

FinTech

Lecture 4. Transforming personal finance with FinTech

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Learning outcomes

- ▶ Identify how automated online investment platforms are transforming the investment industry
- ▶ Determine the long-term applicability of robo-advisors in financial services

Overview

1. **Introduction**
2. Wealthfront: Online investing for the millennial generation
3. OpenInvest: Investing for social impact
4. Charles Schwab Corporation: A disruptive incumbent
5. Conclusion

Introduction I

- ▶ FinTech democratizes finance by:
 - ▶ Revolutionizing payments
 - ▶ Introducing new methods of raising capital
 - ▶ Building platforms to make financial trading more transparent

- ▶ Robo-advisor → Automated investment
 - ▶ Uses algorithms to create and manage a **personalized** portfolio
 - ▶ Based on an investor's goals and risk preferences
 - ▶ Investing easier and cheaper
 - ▶ Will they ultimately replace financial advisors, or is there still space for human interaction within this sector?

Introduction II

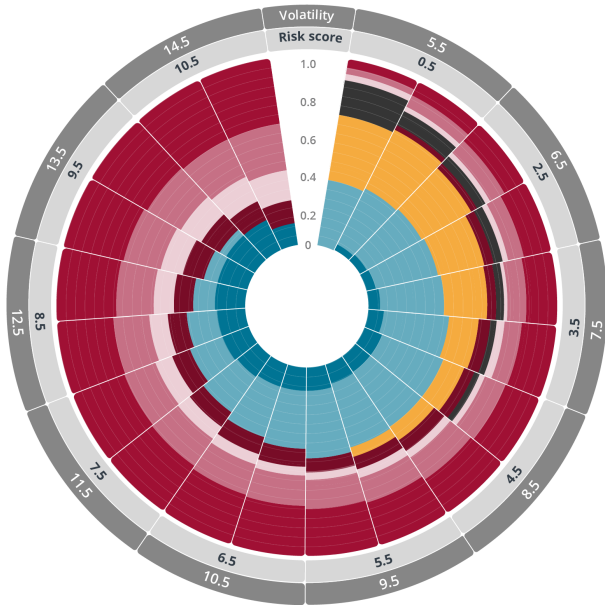
- ▶ **Wealthfront** and **OpenInvest** are two leaders in the world
 - ▶ Popularize the use of robo-advising for investment
 - ▶ Ease, speed, and low-cost nature of setting up an investment portfolio
 - ▶ The use of algorithms (as opposed to a human, financial advisor)
 - ▶ Decreases portfolio management fees
 - ▶ Improves access to investment opportunities
 - ▶ Personalized investment strategies based on tolerance for risk

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- ▶ **Wealthfront:** Fully automated platform [[link](#)]
 - ▶ Offers customized financial planning and investment advice
 - ▶ Data-driven investment strategies aimed at:
 - ▶ Maximizing returns
 - ▶ Maintaining an acceptable level of risk
 - ▶ Portfolios are monitored by algorithms
 - ▶ **Auto-rebalancing** happening in real time

- ▶ How investors' risk profiles alter asset classes?



- US stock
 - Dividend stock
 - US corporate bonds
- Foreign development stock
 - US government bonds
 - Emerging market bonds
- Emerging market stock
 - Real estate

Self-driving money

- ▶ Wealthfronts investing strategy [[link](#)]
 - ▶ \$25 billion assets under management
- ▶ Wealthfronts expanded into cash management
 - ▶ Allows customers to directly deposit their paycheck into cash account
 - ▶ The software will:
 - ▶ Top off the customers emergency fund
 - ▶ Pay their bills
 - ▶ Invest the rest based on the consumers personal lifestyle and financial goals
 - ▶ Wealthfront is not only aiming to automate the financial life of the consumer, but to also expand into banking offerings

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OpenInvest

- ▶ **OpenInvest**: Sustainable investing [[link](#)]
 - ▶ Assist their clients in building personalized investment portfolios
 - ▶ Focus on **socially responsible investing**
 - ▶ Allow clients to select companies based on their values
 - ▶ e.g. Invest in organizations that support gender equality
 - ▶ e.g. Divest from businesses that may contribute to global warming
- ▶ OpenInvest supports proxy voting
 - ▶ Investors can vote in shareholder resolutions using their smartphones
- ▶ **Video 4-1**
 - ▶ How robo-advising is democratizing investment opportunities

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Charles Schwab

- ▶ Founded in 1971, a large bank and brokerage firm
 - ▶ In 2015, Charles Schwab launched **Schwab Intelligent Portfolios**
 - ▶ The main challenger to Wealthfront and OpenInvest
 - ▶ Restructured its revenue sources

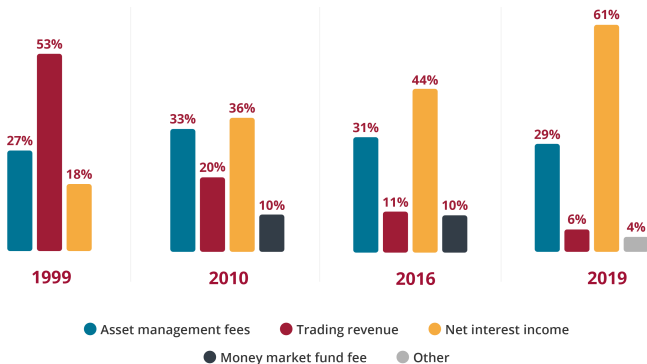


Fig. Charles Schwab's changing revenue mix

Schwab's Intelligent Portfolio

- ▶ Charles Schwab's primary sources of revenue
 - ▶ Net interest income
 - ▶ Asset management fees

- ▶ Video 4-2
 - ▶ The motivations for introducing an online investment platform
 - ▶ Despite being a large, well-established financial institution, Schwab still considers itself as a disruptor and remains willing to transform its own business to remain competitive in a digital world

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Conclusion

- ▶ Robo-advisors: transformed personal finance and wealth management
 - ▶ Reducing costs and simplifying processes
 - ▶ Captured the previously untapped market of small investors
- ▶ Robo-advisors have several features
 - ▶ Create portfolios based on clients' investment goals and risk preferences
 - ▶ Allow customers to monitor their investments
- ▶ Questions:
 - ▶ Whether algorithms are better at managing investments than people?
 - ▶ Will the two continue to coexist in this space?
- ▶ Video 4-3
 - ▶ Takeaways for transforming personal finance with FinTech