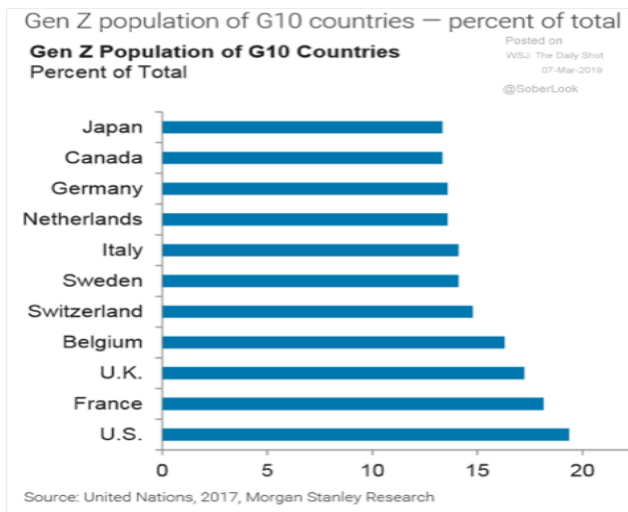


## Introduction:

Over the last few months, the 2019 interns of Manole Capital conducted a financial services survey, specifically targeting the thoughts of America's younger generations. Specifically, we sought out Gen Z (those born after 1996) and Millennials (born 1981 to 1996).

We feel it is important to understand the perspective of these younger individuals, especially since Gen Z now represents nearly 20% of the US population. This year, Gen Z will reach 61 million individuals and become the US's largest generation. This younger generation was born after the internet went mainstream and the oldest amongst them was only 10 years old when the iPhone was introduced by Steve Jobs. Most of Gen Z is still in school, but they have direct spending power of over \$140 billion annually. Early analysis shows that Gen Z consumers are less concerned about brands, labels or even corporate names. They are quite entrepreneurial, ethnically diverse, socially tolerant and environmentally aware.



Manole Capital exclusively focuses on the emerging Fintech industry. The goal of these research notes is to provide valuable insights, specifically in the financial services segment, into this growing category of younger individuals. In total, we were able to survey 195 individuals. Respondents were asked a series of questions on four financial subjects, which will be released in four distinct notes:

- 1) Banking
- 2) Payments
- 3) Brokerage**
- 4) Cryptocurrencies

The questions we asked, as well as the information we received, is summarized below. Where possible, we have attempted to provide our conclusions and opinions. While some may be viewed as controversial, it is simply intended to serve as possible Gen Z and Millennial perceptions. This is the 2<sup>nd</sup> annual financial services survey performed by the interns of Manole Capital. Where we feel it is interesting to note, we will comment on large discrepancies and changes from last year's survey.

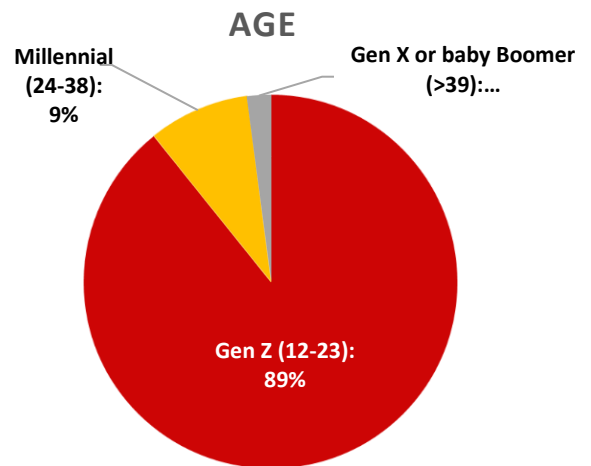
## Our Goal:

How Millennials and Gen Z's make purchasing decisions and what they look for in a brand is shifting. However, we believe that personalization has become increasingly important in today's society. This requires a different set of tools. The scope of reinvention requires analysis and we hope this research provides some valuable insights.

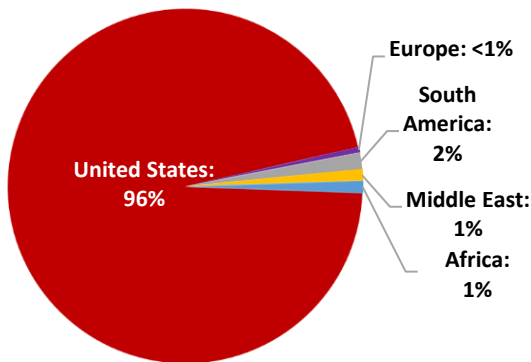
### Who We Surveyed:

Out of the 195 individuals that participated in our online survey, 89% were between the ages of 12 and 23 (Gen Z), while 9% were aged 24-28 (Millennials) and 4% of respondents were older than 39 (Gen X or Baby Boomer).

While we would have preferred the sample size exceeding 500, we are pleased to have 98% of those questioned under 38 years old. For the few Gen X's and Baby Boomers that participated, we appreciated your participation, but you ruined our age demographic. Way to go Mom & Dad!



### LOCATION



Geographically, 96% of the sample lives in the United States, while the other 4% are from South America, the Middle East, Africa, and Europe. Since we attend the University of Tampa, a high percentage of our survey is based in Florida.

### FINTECH:

Our firm's definition of FINTECH is "anything utilizing technology to improve an established process or procedure". While many think of FINTECH as just digital currencies or bitcoin, our scope covers much more of the landscape. For example, we believe that the quintessential FINTECH business involves the emerging payments business. As our prior note discussed, the payments business is undergoing massive change.

### Conclusion for Note 2 of 4 on Payments:

If you did not have an opportunity to read our last survey note (on payments), please [click here](#). As we discussed, mobile payments, eCommerce and P-2-P payments are growing in popularity amongst Gen Z's. However, we believe there are a few critical items that need to occur before widespread US adoption. For example, we highlighted security concerns, merchant acceptance difficulties and apprehension as items hindering mobile payments and overall P-2-P adoption. Therefore, an improved, safer consumer experience across the payments industry will help its technologies evolve and increase market share.

### Introduction of Note 3 of 4: Brokerage

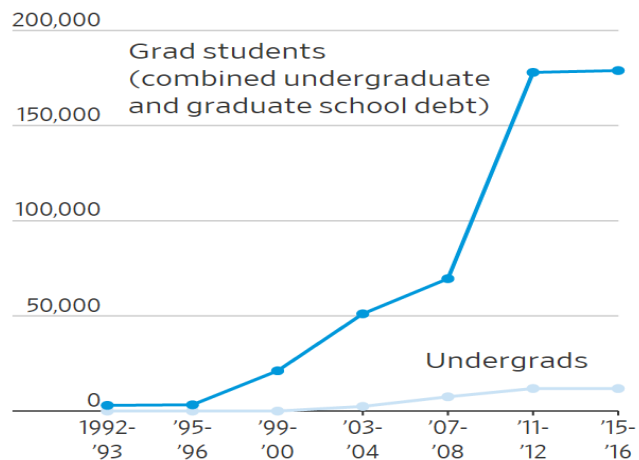
When the conversation turns to “investing”, from our experience, most Gen Z’s tend to simply shy away. They usually respond with “that sounds like a good thing” or “I should probably be doing that.” But when it comes down to saving money, investing and implementing a legitimate investment strategy, many of us tend to fall short.

Gen Z’s are just beginning to enter the work force, and many are facing challenging student debt burdens. As the chart shows, student debt is ballooning higher and higher. While the number of college graduates entering the “real world” is growing, many are saddled with six-figures worth of student loan debt. So even if Gen Z wants to save money and potentially invest in the stock market, their available cash (after student debt) is somewhat limited.

Many Millennials, some of whom experienced the devastation of the financial crisis, are cautious of the stock market. Gen Z’s were essentially too young to feel the direct impact of the financial crisis, and some believe creating investment portfolios are a wise and sound decision. This survey will hopefully provide some valuation information concerning what Gen Z individuals think about investing and the brokerage community.

### Head of the Class

The number of students graduating each year with six-figure student-loan debt



Note: For academic years ending year shown

Source: Analysis of Department of Education data by Mark Kantrowitz, financial-aid expert

### FINTECH in Brokerage:

The FINTECH market is dynamic, and the certain players are extremely aggressive. Newer FINTECH companies are leveraging data and information, exercising an entrepreneurial mindset, and utilizing technological benefits. Newer, nimbler companies, that rely on algorithms, specialized software and technology can succeed. Ultimately, there is no escaping the advancement of certain FINTECH benefits. Whether it is artificial intelligence or other technological advances, the brokerage business is rapidly changing.

In this note, we will be commenting on the results from our "Brokerage/Investment Accounts" section of the survey. Specifically, we address broker brands and characteristics, a discussion on Robinhood and Acorns, and automated brokerage platforms (i.e. robo-advisors). We asked our respondents a series of questions regarding their thoughts, usage habits, and preferences on investing or brokerage firms.

### Active Brokerage Account?

#### **Q&A:**

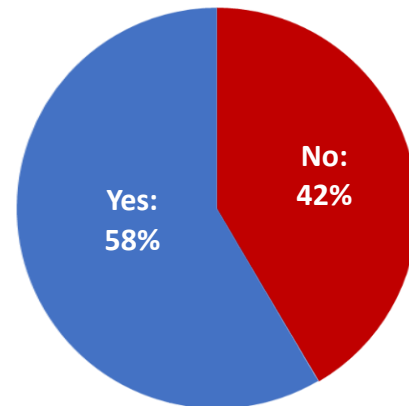
To begin our brokerage survey, we simply asked our respondents if they currently have an open brokerage account. 58% do, while 42% have not yet opened one.

#### **Our Conclusions:**

Compared to last year's results, this is a promising result. In our inaugural Financial Services Survey, only 17% reported having a brokerage account.

Some could argue that more individuals would be interested in opening a brokerage account with a rising stock market, but the S&P 500 was down over 4% in 2018. Also, our results might be somewhat skewed, because many of our surveyed peers are Finance majors, like us. Either way, we believe there is a growing interest and a significant increase in Gen Z's opening brokerage accounts. Regardless of their motives, our results show that over half of Gen Z's are investing for their future, which is good news for everybody. Clearly, brokerage accounts are more popular with Gen Z than bank accounts (see note 1).

### DO YOU HAVE A BROKERAGE ACCOUNT?

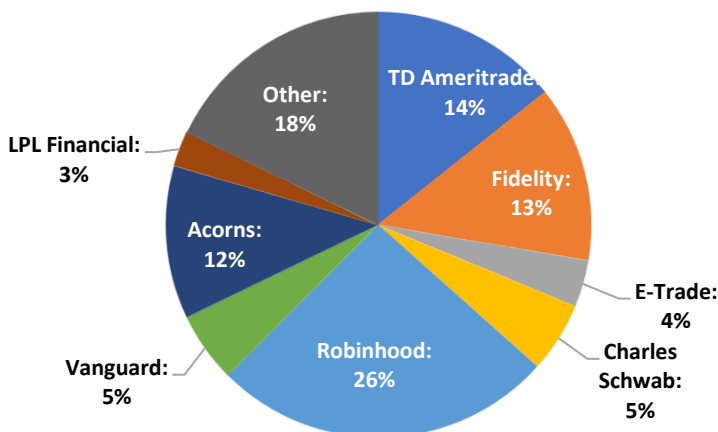


### Brokerage Firms:

#### **Q&A:**

We wanted to know which platforms are catching the attention of Gen Z. We asked our respondents who they have accounts with. The most popular broker is Robinhood at 26%, followed by TD Ameritrade at 14%, Fidelity at 13% and Acorns at 12% of the total.

### BROKER FIRMS



These results were somewhat similar to last year's results, with the biggest change impacting E\*Trade. E\*Trade fell from 30% last year down to a mere 4%. The biggest market share gainers were Robinhood and Acorns, with came from essentially 0% last year to 1<sup>st</sup> and 4<sup>th</sup> place overall.

#### **Our Conclusions:**

Gen Z is not terribly tied to cable or satellite TV. If these firms wish to draw our attention, maybe they should stop advertising on CNBC and start doing more online branding? Just a thought....

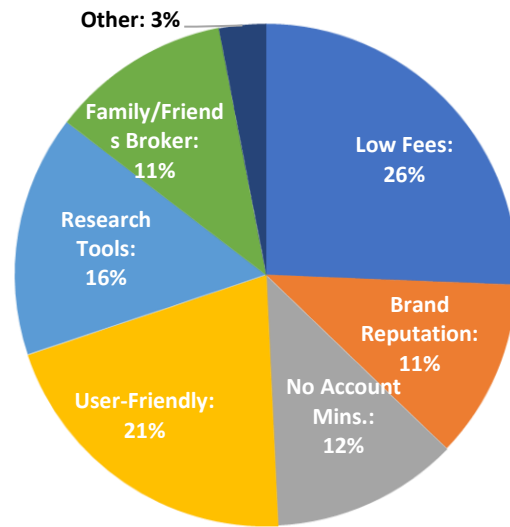
**Brokerage Firms:**

**Q&A:**

To understand what is important to Gen Z, we then asked our respondents why they chose their brokerage firm. Specifically, we asked about the characteristics that helped influence their decision.

26% chose their brokerage firm due to low fees and commissions. 21% were looking for a user-friendly interface, which must include mobile-based trading. Having excellent research tools came in 3<sup>rd</sup> place, with 16% saying it helped in their decision making process. 12% went firms that did not charge an account minimum. Lastly, 11% chose to do business with a broker that a family and friends recommended and 11% felt name brand awareness was the most important.

**WHAT IS IMPORTANT?**



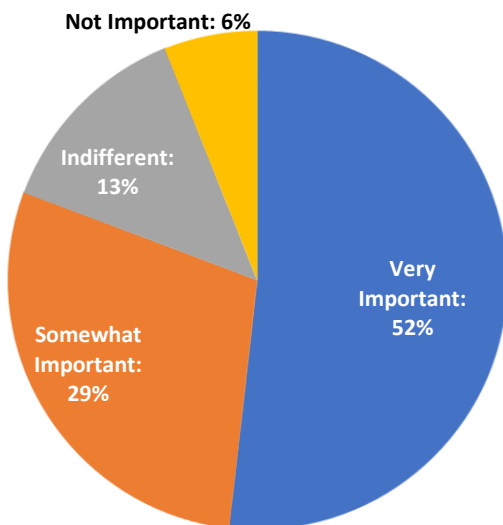
**Our Conclusions**

Pricing is clearly important to Gen Z, so too is low-to-no minimum account fees. This was the first time we asked these series of brokerage questions, so we will have to see how this changes over time.

**Execution:**

**Q&A:**

**EXECUTION**



Not 1 single participant mentioned “best execution” as the reason for selecting their brokerage firm. In our opinion, this is arguably the most important characteristic traders should be looking for. Based upon the prior question, clearly Gen Z is not terribly well-versed in the importance of trading execution.

We wanted to see if our respondents agree with us by asking how important “fast / best execution” is to their broker relationship. Over half of our respondents’ value timely execution when placing trade in their brokerage accounts. 29% think it is “somewhat important”, while 13% are indifferent and 6% do not think it is important.

## Our Conclusions:

Wow! With only half of our surveyed group concerned with execution, it is no wonder that free trading platforms, like Robinhood and Acorns, are flourishing.

### Acorns:

Before we dive into our next series of questions, we thought it would be helpful to provide some information regarding Robinhood & Acorns, in case you aren't familiar with their business models.

Over the last year, the Acorns brokerage platform has grown with a focus on building strategic partnerships with personal finance startups and media giants, like CNBC. The Acorns app allows users to invest “spare change” from their purchases.

Another reason we believe Acorns has gained market share, specifically among Gen Z, is because it is “free” for college students to use. College students do not have to pay any fees, as long as they are enrolled in a viable college. The Acorns platform creates investable portfolios for each of its users and simplifies the entire investment process. By creating a simple, autonomous way for young people to begin investing, even with small amounts, Acorns should succeed. By catering to the needs of young investors and utilizing its partnerships, we feel the appeal of Acorns will grow. By automating the savings process, helping younger people make smart money decisions, and not charging exorbitant fees, we believe its business model will succeed.



### Robinhood:

Even with the market filled with easy to use brokerage models, certain Gen Z individuals are looking for a low-cost brokerage firm. Enter Robinhood! With an easy-to-use platform and decent execution capabilities, Robinhood has garnered significant attention. We think their “no manual needed” motto perfectly fits with what Gen Z is looking for.



Investors on Robinhood's platform get the lowest trading costs in the industry - \$0.00. Trades are “free” and are executed fairly quickly. However, these trades may not be occurring at the absolute best price. Robinhood uses third-party brokers to assist with order flow. Instead of charging clients a trading fee, Robinhood earns revenue by keeping any volume-based rebates from brokers, exchanges or specialists. Robinhood loves to highlight its \$0.00 commission platform and this absolutely resonates with Gen Z.

### For example:

If an individual on Robinhood is purchasing 100 shares of XYZ stock, at \$6.00/share, he/she is investing \$600. If that individual could have purchased XYZ for \$5.85/share, instead of \$6.00/share, he/she would have only outlaid \$585. On Robinhood, this “free” trade really cost the investor \$15. On Schwab, Ameritrade or Fidelity, that trade would have been cost \$5. We wonder if Gen Z understands the concept of “best execution”, as opposed to just “fast execution”? As the shares purchased / sold increases, they likely will do the math.



## Robinhood:

### **Q&A:**

To gauge its popularity amongst Gen Z's, we wanted to know if our respondents were aware of the Robinhood app and its features.

The results were split 50/50. It is fairly interesting that Robinhood garnered 26% of the brokerage accounts of our entire surveyed group, with only 50% brand awareness. This leads us to believe that Robinhood, is far and away the most popular brokerage brand among Gen Z.

### **Our Conclusions:**

If they were to launch a media campaign or advertising program, we believe it would dramatically improve its brand awareness. Unlike simple and expensive 30-second advertisements on CNBC, we believe Robinhood would benefit from a younger driven marketing campaign. It might be helpful to do an online based program, targeting Gen Z. We think Robinhood should highlight its “free” trading, intuitive trading platform and interface and that there are no account minimums. In our opinion, Gen Z does not understand “best execution” and this should not be the focus of their marketing.

Lastly, while our analysis showed that 16% of participants wanted to receive research, this should not be mentioned. In fact, we have noticed that Ameritrade focuses some of their advertisements on providing this useful tool for free. Quite simply, Robinhood can continue to open new accounts (albeit small dollar sized accounts) with their focus on “free” trading.

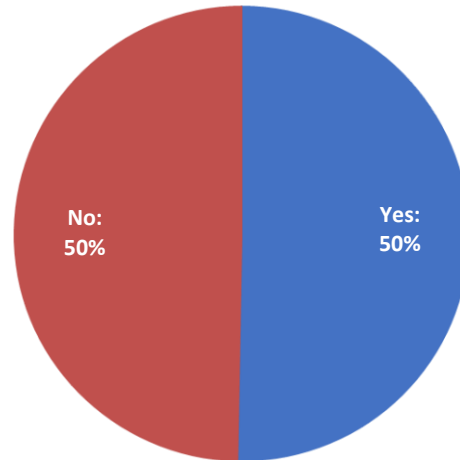
Over the next year or two, we would anticipate Robinhood stealing material market share from established brokerages. With sharp decline in E\*Trade's popularity with our survey, would be the most obvious example of a market share donor.

## “Robo-Advising” Services:

By using advanced computer technologies, datasets, and algorithms, FINTECH companies can use artificial intelligence to efficiently meet the demands of investment customers. The brokerage industry has recognized this opportunity to create “robo-advising” firms that utilize digital interfaces to interact with clients, instead of humans. Our next line of questions attempts to address “robo-advising”.

Robo-advising platforms are a fairly new brokerage solution. Using artificial intelligence (i.e. AI), it can automate the trading process and remove the human element (i.e. emotion) from the investing equation.

### AWARE OF ROBINHOOD?



However, “robo-advising” is not for everyone. It seems to be better suited for younger and Gen Z investors, who tend to be more comfortable using digital interfaces. We fully expect Gen Z to be an early adopter or AI and “robo-services”. Did that occur in our results?

**Q&A:**

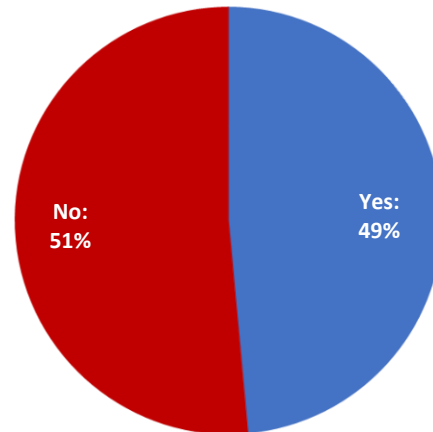
It is evident that the “robo-advising” trend is growing. We wanted to know if our Gen Z respondents were aware of it and if they would use these new services. Only **32%** of our survey participants knew about the existence of online financial advisors such as Wealthfront or Betterment. Clearly, there is not adequate market knowledge, at least on college campuses, of this new trend.

In addition, not even half of our Gen Z survey (49%) said they would be comfortable receiving investment advice strictly from a “robo-advisor”. Interesting!

**Our Conclusions:**

This is the first year we asked our respondents about this FINTECH brokerage trend. It will be quite interesting to see how these results evolve in the next few years, but we expect to see it continue to grow (at the expense of traditional brokerages). In our opinion, “robo-advising” is here to stay. It should continue to steal market share from traditional financial advisors and brokerages.

USING AI FOR ADVICE?



2019		
Robo-Advisor	Assets Under Management	Number of Accounts
5. Personal Capital	\$8.5 billion AUM	19,000 paid users (over 2 million using the free tools)
4. Wealthfront	\$11 billion AUM	250,000
3. Betterment	\$16 billion AUM	400,000
2. Schwab Intelligent Portfolios	\$37 billion AUM	300,000
1. Vanguard Personal Advisor Services	\$115 billion AUM	Not available

RoboAdvisorPros.com

As of now, the Top 5 2019 robo-advisors, sorted by assets under management (AuM), are listed here. With only \$187 billion in assets under management, it is still quite small, as a percentage of the total asset mix. However, the growth is attractive, and it will bring the “big boys” to the market. For example, we fully expect to see #4 Schwab and #5 Vanguard leverage their brand awareness and market size to their advantage.

Over the next several years, we anticipate the bigger brands and firms to dominate this growing industry. This is a marathon, not a sprint. The smaller, younger FINTECH firms (like Betterment and Wealthfront) will be challenged by bigger, well-financed peers.

For example, an April 9<sup>th</sup>, 2019 article in the WSJ mentioned Merrill Lynch’s interest in “wooing younger customers”. That article discussed Merrill’s plans to sell digital investing products and how it created a special division (of 300 advisors) to target this younger audience. Their goal is to combine the more holistic approach of financial advisers with the digital savvy of newer services and solutions. Time will tell if they can be successful



in migrating from the 17,500 advisors targeting older, wealthier clients (seeking hand holding) with the younger generations desire for automation and technology.

## Conclusion:

“Thank you” for your interest in the third of a four part research series on Gen Z and their opinions on the financial services industry. This note highlighted a series of issues, specifically focused on the brokerage industry. Please be on the lookout for our next note, which will cover digital and cryptocurrencies. Thank you!

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