

Hacking the Investment Management Business



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“Technologies don’t form in a vacuum. They have a historical narrative you can follow forward.”

Asset managers must understand the culture of the Internet and technology if they want to be smart about building on online presence. Some key operating principles:

Transparency *über alles*

Attitudes about how technology works can have powerful effects. A great example is Airbnb, the site that enables people to rent out their homes and apartments on a short-term basis. Inevitably, not long after the company’s founding, an Airbnb host came home to find that her guest had been smoking crack, trashed the apartment, and punched huge holes in the wall looking for an imaginary stash of drugs.

Rather than trying to suppress or downplay the story, Airbnb responded with a widely publicized move to give all Airbnb hosts \$1 million in coverage, free of charge, for such eventualities. The company’s growth continued without a blip.

That’s a sharp contrast to the story of Barbra Streisand, who unsuccessfully sued aerial photographers for publishing images of her Malibu estate online. More than 420,000 people visited the site in the month after the lawsuit; the phenomenon whereby an attempt to hide or remove a piece of information only draws more attention to it is now known as the Streisand Effect.

Meritocracy over bureaucracy

The internet makes merit visible and portable to powerful effect. Examples include:

- › StackOverflow.com, where responses to technical problems are peer-rated so the best answers (and the best talent) rise to the top.
- › WeWork.com, which lets entrepreneurs hook up with 3rd party service providers and collaborators. You can now create an enterprise without having to build a company.
- › OpenBazaar.com, a network of stores that sprang up after Napster and SilkRoad were shut down. The stores transact only in bitcoin, and are designed to give sellers all the advantages of Amazon with none of the overhead.

You can disrupt anything

Sites like Mint, Mint Bills, and Acorns (the “invest your spare change” site) all exploit one of the problems with money management: it’s not “pretty” enough. Now even the nation/state is being disrupted, as evidenced by eEstonia. One of the first to enable online banking, Estonia has now enabled e-voting, e-taxation, and e-contracts. You can create an Estonian company in ten minutes and even buy Estonian citizenship online.

All this has major implications for financial services. At the top of the list is the rise of a global shadow economy. The black market is already the world’s second-largest economy, and is on track to be the biggest by 2020. Meanwhile, two-thirds of the planet is not online yet, but soon will be. Cheap devices will spill over into developing economies and bring everyone to the table. Most of these people will go to the black market, not a bank. Traditional companies need to be aware of, and prepare for, this.

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