

# FinTech

## Lecture 4. Transforming personal finance with FinTech

Luping Yu (俞路平)

Xiamen University

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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

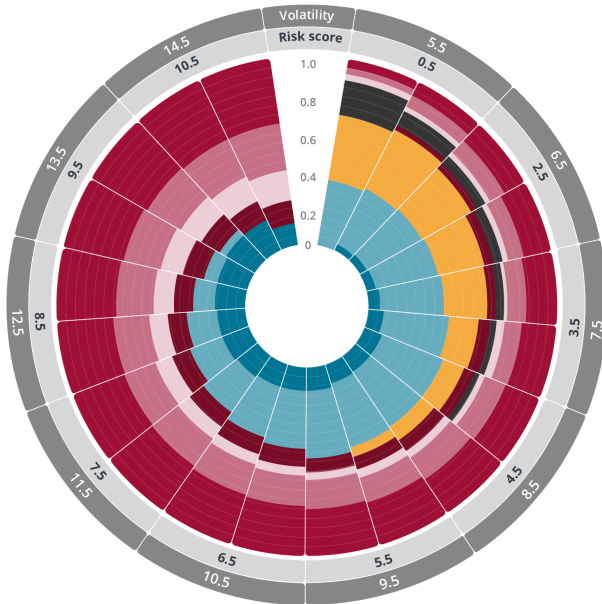
- ▶ **Wealthfront** and **OpenInvest** are two leaders in the world
  - ▶ Popularize the use of robo-advising for investment
  - ▶ Ease, speed, and low-cost nature of setting up an investment portfolio
  - ▶ The use of algorithms (as opposed to a human, financial advisor)
    - ▶ Decreases portfolio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

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# Wealthfront

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



# 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

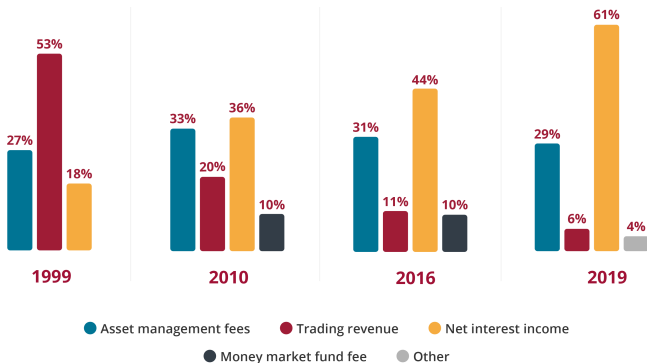


Fig. Charles Schwab's changing revenue mix

# 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