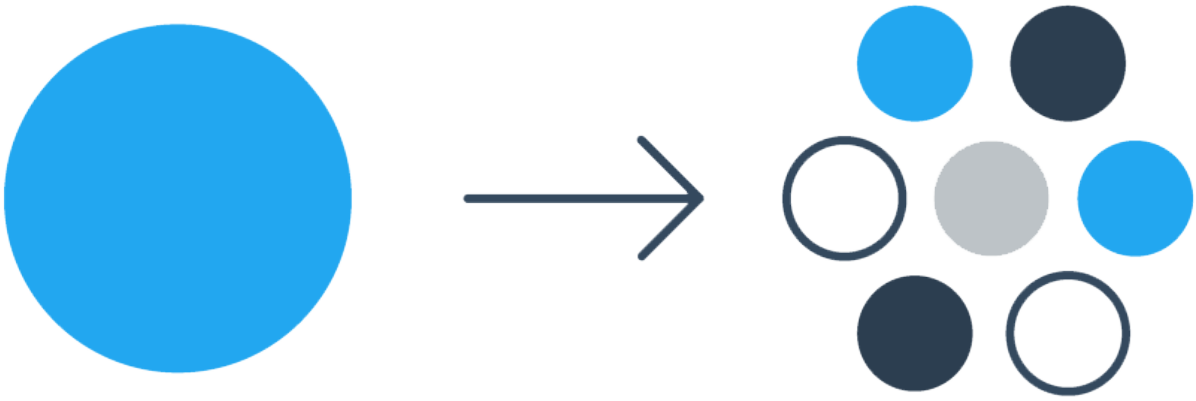
dealbox

TRUE DIVERSIFICATION FOR RIAs



With new financial technologies RIAs are gaining unprecedented access to a wide range of new tools and platforms that allow them to offer clients more profitable, diverse, and vetted investments. Equity crowdfunding platforms in particular are allowing investment professionals from all over the world to connect to high quality deals, from anywhere.

True Diversification for Registered Investment Advisors

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Introduction

Technology is radically reshaping the financial services industry before our eyes.

This paradigm shift is affecting everything from the way we borrow and lend money, process payments, and even the very nature your clients invest.

As an investment advisor, you have front-row seats to these incredible changes. Embracing these innovations will help you better connect with clients, distinguish yourself from competitors, and deliver higher returns via diverse, balanced portfolios.

Keep reading to find out how.

What Is FinTech?

Financial technology, or "FinTech," refers to the start-up companies whose products or services are disrupting financial industries as varied as payment processing, loans, fundraising, investing, and even asset management.

The industry is still maturing, but investors are quickly catching on. A report from Accenture found that global investment in FinTech companies increased from $930 million in 2008 to over $12 *billion* by the beginning of 2015.[1]

Despite this tremendous growth, a lot of confusion remains. "FinTech" has become a vague industry buzzword. Understandably, a lot of registered investment advisors – even extremely tech-savvy ones – aren't quite sure how it works.

Understanding FinTech's capabilities – and applying the latest innovations in your advisory services – can help you offer clients more diverse, profitable investment opportunities than ever before.

Why Should Advisors Pay Attention to FinTech?

It makes sense why lenders should pay attention to the latest developments in FinTech. But the implications for registered investment advisors, as well as the high-net worth individuals with whom they typically work, are no less significant.

FinTech products and services create advantages which are mutually beneficial:

Investors get access to a wide variety of private equity opportunities, more efficient, affordable transactions, and increased transparency and accountability among the other stakeholders involved.

Advisors get a suite of tools and platforms which allow them to offer clients more profitable, diverse, and vetted investments. You can offer superior opportunities via equity crowdfunding platforms – even without deep connections in that world. Advisors also can use FinTech to respond to changing investor preferences, as younger investors in particular grow more skeptical of traditional financial products and services.

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1 https://newsroom.accenture.com/industries/financial-services/growth-in-fintech-investment-fastest-in-european-market-according-to-accenture-study.htm

How Has Technology Disrupted the Financial Services Sector?

Many FinTech companies fail, but those that succeed are massively disrupting traditional financial industries.

Here are just a few companies that are spurring the evolution of how customers view spending, investing, and managing their money:

1. WePay (payment processing)

This payment-processing software company serves global crowdfunding websites and marketplace platforms.

After being founded in 2008, WePay struggled to get the publicity needed to emerge from PayPal's shadow. One co-founder, Bill Clerico, even went on a reality dating show not to find love, but in an attempt to raise publicity about his fledgling start-up.

Publicity isn't an issue anymore now that the market has matured. WePay's revenue for 2015 totaled $24.9 million – up over *4,000%* from 2011. They've also attracted a nice chunk of investor capital: $75 million.[2]

2. Robinhood (stock trading)

Robinhood is an app founded by two Stanford University roommates who aim to make trading stocks simple and commission-free.

This app was actually the most-downloaded app of 2015, according to both Apple and Google. Robinhood has already raised $66 million, attracting a wide variety of famous and high-powered investors ranging from the rapper Snoop Dogg, to actor Jared Leto and even venture capital firms.[3]

3. Lending Club (consumer lending)

Lending Club is using technology to disrupt the entire consumer lending structure.

Instead of being forced to go through banks – traditional gatekeepers for loans – lenders can use the Lending Club platform to connect with creditors directly. This strips away the middlemen and reduces transaction costs.[4]

4. JOBS Act of 2012 (equity crowdfunding)

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2 http://www.inc.com/magazine/201509/maria-aspan/2015-inc5000-fintech-finally-lifts-off.html

3 http://marketsmedia.com/how-snoop-dogg-is-helping-to-disrupt-the-world-of-fintech-by-david-donovan-sapient/

4 http://www.cnn.com/2012/06/19/opinion/laplanche-disruptive-finance/

The JOBS Act spurred the creation of not just new businesses, but an entire new investment industry.

Under Rule 506(c) of the act, private companies can now solicit investments from the general public. The law also democratized opportunities, as both accredited and non-accredited investors alike can purchase ownership interests in these privately-owned businesses.[5]

Numerous platforms, like Equity Round and AngelList, have emerged to connect investors and opportunities in an efficient, transparent way.

5. Robo Advisor (investment advisory)

This application of FinTech affects registered investment advisors directly, and the impact could be significant.

Robo Advisors use algorithms, such as economist Harry Markowitz's Modern Portfolio Theory, to provide portfolio management online with minimal human interaction.

This puts a lot of pressure on registered investment advisors, especially as Robo Advisor algorithms evolve to more effectively allocate and re-balance investor capital. They are especially attractive to younger investors, like millenials, thanks to low investment minimums and management fees.[6]

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5 http://www.forbes.com/sites/chancebarnett/2015/03/26/infographic-sec-democratizes-equity-crowdfunding-with-jobs-act-title-iv/#519774db5a71

6 http://www.cnbc.com/2015/06/21/millennials-and-robo-advisors-a-match-made-in-heaven.html

The Toughest Challenges Registered Investment Advisors Face Today

The financial services market remains rife with opportunities and potential, but today's registered investment advisors face significant challenges:

Increased Competition

Competition has grown even fiercer as more financial professionals become registered investment advisors.

It seems that no matter where you look, everyone and their brother is certified to offer "portfolio management" or "holistic financial advice." This makes it harder than ever to attract the limited pool of high net-worth investors interested in these services.

The number of registered investment advisors and RIA firms has experienced healthy growth (4.3% and 5.4% increases from last year, respectively). Some of this can be explained by increasing demand as more baby boomers retire and seek financial advice. This years, advisors are serving 2,000,000 additional clients.[7]

Changing Customer Preferences and Behavior

Successful companies like Square, Kickstarter, and Wealthfront have: 1) shown consumers that novel approaches to entrenched financial processes can be sustainable, and 2) accustomed them to use and trust these products and services.

Younger investors (millenials, in particular) tend to have more flexible perspectives about financial transactions are supposed to work and try new offerings. A survey from LinkedIn and market research firm Ipsos found that nearly 70% of millenials were open to trying financial products/services from non-financial brands – like Google or Apple.[8]

Pressure to Distinguish Yourself Through Alternate Investments

As competition among RIAs intensifies, it's becoming increasingly important to distinguish your advisory services from everyone else.

Approaches that rely almost exclusively on public investments like index funds and blue-chip stocks won't separate yourself or attract investors – especially now that it's easier for clients to invest in those assets on their own.

Offering *private equity* opportunities, on the other hand, is an excellent way to distinguish yourself from other RIAs, as well as create diverse, profitable portfolios.[9]

Yet most registered investment advisors hesitate to allocate an adequate percentage of their portfolios into private equity, even after expressing a belief that it's essential.

Why?

What Keeps RIAs from Embracing Private Equity Investments?

Here are some of the most common obstacles that prevent RIAs from delving into the private equity realm:

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7 http://www.investmentnews.com/article/20150803/FREE/150809986/retiring-boomers-lead-to-increase-in-number-of-ria-firms-clients-and

8 https://business.linkedin.com/content/dam/business/marketing-solutions/global/en_US/campaigns/pdfs/affluent-millennial-research-whitepaper-eng-us.pdf

9 http://www.investmentnews.com/article/20150407/BLOG09/150409944/the-case-for-incorporating-private-equity-in-client-portfolios

1. **Underwriting and due diligence requirements.** Without assurances these things are handled properly, RIAs worry about spending precious time and resources separating good investments from the bad.

2. **Lack of centralized reporting.** Unlike publicly-traded assets, which trigger extensive disclosure requirements, it can be harder to assess the performance and financial health of alternative investments.

3. **Lack of adequate and timely reporting.** Out-of-date or incomplete information makes it difficult for RIAs to accurately assess the value of private investments and respond accordingly.

4. **Heavy administrative burdens and restrictions.** Some RIAs avoid private opportunities out of a fear that investing in them will require more paperwork, oversight, and expenses.

5. **Reputation risk.** Private investments offer the potential for higher rewards than public assets, but also more potential risk. Some RIAs are not willing to take that chance.

6. **Inertia.** Many RIAs are simply used to advising their clients in a certain way and rationalize not changing course.

7. **Inadequate compensation for the additional burden and risk.** Some RIAs determine that the potential increase in returns just isn't worth the effort required to assess, choose, and manage alternative investments.

8. **Inability to monitor investments closely.** Tracking the performance of private investments in real-time can be more difficult than following public exchanges like the NYSE or Nasdaq.

9. **Lack of liquidity.** Because marketplaces for private equity investments are smaller and companies often take years to IPO, some RIAs are concerned about liquidity.

10. **Regulatory and compliance factors.** Offering equity in a private company triggers compliance requirements. RIAs are diligent that each issuing company meets these requirements to protect their clients' investments.

Private Investments Help You "Speak Clients' Language" and Deliver Higher Returns

With the help of innovative FinTech companies and equity crowdfunding platforms, RIAs can now overcome the obstacles above and confidently allocate more funds to private equity opportunities – even if they've never done so before.

These opportunities are extremely attractive to high net-worth investors, who are overwhelmingly self-made.

Consider that:

- 84% of high net-worth investors are self-made
- 75% made their money through private equity and real estate
- A mere 9% made their money through publicly-traded assets[10]

Offering more of these opportunities changes the conversation. It attracts potential clients because you're "speaking their language" by presenting them with the kinds of opportunities with which they are comfortable.

While it makes financial sense to maintain positions in publicly-traded assets, that *alone* isn't going to impress anyone or distinguish you because only 9% made their money that way

Private equity investments also give RIAs the chance to increase client returns. The Private Equity Growth Capital Council (PEGCC) reported that as of June 2014, returns on private equity funds (net of fees) beat the S&P 500 (including dividends) over a 10-year period by 6.5%.[11]

What is your firm's current approach and philosophy to alternative investments?

How do you consider direct investing – particularly in private equity – in your value proposition?

A slight change of course, leveraging the power of the latest innovations in FinTech, could increase portfolio performance and create sustainable growth.

If you've considered private equity but let some of the common hurdles above slow you down, here's how working with the right partner and equity crowdfunding portal can help.

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10 http://militellocapital.com/rias-differentiate-to-dominate/

11 http://www.pegcc.org/q2-2014-performance-update-private-equity-continues-to-outperform-sp-500-over-long-term/

Finding the Right Partner and Equity Crowdfunding Platform

Finding the right equity crowdfunding portal will allow you to leverage the latest FinTech to offer clients equity in exciting (and profitable) private investments.

But there are numerous equity crowdfunding portals to choose from – and more emerging by the day. This makes for huge variations in investment quality, experience, and transparency and reporting.

How do you make sure the investors whom you advise get the best?

Here at DealBox, a modern merchant bank with leading tech designed to help you adapt to the new investor economy, we can help you break down the barriers which keep RIAs from pursuing private equity opportunities.

The result: you connect clients with more diverse and profitable private investments than they'd find anywhere else.

Here are a few key factors that separate our services from the rest:

1. **Unparalleled transparency.** At DealBox, we believe the more transparency between companies, investors, and the professionals who advise them, the better. Extensive access to information helps you assess every opportunity and value them accordingly – before recommending anything to a client. That's why we became a pioneer in creating SEC and FINRA-compliant packaging and distribution services, working with over 200 companies (and raising more than $250 million) over the past 10 years.

2. **Comprehensive reporting, updated in real-time.** Users of Equity Round (our crowdfunding platform) get access to best-in-class financial technologies and dashboards, where they can review all the financial documents needed to assess every opportunity and track real-time performance. We present this information in a well-organized, professional structure.

3. **Full commitment to regulatory compliance.** We make sure every investment meets legal requirements through robust, continually-updated reporting of financials, corporate governance, business plan, investment briefs, and offering documents. This commitment drove us to become a pioneer in creating SEC and FINRA-compliant packaging and distribution services, working with over 200 companies (and raising more than $250 million) over the past 10 years.

4. **Exclusive sourcing and a stringent screening process for "investment-worthy deals."** Every opportunity we list has gone through a rigorous vetting process. We leverage our parent company, Capital Services Group's, investment packaging and direct public offering capabilities, as well as a commitment to ensuring best practices in client companies. Capital Services Group provides proprietary deal sourcing, so your clients won't find these opportunities anywhere else.

5. **A team of financial advisors, entrepreneurs, and merchant bankers with deep understanding of the space.** Our DealBox team has decades of crowdfunding and venture capital experience. This gives us

intimate understanding of what makes investments valuable, as well as when to screen out mediocre opportunities. We focus on quality over quantity. Our platform might have fewer overall deals, but every deal is of superior quality compared to less-selective platforms. At DealBox, we go deep with each company from an investment packaging standpoint. We end up with a lot more to offer investors than a brief slide deck.

Working with DealBox: Key Benefits

Today's environment means tougher competition, more discerning investors, and increased skepticism for traditional investment advisory processes.

But it also means a more flexible legal framework, making it easier for private companies to approach accredited and non-accredited investors alike, as well as transparent, efficient platforms to get the best private equity opportunities in front of investors.

This certainly helps benefit high net-worth investors. Working with DealBox also ensures you see plenty of benefits *yourself*.

How?

Here's a quick recap of some of the most valuable benefits you'll get from working with DealBox:

- **More diverse, balanced portfolios.** Private equity investments are a great way to diversity and mitigate risk in investors' portfolios across a wide range of industries. Even when the public market under-performs, strategic private equity investments – exclusively vetted and sourced – can bolster returns.

- **Higher returns.** On average, private equity investments perform better than their publicly-traded counterparts. This is especially likely when they are filtered through our thorough screening process and you are supplied with all the information you need to accurately assess every opportunity.

- **A stronger connection with high net-worth investors.** As the vast majority of high net-worth investors are self-made and made their money in private equity, they are often eager to invest in similar investment vehicles. Working with us gives you access to those deals via our EquityRound crowdfunding portal.

- **Positioning yourself to nurture relationships with clients well into the future.** FinTech products and services will continue to disrupt the investing world at an extraordinary rate. By working with us at DealBox, you can make full use of the latest technology (and transparency, ease of use, and lower costs that come with it) to *amplify*, not replace, your unique expertise. It's a great way to build relationships with younger clients, who are increasingly skeptical of traditional financial products and services.

- **Distinguish yourself from thousands of other RIAs.** No RIA is going to distinguish themselves from the pack by focusing exclusively on publicly-traded stocks and mutual funds. Savvy, high net-worth investors are more likely to use FinTech to do a lot of those investments on their own. Expanding into private equity – and allocating an adequate percentage of funds in those opportunities – is a great way to add value and results in a competitive advantage.

About the Author

Thomas Carter | Founder & CEO | DealBox Inc.

Specializing in corporate finance, FinTech, marketing, multimedia and new product innovation, Carter visualized and structured diversified, ground-breaking approaches to monetize the industry via innovative products, partnerships, and endorsements. He has been married for 15 years, has five boys and resides in San Diego, CA.

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ABOUT DEALBOX

DealBox | www.dlbx.io

DealBox is a blockchain business accelerator and crowdfunding platform. Together with parent company Capital Services Group, DealBox combines unparalleled Capital Markets leadership with world class analysts, technologists and legal experts. Our team of directors and advisors have managed and raised billions of dollars and advised registered investment advisors, startups and foundations.