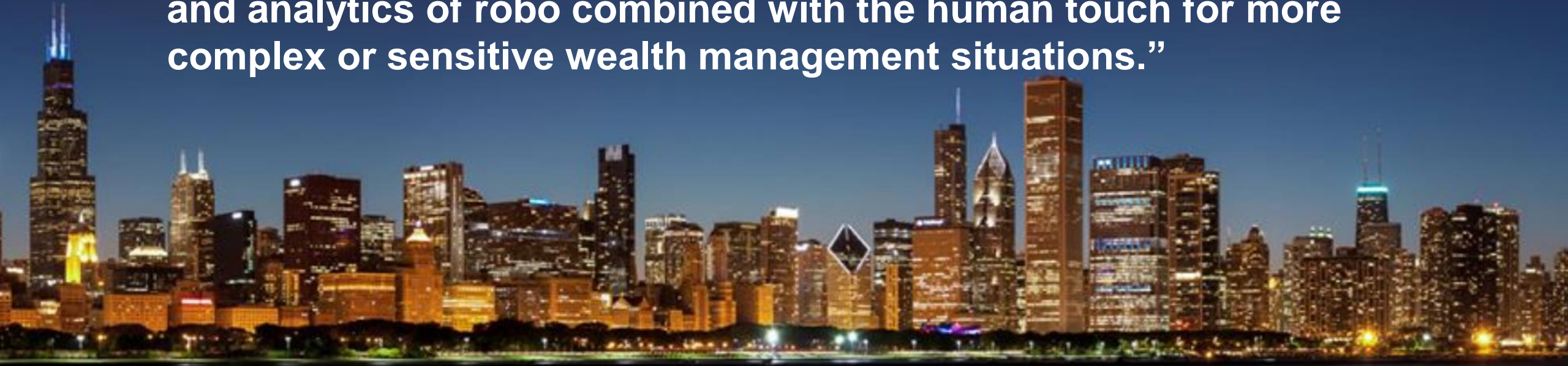


**(Kendra Thompson, Head of Wealth Management  
in North America for Accenture—May 4, 2018)**



# Hybrid Model

**“Investors prefer the best of all worlds. Investors want the low cost and analytics of robo combined with the human touch for more complex or sensitive wealth management situations.”**



**(Kendra Thompson, Head of Wealth Management  
in North America for Accenture—May 4, 2018)**

# Hybrid Model

**“84% of millennials seek financial advice, even though they describe themselves as self-directed investors.”**



**(Deloitte—March 20, 2018)**



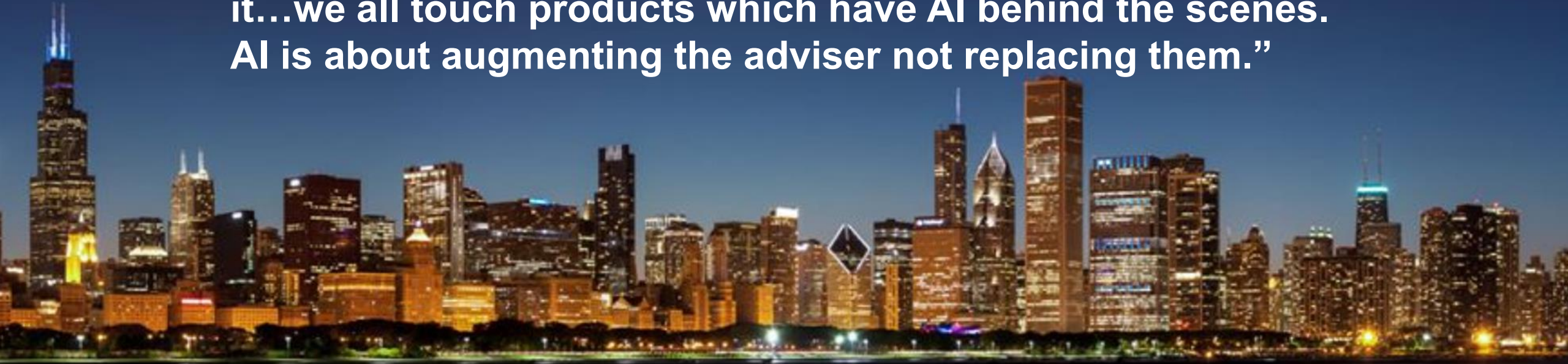
# Artificial Intelligence

**“Artificial intelligence is the ultimate competitive edge. It has the potential to deliver an infinite workforce that never tires and virtually never makes mistakes...Could it make investing even easier, cheaper, more effective? The biggest fund firms have been spending billions to find out.”**

**(Barron's—April 7, 2018)**

# Artificial Intelligence

**“The best use of AI is when you do not realize you are using it...we all touch products which have AI behind the scenes. AI is about augmenting the adviser not replacing them.”**



**(James Howell, Wealth Management Lead at Accenture,  
—November 2017)**



# Funding

**“Over the past 14 months, blockchain and related startups have raised \$4.5B via ICOs versus \$1.3B in traditional venture financing worldwide.”**



**(TechCrunch—March 4, 2018)**

# Funding

**“We have become ever more obsessed by benchmarks. The concentration of assets into a handful of market cap indices is not going to end well. Indices do serve a purpose, they used to tell us how capital had been allocated in the market, but they have begun to tell us how to allocate capital and they are not meant to do that.”**

**“The advent of Blockchain architecture combined with AI machine learning will create a form of ETF. ETF 2.0 if you will.”**

**(John Beckett, author of New Fund Order,—November 2017)**

Fintank's WealthTech 2018

## How Robo-Advising is Disrupting Wealth Management



**Brett Ladendorf**  
**Omega Edge**



**Tom Mantych**  
**BlackRock**



**Ramsin Jajoo**  
**Morningstar**



# Robo-Advisory Landscape

Tom Mantych / VP BlackRock Digital Wealth Group

June 2018

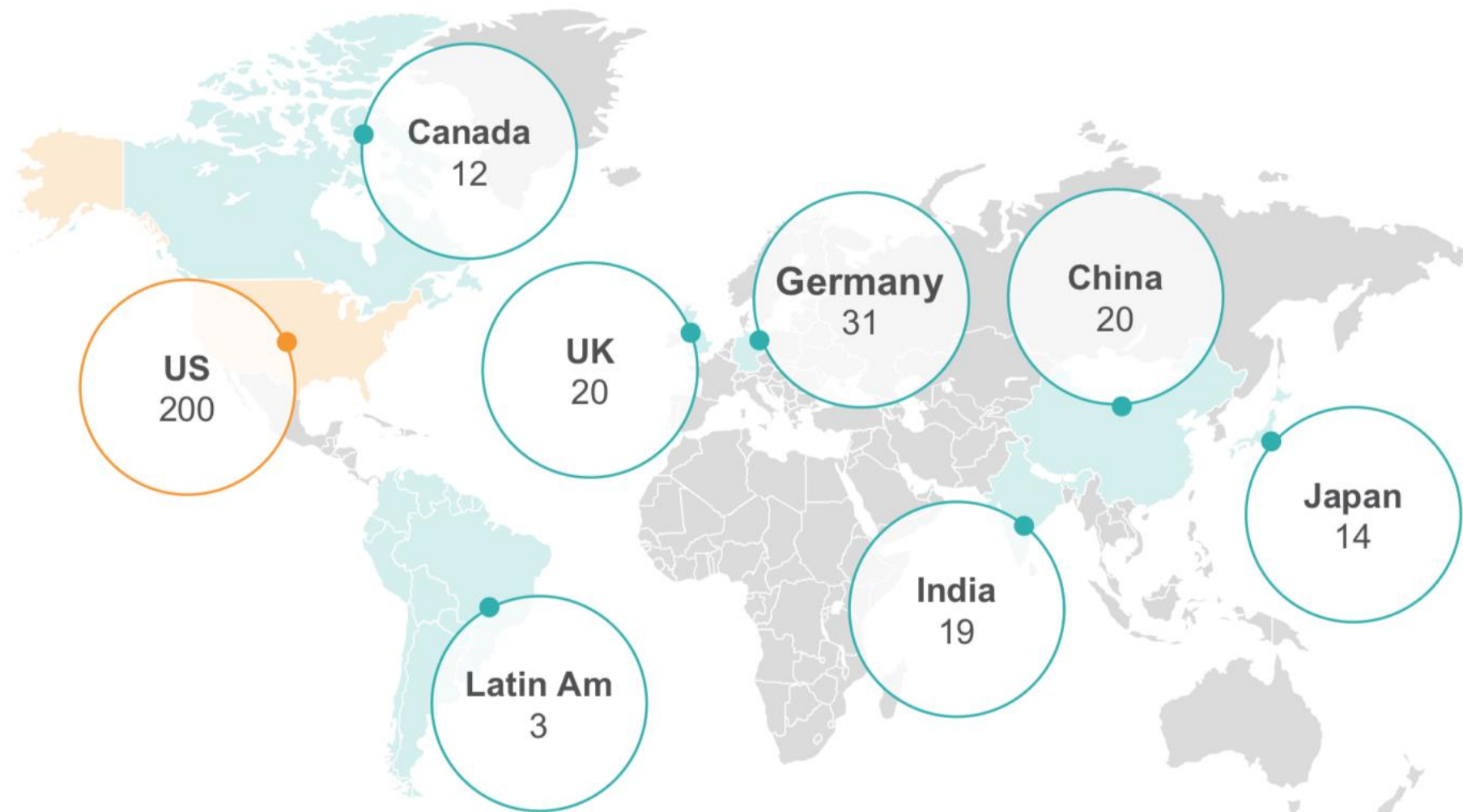


BLACKROCK®



## Digital advice has exploded globally over the past 5 years

2017: Geographic presence of robo-advisors



Source: Burnmark, 2017.

## Investors want a digital solution



55%

of investors would use a Robo-Advisor in *addition* to an FA, not instead of one.\*



More than  
70%

of HNWI's under 45 said a *strong digital offering* is essential for a wealth manager.†



\$200B

robo market AUM is in its infancy compared to \$20T managed by traditional wealth firms.‡

Sources: \*BlackRock, 2017. † Jefferies, 2017. ‡ Burnmark, 2017. HNWI = high net worth investors.

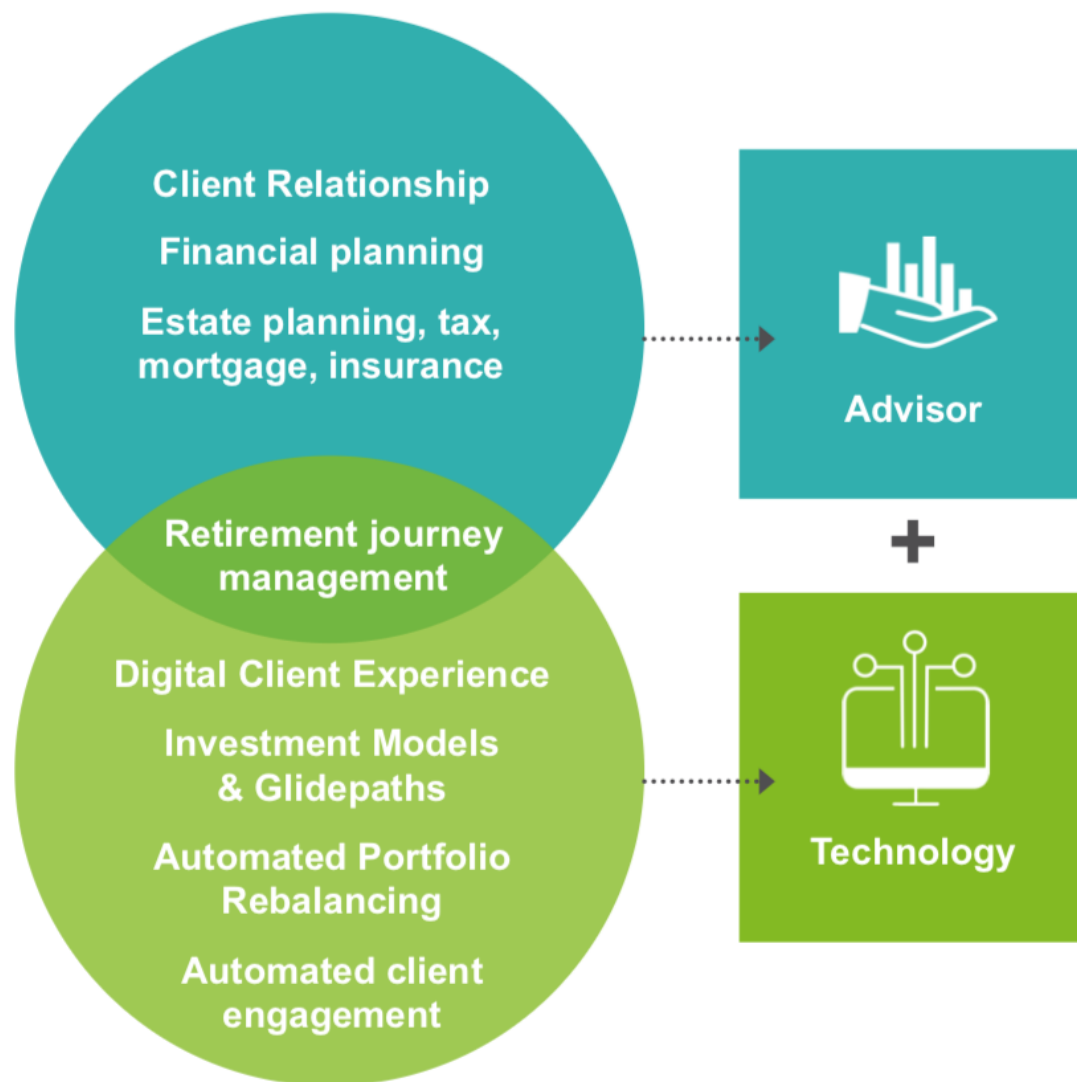
## Using digital tools has benefits for both the client and the advisor

Advisors who integrated technology into their practice saw:



Sources: \* Fidelity, 2016. † McKinsey, 2016.

## Advisor + technology: A powerful combination





## Important Notes

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# Dawn of the Digital Age



Ramsin Jajoo  
Head of Asset Management Solutions

June 28, 2018

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**When I hear “Digital Advice” I think:**

1. Sounds like a great way to scale my business

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**When I hear “Digital Advice” I think:**

1. Sounds like a great way to scale my business
2. All hype; this is never going to replace the human advice experience



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## When I hear “Digital Advice” I think:

1. Sounds like a great way to scale my business
2. All hype; this is never going to replace the human advice experience
3. I like the idea, but the execution so far is lacking

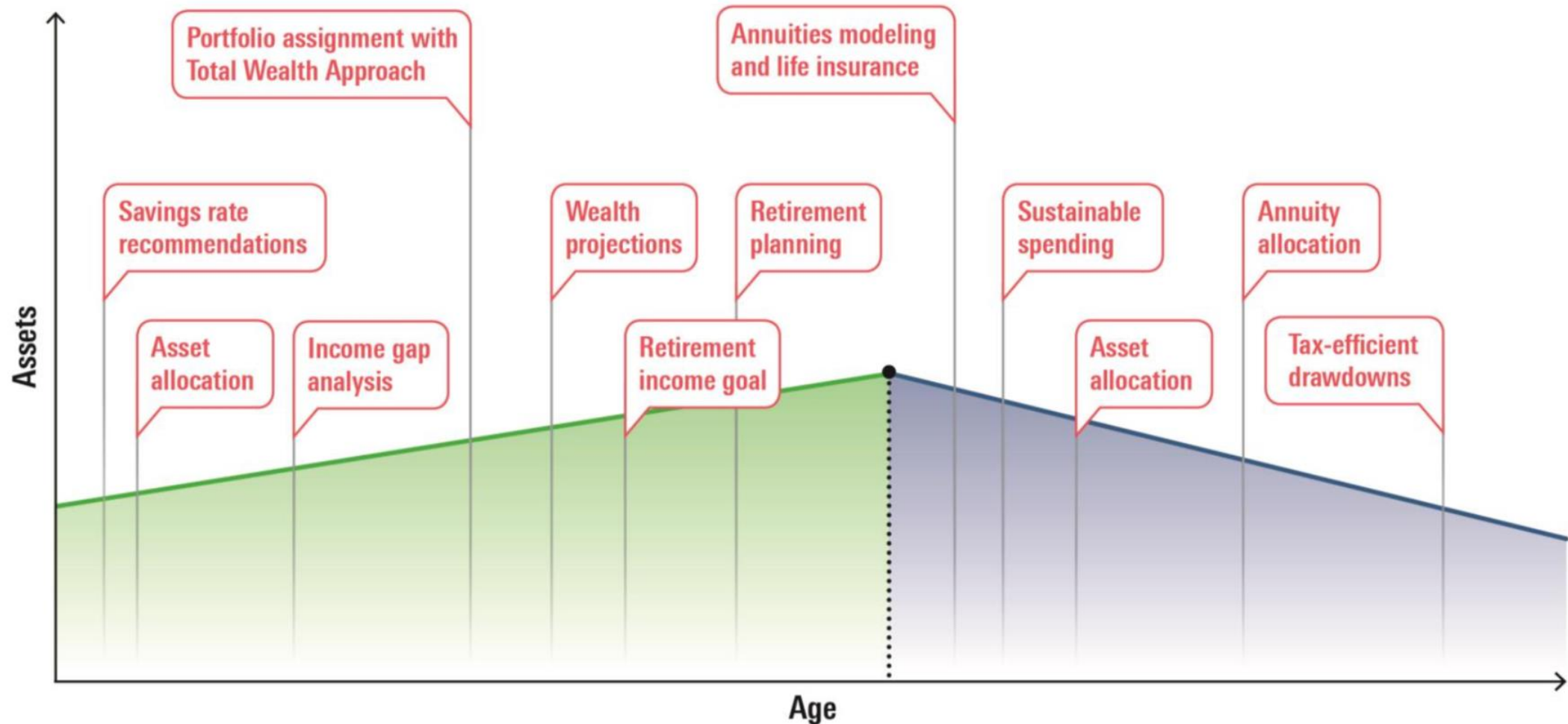
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## When I hear “Digital Advice” I think:

1. Sounds like a great way to scale my business
2. All hype; this is never going to replace the human advice experience
3. I like the idea, but the execution so far is lacking
4. All hail our new robot overlords!

# Let's Start with Digital Advice

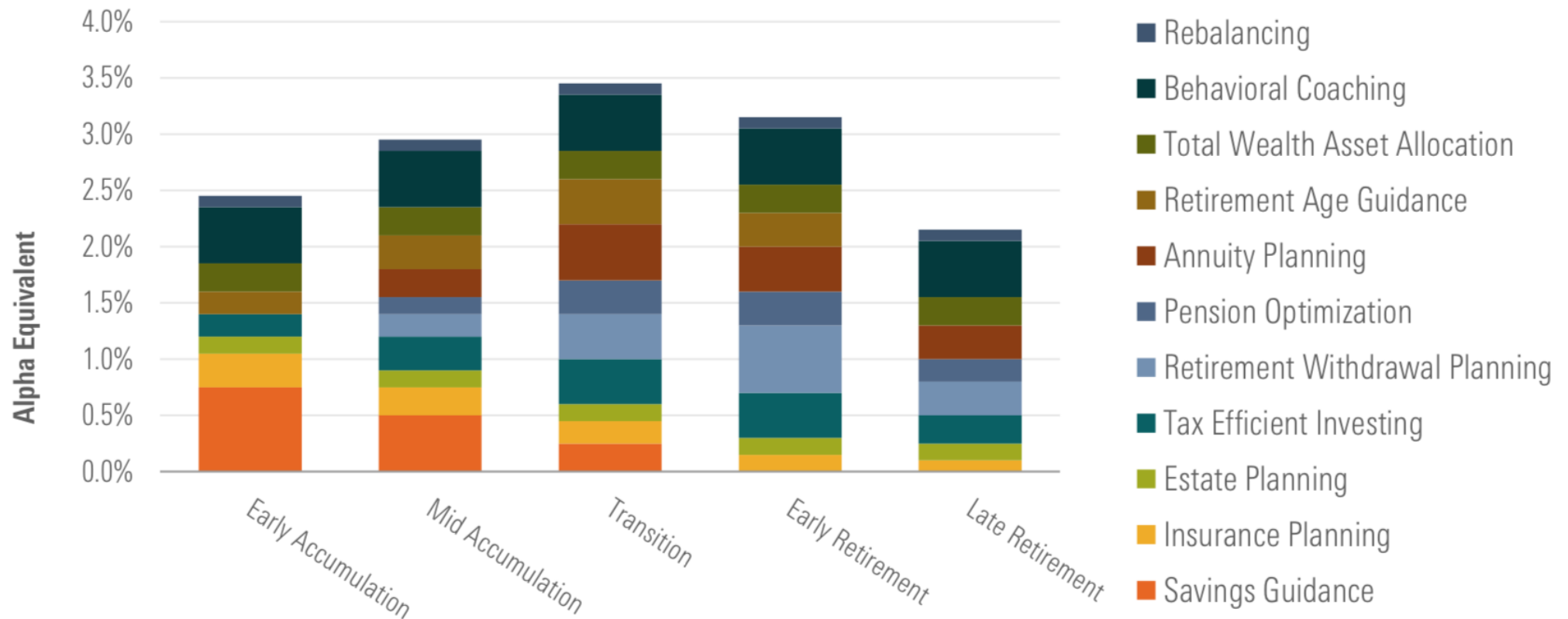
Before we start digitizing advice, let's make sure that we all understand what "advice" means...



## The Value of Advice – “Alpha, Beta and Now ... Gamma”

### Service Value

## The Potential Value of Various Financial Advice Services Over Investor Lifecycle



Source: Morningstar, Inc.. David Blanchett, CFA, CFP®, and Paul Kaplan, Ph.D., CFA, *Alpha, Beta, and Now... Gamma* (August, 2013)



# Delivering Digital Advice – More than Just a Fancy Website

A range of capabilities are required



Client Portal



Client Communication



Account Opening



Account Aggregation



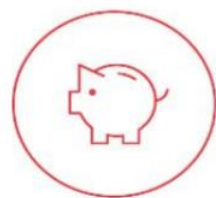
Portfolio Analysis



Risk Assessment



Goal Modeling



Budgeting



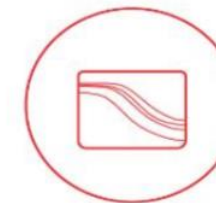
Saving for key  
purchases



Debt-Management



Model Based  
Solutions



Glide Paths



Personalized  
Investments  
Solutions



Back-office/  
Execution



Performance  
Reporting



Rebalancing



Personalized  
Education



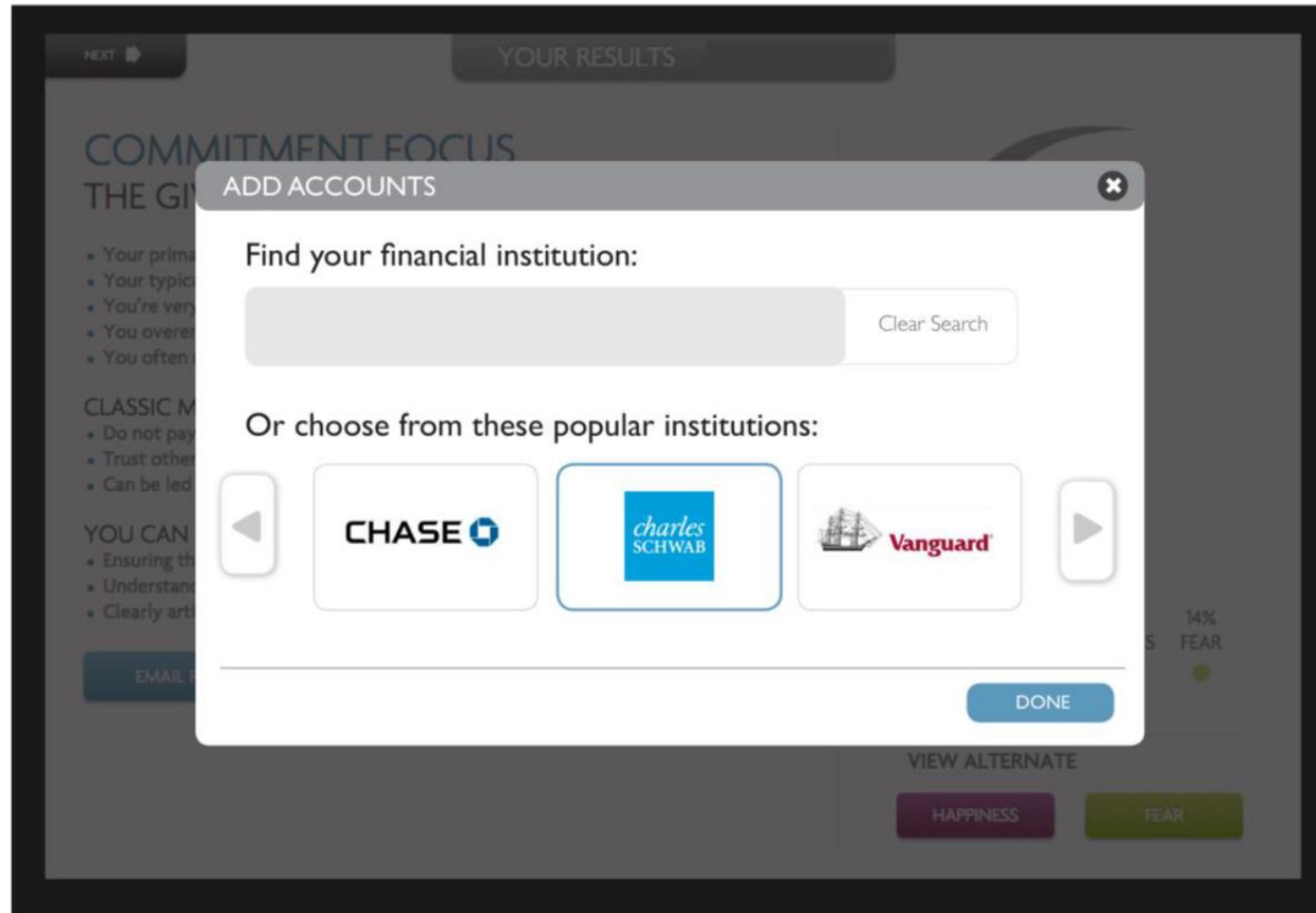
Behavioral  
Coach & Design

## Major Point of Friction – Automated Data Aggregation

It is impossible to truly automate advice without automated data collection

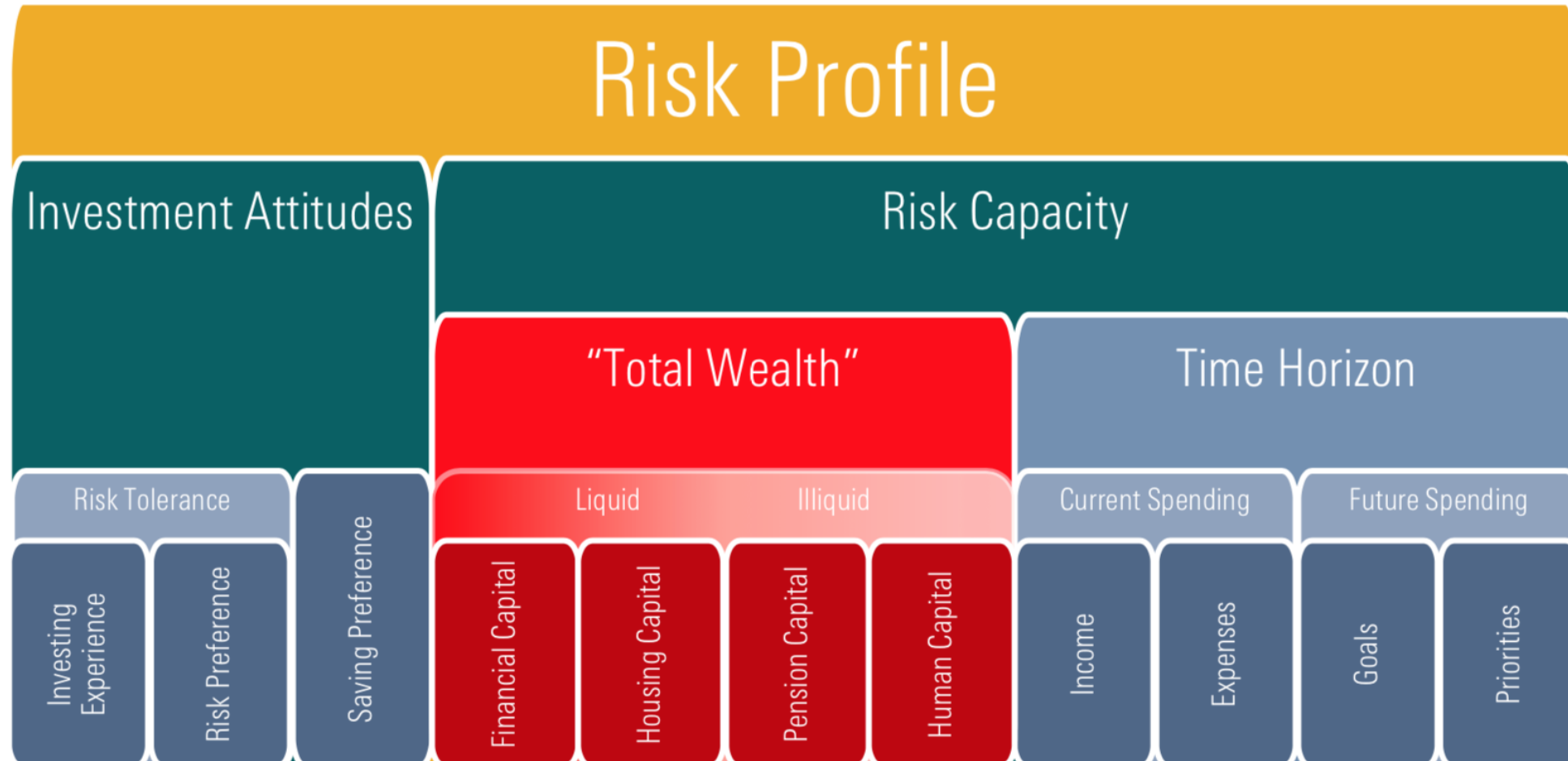
*"We believe that the customer ultimately owns their data"*

*Kunal Kapoor, CEO  
Morningstar Inc.*



# With that Data, We Can Do Amazing Things to Change Investor Outcomes

For Example, moving from Risk Tolerance to a Risk Profile



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# The Robo Advice Landscape



# Latest Equity Research



## Financial Services Observer

June 2018

### Robo-Advisor Upgrade! Installing a Program for Profitability: Digital Advice Raises Profits for Investment Services Industry

**Contents**

- 2 Key Takeaways
- 8 Our Dire Assessment of the Original Robo-Advisor Business Model
- 12 Materialized, but New Strategies for Profitability Are Emerging
- 14 Strategies for Lowering the Cost of Client and Asset Acquisition
- 24 Robo-Advisors Need to Build for Operating Leverage
- 30 Expanded Service Offerings and Higher Revenue Yields Underpin Our More Positive View on Robo-Advisor Profitability

**Executive Summary**

We agree that there's much to be skeptical of with the original robo-advisor business model. In fact, we wrote in 2015 about the challenging economics, how many stand-alone robo-advisors wouldn't survive, and robo-advisors integrated with established financial institutions would leapfrog the early leaders. However, new business models are addressing the three faults of the original robo-advisor model: high client acquisition costs, ongoing costs of servicing clients, and low revenue yield on client assets. Lead-generation tools and strategic partnerships are reducing acquisition costs, while building for scale and operating leverage eventually solves service costs. Revenue-enhancement strategies underpin much of our optimism for select robo-advisors becoming profitable. Upselling to human advice, ancillary service offerings, and incorporating proprietary products in portfolios are key revenue drivers.

We don't see robo-advisors disrupting moaty financial institutions. Instead, we expect established financial institutions will co-opt the technology and user experience improvements of robo-advisors to expand their own businesses. Among the asset management, wealth management, and online brokerage firms that we cover, we believe Invesco, Credit Suisse, and UBS are trading at the most attractive valuations.

Name/Ticker	Business Model	Asset Trend	Currency	Fair Value Estimate	Current Price	Uncertainty Rating	Morningstar Rating	Credit Rating	Market Cap (\$B)
BlackRock BLK	Wide	Positive	USD	800	549.14	Medium	★★★★	AA-	88.49
Charles Schwab SCHW	Wide	Stable	USD	57	57.34	High	★★★	A+	77.36
Credit Suisse Group CS	Narrow	Stable	USD	23	15.53	High	★★★★	NR	39.51
Invesco IYZ	Narrow	Positive	USD	40	27.78	Medium	★★★★	A-	11.40
Morgan Stanley MS	Narrow	Stable	USD	50	52.14	High	★★★★	NR	92.30
Raymond James Financial RJF	Narrow	Stable	USD	89	99.58	High	★★★	NR	14.52
TD Ameritrade AMTD	Narrow	Stable	USD	80	82.11	Very High	★★★	A	35.24
UBS Group UBS	Narrow	Stable	USD	21	15.55	High	★★★★	NR	57.78

**Important Disclosure**

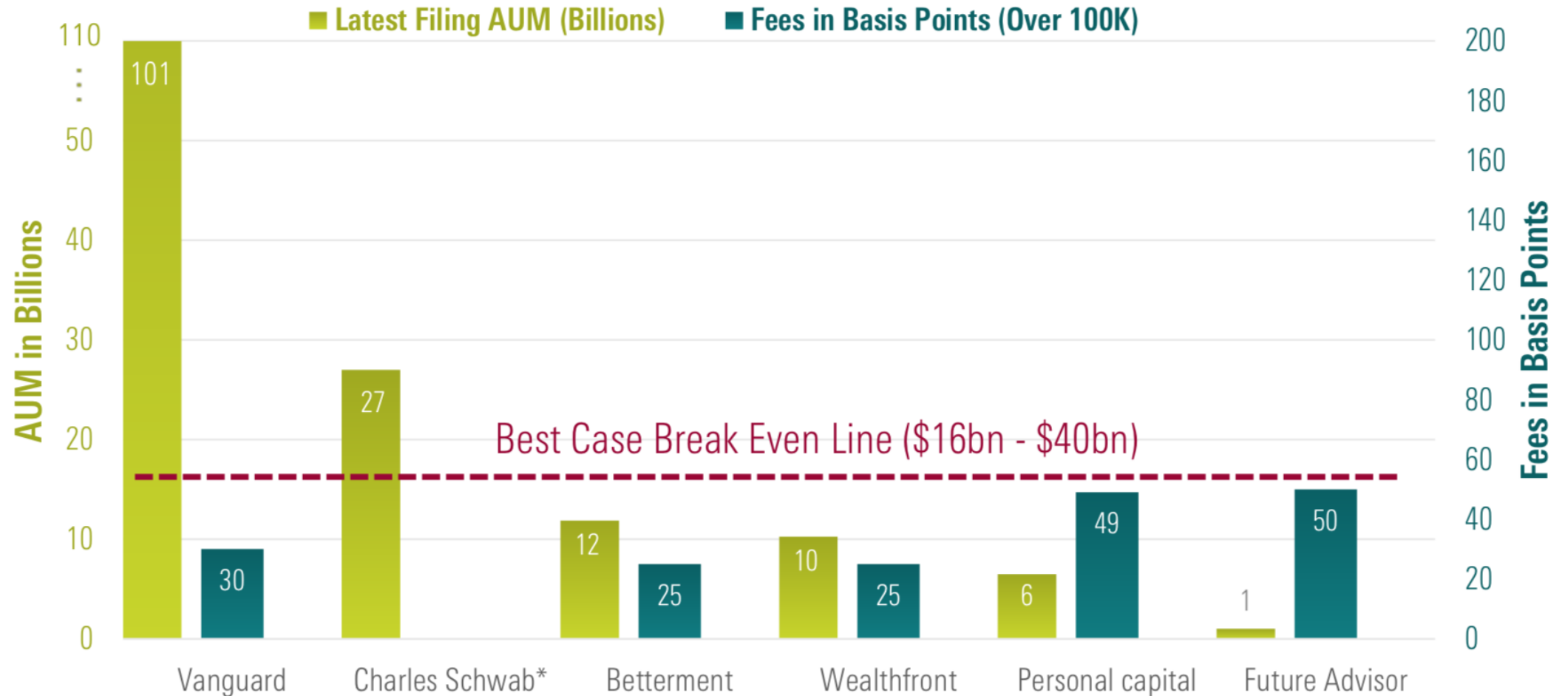
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## Key Takeaways:

- ▶ Robo-advisors have failed to disrupt and many are still unprofitable
- ▶ Moaty financial service firms (e.g. Vanguard & Schwab) have leapfrogged the early entrants
- ▶ Cost of client acquisition (\$300-\$1,000 p/client) means access to a fertile pool of prospects/clients is key
- ▶ Partnership with established firms may be the best path to success
- ▶ Revenue enhancing strategies improves the outlook for select robo-advisors becoming profitable

Download at <http://www.morningstar.com/learn/robo-advisors>

## Hype vs Reality – Silicon Valley is not tearing down Wall Street\*\*



\*Schwab requires some assets to be held in their bank

\*\* Though Vanguard might!

# Build, Buy or Partner

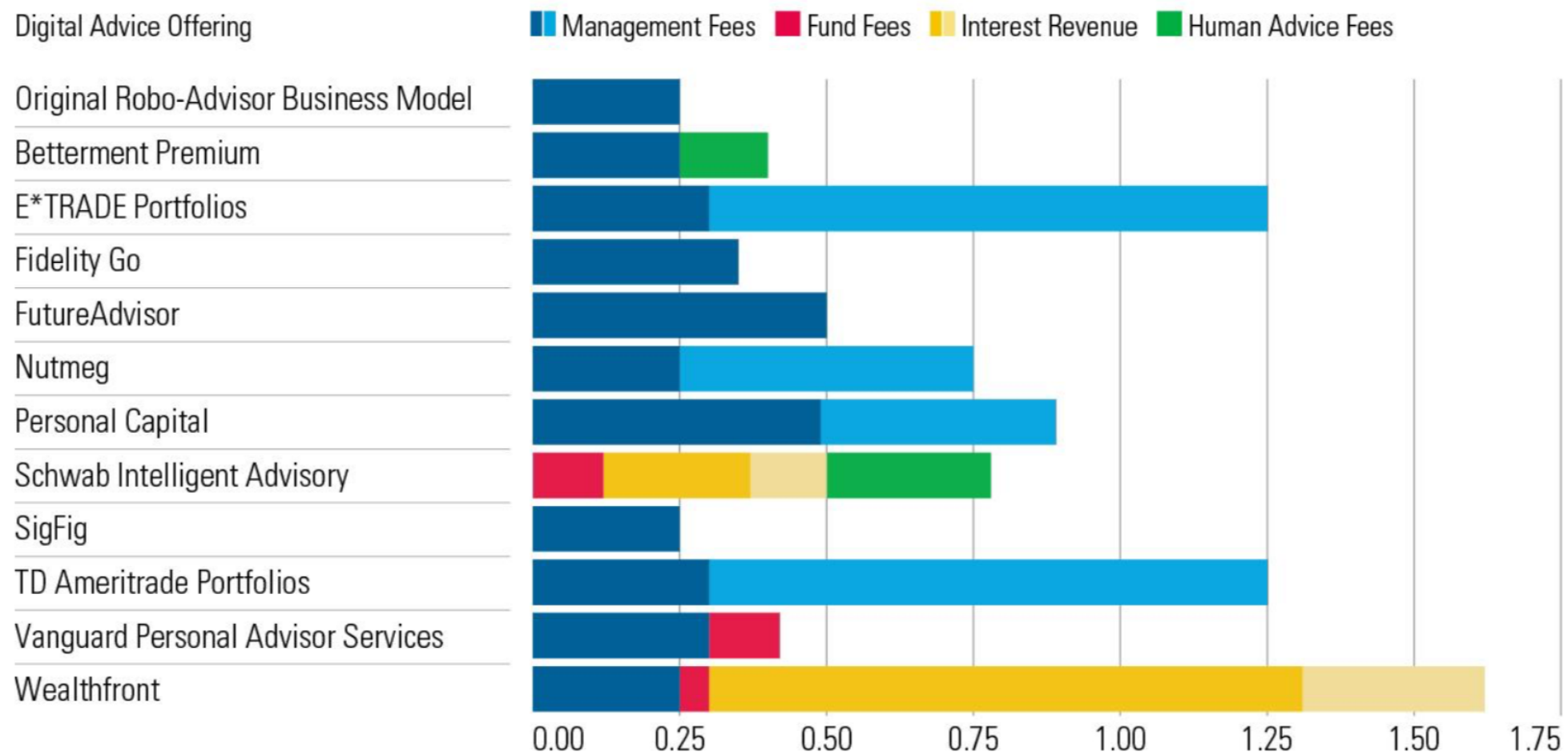
	In House	Purchased	Partnership
<b>Vertically Integrated Asset Managers</b>			
Charles Schwab			
Fidelity			
JP Morgan			
UBS			
Wells Fargo			
<b>Pure Play Asset Managers</b>			
Blackrock			
Capital Group			
Franklin Templeton			
Invesco			
Legg Mason			
PIMCO			
State Street Global Advisors			
T. Rowe Price			
Vanguard			
<b>Advisors</b>			
Ameriprise			
Edward Jones			
LPL			
Merrill Lynch			
Morgan Stanley			
Primerica			
Raymond James			

## Robo Offering

- Offering has been launched or another firm has been purchased.
- Plans to develop Robo advisor.
- No concrete evidence of Robo investment.

## New service offerings to boost revenue

Digital Advice Offering



Source: Betterment, Charles Schwab, E\*Trade, Fidelity, FutureAdvisor, Morningstar, Nutmeg, Personal Capital, SigFig, TD Ameritrade, Vanguard, Wealthfront. Data as of June 8, 2018.



# Human Advisors, Aided by Digital Advice is the Winner ... and of course the Consumer!

	Discount Brokerage	Robo-Advisor	Cyborg-Advisor	Full-Service Wealth Manager
Client	DIY Trader & DIY Long-term Investor	Mass Affluent	Mass Affluent	High-Net-Worth & Ultra HNW
Service	Low Cost Trade Execution  Trading Tools  Investment Information	Low Cost Asset Allocation	Low Cost Asset Allocation  Electronic Communication  Basic Financial Plan	Personalized Asset Allocation  Human Relationship  Holistic Goal & Financial Planning  Product Access (IPOs, Alternatives)  Loans  Insurance  Tax Optimization  Investment Alpha

Source: Morningstar. For Illustrative Purposes Only.

# Appendix

# The Value of Advice

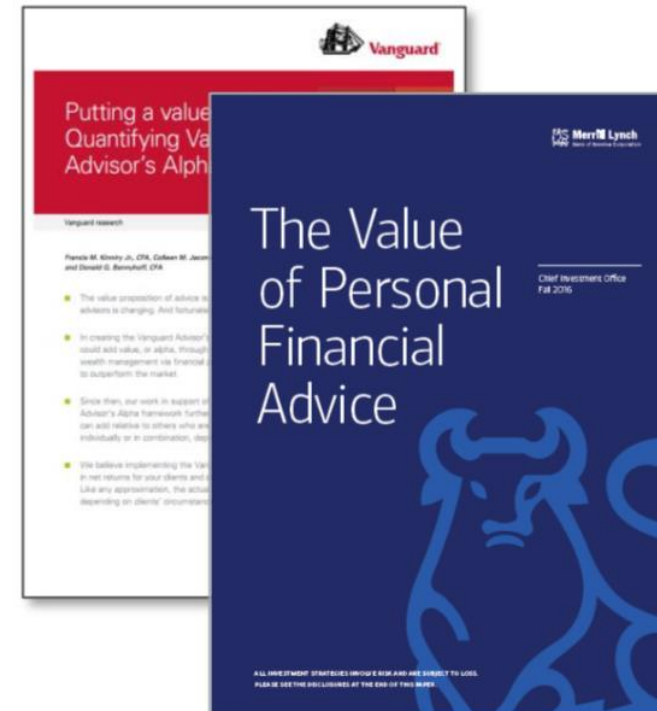
## Service Value

## A Growing Body of Research on the Value of Financial Planning Services

### Morningstar Research

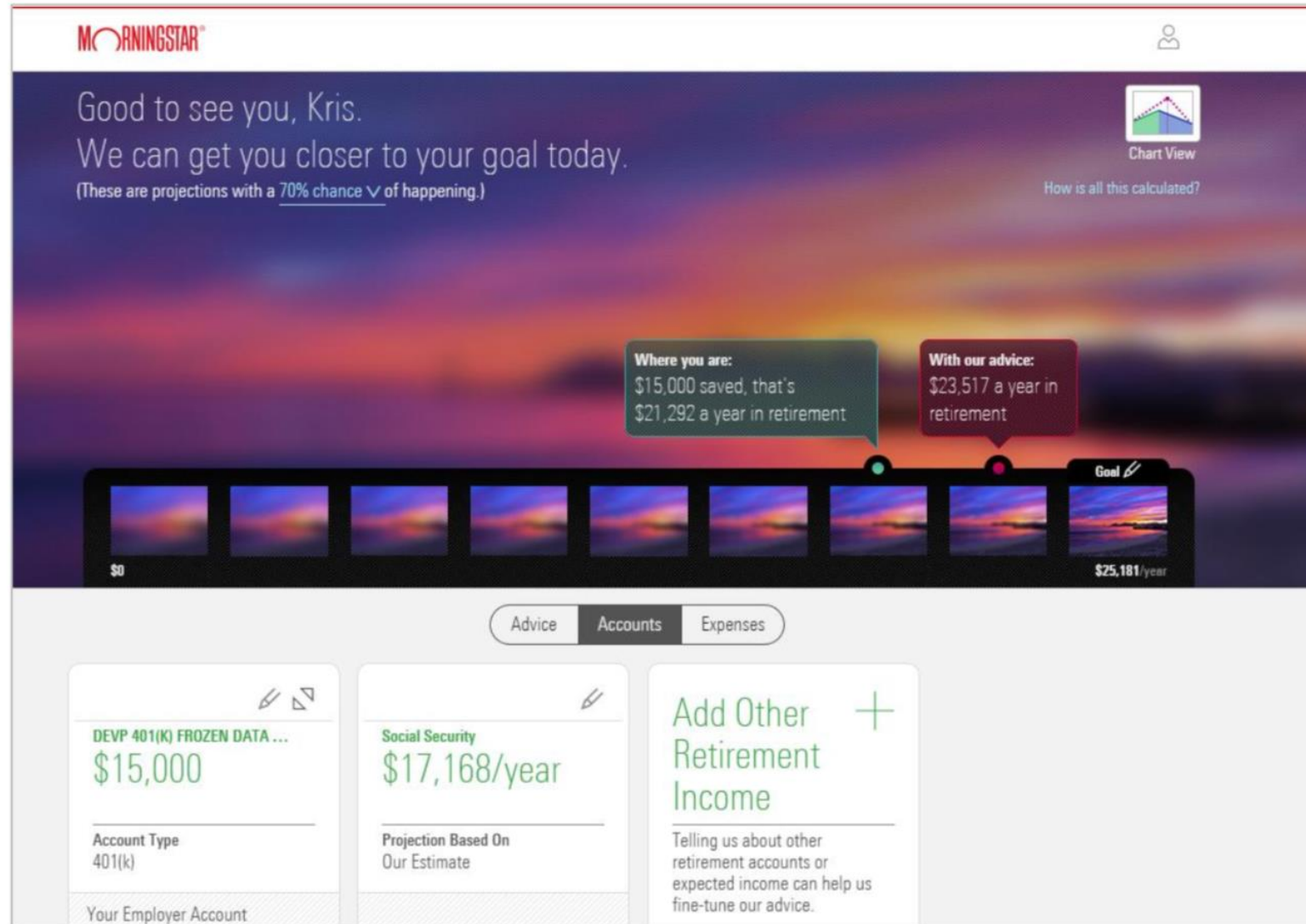


### Other Research



For illustrative purposes only.

## That said....an appealing, non-threatening front-end is essential





# Mapping the US players – segmentation

**B2B2C**

Record keeper/Plan Sponsor

**B2C**

**B2B2C**

Advisor (1)

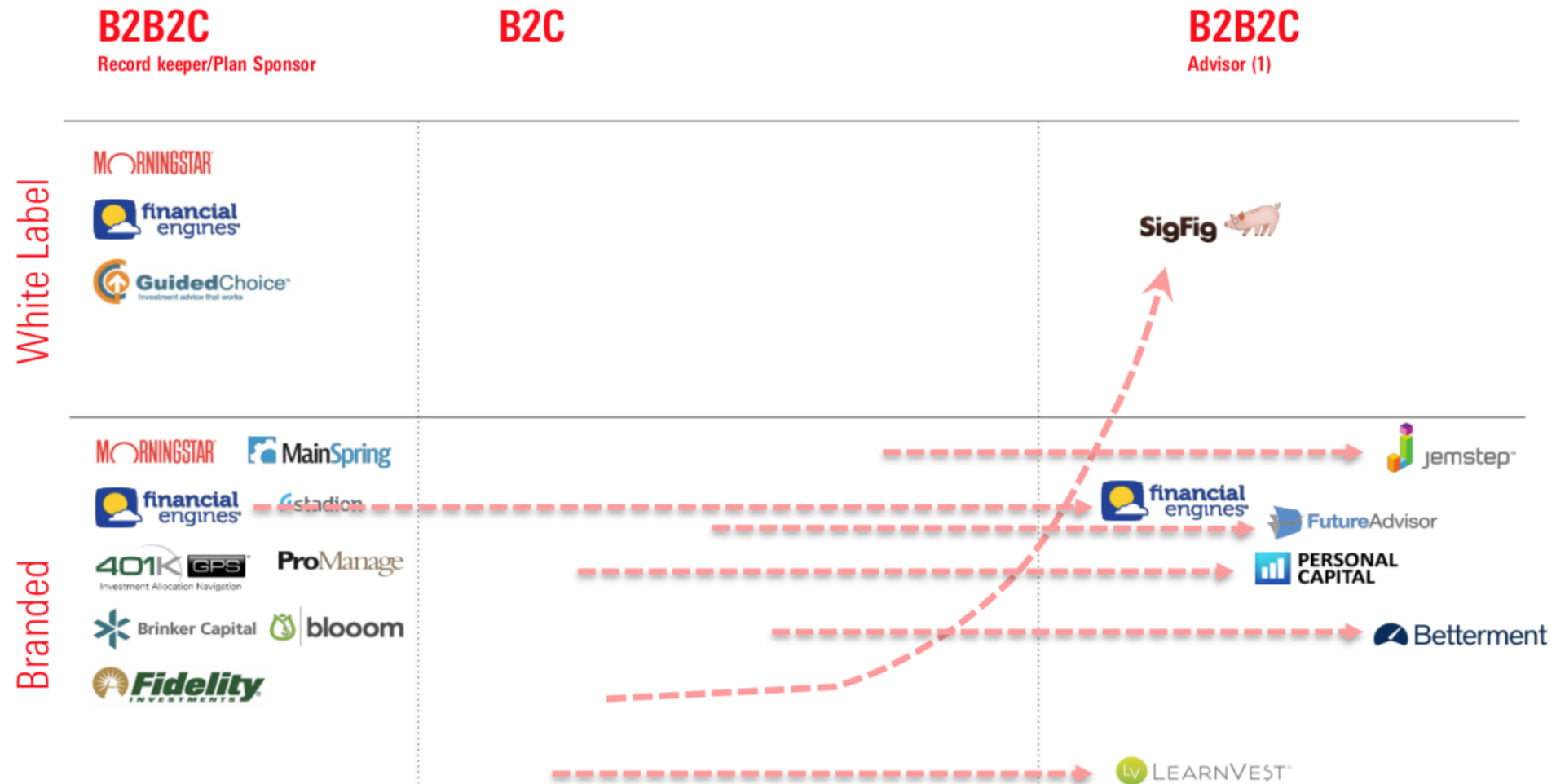
White Label

Branded



(1) Represent firms that sell products which have both an advisor facing and consumer facing UX. As such, Morningstar Managed Portfolios and related competitors, which do not offer a consumer facing UX are not included in this graphic.

# Mapping the US players – recent developments (distribution partnerships or mergers)



(1) Represent firms that sell products which have both an advisor facing and consumer facing UX. As such, Morningstar Managed Portfolios and related competitors, which do not offer a consumer facing UX are not included in this graphic.

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## Client Acquisition Strategies

### Strategy

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Advertising

3rd Party Partnering

Cross-Sell to Existing Customers

Lead Generation Product

Higher Account Balance

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### Drawback

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Expensive

Lack of Control, Economics Sharing

Cannibalization

Development and Maintenance Costs

Various

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Source: Morningstar Research

## Long road to profitability

Account Size (USD Thousands)	Adjusted Operating Income (bps)						
	25	5	10	15	20	35	
\$ 25	48	24	12	8	6	3.4	<div>SCHW</div> <div>AMTD</div> <div>ETFC</div> <div>Robo</div>
50	24	12	6	4	3	1.7	
75	16	8	4	2.7	2	1.1	
100	12	6	3	2	1.5	0.9	
150	8	4	2	1.3	1	0.6	
250	4.8	2.4	1.2	0.8	0.6	0.3	

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# Fintank's WealthTech 2018

## How AI Can Enhance Investment Returns



**Chuck Bohm**  
**ED&F Capital**  
**Markets**



**Morgan Slade**  
**CloudQuant**



**Jack Boyle**  
**Charles Schwab**



**Madison Sargis**  
**Morningstar**



**Brad Goodman**  
**William Blair**

# Break



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# Fintank's WealthTech 2018

## How Technology Can Increase Profits for Financial Advisors & Their Clients



**Steven Sears**  
Author of the  
"The Indomitable Investor"

-

**Chief Market Strategist**  
**STRATiFi Technologies**

# Fintank's WealthTech 2018

## How Technology Can Increase Profits for Financial Advisors & Their Clients

- As a journalist, he pioneered coverage of the options market, market structure and exchanges. He created and launched columns for Barron's, The Wall Street Journal and Dow Jones Newswires.
- His investigative journalism has sparked federal investigations, class-action litigation and regulatory reforms. He helped demutualize America's oldest exchange and then joined a team that led the country's first public offering of a securities exchange, which sparked activity that modernized the exchange industry.
- Mr. Sears helped mainstream options trading, and contributed to the institutional acceptance of volatility as an asset class. The Chicago Board Options Exchange has credited him with naming the CBOE Volatility Index the "fear gauge" that is now universally used to describe VIX. He helped make VIX the options market equivalent of the Dow Jones Industrial Average. At Cboe's 40th anniversary, he received an exchange award for his contributions to the options industry that modernized the exchange industry.



**Steven Sears**  
**Author of the**  
**"The Indomitable Investor"**

-  
**Chief Market Strategist**  
**STRATiFi Technologies**



# Fintank's WealthTech 2018

## Exchange Perspective on Crypto Investing



**Julie Armstrong**  
CME Group



**Catherine Clay**  
CBOE



**Derek Urban**  
Coinigy



**Sean Ristau**  
Bcause

# Fintank's WealthTech 2018

## How to Analyze an ICO



**Brian Jenkins**  
**BusinessBlock**



**Tayfun Icten**  
**Morningstar**



**Brent Traidman**  
**Bread**



**Phil Fornaro**  
**Fornaro Law**



**David Valentine**  
**Athena Blockchain**

# Speed & Open Networking



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Thank you!



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