

Hype vs Opportunity

The trends private wealth firms should follow

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The times they are a-changin'

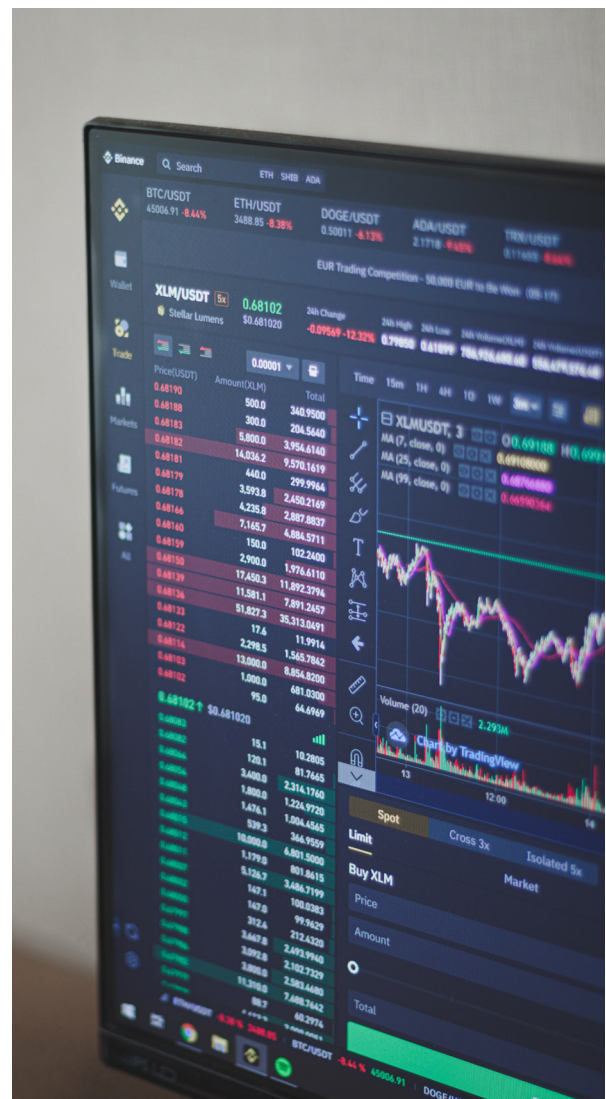
Disruption is a term that gets thrown around a little too often these days. We're led to believe that every technological innovation will revolutionise the way we live, work, and even *interact with the world*.¹

And while that kind of hyperbole is unhelpful, it can't be denied that the past decade has seen significant technological change. Much of this change has been 'macro'—the rise of the handheld device is one great example—but much of it will have far-reaching impacts on private wealth and investment management.

At the same time, the news cycle has never been noisier—with the rise of cryptocurrencies, so-called (and unlicensed) social media 'investment influencers', and new assets that defy asset-class categorisation.

So how to separate the hype from reality? Which trends are genuinely here to stay, which will go the way of Betamax and the *Sinclair C5*,² and which are nothing more than media hysteria?

I believe there are three significant technological trends that private wealth firms need to consider as they plan for the future—let's take a look.



1. 'Mind Control for the Masses—No Implant Needed' - [wired.com](#)

2. 'Was the Sinclair C5 30 years too early?' - [bbc.com](#)

1.

Breaking blockchain

I'm not talking about cryptos here—I'm talking about the underlying enabling technology of blockchain. And before you roll your eyes, let me make this clear: I've historically been somewhat of a blockchain skeptic. I've been on the record describing it "as a great solution to a problem no-one has," because it's been touted as the solution to—and cause of—just about every problem imaginable since it rose to prominence. But I sincerely believe the right problems have now been found that tap into the power of blockchain being a great solution.

At its core a blockchain is actually pretty simple—it's a database. Information is entered into the database (blockchain), where it's authenticated, time-stamped and stored in a way that it can never be altered or corrupted (immutably).

A blockchain involves a distributed network of participants (or nodes) where each participant stores and validates the chain of events (transactions, for example) that take place across the network. Every time an event occurs, all nodes are updated and the new chain, or ledger, is cross-checked. If the majority of nodes agree the transaction is correct, it is added as another block in the chain. This distributed ledger makes it almost impossible to alter the record of transactions. Think of it as something like a hive mind—rather than one single source of truth—multiple sources prevent errors.

The problem with a blockchain is that—at scale—it can get cumbersome.

Events are not added to the chain unless the majority of nodes agree. And when you have a network as large as the Bitcoin Blockchain, this can take some time, and a hell of a lot of energy. Currently, the Bitcoin Blockchain can only process *4.6 transactions per second*.³

However not all blockchains carry the same risks. Iress Blockchain, for example, involves a private network, high security protocols, and efficient processing techniques. This distributed ledger technology (DLT) is not open in the same way that a traditional blockchain is. All DLT networks are at least partly private, meaning the number of participants are limited and therefore speed constraints are not a problem. Indeed with quantum computing on the horizon, the barriers to ultra-low latency DLT systems are coming down.

We've seen great use cases involving fund managers automating both the storage and the flow of data to investment platforms. This same technology is being used to ease the burden of new regulation around advice fee consent *and design and distribution obligations (DDO)* ⁴ for advisers, licensees and product issuers including fund managers and super funds.

Blockchain has the power to significantly improve the way the financial services industry works for the better. Improving trust and transparency, creating efficiencies for the storage, confirmation, transformation and distribution of data, and shortening the execution costs and time taken for all these factors.

3. 'The Blockchain Scalability Problem & the Race for Visa-Like Transaction Speed' - towardsdatascience.com

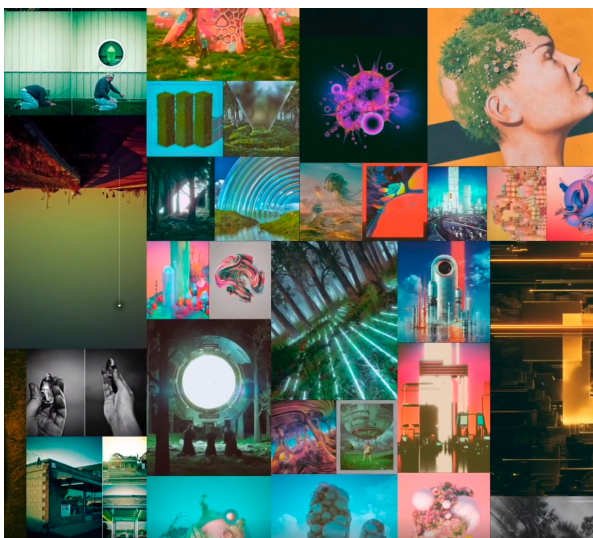
4. 'Iress' response to DDO' - <https://www.iress.com/ddo>

2.

The tokens are coming

Tokens—a close cousin of cryptocurrencies—are also having a moment dominating the public imagination.

Perhaps you saw the news that in March this year *Christies held its first auction* ⁵ of a non-fungible token (NFT). An NFT is a type of blockchain-based asset that records ownership of a digital item—including art, music and even memes—as a singular, unique (and therefore non-fungible) instance. The Christies auction involved the sale of an NFT by digital artist Beeple—fetching a record \$US69m. Subsequent auctions included the sale of the iconic ‘Doge’ meme for \$US4m and ‘Disaster Girl’ for around \$US400,000.



A section of Beeple's 'Everydays: The First 5000 Days'.

If you're scratching your head and wondering how one can exactly buy a meme, or why the hell you would, you're not alone. And yet, tokens as an asset class are on the rise.

While NFTs might be capturing headlines, the real-world applications for the tokenisation of assets (fungible or otherwise) bring many benefits, especially in the financial markets. The opportunities are numerous including access to a vast array of assets that were never previously available for purchase, greater liquidity, reduced transaction costs, and enhanced transparency.

So what does this mean for private wealth? As well as access to previously illiquid instruments and more efficient and cheaper transactions, having a clear picture of more of each client's assets will be a key benefit. The private wealth manager will be able to manage more of a client's wealth and to add greater value in doing so. In fact, tokenisation will allow the creation of highly bespoke assets that are determined, through the deep analysis of a portfolio, to be capable of doing all sorts of important things from optimising Sharpe ratios to enhancing negative correlations or targeted r^2 .

Private wealth managers will require agile technology able to evaluate and record assets in real time, plus strong APIs able to connect with a vast array of platforms and indices in order to have a complete view of their client's financial position in a rapidly changing landscape.

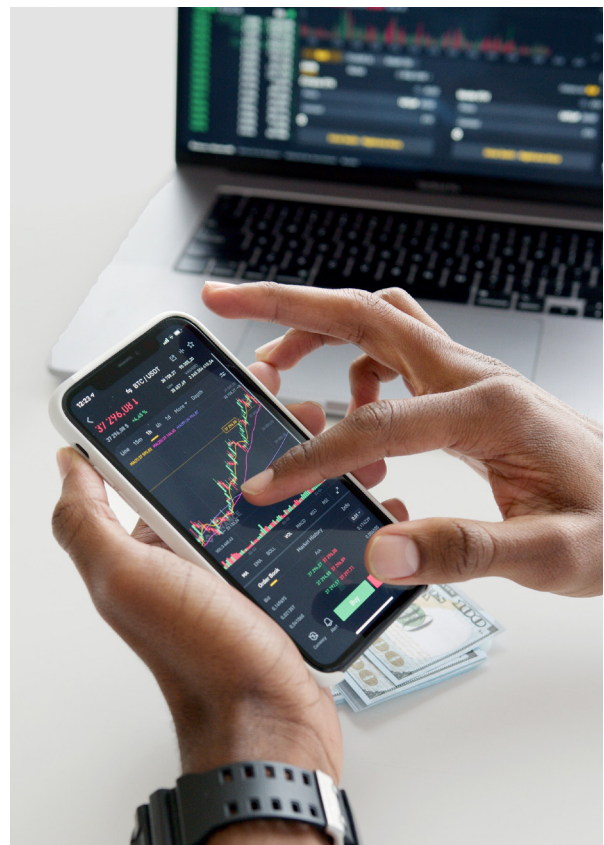
⁵. 'Monumental collage by Beeple is first purely digital artwork NFT to come to auction' - [christies.com](https://www.christies.com)

3.

Front end matters

The rise of Robinhood and the so-called democratisation of investing has seen a huge increase in the number of investors entering the market over the past few years. Fuelled by low interest rates, COVID-19 boredom and social media forums such as Reddit's Wall Street Bets, fractionalised and low-cost investment platforms have exploded in popularity.

According to ASIC, the average daily securities market turnover in Australia increased from \$1.6b to \$3.3b over the past year. New trading platforms such as Superhero, Stake and Raiz have attracted strong uptake by reducing barriers to entry through low, or no cost trading and fractionalised investments. And while this is largely described as a millennial success story, investors of all ages—and demographics—have been attracted to this new approach to trading. Why? Because of strong investments in delivering highly engaging, low-friction and intuitive digital user experiences.



Technology, tokens & cryptos ... what's the focus?

The lesson for private wealth firms is clear—while technology investment often rightly focuses on improving back-office efficiency, it's critical not to lose sight of the front-end experience for users, because that front end is very often how your client experiences your business.

If it's old and clunky, not accessible, or interrupts a process to require a signed piece of paper, then you and your firm look ... Well, you get it.

Digital client portals are just as important for private wealth clients as they are to retail investors. They deliver a complete view of a client's wealth in an interactive and highly visual way—with workflows designed for, and optimised by, the digital experience.

In fact consumers—whether they're wealthy or not—now demand the same quality of experience from their professional services providers as they get from the best app on their smartphone.

We're fortunate to be living in interesting times, and not in the *apocryphal*⁶ sense. The pace of technological advancement is unlike ever before, and the applications of these advancements have largely benefited all of us—allowing us to thrive in an environment that would have decimated (at least) every generation before us.

This technological change will continue to drive deeper and faster global interconnectedness, underpinned by greater transparency, and an increased pace of advancement.

The difficulty has been how to identify which aspects of this technological change will provide tangible benefits to our lives—from both a social and economic perspective. What's easy to see is that user experience matters—as it always has—and that transparency and efficiency are key enablers of this. Technological advancements that improve any of these factors are worth serious consideration.

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6. 'May you live in interesting times' - [wikipedia.org](https://en.wikipedia.org/wiki/May_you_live_in_interesting_times)



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