

Trends shaping the online investing space

Insights from Market Trends panel at the Online Broker Summit 2017



December, 2017

Last month, leaders of the online brokerage industry gathered at TRADING CENTRAL's Online Broker Summit in Montreal to tune into an annual favourite—the Market Trends panel. Each year, TC gathers a handful of expert and unbiased critics from the front line of the financial industry to offer an insightful glimpse at how recent events are driving change. Key topics on the minds of today's investors and online brokers include data security, regulation changes, ethically responsible portfolios and global investing.

This year's discussion was moderated by John See, a seasoned financial services professional and the present Vice-Chair at TD Wealth. He led a lively discussion with:

- **Keith VanOrden**, *Managing Director at BlackRock*
- **Som Seif**, *Co-founder of Wealthsimple, President of Purpose Investments*
- **Theresa Carey**, *Author of Barron's Annual Review of Online Brokers*
- **Rob Carrick**, *Columnist for The Globe and Mail*

An industry of trust amid security concerns

This year witnessed one of the largest cyber breaches in history, bringing security concerns amongst investors to a peak. The hack of sensitive information at Equifax is said to have affected over 145 million individuals in the U.S., Canada and UK, and carries ramifications of over 80 billion dollars. The company responded poorly to the crisis, sharing nothing with those affected.

Within the US, security has been the number one concern for Barron's subscribers for over four years and Theresa pointed out many companies may be addressing it ineffectively. While conducting interviews for an article on the topic, she stumbled upon something odd... companies are spending 23 times more resources on securing their perimeter enterprise than they are at securing the application layer. What makes this shocking? 84 percent of today's breaches are occurring at the application layer.



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Within Canada, security is now within the top five financial concerns amongst The Globe and Mail readers, according to Rob. He pointed out that these growing concerns have created a valuable opportunity to differentiate your firm. Don't be silent. Putting your security guarantees to the forefront will show you understand their concerns, which can help build trust.

Regardless of the level of concern, brokers have an obligation to fix security gaps. Som Seif pointed out that the investment space is particularly high risk because of the depth of information and the legacy technology.

The rise of passive investing

2017 has seen a continuation in the trend of investors shifting from individual securities, towards more passive investing models. At well over 3000 ETFs in the US, we've now reached a critical mass, however panelists remained mixed on how significant this trend was for the online brokerage community. Some felt the shift was exaggerated and better demonstrated how indexing can be used as an entry-point for investors to participate the market.

While there is a large interest in ETFs from young and new investors, many need more entry-level education on how to get started. Rob said he's commonly asked by readers for more beginner-level assistance and which criteria they should look for when choosing among ETFs. He recommended brokers should focus on helping users find and evaluate opportunities, versus expanding their screeners. New investors need to see how the portfolio is put together, to see potential trade ideas and to understand the criteria those ideas such as liquidity or fees.

Theresa agreed with this sentiment, adding that many would benefit from comparison tools to help them diversify. She noted how common it is that investors are doubling up on shares without realizing it. If an investor owns shares in several Oil and Gas companies, they would benefit from being alerted before they purchase an ETF comprised of similar firms.

“Many more innings to come”

Keith pointed out that while ETFs may not be a massive trend, it's definitely a continuing one. With today's present investment breakdown, he pointed out that it's still very early in the game, with lots of future opportunity for brokers.



Millennials, a continuing question

For the past five years, “engaging millennials” has been a key conversation topic within the financial industry. Presently the largest generation, Millennials faced the financial crisis when first entering their career years and are now subject to decreasing labor market mobility and hold record levels of debt. Collectively, these factors have resulted in low levels of financial capital and a lateness to invest compared to their elders. Despite all the talk, John questioned the panel on whether they had actually witnessed any progress on improving engagement.

Keith felt there had been more messaging geared towards young investors, however since most discussing the topic weren’t “millennials”, they had little exposure to the progress made. Meanwhile, Som expressed that the industry as a whole appears to be deselecting young investors. He believed that rather than reaching out and supporting their entry to the investment landscape, most firms are swimming upmarket towards the larger clients. Fintech startups have shown great success at catering to millennial needs, but with their target clients’ small portfolio sizes may struggle to stay afloat. Firms need to be placing more focus on properly automating their processes online, so they can affordably profit off millennials’ small portfolios.

Millennials are a massive cohort of potential customers and can’t be ignored forever. Their comfort with technology and desire for convenience are well documented, and over time, their needs and expectations will become the standard. Firms presently not putting in the effort to understand these needs today risk failure to understand their core customers down the road.

Within the US, commission-free platforms are on the rise, with most firms now offering one. Keith pointed out that while as much as 48% of trading occurs on these platforms, it’s generally with inexpensive transactions carrying little positive impact for the company. Where this can carry a significance, is as an early portion of the funnel for millennial investors. Rob pointed out that free ETF trading is an excellent method to get young investors joining the party. As seen in Mike Foy’s keynote of J.D. Power’s investor satisfaction survey, the firm an investor has a pre-existing relationship with has a significant impact on who they chose to invest with.



“When someone logs in to your platform... does it look like 1999 or 2017?” - Rob Carrick

Breaking the barriers to female investing

Women presently control 33-40 percent of all investable assets in North America, however there remains a barrier in opening up their participation in trading. Theresa suggested it may be an engagement issue, however couldn't identify exactly what the issue was. Regardless, she pointed out the audience exemplified the barrier, with roughly one woman per table. She mentioned she was initially brought on as a contributor at Barron's because they were trying to reach more female readers, however despite her column's success, the female readership only increased from 8 to 16 percent across her 22 years.

Rob said he sees a lack of satisfaction with the status quo amongst his female readership, but that they "deal with it" out of necessity. He referenced research suggesting that women may have a lack of self-confidence in their financial abilities, and suggested brokers should offer them resources to build their confidence. Potential tools include webinars, educational materials and community resources where account-holders can compare and learn from each other.

Both Rob and Theresa agreed that women tend to be very practically-minded about investments and want simple, effective experiences. The online firm Ellevest has recently gained popularity because they succeeded in meeting these needs. Their website is modern and to the point, using statistics to create a compelling case for investment strategies built for women in mind. They speak practically on salary trends, lifespans and the gap between advisors and their clientele to drive their point. The panel agreed this tailored messaging and portfolio advice may help to bridge the gap, rather than aesthetic adaptations. Theresa warned that simply painting a website pink would be more repelling than engaging for many women.

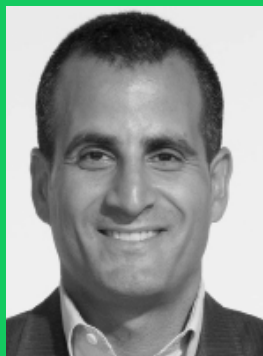
Meet the Panel



John See
TD Wealth



Keith Van Orden
Blackrock



Som Seif
Purpose Investing



Theresa Carey
Contributor at
Barrons



Rob Carrick
Globe and Mail