The Uberization of Wealth Management

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The rate of technological explosion in the last decade has been mind-boggling. If you think about it, almost everyone is carrying around supercomputers in their pockets. The internet connects watches, phones, desktops, laptops, tablets, televisions, refrigerators, cars…everything. Machines talk to machines which talk to sensors which gather data and then learn from that data to talk to machines again. Whew!

Artificial intelligence is here, at least in the narrow form, where machines can learn from the data they gather in order to improve. Soon, personal robots will be a reality in the household, and they will gather real time data on everything to make your live easier. If you do not believe us, ask Jibo. The adaptation of the internet is huge, and it is made possible by cloud computing and sensor technology. It is a massive network of connected devices that are mobile and virtual. As the infrastructure (number of connected devices and sensors) grows, the ramifications will be fantastic and everything will change. The internet is already giving us the most disruption human society has ever experienced, and it will only continue to do so.

Look at Amazon, they are launching drone (unmanned aircraft) delivery services that will allow them to ship items from their distribution centers to customers within the same day or even hours in some cases. This is made possible by the fact that the drones are connected to the internet and have sensors that communicate with software to ensure that the delivery is made appropriately.

A perfect example of a firm that is rooted in big data and the internet of things is Uber. Valued at over 62 billion dollars, Uber is one of the fastest growing and most valuable companies in the world. Uber has taken the world by storm and the word “uberize” or “uberization” is being used to describe all sorts of disruption it has caused in various industries.

Uber is a company that started in San Francisco in 2009 as an effort to improve the traditional ride-sharing industry. The model is simple, cut out the middlemen (i.e. taxi dispatchers), from the buyer/seller equation. They did this by building a network of individuals who would use their assets (cars) to provide rides to those looking for them.

The network empowers individuals to own their own business and increase their income streams, while cutting out unnecessary costs and inefficiencies of a taxi service. Now each driver can work independently of a central company or of a big organization (Freeman 2015). Uber did not stop at the network, however, they also improved pricing. Through advanced algorithms (a fancy word for formulas), Uber bases pricing on supply and demand. In fact, they have even applied for a patent for their approach to “surge” pricing.

Uber is firmly rooted in big data and leverages this data to improve their business. They have capitalized on their massive network of drivers, GPS and street data from Google Maps, and the company’s own innovation to connect buyers and sellers in an intelligent way. Ultimately, this has compressed pricing and hammered the traditional taxi industry—so much so that taxi drivers have been in an uproar across the country.

The bottom line is that Uber is using the internet to connect to other applications, revolutionize pricing, and build a massive network of buyers and sellers. We are convinced that their true value lies in the marketplace they are creating: the applications of which will disrupt and revolutionize most industries. Real time feedback, ratings, and informed pricing help customers make better decisions.

Uber is now working on self-driving cars and experimenting with other industries like delivery and courier services. In a few years, it will be no surprise if you can order a grocery delivery through the Uber application on your smart watch that will be delivered by an unmanned car. Better yet, the internet of things will make it possible for your refrigerator to order the grocery items for you because even the cartons and containers will contain smart sensors.

The question is not whether or not Wealth Management as an industry will become uberized, but rather *when*. Wealth Management is ripe for disruption. We believe the uberization of the financial advisory space will evolve into a network of connected investors, advisers, and money managers where the necessity for a large firm dissipates. Advisors can run more efficiently in independent teams through the use of technology, such as robo advisors and other platforms, to connect to a better-informed consumer. Advisers will no longer rely on the larger firms, or middlemen, to provide fiduciary guidance to their clients. Consumers will start gravitating towards the independent advisers who have their best interests at heart, know their unique situation, and use technology to improve their financial lives and provide the best guidance.

Advisory services will become more data centric and that data will only improve the level of expertise and quality of service delivered to the end user. The human element will always remain the most important aspect of Wealth Management. The only difference is that in the future, human advisers will make informed decisions on how to guide a better-informed customer.

We imagine an industry where an independent advisor can manage thousands of clients through a technological platform that automates everything from the financial planning to the asset management. Just like how Uber uses Google maps and integrates with other applications, financial advisers will integrate with various applications to provide a customized client experience and differentiated investment management. Advisers will be able to focus on innovating for their niche clientele and on improving upon the existing technological infrastructure available.

The net effects of the current and coming advancements in financial technology are only positive for the consumer. Smart consumers are looking for a diversity of choices but need guidance due to the overabundance of information in the public sphere. The digital advisor needs to be a synthesizer of information, a sifter of sorts that can help meet the customized needs of the customer. Constant innovation and invention will be common place among the best firms.

The internet ushered in a new era of rapid innovation, efficiency, and scale. Computers, people, and businesses could be connected across the globe. Information could now be shared with the stroke of a keyboard or a click of the mouse. New businesses and business models emerged and things changed rapidly. Fast forward to today and the continued advancement of computing power, enhanced connectivity, cloud computing and the app culture, social media, and artificial intelligence are birthing new businesses and disrupting old.

We have smart phones, TVs, refrigerators, fitness trackers, cars, and sensors galore. Amazing technologies are lowering the prices of goods and services everywhere and making the lives of those that use it better. Every industry is being impacted by software and new technologies. Cloud computing and code depositories make it possible for an 11 year old to build a multi-million dollar company or application.

Financial services have been slow to catch on. Payment systems and alternative currency aside, finance has maintained a rather antiquated posture—until recently. Wealth management, in particular, has been a business characterized by little scale, a haphazard business model, poor transparency, fraud, and high fees.

Robo advisors, or automated investment services, have set out to challenge this framework. It is not possible to have money managed according to traditional portfolio theory in a low-cost index portfolio for free (other than the underlying costs of the index funds). The easy user experience makes the traditional brokerage process awkwardly inefficient. It is possible to open, fund, and invest an account in a few simple steps all from your laptop, mobile phone, tablet, or desktop.

A customer no longer has to drive to a fancy office and sit in a cold conference room waiting on a grey haired man in a grey suit to raise his Rolex draped wrist to describe mutual funds, covered calls, alpha, beta, or variable annuities. The average investor can now have their time and money back.

Sure, there are issues with automated investment technology. For one it is not totally customized at the individual level yet. Furthermore, the portfolio management algorithms are pretty equity heavy due to flawed financial theory. Lastly, behavioral tendencies are not adequately addressed in the current automated investment services.

Our estimation is that the next wave of tech innovators will incorporate more machine learning, big data analytics, and artificial intelligence to craft truly customized portfolios for their clients. The algorithms will improve and the real time analytics will be paramount in delivering investment solutions that are in line with each individual's objectives and constraints.

In the meantime, we believe that it is critical for an advisor to familiarize themselves with the available tools and technologies rising to the forefront of the wealth management industry and competing for your current and future clients. The prevalence of automated investment managers is not worrisome because the technology is simply a tool to enhance the client experience and help grow your business. The worrisome trend is that large asset managers are the serial acquirers of these technologies, not wealth management firms.

Blackrock purchased Future Advisor, and Jemstep was acquired by Invesco. Vanguard started their own hybrid robo advisor, as did Schwabb. These firms already have the money invested in their products, but now instead of paying for an expensive distribution operation, (wholesalers, inside sales desks, etc) they now have a way to sidestep the traditional channels and offer their funds, models, educational tools, and investment guidance directly to the end client.

It is going to be hard to compete as investors become more comfortable with the technology and absence of the personal financial advisor. At some point, a financial advisor will be an educated customer service representative, who's highest and best use is guiding the client through difficult life decisions, running customized proposals, and implementing financial plans. The routine questions will be answered by algorithms that will only get better and more accurate as time passes.

If you do not want this to be your future, then you must embrace the technological shifts that are occurring and create a sustainable edge that separates you from the other advisors. You have to make yourself irreplaceable through your customer experience and the way your run your business. The future is not something to be afraid of, but rather to embrace.

In this book we will focus on how to leverage existing technology to revolutionize the client experience and also add scale and efficiency into your business. We have organized this manual into three parts that align with our three-step transition process: Strategize, Execute, and Manage. Ultimately, our aim is to make sure you are prepared for the future, and that you can continuously grow your business in an ever-changing world. WealthShield will give you the tools you need to do this effectively.