TWITTERISATION 2.0—ONE OF FIVE TRENDS SHAPING INNOVATION

THE EXPONENTIAL PULL OF INNOVATION

Asset management and the upside of disruption

SEI New ways. New answers.®

ADVANCING THE STATE OF THE ART

"You never change things by fighting the existing reality. ***To change something, build a new model that makes the existing model obsolete."***

— R. Buckminster Fuller

Asset management firms are built to withstand revolutions, not embrace them. The objective, after all, is to preserve and grow capital. Despite its staid reputation, the investment business is not static, with regulatory changes and competitive pressures periodically spurring change. Now, the introduction of new technologies and business models is making change a constant and causing the industry to be reorganised, re-engineered, and reinvented before our very eyes.

Successfully harnessing technology in a complex and heavily regulated industry is not easy, even when there is great enthusiasm for it. Generous budgets at incumbent firms can be undermined by cultures that prioritise stability over creativity. Insurgents, often the innovators, can be hobbled by inexperience with how the investment business really works. Like most revolutions, the transformation of financial services is inevitably turning out to be a messy affair.

It isn't clear who will survive or emerge victorious, but the basic contours of change are coming into focus. Data plays a central role and is being analysed with increasingly sophisticated tools that include various types of artificial intelligence. If other sectors are any indication, the already pivotal role of platforms is set to expand even further. Social media is causing communications to be remade and reconsidered. Even the gig economy is nibbling at the edges of an industry that, for all of its corporate behemoths, has always been open to scrappy startups.

We addressed these topics in 2016 with *The Upside of Disruption: Why the Future of Asset Management Depends on Innovation*. The themes remain relevant, but a flood of venture capital and widespread adoption of new technologies in the intervening years—compounded by the unexpected arrival of COVID-19—accelerated the pace of change. The net result is a vastly more complex ecosystem populated by thousands of firms at all stages of development. Progress has not been linear. For every genuine innovation, there are countervailing examples of fraudulent or poorly conceived technologies, reminding us to stay sceptical and temper our expectations.

To capture a balanced and up-to-date picture of innovation in asset management, SEI collaborated with ANZU Research to revisit the five ongoing developments that are redrawing the industry's competitive environment.

Released serially over the upcoming months, each of the following themes—dubbed as follows—will be explored in detail, with a particular focus on recent developments:

1	**Watsonisation**	Artificial intelligence is quickly transitioning from curiosity to critical cog in efforts to monetise data and power applications from front to back office.
2	**Googlisation**	Data-smart companies are learning how to access, aggregate and distil competitive knowledge from a vast sea of previously inaccessible information.
3	**Amazonisation**	Online platforms are reshaping business dynamics, putting customers in charge and forever altering the customer experience.
4	**Uberisation**	By rethinking the value chain, a fast-emerging business model points to new ways of creating value and gaining scale.
5	**Twitterisation**	Corporate communication is no longer a one-way street. Technology has transformed how businesses communicate with—and learn from—their customers.

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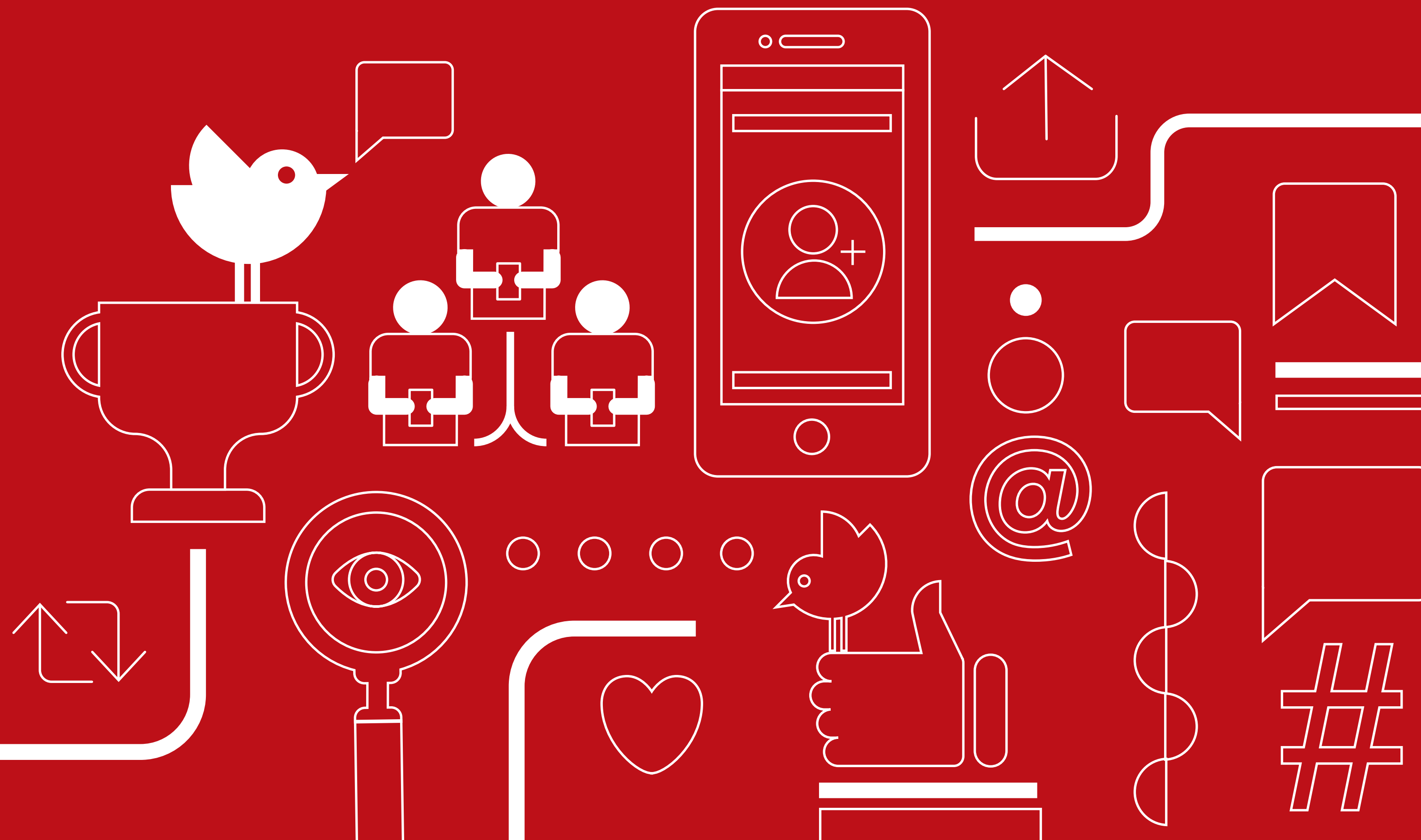
THE EXPONENTIAL PULL OF INNOVATION

TWITTERISATION 2.0

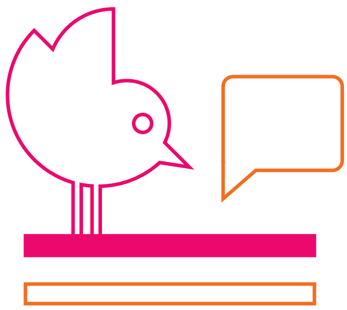
Social Media in Asset Management

A BRIEF HISTORY

Anyone logging on in the early days of the World Wide Web would have been disappointed if they expected a social experience. Aside from primitive chat apps and early multiplayer games, pleasurable interactions with others were few and far between. One could manoeuvre a polygonal avatar around a barren digital landscape for hours at 56 kbps without bumping into another soul.



A BRIEF HISTORY



How the world has changed. Mobile broadband was the catalyst that enabled the internet to fulfil its potential as a truly global network. Social media networks exploded onto the scene in the early 2000s, and 80% of Americans used them by 2017.[1] Market penetration plateaued in the US, but every social network now has a vastly bigger stage on which to shine. More than half of the world's population (approximately 4 billion people) now uses social media, and almost all of them (99%) access social platforms via mobile devices.[2] There are now more than 14 billion mobile devices worldwide, twice the number as five years ago, assuring plenty of growth left in the social media space.

With Facebook ranking among the world's most valuable companies, it is hardly a secret that social media is big business, but the numbers are still staggering. Already approaching US$100 billion in 2020, global ad spending on social platforms is expected to grow strongly for the foreseeable future.[3] In all likelihood, this vastly underestimates the size of the industry because it focuses on a relatively narrow definition. Many online games (comprising a massive industry themselves) are also social networks in disguise. Fortnite is played by 350 million people.[4] Minecraft is played each month by 126 million people.[5] There are 2 million people viewing Twitch at any given moment.[6]

Having been active for a decade, Twitter was already well established by the time we first addressed the concept of Twitterisation in 2016's *The Upside of Disruption: Why the Future of Asset Management Depends On Innovation*. We commented at the time on Twitter's impact by noting that it had already "fomented political uprisings, broken national news, moved elections, aided diplomacy, fuelled consumer movements, lifted brands, facilitated disaster response, and propelled careers."[7] On average, Twitter users generated some 350,000 tweets per minute on every topic under the sun.

China's Sina Weibo now has more than **500 million users.**

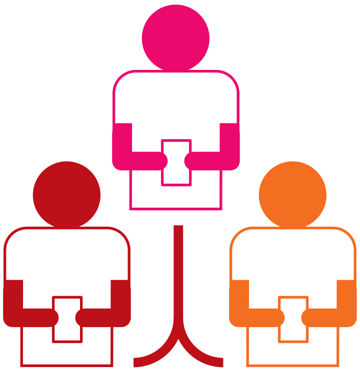
It may surprise some to learn that Twitter has not grown at all since then. Even as social networks continue to proliferate in a dazzling array of formats, we are still seeing the same number of tweets—350,000 per minute, or 200 billion per year.[8]

Based on metrics alone, Twitter may not be the obvious proxy for all social media circa 2020. Not that it is failing: The number of active users may be slipping, but that's in part because people don't need to be logged in to read tweets. Visitor traffic continues to increase.[9] It is also clear that there is plenty of life left in the microblogging medium: China's Sina Weibo now has more than 500 million users.[10] Most importantly, Twitter itself has become inescapable, thanks in part to certain political leaders who favour communicating 280 characters at a time.

Upstarts like TikTok may have eclipsed it in popularity, but there is no denying the fact that Twitter now plays a pivotal role in facilitating global discourse. There is no shortage of playful memes, but Twitter exemplifies social media's more serious function as the world's largest venue for the battle of ideas, where opposing points of view clash in full view of millions.[11]

Everyone is welcome to this arena, but some have a head start. President Donald Trump can boast of more than 84 million followers. Besting even the likes of Justin Bieber and Rihanna, his less garrulous predecessor, Barack Obama, takes the top spot with 121 million followers.[12] Outside of a few celebrities, few boast anything like these numbers. The bottom 90% of tweeters has a median of 19 followers.[13]

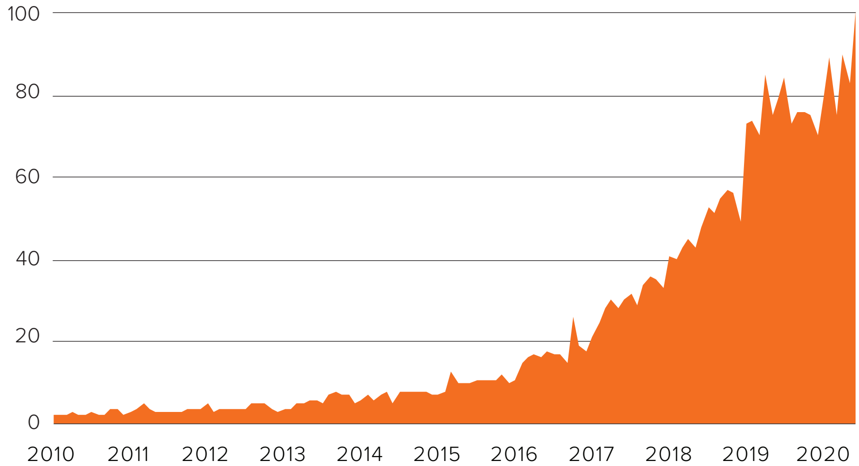
For rank amateurs and the already famous alike, social media metrics are the new gauge of success. No one exemplifies this better than the much-envied influencers, whose raison d'être is accumulating and monetising followers. Just another word when



we first wrote about Twitterisation, "influencer" is now a heavily searched term on Google. The power of pictures mean glamorous Instagram influencers attract much of the attention, but influencers command advertising dollars even on more buttoned-down platforms such as LinkedIn.[14] Even Twitter offers uniquely attractive characteristics to marketers: Twitter users spend 26% more time viewing ads than users on other platforms, and 90% of people on Twitter read the copy, which is higher than any other social platform.[15]

Google searches for the term "influencers"

Interest Over Time
January 2010 –June 2020



*Numbers represent search interest relative to the highest point on the chart for the given region and time. A value of 100 is the peak popularity for the term. A value of 50 means that the term is half as popular. A score of 0 means there was not enough data for this term.

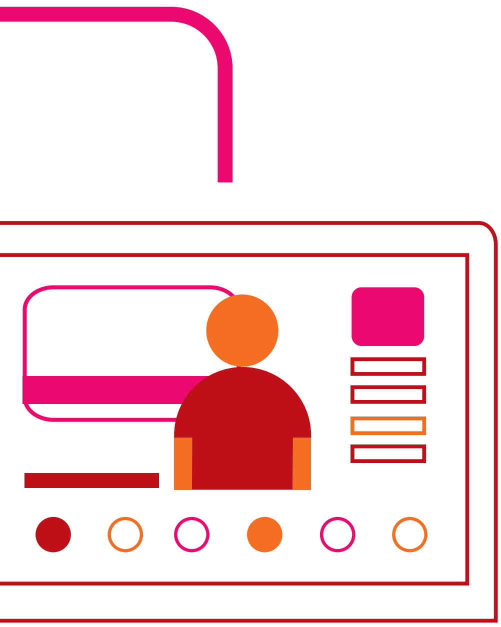
Source: Google.

Influencers are sometimes critiqued as superficial opportunists, but they represent a significant development in the evolution of these parallel online worlds. They are the perfect embodiment of the tensions at the heart of social media. Their ability to monetise exposure highlights the power of information networks, even as their carefully curated images and polished insights may veer uncomfortably close to misinformation.

RECENT DEVELOPMENTS

As Americans navigate their way through a deadly pandemic and shifting political landscape, post-the bitter 2020 Presidential election, social media's significance is being amplified. Its impact is unquestionable, but widespread enthusiasm is being joined by hesitation and even revulsion as concerns multiply.

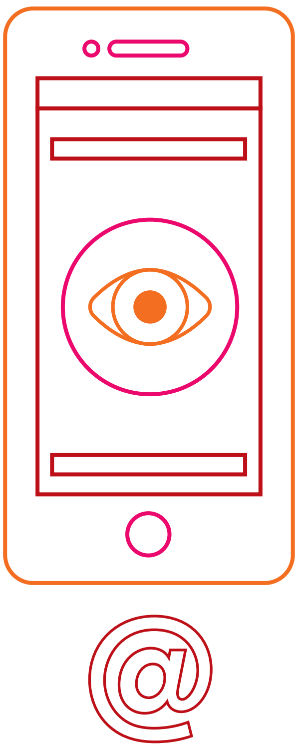
At their best, social platforms are like clubs or pubs: Places to brag, joke, gossip, or discuss pressing issues in the best Socratic tradition. Most reasonable people would agree that such discourse is enjoyable and useful, but bite-sized nuggets of thought can leave a lot unsaid. Long-form journalism and editorialising hasn't gone away (and may even be enjoying a renaissance), but the global conversation is increasingly dominated by Twitter. Many (if not most) news stories reference tweets as a matter of course, using them as primary sources or supplemental commentary.



IMPERFECT INFORMATION

Reliance on social media as a news source is a dubious proposition. The ability to disseminate information instantaneously is revolutionary and incredibly helpful in certain situations, but it is also prone to misuse. Whatever their motivation, there is little standing in the way of someone wishing to spread lies or half-truths. The lack of any editorial oversight or journalistic ethics essentially means anyone can say anything. Even information from reputable sources can be subtly spun away from its original meaning in the span of a single retweet. Making matters worse, this state of affairs may be self-perpetuating. Pew Research found that people relying on social media as their primary source of news are "less engaged and less knowledgeable" about world events like COVID-19 and the 2020 US Presidential election.[16]

Social media giants such as Facebook and Twitter have started to act more forcefully against misleading claims and hate speech, deleting posts and suspending accounts for violating terms of service. While intended to make their platforms more genial and less harmful, actions that pit free speech against concern for the



greater good are inevitably contentious. This is doubly true in a bitter election cycle where even the president of the United States and his advisors have had their tweets deleted, sparking cries of favouritism.

None of this takes away from the basic fact that individuals have been awarded the almost magical ability to broadcast their opinions far and wide. Everyone has the potential to be as loud as anyone else. This is revolutionary and, in some ways, wonderful, but it also has the side effect of devaluing or even demonising expertise. Having sifted through a flood of information online for appealing ideas, it is not difficult to feel informed—oblivious to small sample sizes and bias. This dynamic presents a potential minefield to financial firms, whose very existence hinges on the credibility of their expertise.

PRIVACY IMPLICATIONS

It is nice to think that the free exchange of ideas would result in the cream rising to the top, but recent experience has illustrated how unlikely this is in a world full of bad actors. Greater privacy might tamp down the viral spread of questionable information to some extent. Mark Zuckerberg declared in 2019 that “the future is private.”[17] Setting aside Facebook’s inconsistent reputation for privacy in the past, it is fair to say that he is onto something in pointing out that online social interactions will almost certainly be more cloistered going forward. We are already seeing more evidence of this on apps like Instagram, where one now needs to log in to view other users’ posts.

In all likelihood, individuals and corporations alike will need to adapt to navigating a social media landscape full of walls erected by users, regulators, and platforms alike. It may make it more challenging to reach audiences en masse, but this new reality could also enable more targeted connections, resulting in deeper levels of engagement.

ECHO CHAMBERS

The growing emphasis on privacy could aggravate the phenomena of echo chambers, or environments where people only encounter "opinions and beliefs similar to their own, and (do) not have to consider alternatives."[18] It is natural for many people to seek the company of others with whom they share common ground, but the tendency to exclude outsiders can be exacerbated by technology.

Eli Pariser, author, activist, and entrepreneur working to democratise technology and media, used the term "filter bubble" to describe "a state of intellectual isolation that allegedly can result from personalised searches when a website algorithm selectively guesses what information a user would like to see based on information about the user, such as location, past click-behaviour and search history. As a result, users become separated from information that disagrees with their viewpoints, effectively isolating them in their own cultural or ideological bubbles. The choices made by these algorithms are not transparent."[19]

Growing emphasis on privacy could aggravate the phenomenon of **echo chambers**.

This high-tech balkanisation gets a lot of attention for complicating politics and potentially undermining elections, but it is also infecting other aspects of daily life. Friendships and familial relationships are now fraught, and expressing controversial opinions in any professional setting can be perilous. Bill Gates lamented that social media "lets you go off with like-minded people, so you're not mixing and sharing and understanding other points of view… It's turned out to be more of a problem than I, or many others, would have expected."[20] Navigating such a polarised environment as a business is not straightforward, as it becomes increasingly difficult to establish a clear identity in an environment where opinions are easy to offer but potentially dangerous.

CENSORSHIP AND SHAMING

Social media platforms find themselves under growing pressure to make difficult choices. Even as they take steps to rein in certain types of behaviour, ultimately they may not be too concerned about policing the border of freedom and hate. This is in part because their users seem to be as good at shutting down discussion as initiating it. When sufficient momentum is established, online shaming can take on a life of its own, with individuals as well as corporate entities boycotted for expressing opinions that some find disagreeable. The mere threat of adverse reactions has a chilling effect on those sincerely interested in dialogue. It has gone far beyond a phenomenon primarily concerning celebrities who are afraid that an errant tweet might torpedo their star power. Bad online reviews of commercial establishments are a powerful weapon that unhappy consumers are only too happy to wield as individuals or groups.

What is sometimes derided as “cancel culture” is unlikely to completely stifle online debate, but it may contribute to social media’s transformation. As unfiltered opinions are shifted to increasingly obscure corners of the internet, we may need to get used to social networks acting unapologetically as popularity contests rather than clearinghouses of sometimes radical ideas and opinions. The freedom to say whatever you want is empowering, but that power doesn’t always accrue to the most deserving. This isn’t a judgement so much as a statement of fact. Any company wishing to effectively leverage social media needs to tread carefully and accept the fact that building a strong and trustworthy presence requires dedication, authenticity, and savvy—tempered with a healthy dose of caution.

Of the 40 million businesses now using Facebook, Coca-Cola is the most admired, boasting **47.6 million likes**.

IMPACT ON FINANCIAL SERVICES

Companies like Nike and GoPro are proof that social media can be a potent tool for building brands. Consumer brands that can leverage the unique characteristics of social networks feature prominently among the most popular. With 16.9 million and 13.5 million followers respectively, PlayStation and Xbox are the No. 1 and No. 2 ranked brands on Twitter, in part because gamers rely on the medium for updates on their favourite pastime. Many top fashion brands are joined by companies like Starbucks (11.4 million) and Whole Foods (4.4. million), which use Twitter to deepen their engagement with already enthusiastic consumers of their products. Of the 140 million businesses now using Facebook, Coca-Cola is the most admired, boasting 47.6 million likes.[21] The page's popularity may not be surprising, but its origin as a fan page (rather than a corporate initiative) is noteworthy and potentially instructive for marketers concerned about a heavy-handed approach to promoting their brand.[22]

ONE OF THESE IS NOT LIKE THE OTHERS

Asset managers are late to the party. Compliance concerns and resource constraints keep many from staking out a meaningful presence on dominant platforms such as Twitter and Facebook, let alone Instagram or YouTube. Offering a sophisticated B2B environment with multiple types of engagement, LinkedIn is the exception to the rule. The promise of networking caused vast numbers of professionals to sign up, and companies seized the opportunity to showcase their thought leadership as the site grew beyond its original role. Positioned for business rather than pleasure from the very beginning, it is now the social network of choice for asset managers and wealth managers.

For some, it may be too much of a good thing. Motives underlying overtures can be murky, and it is disheartening when apparently genuine networking opportunities reveal themselves to be fishing (or "phishing") expeditions. Still, this type of environment is tailor-made for B2B sales, a vital factor in the heavily intermediated

LinkedIn now has **722+ million users** spanning **200 countries** and territories.

financial services business. LinkedIn now has over 722 million users, of which approximately half are regular visitors. A truly global business, it spans more than 200 countries and territories. It is used more regularly than any other social platform for sharing content and networking and ranks as the top channel for B2B content marketers.[23] Able to target their advertising by industry and job title, almost nine out of ten B2B marketers use LinkedIn to generate leads.[24] Insightful content also forms a natural bridge between marketing overtures and investment decisions: A survey by the Brunswick Group found LinkedIn to be the most used and most trusted social media platform for investment research.[25] Furthermore, LinkedIn touts itself as the safest platform when it comes to reputational risk, reducing the likelihood that a company's messaging will appear alongside divisive or troubling content.[26]

REHABILITATING REPUTATIONS

All of these are important considerations for financial firms. The reputations of banks and financial services firms have been on a slow and steady slide for years, and many would like to capitalise on the transformative potential of social media in order to polish their image.[27] Corporations get to engage one-on-one with customers while also benefiting from a growing stream of data detailing the behaviour of those on social platforms. Brands have gone from being built and nurtured over long periods of time to being shaped daily by interactions with the public.

The potential goes far beyond the (admittedly important) ability to showcase traditional business attributes such as products, performance, features, and service quality. Thoughtful social campaigns can highlight things that might otherwise be missed but are nevertheless important in building a strong, 21st century financial brand, including philanthropy, community involvement, and technological innovation. Younger consumers in particular will be responsive to evidence of environmental concern and the fair treatment of employees.[28] Taking a stand on issues that matter to clients and prospects is sometimes disparaged as virtue signalling, but companies have the opportunity to go beyond ads and sponsorships by disseminating carefully articulated messages and highlighting good deeds.

BRAND BUILDING

There are many ways to build a brand on social networks. Widespread promotions of a brand can lead to influence over certain groups, generating the potential for one-on-one engagement that can lead to sales. Client retention efforts complete the loop.

Found at the top of the marketing and sales funnel, brand-building efforts often find the most traction at the intersection of corporate initiatives and public causes. ESG investing is a good example of a growth area for many asset managers which also happens to resonate with a growing number of people. It also harmonises well with favourable brand attributes that are best illustrated through concrete action such as community action or philanthropy.

Warren Buffet alone has **1.7 million followers**.

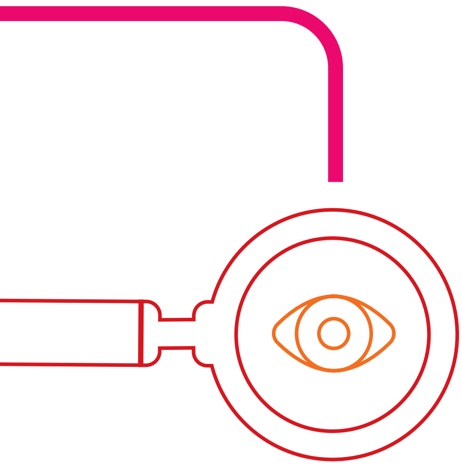
The potential for viral spread is what sets social media apart from all traditional forms of communication and advertising. Earworms like Coca Cola's famous *I'd Like to Teach the World to Sing (In Perfect Harmony)* are not easy to create, and neither are campaigns that go viral on Twitter or Instagram, but the barriers are lower on such platforms and a consistent stream of content makes it easier to establish a corporate "personality."

It has been interesting to watch financial firms become more adept at the use of social media in the years since *The Upside of Disruption* was released. While some are still reluctant to fully engage, others have made significant strides, resulting in hundreds of thousands of followers. They are not only more fluent (and presumably efficient) but have also embraced the opportunity to amplify and add depth and breadth to their brands. Having added 12,000 new followers during Q3 2020, Goldman Sachs now boasts 815,000 Twitter followers. Warren Buffett alone has 1.7 million followers.

Thoughtfulness and experience go a long way to ensure that corporate social media strategies don't fall flat. Superficial marketing efforts may not move the needle, but there are many ways to build an authentic social media presence. Some firms post from conferences they attend, sharing the energy and insights they find there. Others highlight charity work in which they are engaged. One of the more popular approaches among investment firms is to focus on market news and investment issues. All of these are done in compact and concise ways suitable to the medium, often supported by additional marketing collateral or thought leadership.

The payoff is not theoretical. According to a J.D. Power study, "Two out of three financial advisors who report high levels of engagement with an asset manager are very likely to increase investment with that asset manager. By contrast, only 37% of advisors who report low digital engagement with a firm are likely to increase investment."[29]

INVESTMENT RESEARCH



Social media is usually discussed in the context of marketing and distribution, but it plays another role of particular interest to investment firms, which are increasingly tapping social networks as a source of data informing allocation weightings and security selection. Social media generates vast streams of unstructured data that is not particularly useful when considered one post at a time, but new data tools are progressively increasing their utility.

In an investment context, social media is primarily being used to detect, gauge, and validate sentiment. As markets become more efficient, the real-time assessment of crowd psychology is increasingly viewed as an area where better tools and analytical firepower can make a meaningful difference. First used by hedge funds that could afford then-expensive tools and had the most to gain by leveraging short-term information arbitrage opportunities, social sentiment tools spread quickly. They can now be found at traditional asset managers, private equity firms, banks, exchanges, brokers, and publishing organisations.

Social sentiment tools have even trickled down to retail platforms such as Fidelity, which offers a metric known as the S-Score that distils social sentiment on thousands of publicly traded companies from Twitter and StockTwits on a minute-by-minute basis.[30] Some companies go further, continuously scanning not only social networks but also message boards and comments on news articles. Natural language processing is applied to this constantly growing sea of unstructured text data in order to extract meaning and produce trading signals. One sometimes overlooked advantage of these types of tools is their ability to evolve, continually rating the utility of each feed or commentator and adjusting their algorithms on the fly.

Academic research supports the use of social sentiment signals, with some caveats. One UK study focused on StockTwits affirmed social media sentiment as a good predictor of monthly stock returns, provided those tweeting were not following too many names.[31] A separate study from Germany found an “elusive and short-lived” predictive relationship between sentiment and returns.[32] Furthermore, “expert users” were the main drivers of this interdependence, rather than a broader population of social media users. The study’s authors detected “significant predictive gains over benchmark models in times of negative market returns,” leading them to conclude that “expert sentiment signals can yield higher risk-adjusted returns than classical price-based signals.”

As exciting as this development is, there are significant risks, particularly for small investors pursuing short-term gains in low-cost trade environments. In a 2019 Investor Bulletin,[33] the US regulators, SEC and FINRA noted that posted information may not be accurate, complete, or even timely. The fact that viral posts can take days or even weeks to catch fire demonstrates the lack of certainty around how fresh information may (or may not) be. The regulators also remind investors that sentiment analysis needs to be applied in the context of a thoughtful strategy rather than driving impulsive trading decisions.

Social media can also be deliberately misleading, with inaccurate information spreading after having been posted by unscrupulous players. Luckily, many of the same analytical tools can be repurposed to detect fraud. They have effectively been used to uncover pump-and-dump schemes and to monitor key events for evidence of insider trading.[34]

SOCIAL INVESTING

eToro now boasts **10 million users** trading multiple asset classes.

Marketing and research are clearly established functions of social media in financial services. Social trading is a more recent development that promised to close the loop, directly linking networks and investors at their logical conclusion. Representing a natural progression from the emails and chat rooms that preceded them, platforms dedicated to this model subvert the premium often placed on secrecy and circumspection by allowing others to monitor and mimic investment strategies.

Dating back to the founding of eToro in 2010, this increasingly crowded space is evolving quickly but still has the feeling of an embryonic business model. Social investing currently comes in several flavours. Some are focused on trade mirroring. Others emphasise crowdsourced earnings estimates. Many are independent firms, but incumbent financial services firms have jumped on the bandwagon by doubling down on the social aspects of their online trading environments.

Fans of social investing point to their efficiency (research and analysis is baked into the trade) and the fact that traders being copied have their own money in the strategy. These advantages are enough for eToro to now boast 10 million users trading multiple asset classes.[35] Despite regulatory concerns, social investing is clearly no flash in the pan.

It may be primarily a retail phenomenon, but even institutional asset managers will want to keep social investing on their radar. Depending on how technology and behaviour evolves, there may be opportunities to leverage platforms or derive insights from their use.

Because it relies on the timely synergy of social media and trades, social trading may be on the cutting edge of technology. The flood of unstructured data makes visualisation even more important, meaning we are likely to see more use of augmented reality by investing professionals. Algorithms may continue to capture market share, but as long as human traders are involved and emulated, there will be demand for faster and more intuitive interactions with snowballing data streams. Plugging into a virtual or augmented reality platform where data can be distilled, visualised, and integrated with a trading platform could be revolutionary.[36]

It can be challenging to paint an accurate picture of the future in such a slow-moving industry, but it is bound to look very different than the quiet, collegial offices of asset management firms in the past. With so many co-workers and clients working remotely, multimodal streaming platforms like Twitch may be paving the way for different kinds of interactions going forward. It is not hard to imagine financial firms taking advantage of an environment offering seamlessly integrated video, data, speech, and text with little lag.

ASSET MANAGEMENT **EXAMPLES**

Social networks play an increasingly **pivotal role** in the industry.

Despite historic hesitancy on the part of many asset managers, driven in large by regulatory concerns, social networks play an increasingly pivotal role in the industry. Marketing and investment management functions such as idea generation, portfolio monitoring, and trading may attract the most interest, but social media is infiltrating the industry in other ways as well. The following list of established and emerging players is illustrative, but it should not be considered exhaustive.

INVESTMENT RESEARCH

Investment management companies are increasingly well served by data and analytics firms that reduce the amount of heavy lifting required of internal staff. **7Park Data** supplies alternative data and analytics to firms in a number of industries. Its financial services offering considers social data alongside myriad other datasets before generating insights to be used by professional portfolio managers. Rather than offering market intelligence, some firms are opting to sell the tools needed for the job. **Accern** offers a "no-code development platform"[37] for AI workflows, empowering research teams to better analyse social media and blog posts.

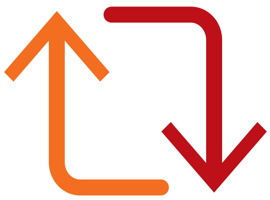
INVESTMENT RESEARCH (CONTINUED)

Financial services are only one industry vertical of many to some firms, but others prefer to concentrate on a single sector. **Alexandria Technology** offers analytical tools to institutional investors that aim to make sense of real-time information flows from a variety of textual sources, including tweets and blogs. **Sentifi** is also focused on professional investors. Their analytics engine is supplied social media feeds alongside other types of unstructured data as well as traditional financial information. Analytical outputs provide context for external events, facilitating idea generation, trades, and portfolio monitoring. The company sets itself apart with a ranked list of 14 million influencers.[38]

Estimize takes a different approach to a similar idea. Rather than relying on external social media platforms, it was created to serve as a virtual community for asset management professionals, focused on the sharing of financial estimates from analysts and investors. The company has carved out a unique niche for itself by banking on the wisdom of the crowd, and it is expanding its footprint by integrating with established industry data platforms such as **Bloomberg**.

RISK MANAGEMENT

Mentioned in our 2016 paper, **Dataminr** uses an AI that understands 80 languages to scour hundreds of millions of publicly available data points each hour to provide early detection of risk factors. Social media feeds comprise a critical input for this process, which informs the risk management efforts of an assortment of blue-chip clients.



ANALYTICS

Not all firms are focused on specific industry verticals or use cases. **DataSift** bills itself as "the world's largest selection of human data sources."[39] A wider than usual array of social media sources figure prominently in their promise to advance analytics. Underscoring the ongoing consolidation of the space, the company was acquired in 2018 by **Meltwater**, an analytics firm with US$235 million in funding and 13 acquisitions since its founding in 2001.[40]

Another contender in the analytics space, **RavenPack** expanded their coverage more than five years ago to include social media. At the time, their chief data scientist noted that this move was accompanied by "complex challenges, including the unique language used by microbloggers; the problem of source reputation; issues related to security and abuse of accounts; and, lastly, whether news actually breaks on Twitter versus news sites."

Lexalytics presents its natural language processing (NLP) as a differentiator, touting its ability to effectively glean meaning from the sometimes-arcane nomenclature of social media, while simultaneously grasping the meaning of posts steeped in financial jargon.

SENTIMENT ANALYSIS

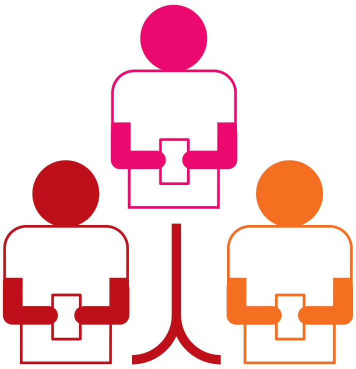
While it is not unusual for analytics firms to integrate social data into their offering, some independent firms are laser-focused on this area. **Stocktwits** was mentioned in our 2016 *Upside of Disruption* paper, and it now bills itself as the world's largest community of investors and traders. With more than two million registered users, the company's claim to have "reimagined financial media for the next generation"[41] does not seem far-fetched. It is a far cry from the days of reading the *Wall Street Journal* or calling your broker to take the market's pulse.

SENTIMENT ANALYSIS (CONTINUED)

They are hardly alone. **MarketPsych** claims to produce “the global standard in financial sentiment data derived from thousands of news and social media outlets.”[42] Highlighting yet another way that data is consumed, the company collaborated with **Thomson Reuters** to offer indices that track emotions such as fear, optimism, and confusion. Others have struggled, as evidenced by the fact that **iSENTIUM** went out of business after battling Bloomberg over trade secrets.

SOCIAL INVESTING

Closely tied to sentiment analysis is the business of social investing or mirror trading. Founded in 2006, just a year after the term “crowdsourcing” was coined by two editors at *Wired*, **Covestor** was among the first to let investors follow and mimic the portfolios of others based on their investing styles and track records. Since our 2016 paper was released, Covestor has been acquired by **Interactive Brokers Group**.



Other social investing platforms, such as **Open Folio**, **Tip’d Off**, **Stocktwits**, and **eToro**, compete for market share, relying in part on the concept’s appeal to millennials. **ZuluTrade** alone has 10,000 traders (aka signal providers) from 192 countries and offers access to a wide assortment of asset classes including stocks, commodities, forex, and cryptocurrencies. **Ayondo** and **Tradeo** are further examples of social trading platforms.

With the social investing model established, some companies are trying to evolve it. **Darwinex** positions itself as an investment manager with packaged products called “darwins,” which serve to limit transparency, allowing traders to better protect their intellectual property.

ADVICE

Robinhood was one of the biggest finance stories of 2020, generating countless anecdotes about the adventures of millennials—armed with stimulus checks and little in the way of alternative entertainment—trading stocks and options for the first time in their lives. The DIY approach is appealing to young investors used to being able to quickly find answers online. As a result, the advice traditionally supplied by experienced advisors sporting recognised credentials has been supplanted by something more akin to a traditional bazaar, with hyperactive conversations on **Slack** channels and **TikTok** videos produced by college students. This is fertile territory for influencers whose track records may be less than fully transparent.

GAMIFICATION

Cheap trades are attracting new investors in other markets as well. **Bux** is offering commission-free trades to its users in Europe and sports a simple and appealing interface that moves investing even closer to a truly gamified environment. We touched on gamification in 2016 and there have been some tentative moves in that direction, but it still feels ripe for development.

MARKETING

Most firms establish a social media presence for marketing purposes. Building and nurturing that presence can be challenging, but it helps that feedback is easily available. Helping companies monitor their progress include firms such as **Mention**, a cloud-based social media–monitoring platform that helps clients analyse their brand presence on Twitter and Facebook.

Dealogic, well known for its integrated suite of products for financial professionals, has been active in this area as well. In 2019, the company acquired **Selerity**, which promises customised content and workflow automation that result in a more engagement and greater client satisfaction.

FINAL THOUGHTS

Social media represents an important area of innovation for financial firms. Once dismissed as a trivial pastime, there is no disputing the fact it is now far more. As critical communications channels and sources of real-time data, social networks present myriad opportunities to asset management firms who are willing to engage.

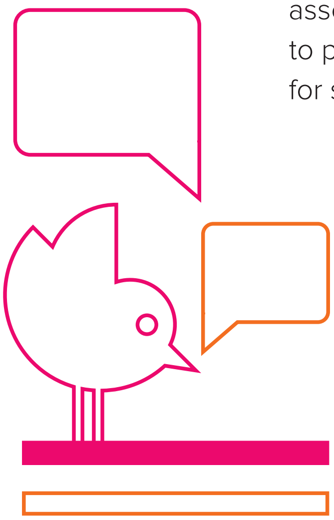
They will need to tread carefully, paying close attention to potential pitfalls. Misinformation and information bubbles can be formidable hurdles, whether firms are interested in data mining social networks or bolstering their brand online. Poor social media ads can generate a negative emotional response in less than a second, damaging a brand in the blink of an eye.[43] Twitter can be an excellent way to convey certain ideas, but tweets cannot be edited. Faced with the option of deleting and retweeting a problematic post, one must consider that the simple act of retweeting assures additional exposure. Even brevity itself—one of the charms of social media posts—can lead to inaccuracies and misunderstandings. A wide social media presence can also expand a company's exposure to hackers. There is also the possibility that a company or one of its prominent employees goes viral for an unintended reason.

There are also less obvious challenges. Concerns over compliance and resource allocation have kept some firms away from social media altogether, but they can also perpetuate half-hearted efforts. Neglecting to devote the necessary resources and failing to take advantage of the medium's potential can leave inert and unconvincing brand statements in the public eye that can erode reputations over time. This last risk is particularly important in a world where many financial brands are facing an erosion of awareness and trust. Conversely, the opportunity to build a strong brand on social media and extract as much value as possible by engaging with it should prove irresistible to a growing number of firms.

Currently, we are seeing this transpire in one of three ways. Marketing is the most frequent application, with asset management firms of all types relying on social networks to distribute content, connect with investors, and build their brands. Social media awareness is a vital metric in today's world. The size of a company's network is vital to its growth, increasing the opportunity to create favourable impressions and drive sales. Less common is the integration of social networks into the investment process itself, usually as a source of sentiment data. Social networks doubling as trading platforms are the most recent innovation.

As social networks continue to evolve, financial firms will attempt to leverage them in new ways, possibly combining multiple approaches. The institutional business will always prove to be resistant to change, but we should expect more radical experimentation on the retail side. It is not hard to imagine a scenario where social media is tightly and inextricably woven into business models, with investors, products, and clients all linked via real-time platforms sporting video, text, analytics, and the inevitable influencers.

Traditional financial media companies have steered in this direction for some time. They have been joined more recently by an array of startups with similar ambitions. Both groups may adapt further if succeeding generations' proclivity for gaming reshapes traditionally more "serious" activities such as investing. It remains to be seen who will assemble the most successful model, but asset management firms will want to track developments in order to position themselves appropriately and maximise their chance for success in the brave new social world.



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