

## STRATEGIES FOR FINANCIAL INSTITUTIONS

**Internet banking**

**Marketing**

**Security**

**Mobile**

**Payments**

**Innovations**

**Personal finance**

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## Online Investment Communities

*Will social networking revolutionize saving & investing?*

**I**t's still too early to tell whether participation in online investment communities (*aka "social investing"*) will remain a niche market or grow into a common approach. Our hot-off-the-presses consumer research, fielded two weeks ago, was inconclusive. Across the broad spectrum of investors, demand is relatively weak: 22% profess an interest. However, in the under-30 crowd, 31% were interested and among the 10% of the respondents who had traded online, interest was higher at 41% (*see research results pp. 4-9*).

One thing's for sure: There's a tremendous amount of startup activity in the social media-inspired investing space. We identified 54 North American companies involved in this area (*see Table 8, p. 10*). Since most keep their metrics to themselves, it's hard to judge whether these firms are gaining traction.

From a website-traffic standpoint, there are at least two stars: **CAPS** from **Motley Fool** and **Vestopia**. Both have monthly traffic of more than 500,000 unique visitors according to Compete. In addition, **StockPickr**, acquired by **TheStreet.com** last year, has more than 200,000. And the two discount brokers that have embraced certain social media features, **TradeKing** and **Zecco**, are approaching 100,000 monthly uniques as is the virtual trading game, **Wall Street Survivor**. But the combined traffic of the remaining 48 companies is less than 250,000 monthly unique visitors (*see Table 8, p. 10*).

For banks and credit unions looking to bolster their investment services, we continue to recommend the back-to-basics strategy we first outlined nine years ago in OBR 49 (*see pp. 20-25*).

1. Primary emphasis on systematic savings; i.e., none of this matters unless you are spending less than you earn
2. Value investing through index funds, no-loads and other low-cost vehicles
3. Asset allocation and rebalancing

If you can get these three concepts drilled into customers' heads, you have done them a service.

— Jim Bruene, Editor & Founder  
*jim@netbanker.com*

# ONLINE INVESTING COMMUNITIES

## Market Size

### Definition: Online Investing Community aka Social Investing or Investing 2.0

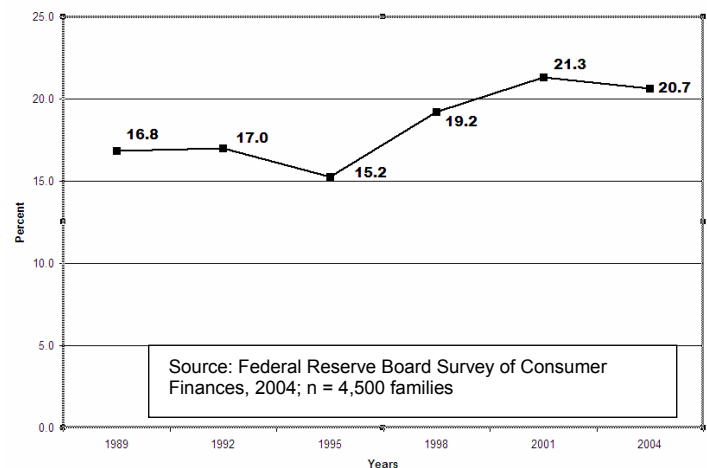
The exchange of information about stocks, bonds, CDs, and other investment vehicles within an online community. The name comes from social media, as in socializing, not social in terms of doing well (social conscience).

It's not easy to determine the market size for social media-inspired investment services. First, the biggest potential user base, the 20-somethings and younger Facebook generation, are not yet involved in investing. In our recent research among online households (*see pp. 4-9*), we found only 9% of 21 to 29 year olds owned stock, although 27% had retirement accounts and 16% owned mutual funds (*note small sample size, n = 56*).

And even among the broader population, only a minority of U.S. families own stocks, 21% as of the 2004 Fed data (*see inset*). Although, if you include ownership of stocks in mutual funds and retirement accounts, ownership is about 50% (*see charts on the next page*).

Among the online users we surveyed this month, only 25% tracked stock prices of more than one stock other than their own. Clearly, interest in tracking stocks and stock news is not universal. In our survey, 25% percent of respondents under 50 (*n = 238*) expressed an interest in social investing and 30% were undecided.

Percent of families with publicly traded stock



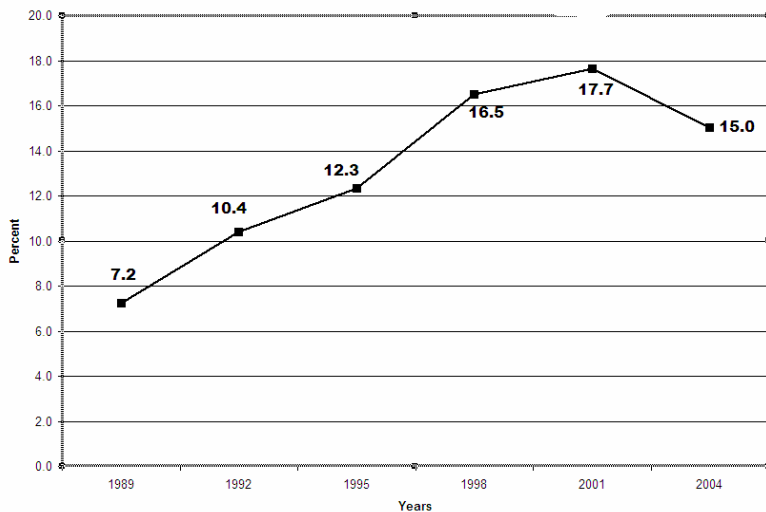
But we think that over the next two decades social lending communities will grow in importance. Why?

1. As baby boomers reach peak retirement years, a huge amount of press, blog posts, and websites will be devoted to savings, investing and asset management.
2. The Facebook generation is learning to communicate online and through mobile devices (*converging to the same thing in the not-too-distant future*).
3. Everyone wants to be smarter with their money and increasingly search engines and online communities are where people first look for answers on any subject.
4. The younger generation will have to be more self-sufficient in their investments, with much less likelihood than their parents to be covered by a pension. Adding to that is the growing belief that Social Security will not be able to delivery meaningful retirement income for today's younger workers.

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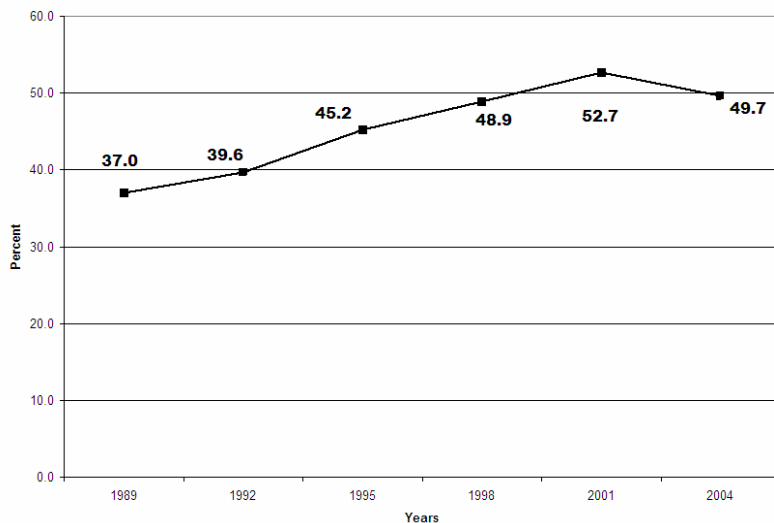
# ONLINE INVESTING COMMUNITIES

**Percent of families with mutual funds**

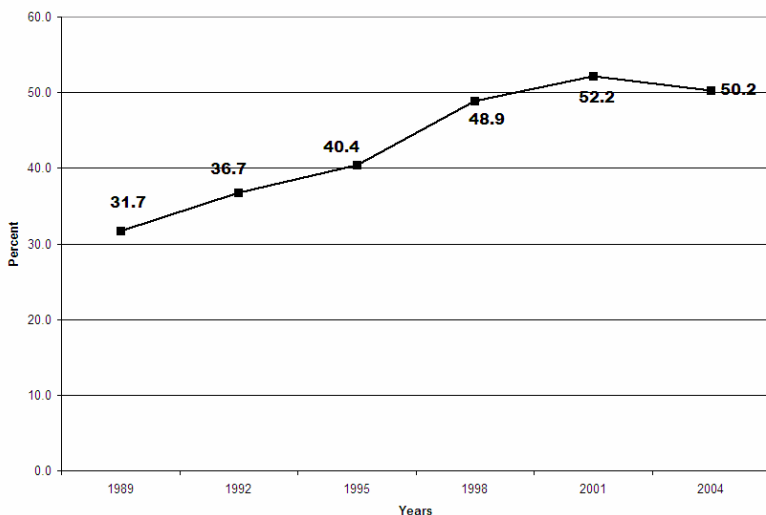


Source: Federal Reserve Board  
Survey of Consumer Finances, n  
= 4,500 families  
(2004 is the most recent data,  
2007 results are in process)

**Percent of families with retirement accounts**



**Percent of families with stock holdings, direct or indirect**



## Results from Online Banking Report Primary Consumer Research

*Fielded April 18-19, 2008*

In April, we queried 400 online consumers about their interest in online investment communities. We used the online research panel assembled by **Insight Express**, a professional research firm based in Stamford, CT. The company was launched in 1999 as a strategic affiliate of NFO Research and has conducted more than 20 million surveys. Insight Express carefully selects its online panel to guard against selection bias and overexposure to research. The results are fully representative and projectable to the entire U.S. online population. For more detail on its methodology, refer to the Respondents section of the Insight Express website <[insightexpress.com](http://insightexpress.com)> (see OBR 82/83 for previous OBR consumer research from Insight Express).

### Stock tracking and trading

Only 25% of online users track the price of any stock other than their employer. Of the trackers, 44% track four or more companies (11% of all respondents), with 22% tracking 10 or more (6% of all respondents). In terms of trading activity, just fewer than 8% of the respondents reported trading online within the past six months (we did not ask about offline trading activity).

More people say they are interested in tracking than actually do it. In questions about features (Q6), 36% said they were somewhat or very interested in tracking company information.

### Access the full data set

All-access OBR subscribers may download the full data set by logging into their Online Banking Report account at <[onlinebankingreport.com](http://onlinebankingreport.com)>.







In addition, All-Access subscribers may run cross tabs, create custom charts, and more using the powerful Insight Express toolkit. Email us at [info@netbanker.com](mailto:info@netbanker.com) to receive a username and password for OBR's shared data at Insight Express.

Wondering if you have an All-Access account? Contact [info@netbanker.com](mailto:info@netbanker.com).

Table 1

### Stock tracking activity

Q1. Other than the company you work for, how many other companies would you say that you have a fair idea of their stock price?

Response	Chart	Count	%
None		227	57% %
One		16	4.0%
2 or 3		52	13%
4 to 9		23	5.7%
10 or more		23	5.7%
Not sure		60	15%

Source: Online Banking Report, 19 April 2008, n = 401 online users age 21+

# ONLINE INVESTING COMMUNITIES

## Interest in various social/community investing activities

While social investing activities were of interest to only a minority of respondents, remember that only 35% of the sample expressed interest basic investment tools. With that in mind, the social investment features were relatively popular and appear to have a good likelihood of appealing to the 25% of the online population that follows the stock market.

The most popular social investing feature, with 29% somewhat or very interested, was *voting on the best investment stories* (see Table 2 below). Next was *competing in investing games for cash prizes* with 27% interested. *Comparing users' performance to the community* was also relatively popular favored by 22% of the sample. For more details on the exact answers given to this question, see Table 2b on the next page.

Table 2a

### Interest in trading and community features

**Q6.** Please rate your interest with each of the following features  
(responded as somewhat or very interested):

<u>Interested</u>	<u>Activity</u>
<b>Basic investment activities</b>	
36%	Track companies/investment ideas
35%	Investment tools and resources
30%	Data import (account aggregation)
<b>Social/community investment activities</b>	
29%	Vote on favorite investment ideas/stories
27%	Compete in investment games for cash prizes
22%	Compare my performance to other community members
21%	Subscribe (email/RSS) to investments/people I am following
19%	Follow friend's investments
19%	Join group of like-minded investors
17%	Share what I'm doing
16%	Widget
16%	Post my own ideas about stocks/investments

Source: Online Banking Report, 19 April 2008, n = 401 online users age 21+

# ONLINE INVESTING COMMUNITIES

Table 2b

## Detailed interest in trading and community features

Q6. Please rate your interest with each of the following features (*select one response for each*):

Response	Very interested	Somewhat interested	Not sure	Somewhat uninterested	Very uninterested
Share what I am doing with my investments; for example, what stocks I am buying/selling/holding	N=31 Y=7.7%	N=39 Y=9.7%	N=100 Y=25%	N=50 Y=13%	N=181 Y=45%
Widget to post on my blog, start page (iGoogle), or Facebook profile that tracks my investment/savings performance	N=32 Y=8.0%	N=32 Y=8.0%	N=102 Y=25%	N=44 Y=11%	N=191 Y=48%
Import data from my other brokerage/bank accounts so that I can track all my savings/investments in one place	N=52 Y=13%	N=70 Y=17%	N=98 Y=24%	N=36 Y=9.0%	N=145 Y=36%
Tools and resources for improving my investment performance	N=59 Y=15%	N=80 Y=20%	N=96 Y=24%	N=37 Y=9.2%	N=129 Y=32%
Track companies, stocks, or investment ideas in which I am interested	N=50 Y=12%	N=96 Y=24%	N=87 Y=22%	N=33 Y=8.2%	N=135 Y=34%
Vote on my favorite ideas/stories/people	N=45 Y=11%	N=72 Y=18%	N=106 Y=26%	N=48 Y=12%	N=130 Y=32%
Follow friends' investment choices and performance in the community	N=24 Y=6.0%	N=51 Y=13%	N=105 Y=26%	N=54 Y=13%	N=167 Y=42%
Create and/or join groups of like-minded investors/savers	N=27 Y=6.7%	N=47 Y=12%	N=109 Y=27%	N=54 Y=13%	N=164 Y=41%
Compete in virtual investment games for cash prizes	N=42 Y=10%	N=67 Y=17%	N=95 Y=24%	N=41 Y=10%	N=156 Y=39%
Compare my performance to other community members	N=37 Y=9.2%	N=51 Y=13%	N=100 Y=25%	N=48 Y=12%	N=165 Y=41%
Post my own ideas about various stocks or investment ideas	N=29 Y=7.2%	N=37 Y=9.2%	N=110 Y=27.43%	N=50 Y=12%	N=175 Y=44%
Subscribe to email or RSS alerts about investments or people I am following	N=34 Y=8.5%	N=52 Y=13%	N=114 Y=28%	N=39 Y=9.7%	N=162 Y=40%
Participate in the community anonymously	N=42 Y=10%	N=73 Y=18%	N=116 Y=29%	N=33 Y=8.2%	N=137 Y=34%
<b>Totals</b>	<b>504</b>	<b>767</b>	<b>1338</b>	<b>567</b>	<b>2037</b>

Source: Online Banking Report, 19 April 2008, n = 401 online users age 21+

# ONLINE INVESTING COMMUNITIES

## Consumer Demand

In trying to see how many people might use social investing, we asked the question a couple ways. And overall, 22% rated the whole idea as somewhat valuable (13.5%) or very valuable (7.5%), not a bad score for a new concept that's difficult to explain, especially to an online research panel (see Table 3, below). However, in the under-30 crowd ( $n = 56$ ), 31% were interested and another 34% were undecided. Only, 36% of the younger crowd totally dismissed the concept. Interest was even higher among the 8% of all respondents who had traded online within the past six months ( $n = 31$ ), with 41% interested. Please note that the sample sizes in both subsets were small.






We also asked how likely they'd use it if offered free from a financial institution they already had an account with. Again, similar results, with 27% saying they either *probably would* (18%), or *definitely would* (8.7%) (see Table 4, below).

Table 3

### Interest in using an online investment community (aka social investing)

**Q4.** Imagine that you could use a service that allowed you to keep track of news and information about stocks, investment vehicles and savings options. And the service would include "social networking" features so you could follow the recommendations and advice from industry experts and/or your friends and they would be able to follow you. You could participate by making your investment choices public, commenting on various stocks and investment vehicles, or publishing your own ideas. Community members could see who had the best investment performance over time and follow members who consistently beat the averages. This service would be called "Social Investing."

Using the following scale, how valuable would you find Social Investing?






Response	All Respondents (n =401)			Age 21 to 29 (n=56)	Traded Online* (n = 31)
	Chart	Count	%		
Extremely valuable		30	7.5%	20%	26%
Somewhat valuable		54	14%	11%	16%
Might be valuable or might not be		119	30%	34%	13%
Probably not valuable		65	16%	13%	26%
Not at all valuable		133	33%	23%	19%

Source: Online Banking Report, 19 April 2008, n = 401 online users age 21+ \*Traded online in past 6 months

Table 4

### Interest in online investment communities offered by primary financial institution

**Q9.** How likely are you to use Social Investing if it was offered FREE of charge by a financial services company (brokerage, bank, credit union, mutual fund) with which you already had an account?

Response	Chart	Count	%
Definitely would use		35	8.7%
Probably would use		72	18%
Unsure--might or might not use		151	38%
Probably would NOT use		74	19%
Definitely would NOT use		69	17%

Source: Online Banking Report, 19 April 2008, n = 401 online users age 21+



# ONLINE INVESTING COMMUNITIES






## Price Points

We don't put a lot of stock into what people say they'll pay for a fictional concept. However, it's still reassuring that some portion of the sample, in this case 27%, said they'd pay for it. The interesting thing about that number is that only 22% thought the service sounded somewhat/very valuable. That means that either the respondents were warming up to the idea as we asked more questions or that they just didn't really care to think carefully about what they'd pay (*see Table 5 below*).

Table 5

### Willingness to pay for social investing at various price points

Q7. What is the MOST you would be willing to pay for high-quality, secure, private, and convenient Social Investing?

Response	Chart	Count	%
\$0 (free)		293	73%
\$5 to \$10 per year		52	13%
\$10 to \$25 per year		30	7.5%
\$25 to \$75 per year		17	4.2%
\$100 or more per year		9	2.2%

Source: Online Banking Report, 19 April 2008, n = 401 online users age 21+










## Preferred Provider

We asked where users would want to use social investing services. Only 35% of respondents had a preference, but of those, about 30% preferred their primary financial institution; about 20% preferred a major brokerage; another 20% preferred a major Web provider such as Google. The remaining 40% were split between the remaining (*see Table 6 below*).

Table 6

### Social investing provider preferences

Q5. Where would you MOST prefer to use Social Investing, assuming the price and features were the same (select one)?

Response	Chart	Count	%
Web specialist such as Covestor, Vestopia, or Zecco		4	1.0%
Major brokerage such as Schwab, E*Trade, or Merrill Lynch		28	7.0%
Major Web-based company such as Google, MSN, or Yahoo		27	6.7%
My primary financial institution (bank, credit union, other)		43	11%
Mutual fund company such as Vanguard or Fidelity		16	4.0%
Other financial services company		10	2.5%
Social network such as Facebook or MySpace		12	3.0%
Not sure or no preference		149	37%
None of the above		112	28%

Source: Online Banking Report, 19 April 2008, n = 401 online users age 21+



# ONLINE INVESTING COMMUNITIES

## Support for Advertising

Since many of the startups are looking at advertising-supported models, we asked for opinion on advertising. Interestingly, many agreed that relevant advertising was a potential benefit. On the other hand, 18% would prefer to pay a fee to avoid advertising altogether. About half agreed that relevant advertising was acceptable, and only 20% were opposed to relevant advertising (*see Table 7 below*).

Table 7

### Tolerance of advertising within the social investing community

**Q10.** Please rate your agreement with these statements about advertisements within the Social Investing site (Select one for each)

Response	Completely agree	Somewhat agree	Not sure/ undecided	Somewhat disagree	Completely disagree
<b>There should be no advertising whatsoever (N=399)</b>	N=91 Y=23%	N=64 Y=16%	N=157 Y=39%	N=53 Y=13%	N=34 Y=8.5%
<b>Advertising is fine so long as it's relevant and not overly distracting (N=399)</b>	N=70 Y=18%	N=131 Y=33%	N=120 Y=30%	N=19 Y=4.8%	N=59 Y=15%
<b>I'm willing to view ads if the site is free (N=397)</b>	N=67 Y=17%	N=119 Y=30%	N=123 Y=31%	N=24 Y=6.1%	N=64 Y=16%
<b>I'd prefer to pay a small fee (\$10 to \$25/yr) to keep it advertising-free (N=399)</b>	N=31 Y=7.8%	N=37 Y=9.3%	N=116 Y=29%	N=67 Y=17%	N=148 Y=37%
<b>It doesn't matter if there are ads since I never look at them anyway (N=398)</b>	N=94 Y=24%	N=81 Y=20%	N=142 Y=36%	N=28 Y=7.0%	N=53 Y=13%
<b>Relevant advertising is a benefit to the service (N=400)</b>	N=41 Y=10%	N=99 Y=25%	N=170 Y=43%	N=32 Y=8.0%	N=58 Y=15%
<b>Totals</b>	<b>394</b>	<b>531</b>	<b>828</b>	<b>223</b>	<b>416</b>

Source: Online Banking Report, 19 April 2008, n = 401 online users



# ONLINE INVESTING COMMUNITIES

## May Scorecard: Investing 2.0 Players

Table 8

### Web 2.0 Investment Sites

investment information site with some social media features

Website (Owner)	Website Traffic Estimates								Comments
	Compte						Quantcast		
	Apr '08	Mar '08	Feb '08	Apr '07	Apr '06	Y/Y Chg	Mar '08	Feb '08	
Analyst's Edge	--	--	589	--	--	--	--	--	
BullPoo	4,080	2,260	2,400	1,300	--	210%	--	--	Investment community to share and collaborate on ideas
Cake Financial*	5,390	6,100	6,480	--	--	--	2,220	6,560	
CAPS (Motley Fool)*	2.19 mil	2.30 mil	2.34 mil	3.46 mil	1.65 mil	(37%)	556,000	594,000	Investment community
ChartSetups	--	2,220	879	--	--	--	--	--	
Covestor	17,600	9,990	7,900	--	--	8300%	2,220	2,240	100% built around actual portfolios; can earn revenue if other investors invest in ideas based on your feed
DigStock	400	987	1,860	160	360	150%	--	--	Similar to Digg; users vote for investment/stories/ideas causing those items to become more visible to other users
DistillingFinance	170	294	--	--	--	--	--	--	
FeedtheBull	6,890	8,770	6,660	--	--	2800%	3,260	--	
FeelingBullish	--	802	1,470	--	--	--	--	--	Investment community (similar to CAPS)
FXGround	--	--	--	--	--	--	--	--	
Gradr	--	347	--	--	--	--	--	--	
GStock	2,360	2,210	2,270	1,900	21,000	22%	3,260	3,200	"Virtual supercomputer" market analysis on grid computing
iBullish	--	--	--	--	--	--	--	--	Facebook app
InstantBull	1,920	2,450	1,330	--	--	(70%)	2,190	--	
InvestorFace	--	--	--	--	--	--	--	--	
HedgeStreet	1,880	1,330	692	--	--	(72%)	--	--	
Herdstreet	--	--	--	--	--	--	--	--	
Marketocracy	25,500	14,200	19,100	--	--	130%	10,600	9,680	
Market Simplified Fin'l	--	--	291	--	--	--	--	--	marketsimplified.com
MoneyTwins	--	--	--	--	--	--	--	--	Person-to-person foreign currency trading service
MyWallStreet	--	--	--	--	--	--	--	--	
MyTrade	--	3,660	4,630	--	--	--	--	--	
NestEggr	136	867	2,330	--	--	--	4,840 US 7,790 WW	5,030 US 7,980 WW	Founders are Yahoo Finance veterans; Quantcast Mar. traffic includes 4,430 via Facebook and 1,800 at phatinvestor.com
NetworthIQ	9,260	10,000	7,160	4,400	780	110%	2,610	2,190	Monitor net worth and share with others if desired. Received SEOmoz.org Web 2.0 Award Honorable Mention in "Business, Money, and eCommerce;" rated number 6 in the Top-10 Innovative Web 2.0 Applications of 2005

# ONLINE INVESTING COMMUNITIES

<b>Predict Wall Street</b>	46,900	33,900	39,500	--	--	(19%)	25,700	37,400	
<b>SaneBull</b>	17,300	29,800	24,500	--	--	--	297,000 U 458,000 W	274,000 U 401,000 W	Quantcast traffic figures include syndication network, website only traffic is 12,600 WW and 7,620 U.S.; 200,000 visitors come from widget at Huffington Post
<b>SocialPicks</b>	18,500	11,900	13,000	--	--	220%	25,300 U 33,200 W	14,900 U 20,800 W	Quantcast traffic Includes syndication network
<b>SteamStreet</b>	17,800	8,780	381	--	--	--	5,550	--	
<b>Stockalicious</b>	875	1,547	785	--	--	(39%)	--	--	
<b>StockCloud</b>	--	--	--	--	--	--	--	--	
<b>StockFriend</b>	--	148	--	--	--	--	--	--	
<b>StockHouse</b>	48,700	63,000	58,900	--	--	(12%)	54,300	43,200	With more than 1.1 million unique users a month, the website is Canada's largest financial portal and features a reputation system that tracks each member's contributed content and stock-picking abilities.
<b>StockLinkr</b>	--	--	--	--	--	--	--	--	
<b>StockPickr (TheStreet.com)</b>	144,000	141,000	159,000	--	--	(22%)	182,000	220,000	Acquired by TheStreet.com May 2007
<b>Stocks.us</b>	1,070	498	341	--	--	--	--	--	
<b>StockTickr</b>	3,640	2,650	4,000	2,200	1,200	65%	--	--	Investment community with state-of-the art tools such as RSS feeds; recently acquired by TheStreet.com
<b>Stocktrack</b>	--	1,060	756	--	--	--	--	--	Game
<b>StokBlogs</b>	350	737	1,040	--	--	11%	--	--	
<b>The UpDown</b>	1,700	1,120	1,200	--	--	--	--	--	Everyone starts with \$1,000,000; can do market/limit/short; can earn money for commentary
<b>TickerHound</b>	8,550	7,460	11,300	--	--	3,800%	8,910	--	Web 2.0-looking forum built on questions and answers
<b>TickerMine</b>	1,130	704	1,090	--	--	--	--	--	News aggregation
<b>TradeKing*</b>	92,400	84,800	94,800	--	--	110%	48,100	56,900	
<b>Wall Street Idol</b>	480	--	--	--	--	--	--	--	
<b>WallStPop</b>	122	745	206	--	--	(82%)	--	--	
<b>Wall Street Survivor (Stock-Trak)</b>	61,400	116,000	420,000	--	--	4,800%	33,700	74,000	OptionsXpress sponsored a trading competition in early 2008 with \$50,000 in prize money
<b>Value Investing News</b>	3,170	2,590	7,330	--	--	(2%)	--	4,370	News aggregation with user votes
<b>ValueWiki</b>	8,900	6,770	10,900	--	--	170%	7,800	--	
<b>Vestopia*</b>	INA	718,000	824,000	--	--	--	390,000	--	April traffic at Compete shows just 23,000, we are listing as INA (info not available) while we investigate
<b>Wikinvest</b>	22,500	23,400	34,500	--	--	--	26,200	--	
<b>Wikinancial</b>	156	813	467	450	--	(65%)	--	--	Financial community
<b>WikiStock</b>	1,760	930	1,000	--	--	--	--	--	
<b>Worthio</b>	--	--	--	--	--	--	--	--	
<b>Zecco*</b>	106,000	96,000	90,000	52,000	--	100%	51,600	--	Financial community featuring \$0 cost trading for all but the most hyperactive trader

Source: Online Banking Report, April 2008; traffic from Compete.com, April 2008 and Quantcast, April 2008 U = U.S. users, W = Worldwide users

\*Demoed at Online Banking Report's FinovateStartup conference (videos available in late May at <finovatestartup.com>)

# ONLINE INVESTING COMMUNITIES

Table 9

## Top 20 Web 2.0 Investment Sites

March 2008 U.S. traffic estimates from Compete

Company	March 2008 Traffic
Vestopia	720,000
CAPS (Motley Fool)*	560,000
StockPickr	140,000
Wall Street Survivor	120,000
Zecco	96,000
TradeKing	85,000
Stockhouse	63,000
Predict Wall St	34,000
SaneBull	30,000
Wikinvest	23,000
Marketocracy	14,000
SocialPicks	12,000
NetworthIQ	10,000
Covestor	10,000
SteamStreet	8,800
Feed the Bull	8,800
Tickerhound	7,500
ValueWiki	6,800
Cake Financial	6,100
MyTrade	3,700

Table 10

## Biggest investment 2.0 traffic gainers

April 2008 U.S. traffic estimates from Compete; 5,000 min monthly viewers

Company	April 2008 Traffic	Y/Y Gain
1. Covestor	17,600	8,300%
2. WallStSurvivor	61,400	4,800%
3. TickerHound	8,600	3,800%
4. Feed the Bull	6,900	2,800%
5. SocialPicks	18,500	220%
6. ValueWiki	8,900	170%
7. Marketocracy	25,500	130%
8. TradeKing	92,400	110%
9. NetworthIQ	9,300	110%
10. Zecco	106,000	100%

Table 11

## Biggest investment 2.0 traffic declines

April 2008 U.S. traffic estimates from Compete, 5,000 min monthly viewers

Company	April 2008 Traffic	Y/Y Gain
1. StockPickr	144,000	(22%)
2. Predict Wall St	46,900	(19%)
3. Stockhouse	48,700	(12%)

\*From Quantcast. Compete does not break out CAPS traffic from the entire fool.com domain.

# ONLINE INVESTING COMMUNITIES

## Forecast: Social Investing Adoption

Table 12

### OBR Forecast: Participation in online social investing communities

number of U.S. households in millions

Year	Social Investing Communities		Households that Own Stock <sup>3</sup>		Households that Use Online Banking <sup>4</sup>		Total U.S. Households	
	Follow <sup>1</sup>	Participate <sup>2</sup>	Num HHs	SI %	Num HHs	SI %	Num HHs	SI %
2007	0.5 mil	50,000	24 mil	2%	45 mil	1%	111 mil	0.5%
2008	1.0 mil	150,000	25 mil	4%	49 mil	2%	112 mil	0.9%
2009	2.0 mil	350,000	26 mil	8%	53 mil	4%	113 mil	2%
2010	3.5 mil	900,000	27 mil	13%	56 mil	6%	114 mil	3%
2011	5.0 mil	1.5 mil	28 mil	18%	59 mil	8%	115 mil	4%
2012	6.5 mil	2.0 mil	29 mil	22%	61 mil	11%	117 mil	6%
2013	8.0 mil	2.5 mil	30 mil	27%	63 mil	13%	118 mil	7%
2014	10 mil	3.0 mil	31 mil	32%	65 mil	15%	119 mil	8%
2015	12 mil	3.5 mil	32 mil	38%	67 mil	18%	121 mil	10%
2016	13.5 mil	4.0 mil	33 mil	41%	69 mil	20%	122 mil	11%
2017	15 mil	4.5 mil	34 mil	44%	71 mil	21%	123 mil	12%
10 yr chg	14.5 mil	4.45 mil	10 mil	--	26 mil	--	12 mil	--
CAGR	41%	57%	3.5%	--	4.7%	--	1.0%	--

Source: Online Banking Report. Accuracy estimates vary by category: social investing communities, +/- 35%; stock ownership, +/- 15%; online banking, +/- 15%; all households, +/- 3% SI % = Percent of the category that follow social investing sites

**Assumption:** Social investing is adopted by mainstream online brokerages

#### Notes:

(1) **Follow:** Accessed any social investing community site within past 6 months; must be a registered user when applicable; includes social features at online brokerages

(2) **Participate:** Upload data to the site, post investment ideas, make trading data and/or account holding available, vote on investment ideas, comment on posts and so on

(3) Own publicly traded stocks, forecast in part based on historical data from the Federal Reserve Survey of Consumer Finance (see p. 2)

(4) Access checking, savings, or bank-issued credit card accounts online or through mobile device, see OBR 151

Table 13

### Top Social Networks

millions of U.S. unique users in Feb

Website	Feb. Traffic	Feb. Visits
MySpace	66 million	960 million
Facebook	29	330
Classmates	12	22
MyYearbook	3.0	20
Bebo	3.5	19
LiveJournal	3.3	17
Blackplanet	2.1	14
Hi5	2.4	12
LinkedIn	3.8	11
Tagged	2.4	11
Reunion	6.7	10
360.yahoo.com	2.7	10
iMeem	3.3	9.6
Friendster	1.9	8.6
Orkut	0.5	7.1
Flixster	3.3	6.8
Fubar	1.7	6.6
Tickle	2.1	6.3
Cafemom	1.6	6.0

Source: Compete, 13 March 2008



*How big is Bank of America?*

*Its 22 million visitors are just 25% fewer than Facebook's, and the bank's 104 million monthly visits is one-third that of Facebook, but still more than the next six social networks combined.*

# ONLINE INVESTING COMMUNITIES

## Ideas from the Social Investing Startups

In the course of writing this report and organizing our recent FinovateStartup conference, we looked closely at several dozen startups attempting to marry social networks with investing. Below are some of the ideas currently being tested. For more background, see our virtual roundtable with six social investing founders (pp. 26-35).

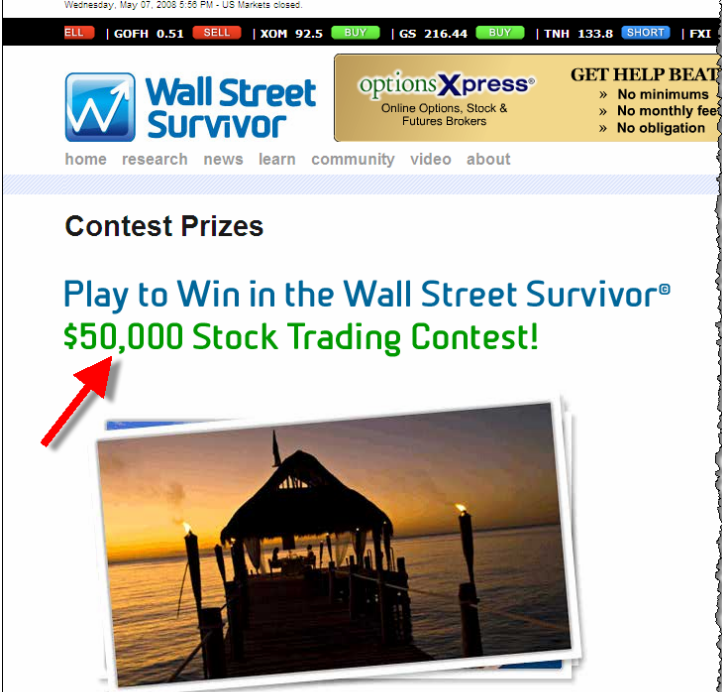
### 1 Appeal to gamers and the spirit of competition

The largest financial app on Facebook by far is **Fantasy Stock Exchange** with 8,900 daily users on May 6, 2008. So if you want to gain attention and incite people to use your site, license a stock-picking game, add some prize money, and let it rip. Extra credit if you let participants blog about their picks, create public profiles, and subscribe to feeds/alerts from the leaders.

**Examples:** **Fantasy Stock Exchange** (Facebook app), **Wall Street Survivor** (see inset)

**Pros:** Simple, low-cost, easy to explain, low risk, social (leader board), could be used as Facebook app, creates content for your website, blog, press initiatives, etc.

**Cons:** Reinforces risky “day trader” mentality; not much you can cross-sell directly from this activity



The screenshot shows the Wall Street Survivor website interface. At the top, there's a navigation bar with links like 'home', 'research', 'news', 'learn', 'community', 'video', and 'about'. Below this, a large banner reads 'Play to Win in the Wall Street Survivor® \$50,000 Stock Trading Contest!'. A red arrow points to this banner. To the right of the banner, there's a small image of a wooden structure on a pier at sunset. Below the image, a text box states: 'Wall Street Survivor offers daily \$100 prizes as well as grand prizes worth more than \$5,000.'

### 2 Help users track the winners

Lots of people believe a magic formula exists for creating massive wealth on Wall Street. So let people post their portfolios and trades and provide real-time updates and historical trends. Create numerous “top” charts for different categories updated in real time (*for an example, look at Motley Fool’s CAPS site*). Then let your user base analyze the strategies of successful participants. Never mind that the short-term focus isn’t really what investing is all about. You get extra credit if you use account-aggregation tools to pull portfolio and trading data directly from the customer’s brokerage account.

Unless you are a mega-bank, you will need a partner with an existing user base and systems in place. This is a game of scale, and you need tens of thousands of users before it begins to work.

**Examples:** **Motley Fool CAPS**, **Cake Financial**, **Zecco**, **TradeKing**

**Pros:** Ever-changing content, with much of it contributed by users; winning members will want to maintain their accounts at your site

**Cons:** Expensive and risky to operate, must make sure everything is honest and secure, encourages day-trading mentality

# ONLINE INVESTING COMMUNITIES

Table 14

**Comparing Social Investing Networks to Traditional Online Brokerages**

Attribute	Traditional Investment House	Social Investing Networks	
		Non-transactional	Transactional
Examples	Mutual funds, brokerages, financial institutions	Covestor, Vestopia, Cake Financial	TradeKing, Zecco
Business model	Trading fees, buy/sell spread, interest margin, management fees	Advertising, premium content	Advertising plus trading fees
Regulation	Heavily regulated	Little regulation	Heavily regulated
Brick & mortar	Awesome branches, HQ buildings	None	None
Size of audience (U.S.)	25 to 30 million HHs	About 1 million U.S. households	About 200,000 U.S. households
Fees	Varies by company and product, from very high for old school human trading assistance/asset management, to very low for discount brokerage, no-load funds	n/a	Potentially reduced by power of pooled purchasing and member info sharing
Online access	Good to excellent	Excellent	Excellent
Customer service	Varies	minimal	Will be delivered primarily through the online channel, and will need to be extremely competent to maintain a good reputation
Rewards for participating	Varies	May earn points and recognition within the network	Marketing potential

Source: Online Banking Report, April 2008

Table 15

**Satisfying Consumer Needs: Social Investing Networks vs. Traditional Discount Brokerages**

Attribute	Traditional Discount Brokerage	Social Investing Networks	
		Today	Future
Track assets across all investment accounts, including competitors (e.g., account aggregation)	Rare	At a few sites such as Covestor	Will be a typical feature
Save money	Yes, compared to traditional brokerage	Ad-supported model promises lowers fees	Depends if ad-supported model is viable
Borrow	Varies	Not available at most	Could be a big part of future business model
Invest (stock/bond)	Good values for all types of traders	Most sites do not have any trading functionality	Expected to offer trading integrations with pooled buying power across the network providing good prices
Retirement/financial planning	Varies	Tips and advice	Will be a huge part of the networks over the next few decades
Security (fraud protection, ID theft prevention, etc.)	Trusted third party that stands behind deposit and loan safety with the help of SIPC insurance	Varies	State of the art: It has to be to compete with trusted brand names
Financial management tools	Limited	Good to excellent	State-of-the-art
Record keeping, account management, and tax support	Varies	Not a big feature at this point	Will be an extremely important part of the value proposition, especially lifetime archives for tax purposes

Source: Online Banking Report, April 2008



# ONLINE INVESTING COMMUNITIES

**3 Appeal to financial voyeurs:** The most popular “investing 2.0” company based on site-traffic estimates is **Vestopia**. Its secret to success is bringing in a small number of prominent traders and putting their portfolios on stage for everyone to watch in real time. People enjoy tracking celebrities, but they also are interested in the investment ups and downs of people like themselves. So let users find like-minded investors they can watch and/or interact with.

**Examples:** **Stockpickr** (TheStreet.com), **Vestopia**

**Pros:** Using relatively simple social networking tools, allow users to identify, follow, and communicate with community “friends”

**Cons:** Same as number three above; it takes a relatively large number of users to make it useful, so partnerships will be necessary; encourages short-term, day-trading mentality



**4 Generate word of mouth** With the proliferation of so-called user-generated content: blog posts, Twitter messages, email, YouTube videos, and so on, it's never been easier to generate word of mouth. Of course, that goes both ways. In fact, as a financial institution, you are probably far more likely to have someone open a yourbanksucks.com website/blog than an IheartYourBank.com one.

However, thanks to Google's algorithms which give much more prominence to established firms, your content is likely to be found before the bad stuff, if you participate in the relevant social media. So if you want investors at your site, you should start a blog and support it with pages at Facebook, Twitter, YouTube, Linked:In and other major social networks (*see OBR 135/136 for more info*).

**Examples:** **Intuit's TurboTax TaxRap** (*NetBanker 18 April 2007*); **WaMu Facebook page** (*NetBanker 23 April 2008*); **U.W. Credit Union blog** (*NetBanker 29 Feb 2008*); see pp. 38-40 for brokerage Facebook pages

**Pros:** Relatively low cost; excellent way to reach younger consumers

**Cons:** Your postings can be taken out of context and used against you; requires some dedicated staffing; video production can be expensive; it's easy to create lame content that does little to help your brand, could even be a negative

# ONLINE INVESTING COMMUNITIES

## 5 Tie to social savings

Allow friends and family to contribute to savings/investing goals directly on the Web. This could be especially attractive to parents/grandparents contributing to savings and investment goals for their offspring. Contributors could have a say in how long the funds must remain on deposit and into which savings/investment vehicles they can be applied to.

**Examples:** **SmartyPig** (*OBR 151*), **Sharebuilder** (*OBR 129/130*), **GreenNote** (*NetBanker 29 April 2008*)

**Pros:** Unique offering could generate good word-of-mouth, blogger activity, and interest from the mainstream press

**Cons:** Somewhat of a mismatch with Internet usage, i.e., those most likely to contribute (*grandma and grandpa*) are the least likely to feel comfortable with ecommerce (*simple offline methods would be important*)

## THE GIFT OF STOCK

Getting an early start on investing for the future

**A ShareBuilder Account**  
has been opened for: \_\_\_\_\_  
as a gift from: \_\_\_\_\_  
Date: \_\_\_\_\_ Initial Investment: \_\_\_\_\_

Arkadi Kuhlmann  
Arkadi Kuhlmann  
Chairman, President & CEO of ING DIRECT USA

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*For years Sharebuilder (now owned by ING Direct) has encouraged parents and grandparents to give stock investments to the younger generation.*

## 6 Leverage account aggregation

Most people would like to have a consolidated view of their assets and net worth if it was easy to set up and 100% secure. Once those connections are established, you'll have a customer locked in for years. Because users simply will not keep up with the necessary data-entry tasks, account aggregation is a fundamental building block of social finance sites. **Bank of America** recently reported that more than 10% of its online banking base is now using its **Yodlee**-powered *MyPortfolio* service (*NetBanker 21 April 2008*).

**Examples:** **Covestor**, **Cake Financial**, **Bank of America MyPortfolio** (powered by *Yodlee*), **Mint** (powered by *Yodlee*)

**Pros:** Once it is set up, the data-entry burden is virtually eliminated; a core requirement in order to build portfolio-tracking tools, alerts, and many social media features

**Cons:** Expensive and time consuming to build and maintain, will likely need to be outsourced at considerable expense; tech support and customer-care expenses skyrocket trying to keep everyone happy connecting to thousands of financial players; customer distrust of providing username/password to a third party

# ONLINE INVESTING COMMUNITIES

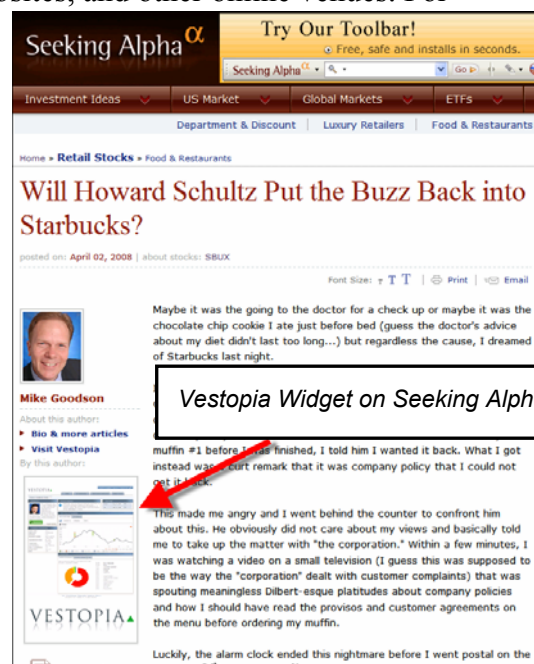
## 7 Offer widgets to verify investment performance and holdings

Using account aggregation to load actual transaction data and account balances, create widgets that allow users to post verified info on their blogs, websites, and other online venues. For investment professionals and/or writers/bloggers, it could be an important part of their marketing (“see how I did myself”). It also gives the casual investor “bragging rights” akin to finishing first in the March Madness office pool.

**Examples:** Vestopia (see inset), Covestor, SocialPicks, NetWorthIQ

**Pros:** Helps establish a level of trust with investment advisors, brokers, financial journalists, and bloggers that their track record is consistent with stated claims

**Cons:** Could be gamed by submitting only positive account histories into the service; requires account aggregation to populate the widgets



Vestopia Widget on Seeking Alpha

## 8 Allow users complete control over what type of information to share

When it comes to financial records, the user must be in complete control. Provide simple tools to specify which data can be shared. In addition, users should be allowed to export their data out of your site and completely delete their account.

For example, here’s how an individuals data sharing matrix might look:

My Data	Share with Public		Share with Community		My Eyes Only
	Masked Values	Actual Values	All Registered Users	Designated Friends* Only	
Checking account balance					<input checked="" type="checkbox"/>
Savings account balance				<input checked="" type="checkbox"/>	
Investment account balances			<input checked="" type="checkbox"/>		
Mortgage balance					<input checked="" type="checkbox"/>
Asset value (e.g. house from Zillow)			<input checked="" type="checkbox"/>		
Other asset values			<input checked="" type="checkbox"/>		
Credit card balance	<input checked="" type="checkbox"/>				
Loan balances				<input checked="" type="checkbox"/>	
Net worth	<input checked="" type="checkbox"/>				
Debit card transactions	<input checked="" type="checkbox"/>				
Credit card trans	<input checked="" type="checkbox"/>				
Investment account transactions	<input checked="" type="checkbox"/>				
My investment ideas/notes		<input checked="" type="checkbox"/>			

\*Friends could be financial advisors, family members, and so on

**Pros:** Consumer friendly; differentiates you from typical financial institutions

**Cons:** Regulatory, privacy and security compliance; litigation over mistakes

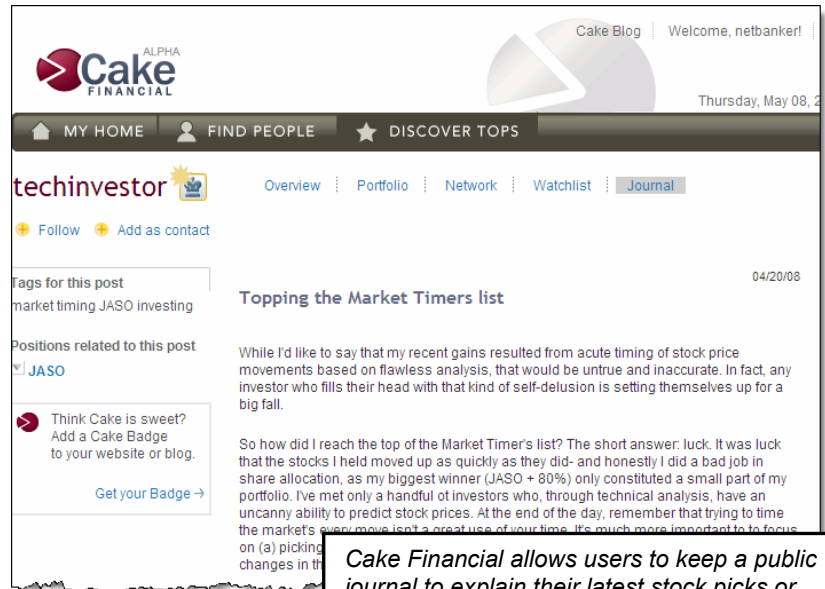
# ONLINE INVESTING COMMUNITIES

**9 Give customers a voice**  
If you are looking to make a Web 2.0 investment site, you must allow users to voice their opinions through blogs, user-written research notes, favorite lists, forums, and so on.

**Examples:** Cake Financial (*inset*), Social Picks and most of the investment community sites

**Pros:** User-generated content is free and believable

**Cons:** It's difficult to get users to consistently contribute meaningful content; contributions must be moderated which can be time consuming and controversial

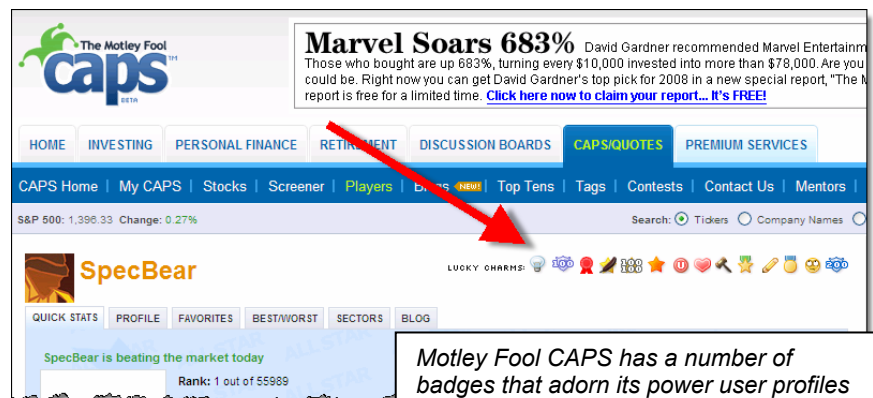


**10 Let customers trick out their profiles**  
You don't want your site looking like MySpace, but subdued badges, ribbons, and designations could improve user satisfaction and motivate them to create more content, analysis, and so on.

**Example:** Motley Fool CAPS has a number of badges called "lucky charms" (*see inset*)

**Pros:** Inexpensive to create

**Cons:** Could make your site look less classy, cluttered and more difficult to navigate



**11 Offer incentives to prolific contributors**  
This is a controversial subject online, whether to compensate the providers of "user-generated content." Compensation ranges from a share in ad revenues, to stock options (or discounted shares), or simply free access to premium services, or a T-shirt every quarter. Whatever you choose, it could have a very real impact on the amount of user contributions.

**Examples:** Covestor plans to pay users for stock advice, but it's not currently enabled.

**Pros:** Recognition programs could be very low cost; a few T-shirts, pizza and beer, etc.

**Cons:** Regulatory issues; users copying copyrighted material from other sites/sources



## Investment Themes for Financial Institutions

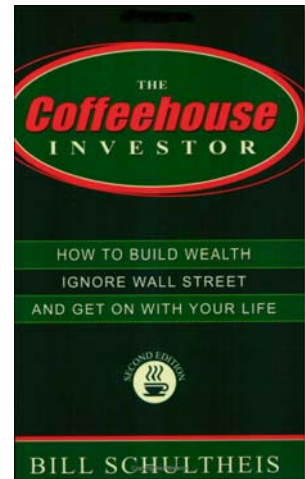
**B**anks can compete in the investment market, but probably not for the heavy trader. Instead, look for opportunities with the casual investor who's probably better off in an index fund, a CD ladder, and a few grand in an international growth fund.

### Theme 1: Back-to-Basics/Intelligent Investing

---

Prepare for the next backlash against short-term trading excesses. Take the high road with an old school "value" investing theme complete with free information, solid financial tools, indexed mutual funds, and so on. For inspiration, we still recommend *The Coffeehouse Investor*, an eloquent summary of the back-to-basics ethos written by ex-stockbroker Bill Schultheis. <[www.coffeehouseinvestor.com](http://www.coffeehouseinvestor.com)>.

The majority of online investor activity involves checking stock quotes and following companies on news sites and message boards. You could create an investment area that soaks up this traffic by offering stock quotes, portfolio tracking, and news feeds. Users wishing to trade could be sent to your "pre-trading" worksheet that lets them self-assess their investment goals and review mutual fund alternatives before executing a trade through a brokerage partner.



### Theme 2: Systematic Savings/Investing

---

The three biggest mistakes someone can make in preparing for their retirement: failing to sock anything away; allowing what is managed to be saved to be allowed to languish in cash for 30 years; and investing in an underperforming company stock or mutual fund. Help users avoid all three by offering:

- Systematic savings plans with email reminders
- Mutual funds indexed to various broad market indices, e.g., the S&P 500, Wilshire 5000
- Other index funds that track narrower indices e.g., Internet stocks, international stocks
- CDs pegged to stock market indices with a guaranteed return of principal in exchange for caps on the upside for the investor seeking higher returns without risking principal

Since new investors must build their checking/savings balance before investing, closely linking the two could be a powerful marketing tool for a bank. Users signing up for a trading account would be encouraged to establish a savings plan that automatically moved money into a pre-investment bucket within the bank. Once the bucket reached a certain level, users would be notified by email that money was available for investment. Incentives could be provided, such as discounted trades, or premium interest rates for those meeting savings milestones, e.g., \$250 saved each month for a year.



# ONLINE INVESTING COMMUNITIES

## Theme 3: Asset Allocation

Asset allocation is still the holy grail of the investment community, an often repeated, but little understood mantra. A trusted, unbiased expert (*e.g., bank or credit union*) could add considerable value by:

- Explaining the concepts in simple language
- Offering Web-based tools to help analyze your customers' assets, including ongoing risk-based returns, and recommend improved allocations
- Allowing users to sweep excess checking/savings funds directly into appropriate investment options, thereby scoring points with customers
- Offering balanced mutual funds that diversify the customers' funds within the fund by buying a basket of stocks/bonds/international (*for example, see ING Direct investment options*)
- Providing timely individualized feedback on security trades, portfolio holdings, asset allocations, and so on.

## Theme 4: Safe and Secure Investing

Make investing feel SAFE for the newcomer and/or those intimidated by current online brokerages. Money is a big deal, and people are terrified of losing their life savings, so they leave it sitting in cash, instead of making it work for them. A bank could provide a valuable service and increase revenues by becoming THE trustworthy place for local investors to learn about investing, check the performance of their investments, and so on. Here are several ways to increase investor confidence and knowledge:

- Virtual investing:  
Allow them to play the market without committing actual funds (*see p. 14*).
- Real-time online help executing trades:  
Before hitting the trade button, users could run the trade by a human e-broker via online chat. Could be priced at a premium, see **H&R Block** example at right.
- A “check trade for errors” function could identify common user errors before trades are executed. While there are staffing and liability issues with the concept, it could be a good way to become differentiated as a value-added provider.

The screenshot displays the H&R Block website's 'Online Taxes' section. At the top, there are links for 'Company', 'Careers', 'Income Tax Course', 'Press Center', and 'En Español'. To the right, there are links for 'Customer Support', 'Forgot Username', 'Forgot Password', 'Check E-file Status', and 'Where's My Refund'. A 'Tax Client Login' section is also present with fields for 'Find a Tax Office' and 'Search Site'. Below the navigation bar, the 'Online Taxes' section features a banner for 'Need more time to file? File an extension today. Learn more.' and a 'Tropical Tax Relief' promotion. The main content is divided into two columns: 'Do It Myself' and 'Do It With Me'. The 'Do It Myself' column lists three service levels: 'Basic' for \$14.95, 'Premium' for \$29.95, and 'Premium + State' for \$59.95. The 'Do It With Me' column lists three service levels: 'Tango' for \$70, 'Signature' for \$99.95, and 'Online Office' for \$99.95. Each service level includes a 'Start For Free' button and a 'Learn More' link.

Service Level	Description	Price
Basic	For 1040EZ and Simple Returns	\$14.95
Premium	For Itemized Deductions and Investments	\$29.95
Premium + State	For Itemized Deductions, Investments + 1 State Return	\$59.95
Tango	For Unlimited Support & Assistance	\$70
Signature	Let a Tax Pro Review, Sign and E-file Your Return	\$99.95
Online Office	Get Full-service Tax Prep without Leaving Home	Starts at \$99.95

*H&R Block charges an extra \$60 for 24/7 premium support.*

# ONLINE INVESTING COMMUNITIES

## Theme 5: Integrated Services

Banks, with their broad product lines and loan-underwriting expertise, could attract incremental loans and deposits by integrating lending, brokerage, and deposits into one valuable package. Investors would be able to tap portfolio balances, home equity, and deposit balances to increase their borrowing power and/or lower their overall interest rate.

**Bank of America**  
Investment Services, Inc.®

**Bank of America**

**Your online banking.  
Your online investments.  
Together at one site.**

SINGLE SIGN-ON ACCOUNTS OVERVIEW TRANSFER FUNDS BROKERAGE POSITIONS RESEARCH & TOOLS TRADING

PAUSE CC

Banking products are provided by Bank of America, N.A., member FDIC.  
Investment products are provided by Bank of America Investment Services, Inc.® and:  
**Are Not FDIC Insured May Lose Value Are Not Bank Guaranteed**  
Bank of America Investment Services, Inc. is a registered broker-dealer, member  
FINRA and SIPC, and a nonb  
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Investing involves risks, including the loss of principal invested.  
Sample data for illustrative purposes only.  
Actual results will vary.

*Bank of America not only provides the convenience of single sign-on for banking and brokerage, they offer free trades for combined balances of \$25,000 or more.*

## Theme 6: Instant Trading

One way to keep your customers from setting up accounts at Schwab or Ameritrade is to make it so easy to trade from your Web that they never have a reason to look elsewhere. A key service enhancement is “instant” first trades for new accounts. Qualified online banking users could initiate their first trade within 120 seconds by completing a very short trading set-up form (mini-application), prepopulated with user-account info. Using bank account balances and available credit, you could display an “instant investing power” number to potential investors.

## Theme 7: Localized Investment Experience

This is probably one of the more powerful concepts available to the community bank or credit union. Wrap a local layer of information on top of national stock quotes and news feeds. For example:

- show a default portfolio of local company stock prices and news items
- allow local companies to post additional information and private-placement investment opportunities on a moderated bulletin board on your site
- develop a mutual fund which invests only in local companies; it could come in three flavors:
  1. actively managed
  2. indexed to a basket of all local stocks
  3. FDIC-insured CD linked to a local stock index



# ONLINE INVESTING COMMUNITIES

## Theme 8: Retirement Planning

As the baby boom generation retires, an increasing emphasis will be placed on retirement planning, rollovers, proper investment mixes, and the nuts and bolts of withdrawals and tax planning. Get out in front of this trend and establish an engaging and easy-to-use retirement area.

Recently, **Well Fargo** (see below *NetBanker 11 Mar 2008*) and **ING Direct** (*NetBanker 17 Mar 2008*) have been actively promoting their retirement services. Also, a number of startups are creating personal finance tools with modules geared towards retirement planning. One of our FinovateStartup presenters, Boulevard R, was founded with this mission (see inset and video of its presentation at <finovatestartup.com>).

**Boulevard R** Beta

Welcome What You Get About Us

### Providing unbiased financial advice

Reach your goals with expert advice you won't get from your bank or brokerage

**Get the big picture from an independent expert.**  
Have a financial planner lay out your next steps for a secure future.

**Grow your savings.**  
Make smarter investment decisions with sound financial advice.

**Receive a plan that never grows old.**  
We keep your plan actionable by updating it as your life changes.

[See a sample Boulevard R Roadmap](#)

**Get Started - It's Free >>**

You get a customized 30+ page PDF Roadmap and an online Dashboard

#### How you'll reach your goals with Boulevard R

**Your interests come first**

- You'll grow your savings
- You've got support
- You're safe and secure
- You're always up-to-date
- You can afford it

**Independent, unbiased advice with no strings attached**

To help you reach your goals, Boulevard R has been working with leading independent financial planners to develop a step-by-step process that provides you with unbiased, personalized advice.

While many financial services companies are focused on short-term profits (e.g.,...)

*Silicon Valley-based startup Boulevard R has developed an interesting value proposition combining Web-based tools and guidance from planning professionals.*

**WELLS FARGO**

AUDIO: ON OFF My RSI Increase My RSI Strategies Contact

## What's Your RSI Score?

Your RSI is... **20.7** years

Print Results

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Find the location nearest you.
- Go to wells Fargo.com**  
Open an IRA Learn More
- Call Today**  
To speak with one of our Investment Professionals, call 1 877 384-7380.

*Wells Fargo developed an interactive tool, the Retire Secure Index, to help users conceptualize their progress towards retirement goals. Ref: NetBanker, 11 March 2008*

# ONLINE INVESTING COMMUNITIES

Table 16

## Creating the Amazon.com MySpace Facebook of Financial Services\* bank or credit union charter optional

Feature	Description	Business Model
Core Products		
Virtual transaction account	Works in tandem with local checking account; deposits can remain in local checking or moved into a network-sponsored account ( <i>similar to PayPal</i> )	Integrated credit line will be primary revenue driver (i.e., business model)
Virtual credit manager	Manages existing debt by automatically allocating principal and interest payments to minimize after-tax interest expense	
Virtual Financial Centers**		
MyMoney -- OneView -- Control panel -- Alerts and feeds	<b>OneView:</b> Single view of users' balances and transactions pulled from any Web-based financial account (aka account aggregation)  <b>Control Panel:</b> A financial dashboard where users set their account preferences and establish event-triggered alerts  <b>Alerts &amp; Feeds:</b> Mix and match email, SMS (mobile), RSS/XML feeds, gadgets/widgets with no limit on number of devices connected; able to set delivery rules by time of day, day of week, magnitude of the message and so on	Key area for user satisfaction and retention
MyAssets or MyInvestments	Investment and asset tracking and research with links to brokerage services and investment companies	Fees
MyKidsMoney -- View -- Control panel -- Prepaid debit	Similar to MyMoney, but with parental controls for spending, savings, allowance, and so on. Could be integrated with prepaid debit card and mobile connectivity using the Obopay model.	New accounts for the kids and retention for parents; fees for prepaid debit
MyPayments -- Pay yourself -- Pay individuals -- Pay bills	Users can pay any individual or company through email (with bank account masked); via straight ACH, wire transfer, or paper check	Primary traffic-builder; transactions outsourced; proprietary user interface
MyLoans -- Originations -- Servicing -- Monitoring	<b>Originations:</b> Access to information and referrals to any type of credit product including first and second mortgages, vehicles, revolving credit, student loans, leasing, etc.  <b>Servicing:</b> Allow users to set up free automatic payments for any loan; users will be encouraged to establish automatic payments for <i>all</i> their loans so the Virtual Loan Manager (see above) can minimize overall interest expense.	The primary source of revenue; all types of lending products available
MyCredit	<b>Credit Bureau Monitoring:</b> Subscription service that provides online CB access and email notifications when inquiries or negative information is posted  <b>Credit Score Manager:</b> Credit score is actively tracked and managed; users are able to see short- and long-term trends with their score	Important source of fee income
MySavings	Area to establish automated savings plans (integrated with email) and purchase certificates of deposit (CDs).	Deposits
MyHealthSavings	Optional module tied to various health care savings accounts	Fees and deposits
MyPurchases	Stores spending records, potentially across multiple providers, and is enriched with links to merchants, discount offers, and so on ( <i>see Wesabe, pp. 29-35</i> ).	Cards will be issued with plastic for use at any point of sale.
MyPlans -- tools -- reference -- search	<b>Tools:</b> Financial calculators; transaction summary reports; budgeting  <b>Reference:</b> Links to other sources of information, such as the Internal Revenue Service  <b>Search:</b> Meta-search tool for finding personal finance info; the tool searches only selected personal finance websites	Budgeting, planning and reporting should be integrated into everything you provide on the website and incorporated into email alerts, reminders, and encouragement.
MyBiz	A full range of business services including loans, leases, payroll, and so on	Fees
MyInsurance	Insurance quotes and policy purchasing	Fees
MyOffers	Personalized offers for new financial services	Important source of supplemental income, with targeted financial services ads delivered unobtrusively

Source: Online Banking Report, 1998 to 2008

\*We first published this table in 1998. Using the Net darling of the time, we called it "Creating the Amazon.com of Financial Services." It was updated in 2000 under the same title, but today's better title is "Creating the MySpace of Financial Services" – "My" could be changed to "Our" for couples.

# ONLINE INVESTING COMMUNITIES

Feature	Description	Business Model
<b>Productivity &amp; Planning Tools</b>		
Alerts	Email or text message alerts triggered by any pre-defined account activity or <u>lack of activity</u> (e.g., reminder to rebalance assets twice per year)	
Asset management	Classify assets by category, quantify risk vs. return, compare to desired allocation model, and so on	
Automatic savings/investing	Custom-built control panel that helps user set up automatic recurring savings and/or investments	
Email integration	Email messaging built into every transaction and function; email templates provided to make it easy to compose messages, e.g., message to a merchant requesting more info on a billing item, etc.	
Financial datebook	A calendar primarily used to track financial matters such as due dates on bills, tax payments, and so on.	
Financial search	Tool for searching trusted financial providers and financial info sites with past search info saved	Advertising
Gadget/widget center	Collection of certified financial gadgets for use on desktop	
Home value center	Tips and tools for maintaining and improving residential real estate; integration with Zillow API to show home values via widget	Home secured lending
Margin loan minimizer	Automatically allocates principal and interest payments across all outstanding margin debt to minimize after-tax interest expense	Margin lending
Mobile services	Set up mobile views and alerts	
Retirement planning	Tools for planning, saving/investing, and tracking progress for retirement goals	
Reporting center	Laundry list of standard/custom reports to track finances and investments	
Tax center	Area to complete tax returns and submit online	
<b>Localized Content</b>		
Event calendar	Calendar of local events related to investments, retirement planning, tax planning, etc.	
Everyday essentials	Easy to understand and customizable weather/forecast display plus other local info such as community calendars, local rating services such as Yelp, and so on.	
Local publicly traded stocks	Price and performance of publicly traded companies with local ties	
Local investment opportunities	Angel investment opportunities/events; local entrepreneurs seeking small business loans on P2P exchanges such as Prosper	
<b>Security</b>		
Control panel	Control panel to set individual security parameters on accounts, e.g., maximum number of charges, cash advances, etc.	
Privacy protection services	Help users maintain privacy by monitoring online databases for accuracy	Revenue sharing with third-party services
Travel minder	Helps keep accounts functioning properly while on the road ( <i>see Travel Center</i> )	
Virtual safe deposit	A Web-based safe-deposit box to safely store documents in an online "vault;" documents can be emailed or faxed in for storage	Annual fee
<b>Community</b>		
My shared portfolio	Allow your portfolio holding to be visible by friends and/or the larger community	
My investment ideas	Allow your investing ideas to be seen by friends and/or the larger community	
Track my friends' finances	Track your friends' activity (above) with your account	
Open suggestion box ( <i>linked to blog</i> )	Encourage suggestions and discussions by posting relevant ones to your blog for comment by the community	
Refer-a-friend	Make it very soft-sell and provide incentives	
Blog/Forum	Either one allows for more user engagement at relatively low cost	
Social network	Related to blogs/forums but with opportunities for individuals to connect and share with each other	
Business network	Same as above, except for businesses	

Source: Online Banking Report, April 2008

# ONLINE INVESTING COMMUNITIES

## Social Investing Expert Roundtable

In early April, we asked the social investing startups participating in our FinovateStartup conference to answer a series of questions via email. The answers are reprinted below. The answers to each question are ordered from shortest to longest. Some answers have been edited for length. For a complete transcript of each company's answers, download the OBR 151/152 Supplement at [OnlineBankingReport.com](http://OnlineBankingReport.com).

### The players:

**Online Banking Report (OBR):** Jim Bruene, Founder & Editor

After several years in banking product management and R&D, most recently at U.S. Bancorp, Jim founded Online Banking Report in 1994.

**Cake Financial:** Steven A. Carpenter, Founder and CEO

Prior to Cake, Steven was the senior director for strategy and business operations for the \$100 million Digital Music Division at RealNetworks. Steven was the director of business development at financial services startup myCFO, founded by Jim Clark and backed by Kleiner Perkins. He graduated cum laude with Highest Thesis Honors from Tufts University and received his MBA from Harvard Business School.

**Covestor:** Perry Blacher, Co-founder and President

Perry started his career at McKinsey & Co. before heading up Business Development for Microsoft MSN in Europe, and later as a principal with Chase Capital Partners. Prior to Covestor, Perry was founder and CEO of Serum, a disease-management service (acquired by Tribal PLC).

The screenshot shows the Cake Financial website. At the top is the logo "Cake FINANCIAL" with "ALPHA" in small text. Below the logo is a navigation bar with tabs: "MY HOME", "FIND PEOPLE", and "DISCOVER TOPS". Under "MY HOME" are sub-tabs: "Overview", "Performance", "Portfolio", "Network", "Watchlist", "Journal", and "Inbox (1)". The main content area starts with a "Welcome, netbanker" message, followed by "You have 0 member(s) in your network." and "Last Log In: 04/18/2008 6:32pm ET". There is a "Notifications" section with a message: "Welcome to Cake! Tips for Success". Below that is "My Network Activity" showing "You updated your personal information on 04/03/2008." and a "View All" link. The "More People Like Me" section contains a table with columns: Rank, Member, MTD, Location, and Risk.

Rank	Member	MTD	Location	Risk
1	Isdooley	+3.33%	Clarkston, GA	<div><div></div></div>
2	pathdoc	+0.00%	Atlanta, GA	N/A
3	rickvil5	+0.00%	New York, NY	N/A
4	chairmanmeow	+2.91%	New York, NY	<div><div></div></div>

The screenshot shows the Covestor website. At the top is the logo "Covestor beta" with "proven self-investors" below it. The navigation bar includes: "Home", "Members", "My Account", "Stocks", and "Rankings". The "My Account" section is active, showing a "My Summary" sidebar with links: "My Fact Sheet", "My Holdings", "My Trades", "My Followers", "Fact Sheet Editor", "Blog Widgets", and "Settings". The main content area is titled "Fact Sheet" for a user named "Demo [5]" from "NY, United States". It contains a bio: "I was born in Russia in 1948. Educated there before moving to the US to work for an IT firm." and "I have spent many years working with Blue Chip technology companies, currently employed by IBM and have always been an active private investor." It also mentions "I am married with 2 children and enjoy reading and working out." There are links for "[Update]", "See who Demo is tracking", and "See who is tracking Demo". At the bottom, there is a "Performance" section with a "vs Market" comparison, showing a line graph of "Percentage" over time.



# ONLINE INVESTING COMMUNITIES

## Motley Fool CAPS: John Keeling, SVP Community Intelligence

John oversees all areas of The Motley Fool CAPS service. Prior to The Fool, John spent eight years at AOL where he ran the AOL Personal Finance product team. At Netscape Communications, John developed messaging services for various clients including Mac.com, Palm.net and Charles Schwab. John has a Ph.D. (ABD) from Stanford University.



## TradeKing: Mike Massey, Director of Community Development.

Previously, Mike was an analyst for Capital One, focused on cross-selling, and was a broker for SURETRADE.com. Mike holds an economics degree from the University of Georgia.



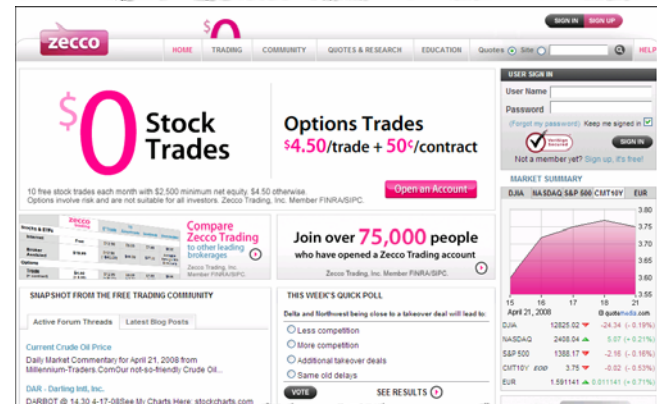
## Vestopia: Guy Hirsch, President & Co-Founder

Before Vestopia, Guy co-founded **Patus**, a homeland security company, where he led the company from concept to an eventual acquisition. Guy's financial industry experience developed while heading the marketing department of the **Economic Savings Company**, a financial consulting boutique.



## Zecco: Michiel de Boer, Ph.D., Community Director

Michiel has extensive experience with new business development and entrepreneurial processes at both established and start-up firms.



# ONLINE INVESTING COMMUNITIES

**Q1. Online Banking Report (OBR):** *One thing we've struggled with in our research is what to call this new twist on investing. We want to say "social investing," but it already has several meanings. How do you define the market space you are in?*

## Answers:

**Cake:** I think of Cake as the next "new way to invest." Cake is leading the next phase in the evolution of the retail investment industry, which has historically changed every 10 to 20 years. In the 1940s and 1950s, the stock market was the bastion of the wealthy, and investors relied exclusively on a broker or advisor to tell them what to do. Information was finite and expensive, and we had to trust that that one person had our best interests at heart. All that changed in the 1970s with discount brokerage. Charles Schwab disrupted the status quo by allowing individuals to trade stocks over the phone and in retail locations at lower prices. The stock market became accessible to more and more people. Yet access to information was still limited, and we remained dependent on the guidance of a single investment professional. Technology disrupted the industry further in the 1990s as the Internet gave us the freedom to trade stocks at rock-bottom prices in the comfort of our underwear. (Don't tell me you never did it.) But one thing has never changed: We are still reliant on the same old investment resources for advice, despite the explosion of "investment information as entertainment" and "financial porn." Information has never been at once so accessible yet so un-actionable. Cake is here to change all that.

**Covestor:** Covestor is in the Asset Management business. Social Investing is a valuable generic term for people sharing investment decisions online, but as the question suggests, the definition includes a catch-all of different types of businesses. The category Covestor operates in is of Proven Self-Investors, real people sharing real investments, as opposed to the also valuable sites offering virtual/fantasy/paper accounts. Our objective is to enable others to invest alongside the proven investors on the site rather than in their existing, expensively managed funds. We are in the same space as anyone similarly trying to deinstitutionalize money management.

**Motley Fool CAPS:** Motley Fool's primary focus is on Community-generated Stock Ratings, which I think differentiates us from some services that are more focused on "Social Portfolios." This type of distinction, I think, makes "Social Investing" or "Investing Communities" an appropriate umbrella term since there are really very distinct differences in approaches within this market space. Perhaps "Investing Communities" is the better term since "social investing" can be confused with socially responsible investing.

**TradeKing:** TradeKing has given new meaning to the term "social investing." Different from "socially conscious" or "green" investing, "social investing" at TradeKing has transformed online investing from its former state as a solitary experience and turned it into a robust social one. We want to give the individual investor, alone at his or her computer, access to other traders to share investment ideas and learn from one another. At TradeKing, we are big believers in providing the best Wall Street research, data and tools. But we also want to go further. We want to provide a platform where online traders can share their own proprietary research and opinions. We call this Main Street research, and it's important to note that it's based on real, verifiable trades executed by real people. People are sharing "what" they are trading and the rationale behind "why" they are trading, giving valuable new data points for their fellow investors to consider. This "Main Street" research is a perfect compliment to traditional Wall Street research, and the only way to give our clients access to this powerful new data set was to open up our online community and enable social exchange.

# ONLINE INVESTING COMMUNITIES

**Vestopia:** Vestopia competes in the investment services market, in the category of investment management services. Any company that provides elements of financial analysis, asset selection, stock selection, plan implementation and ongoing monitoring of investments is considered a player in this category. Though social investing falls within the above definition, and creates a sub-niche within this category, we don't define Vestopia as a "social investing" provider. Rather, we define Vestopia as a Web-based platform for online investment management.

**Zecco:** Zecco is bridging two previously distinct markets with an integrated offering. The first market is the emerging market for online communities, applied to the investing vertical in particular. The second market is the by now established market for online retail brokerage. In the first market for online investing communities, ZeccoShare is one of the pioneers, building previously unimaginable features and creating a unique user experience that goes way beyond the traditional bulletin boards and chat rooms. After all, there have been investing communities for decades, but with two key flaws. First, you never knew if the other person was a lousy investor you really shouldn't be listening to. And second, you didn't know if he or she had ulterior motives like pumping up a penny stock. At ZeccoShare we solved all that with a very simple idea. By allowing users to share REAL holdings, trades, and performance, you now know EXACTLY what other people's investment behavior is. Plus, with powerful database and interface solutions, we enable our users to search, filter, sort, compare, and display the extremely rich pool of user data in an almost unlimited way. In the second market for online retail brokerage, Zecco is an undisputed disrupter with its \$0 commission deal offered through Zecco Trading. Nothing beats free—it's that simple. The real magic we believe is in combining the two, which we call Investing 2.0. ZeccoShare and Zecco Trading combined appeal to a very broad investing demographic.

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**Q2. OBR:** *Why should someone switch and track their investments with you instead of their current provider? Will that reason for switching be the same or different in 5 to 10 years?*

**Covestor:** People don't need to "switch" their investments to Covestor. We are not a broker. People can continue to trade with their existing brokers and share/track their activity on Covestor. Using the service they can build a verified track record to build them a following and ultimately earn fees as if they were a pro. We provide institutional grade tracking, charting and measurement not available from the online brokers today. We wouldn't expect them, though, to stop tracking their portfolio with their own broker as well. Followers would nevertheless want to "switch" their investments from their current non-transparent mutual funds. On Covestor, they have access to a much larger pool of investors, doing it with their own money and offering others to invest alongside them in a higher returning and more transparent way.

**Zecco:** Related to the two basic elements of Zecco's integrated offering, there are two compelling reasons for investors to join Zecco: (1) ZeccoShare offers the most advanced set of social investing features, all based on the principle of users sharing real, verified data: e.g., holdings, trades, performance. (2) With 10 free stock trades every month, Zecco Trading simply has the best offer for the majority of the online retail investors. Next to attracting already existing investors that are using alternative offerings, Zecco is also opening up an entirely new market segment of new investors. Already now, we believe that we deliver a unique investing experience to our audience. Will there be different or additional reasons to join Zecco 5 to 10 years down the road? Most likely! Zecco has only begun its disruptive endeavor, and there are many related products and services in the pipeline.



# ONLINE INVESTING COMMUNITIES

**Cake:** Anyone can use Cake to complement the traditional ways they track their investments. Cake does not require members to move their assets, and it's free to join. Cake gives investors three critical pieces of information that they simply cannot get from their current online brokerage website: (1) a complete and accurate view of their portfolio performance, over time, across all their accounts (2) the ability to see what others are doing and communicate with one another, and (3) the collective behavior or "wisdom" of top performers. And performance metrics on Cake take into account *activity over the past 10 years!* That way you get a complete picture of how you're doing both in the short-term, as well as over long periods of time. It is one of the most important aspects of your life and you should be as informed about it as you are about how much space is left on your iPod. Unlike Yahoo chat boards or fantasy stock sites, there is nothing fake about Cake, so you can trust what you see.

**TradeKing:** We do not view our community, or social investing capabilities, as the sole reason for a client to switch to TradeKing. TradeKing attracts clients through a strong value proposition that puts the client first. We have simple and flat pricing (\$4.95 a trade plus \$.65 per options contract), outstanding customer service and advanced trading tools. The TradeKing Community compliments this value proposition by allowing real-time interaction between Community members. Investors have gotten substantially more sophisticated in the past 10 years. While important, price alone is not the determinant of where to trade. Online traders look for a brokerage that offers the best value. As the online brokerage space continues to mature, I believe we will see increased focus on product offering/differentiation well beyond cost alone. Social media and the TradeKing Community is just one more differentiator that contributes to our value proposition.

**Vestopia:** We think that if you already have a provider, you are not likely to switch anytime soon. Vestopia caters to those who don't have a provider, because they don't have the net worth required for having one, or that they have other reasons for avoiding the traditional providers, i.e., RIAs, Financial Planners, etc. So, if you have a \$5,000 to \$500,000 account with Schwab or E\*Trade, and yet you know (and quite rightly so) that if you seek professional guidance you will get mediocre service, Vestopia is the only place in which you will be able to track and monitor professionally managed portfolios and portfolio managers that otherwise wouldn't be accessible to you. In addition, any other service out there has a built-in Chinese Wall that separates you as a customer from a holistic and transparent view into the personality and the portfolio of your provider. Whether it's a top-performing yet faceless, nameless online member in a social community site, or someone in a suit and fancy office, you have no idea how they are doing as a professional investor. Vestopia is the only service that gives you both—all you need to know about the provider and their personal portfolio.

**Fool:** When it comes to tracking my investments, I can't imagine a better place to follow my portfolio than with my brokerage of choice: I keep my portfolio where I transact. When I'm doing stock research, I'm unlikely to stick with a single provider of information and research tools. The same is true for communities. I'm a member of several investing communities, and my level of engagement varies across all of them. I don't expect that will change over the next 5 to 10 years. The trend in online has been, and will continue to be, to break down "walled garden models," and replace them with my own personalized network of communities, information, and online relationships. What will change is that investing is becoming more of a social activity. In the late 90s, investing was forever changed with the easy availability of exchange data information and online trading platforms. I think what we see now is that investing advice is becoming commoditized and democratized. I think this is just as revolutionary and powerful a development for retail investors as was the emergence of real-time quotes and discount brokerage platforms.

# ONLINE INVESTING COMMUNITIES

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**Q3. OBR:** *Ultimately, do you think users will track the trading advice/performance of “stockdude31,” their own social network, or established analysts/advisors from recognized companies?*

**Covestor:** I think ultimately people will use a combination of the above. Today, the private investor has access to the same tools, research and, importantly, the same transaction costs as the so-called “professional.” If “stockdude31” is brilliant at managing his own money, why can’t I invest alongside him and he can leverage the work he is already doing. Some of the great investors, though, may well continue to work in institutions, and so in the future people will simply have more choice and transparency regarding fees and so on, in terms of who they want to manage their money.

**Zecco:** We believe that investors are smart enough to figure out for themselves how to generate the right mix of inputs into their investment research. Zecco aims to provide the environment and platform where users can do so in a trustworthy and transparent way. Hence, the focus on real, verified user data. So, Zecco mixes traditional and recognizable inputs like analyst reports with new, social inputs like ZeccoShare community intelligence. Of course, investors also debate investment ideas around the water cooler or barbeque with colleagues, friends, and family. However, a social network like ZeccoShare is simply so much larger, richer, and diverse that it becomes a very credible, additional input to exploration, research, and decision making.

**Vestopia:** We do not think that “stockdude31” will ever be able to convince sizeable base of investors to invest their own money in following his trades. However, we do believe that analysts/advisors from recognized companies that want to go independent will find Vestopia as the go-to place for them. Providers and consumers of investment management WANT to meet and engage online, yet they will do so only if providing an extreme form of transparency, credibility and easiness to satisfy the needs of both ends. Currently, the established companies are afraid of the Web, as it avails the fear of creating a “long-tale” of service providers that will decentralize the industry, yet the change is inevitable. To understand the opportunity, it takes only few minutes of browsing through the websites of Merrill Lynch or Bear Sterns to see that they are stuck in a concept of Web service that is 15 years old.

**Cake:** All of the above. However, as technology continues to evolve, consumers will increasingly demand proof of performance as a qualifier for those who give advice. Cake will serve as a vehicle for individuals, friends and family, as well as professionals to showcase their portfolios. Investing is already a social activity—you see it evidenced in investment clubs, cocktail party conversations, and online investment forums. Forrester recently found that friends and family are the most trusted source for investment information, more so than brokerage firms and advisors. And there is no evidence showing that professionals are better investors than all of us. People will continue to seek out other people because the alternative—doing it alone or paying one person a lot of money to manage their portfolio—does not work for most of us. Because Cake relies on real portfolios and is a social network, people can trust the information of strangers, as well as collaborate with friends and family. All in a safe environment.

# ONLINE INVESTING COMMUNITIES

**TradeKing:** The days of investors trading on a hot stock tip from their Uncle Leo are gone. Investors are smarter now, and there are more tools available to aid in their investment decision-making process. I believe investors will interpret as much information as possible before making a transaction. They will seek information from a three-star-rated equity analyst, their financial advisor or a fellow community member with a return higher than the market. They will listen to anyone who can help them achieve alpha returns. Our community offers people a platform to interact with other investors and learn more about investment ideas. It's where "Main Street Research" is being created and complimenting the traditional "Wall Street Research" provided by analysts and advisors. They work together to create a more complete mosaic of market information.

**Fool:** Now that so many of the established analysts/advisors from recognized companies have been knocked down a peg, yes, sure, I suspect a lot of people are interested in what "stockdude31" has to say. I'm a discerning consumer of information and crave smart analysis regardless of the source, and I particularly like it when the source isn't motivated by a commission-based compensation plan! When you consider that so many of the established analysts are somewhat disconnected from the industries and companies that they are following from their perch on Wall Street, it means a lot for me to know that a "novice" investor may have a tremendous amount of domain expertise in the company or industry that s/he is writing about. And if a community platform helps me to evaluate stockdude31's track record of performance, then I start to feel a lot more comfortable following his advice versus the broker cold-calling me on the phone.

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**Q4. OBR:** Scale is important online especially in business models with a "social" element. How do you see the market eventually shaking out? Will there be one or two primary players (e.g., online auctions dominated by eBay) or can a number of social investing sites co-exist (e.g., online travel sites with a half dozen majors: Expedia, Orbitz, Travelocity, Priceline).

**Vestopia:** We do believe in the Priceline/Expedia co-existence model. The reason is that investment management has so many interesting faces, and all of them are underserved when it comes to the Web. Hence, there's an entire spectrum of sizeable specializations waiting to be won. However, for new entrants advertising is not a viable business model in this space (inability to scale to millions of viewers), and hence social investing is the most intriguing opportunity, yet it can co-exist next to others so as long as it has a proven business model.

**Covestor:** As there are today, depending on the definition of "the market," I expect there will be a number of players offering different things. Particularly for those with an advertising/page view-based business model there will likely be a number of people competing for ratings, commentary and picks. Once any one of these networks hits "mass," there is no reason for consolidation, as being the "largest" will make no difference and barriers to entry are relatively low. In our market, for proven self investors one can invest directly alongside, it will likely be relatively consolidated. When there is a critical mass of sellers, the critical mass of buyers congregate and so to an extent it is more of a natural monopoly.

# ONLINE INVESTING COMMUNITIES

**TradeKing:** Within the next five years, I believe every online brokerage firm will have a social networking platform of sorts. While TradeKing is proud to have pioneered social networking in the online brokerage space with the first social investing capabilities, the return on investment will attract more seasoned players into this new technology. Firms will continue to compete with one another on product offering, social networking included. The winners with staying power, however, will understand how to leverage the social elements as a way of continually elevating the client experience, and that's where we keep our focus.

**Fool:** There's a great line in Bill Taylor's *Maverick's At Work*, "whoever has the smartest community wins." To your point, I suspect that only a handful of general investing community sites will thrive and will be surrounded by a constellation of sites that specialize in a particular investing discipline, e.g., "socially responsible small cap companies." Whether the market can support one or two, or a half dozen majors isn't clear to me—it won't be more than that though. And we'll see more consolidation in the travel industry too.

**Zecco:** Communities are about recurring users, not just general traffic. We think there is a difference between standalone (community only) and integrated (community + brokerage) offerings in driving large volumes of recurrent users. Standalone communities will have a harder battle attracting and retaining recurring users because there often is no clear incentive to return, and hardly any barrier to leave. Integrated offerings have more stickiness. Users clearly have to make stronger commitments upfront at Zecco (e.g., funding your Zecco Trading account with real money). But once a Zecco Trading account holder, there will be a stronger inclination to regularly visit ZeccoShare as part of, for instance, checking your portfolio performance. Plus, by having real money involved, there are higher (psychological) exit barriers.

**Cake:** There are 90MM Americans currently invested in the stock market and 20MM households with online brokerage accounts. We collectively spend over \$100B annually for other people to manage our portfolios for us. This is a huge market with ample room for a few companies that solve the biggest pain points. Think about the companies that came out of the latest wave that are now entrenched players: E\*Trade, TD Ameritrade, Scottrade, etc. This is not a winner-take-all market like auctions.

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**Q5. OBR:** *Will established players (e.g., investment firms, banks, credit unions) adopt "social investing" technologies? If so, will they build internally, acquire existing players or partner?*

**Covestor:** Almost certainly, and I expect they will do a combination of the above. With so many billion-dollar companies with so much to lose, as the market develops they will explore all avenues. As always with these things, companies will likely be quite late to the game in participating in earnest as they are unlikely to commit fully until they see a serious threat. This is very much day one.

**Zecco:** Our impression is that established players have social investing on their radar, and have started to talk about it. The extent to which they will actually get involved in this space is dependant upon a number of factors. Here are just two examples: (1) Incumbents traditionally are not very good at innovation and new business development, because they do not allow for the appropriate

# ONLINE INVESTING COMMUNITIES

culture and organizational structure. (2) Social investing may not be in the short-term interest of incumbents, due to budget restrictions, fear of revenue cannibalization, or politics.

**Fool:** They already are to a certain extent, although I don't expect my bank to offer a "social portfolio" (or a P2P lending platform) any time soon. And there's a third choice in addition to build or buy, and that's to mine the data of third party social investing technologies to publish as aggregated investment research content. I suspect the bias will be towards building their own technologies to support particular niche community objectives and then gathering as much data from existing players as possible. This dynamic will introduce a lot of complexity into the access models for communities by creating lines between public and privileged content.

**TradeKing:** Specific to investment firms, I believe the answer is yes, more brokerage firms will enter this space. What firm would not want to increase investor knowledge and foster brand loyalty? Firms will build internally. The cost to develop a piece of social software continues to drop. It will become easier to "roll your own" social network and make it play well with a firm's existing technology. Further, firms already have access to users who are passionate about their company: They're called clients. The trick will be in figuring out how to implement it within an existing corporate culture, which can be a challenge for firms with a long-standing tradition of non-transparency. But I believe many will overcome that barrier and eventually get there.

**Vestopia:** It will surprise us to see an acquisition of a social investing site by an established player in the investment management space, and that is due to very complex internal and external compliance issues, and due to inability of new entrants to complement their brand (it will dilute the brand equity of those firms). Hence, we do see careful attempts by established media companies to enter the space, for example, the small investment Reuters made in Social Picks. Internet giants might also participate, yet some may attempt to build because they have the brand equity needed to convince users to trust their systems. We do anticipate M&A activity by financial services players only in four to five years time when today's new entrants will build brand equity that will complement their own, and as the innovative business models will be proven to help sustain their growth.

**Cake:** Some brokerages are already starting to go this direction by offering community forums and offline events, yet there are limitations to plugging into their current operations since they can only speak to the community of a single investment firm or bank. There is no doubt the established players will figure out how to adapt to the changing needs of consumers, just as they did with online trading. The investment industry has a deep history of embracing technology, even when it disrupts existing business models. Schwab and Merrill Lynch were the most prominent and latest examples of this in the late 90s. I suspect the big brokerage firms will seek to partner. The regulatory environment is favorable for startups, because we are not under the same type of scrutiny as established players, so it will be difficult for them to innovate faster than we can. The established players can leverage our investment in technology and user adoption.



# ONLINE INVESTING COMMUNITIES

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**Q6. OBR:** *What role will existing mainstream social networking sites (e.g., MySpace, Facebook) play in this space?*

**Covestor:** That is a difficult question. As above, any of the sites where the mass of people congregate will likely become interested in the area if/when the business models start showing significant returns. For some, they will simply be a means of generating traffic, whereas for others who can fully take advantage of the platform (whether through build or partnering) they may also become the destination. I think that by that point we may be on to the new/next versions of Facebook and MySpace.

**Zecco:** We believe that mainstream social networking is still very much paving the way for specialist players like Zecco, in verticals like social investing. The more people are familiar with this new type of media, the more they will be inclined to also use it when applied to a special interest. In addition, making sure that Zecco is part of the overarching networks of social networks becomes more and more important. In the foreseeable future, Joe will check his Zecco Trading portfolio on Facebook, compare it to his friends' portfolios, to whom he may send a trade recommendation that can be instantly executed for free at Zecco Trading.

**Vestopia:** We think Facebook is the only mainstream player that might participate in this space. MySpace and others have chosen differentiator factors, e.g., to cater to musical artists and fans, that will make it harder for them to be trusted by investors. We saw attempts of financial services players to launch Facebook app (Cake Financial, Lending Club), so we think others will be drawn to use Facebook as well. Even with the success of Lending Club, the fact that even they have turned to other channels outside of Facebook to fuel growth, there is very little information to predict if Facebook will also be a place where investors will turn to for any type of the defined investment management services, or pay for it for that matter.

**TradeKing:** While we've learned much from these sites, I believe the mainstream social networking sites, in their present form, will have little impact on the "social investing" space as it moves forward. MySpace, Facebook, Bebo, and the like are focused mainly on social interaction for social interaction's sake. The purpose is connecting with friends and neighbors about what they did last weekend or sharing pictures of the new baby. Investing communities are niche-based, with the purpose focused on investing and trading. People are spending their time on these networks so they can find the next Google or Microsoft stock, not maintain personal connections. As much as our community members enjoy the camaraderie of sharing ideas and strategies with other like-minded investors, they are all there for one reason and one reason only—to become better and more successful investors.

**Cake:** Sites like Facebook will play a significant role in our space. Our goal is to become the largest investment club in the world and earlier this year, Cake launched the first real investment application on Facebook, called the Cake Investment Club <[apps.facebook.com/cakefinancial/](https://apps.facebook.com/cakefinancial/)>. The more we consolidate our behavior and attention to one or two online "profiles," the more we will want to efficiently accomplish our tasks in these centralized places. Cake's goal is to allow you to manage your investments whenever and wherever you are thinking about it. Investing, like music or movies, says something about our personalities. What stocks you own can sometimes say as much about you as what brand of clothes you wear or car you drive. For some people, investing is a core

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passion and they want to show off that side of their personality to others. The social networks are perfect for that behavior.

**Fool:** Aren't they mainly about snogging and keeping up with what's on your friends' iPod playlists? Seriously, though, I don't know. As I mentioned in a previous response, I think the walled garden model continues to break down, and mainstream social networking sites have found, and will continue to find, mutually beneficial ways to connect with the world at large. Facebook's application platform and Google/My Space's OpenSocial provide two great models. Today, the mainstream social networking sites do a nice job of connecting people socially, particularly young people socially, but I think they have a ways to go to provide information and tools that are relevant to groups that want to collaborate on a particular topic or discipline. There's a least-common-denominator feel to the groups that emerge on these platforms today.

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**Q7 OBR:** *What is the biggest misconception you had about competing in the space when you launched?*

**Fool:** That it wouldn't be crowded.

**Covestor:** That people may not feel comfortable sharing their real investments.

**Cake:** I thought that interest in the markets would wane as the market cooled off. But, we haven't seen any evidence that investors are less interested in how they are doing. In fact, just the opposite seems to be happening; investors are looking for potential bargains right now, particularly in materials, financials, and emerging markets.

**Zecco:** Zecco actually had a couple of misconceptions. A notable example: We thought that especially the younger segment of the Zecco Trading customer base would adopt the ZeccoShare community. Instead, we are finding that interest in social investing spans all age groups, account sizes, investing experiences, etc.

**TradeKing:** When the TradeKing Community launched in late 2005, we believed that members would be extremely reluctant to share their specific trades. Our focus at the outset was to provide a blogging platform for members to share their market sentiment. It quickly morphed to clients listing what trades they executed that day and their performance. Six months later, we were the first firm to allow clients to share their trades with a community and that direction came directly out of merely watching our members and following their lead.

**Vestopia:** The misconception of what drives investment professionals to take part in Vestopia. People question what motivates investment professionals, who enjoy fat salaries and benefits, to opt-in to independence by way of joining a Web service like Vestopia. Aside from the fact that almost all of our professionals are keeping their day jobs, all of them are really enjoying taking part in what we do. Additionally, they know that as the first ones to the party they might bear more risk, yet the reward will be higher than to those who will come later.



# ONLINE INVESTING COMMUNITIES

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**Q8 OBR:** *What's the biggest challenge you think "social investing" in general, and your company specifically, will face going forward?*

**Covestor:** The biggest challenge we face is to demonstrate the value to consumers in investing alongside proven self investors, rather than in underperforming mutual funds.

**Vestopia:** We think that scale of monetization strategies is the hardest challenge. One company might be able to grow its user base, another might be able to grow its user engagement, but the real question at hand is who among those who provide investment services will manage to monetize its offering and scale it substantially.

**Cake:** Because we require a greater up-front investment than most online consumer services, the biggest challenge for all of us is mass market user adoption. Our challenge is to turn something that used to be a private chore into an enjoyable shared experience. The good news is there is a proven willingness to pay and the ability to build real businesses in this space once you get market traction.

**Zecco:** Social investing is very new still. New to users, new to providers, and also new to industry regulators. An important challenge to the social investing space will be the creation of an appropriate regulatory framework that not only protects consumers, but also does not restrict the great opportunities for companies to develop and establish fundamentally different ways for people to do research, get educated, and execute their investment strategies.

**Fool:** None of us are YouTube—i.e., it's all about utility, and defining a clear value proposition to attract and engage an audience. At the end of the day, "social investing" services have to provide a valuable way of helping you find better stock ideas and better investors. My version of the Bill Taylor quote is: "Whoever attracts and retains the smartest community will win." We all have opportunities to build reputation systems, to create great social portfolio and stock-picking platforms. But what really matters is having a smart community. Period.

**TradeKing:** The challenge for any business initiative is for it to result in a clear net positive for clients and the brand. Unless it's a win-win, it will prove just a fad and "die on the vine." At TradeKing, this universal truth is integrated into our firm-wide culture of innovation. We started the social investing movement in 2005, and are focused on continuing to invest the appropriate resources in it because we see true, measurable value for our clients and our business. Keeping that balance in the community and maintaining a high level of quality experience throughout our site as we grow is the challenge to which we apply our thoughts and energy every day.



# ONLINE INVESTING COMMUNITIES

## Brokerages in Social Networks

*Should you have a spot in social networks? Yes and No.*

So far, financial institutions have moved cautiously into social networks. There has been some activity in Facebook (*see next page*) but not enough to create any buzz, PR value or brand awareness, let alone bring in new customers. But that will change as businesses figure out how to build communities inside and outside their own websites. See Table 16 below for ideas.



Table 17

**How brokerages can use social networking for sales, service and branding**

		Potential Bang for Your Buck (1 to 4 stars)		
				Business Users
Tactic	Examples	20-somethings	30+	
Low cost				
Create organic company presence within network (e.g., not a paid sponsor slot, but a page in MySpace or Second Life presence)	Scotttrade in Facebook	★★★★	★★	★
Create group in network	Student Traders @ TradeKing (Facebook)	★★★	★★	★
Use Twitter to send out daily service and low-key marketing messages	Zecco has a Twitter page but is not currently updating it	★★	★★	★★
Have employees create “work” profiles in the network for sales leads and biz dev	The dominate business network is Linked:In	★★★	★★	★★★★
Medium cost (varies)				
Advertise in network	Cake Financial in Facebook	varies with cost		
Sponsor an area in the network	Schwab's on Gather			
Co-brand services with existing network <sup>1</sup>				
Create affinity financial services for the network members <sup>1</sup>				
Launch a game or sweeps in a social network <sup>2</sup>				
Create a widget or app for the social network				
High cost				
Create competing network under existing financial institution brand		varies with cost		
Create competing network under new brand				
Acquire existing network				

Source: Online Banking Report, April 2008 Notes: (1) Using network APIs; for example, Lending Club's initial reliance on Facebook to get off the ground (see p. 43); (2) For example, Prosper's "Fantasy Banker" application on Facebook

# ONLINE INVESTING COMMUNITIES

## Example #1 Scottrade, OptionsXpress, and Zecco on Facebook

Earlier this month **WaMu** posted an attractive page on Facebook (*NetBanker April 17, 2008*). **Key Point Credit Union** is posting checking account balances through an **mShift**-powered application (*NetBanker 15 Nov 2007*) and **Fiserv's Galaxy** unit has created an application for its credit union clients called **MyMoney**. (*NetBanker 8 Feb 2008*).

Even if you are not ready to do anything interesting in the social networks, you should at least park your brand name(s) on the major social networks so that someone else doesn't claim them first. At a minimum, drop your logo, URL and other contact info onto the page (see p. 55, "How to Build a Facebook Page").

We searched for 13 major online brokerages and found just three with even a minimal Facebook presence (see Table 15 right): **Scottrade**, **Zecco**, and **OptionsXpress** (see screenshots below and on following page).

Table 18  
Brokerages on Facebook

Company	Type	Facebook Page Address
OptionsXpress	Page	/optionsxpress
Scottrade	Page	/scottrade
Zecco	Group & Page (by an affiliate)	/zecco-the-free-trading-communitiy
Schwab	None	--
TD Ameritrade	None	--
Thinkorswim	None	--
Tradefirst	None	--
TradeKing	None	--
Fidelity Investments	None	--
E*Trade	None	--
Sharebuilder	None	--
Edward D. Jones	None	--
Merrill Lynch	None	--

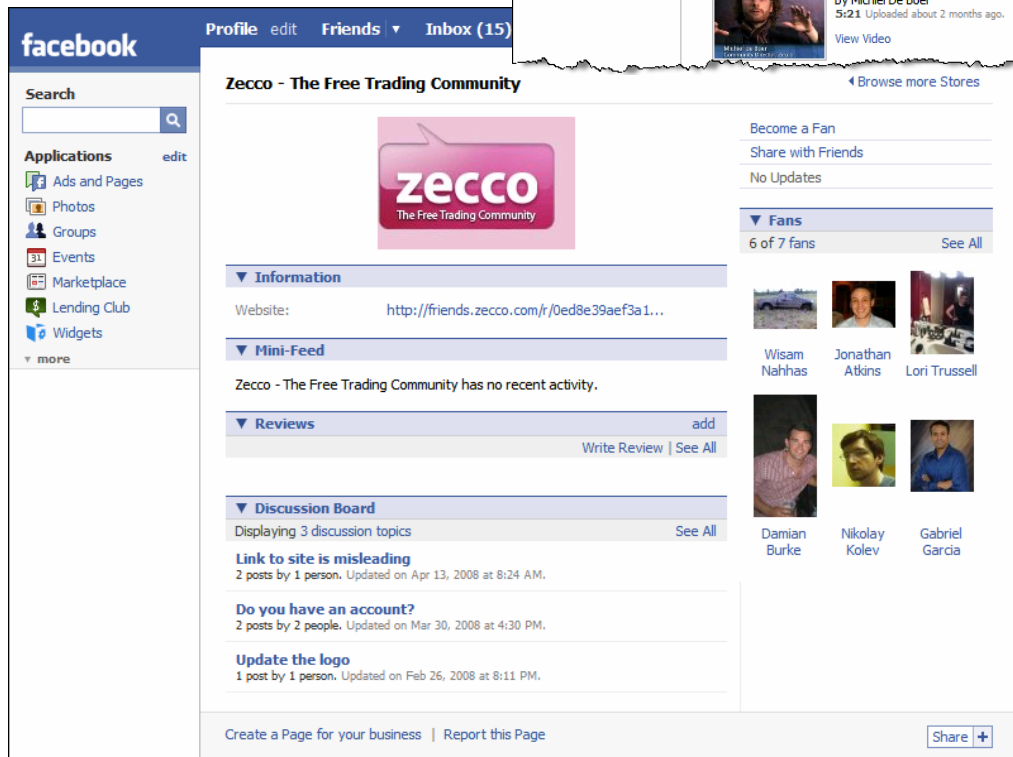
Source: Online Banking Report, April 2008

The screenshot displays the Facebook profile for OptionsXpress. The header includes the Facebook logo and navigation links like 'Profile', 'edit', 'Friends', and 'Inbox (15)'. The main content area features the OptionsXpress logo with the tagline 'Online Options, Stock & Futures Brokers'. Below this is an 'Information' section with the website URL and a list of products: 'Trade options, stocks, futures, bonds, mutual funds and ETFs'. A 'Mini-Feed' section shows recent events, including 'Conservative Options Strategies for the Long Term Investor' and 'Introduction to Equity Options'. On the right side, there are sections for 'Fans' (6 of 15 fans) and 'Events' (8 events). A callout box labeled 'optionsXpress Facebook page' points to the top right of the page content area.

# ONLINE INVESTING COMMUNITIES



Scotttrade's Facebook page looks like it was posted in December 2007.



Zecco has a company-sponsored group (above) and a page (left) created by an affiliate to snag referral fees.

# ONLINE INVESTING COMMUNITIES

## Example #2

### Schwab's Gather.com Sponsorship

Not all social networks are about music and dating. **Gather.com**, the self-proclaimed “leader in social media for adults,” boasts 200,000 members across nine channels: books, food, health, movies, music, news, politics, travel, and last but not least, money. The money channel, where I became member number 9,619 a year ago, has member posts in the usual areas: personal finance, investments, real estate, taxes and so on.

In March 2007, the company announced strategic advertising partnerships with five companies including **Starbucks**, **Sony** and **Charles Schwab** (7 million accounts; \$1.3 trillion in assets under management), which implemented an impressive branding of the website's Money channel <money.gather.com> (see screenshot below).

Not only does Schwab “own” the channel with its brand incorporated into the masthead, it has an animated skyscraper banner running along the right side. It doesn't appear that Schwab has been actively participating in the Money channel, but that would be a logical way to get more mileage out of the sponsorship.

The screenshot shows the 'money.gather.com' website. The masthead features the 'money.gather.com' logo, 'sponsored by charles SCHWAB', and the word 'MONEY' in large letters. A search bar and 'help | sign in' links are at the top right. A navigation bar includes 'Groupspace', 'My Gather', 'Articles', 'Images', 'Comments', 'Tags', 'People', 'Groups', and 'Invite'. Below this is a secondary navigation bar with 'money.gather.com', 'Articles', 'Featured Articles', 'Images', 'Members', and 'Description'. On the left, there's a sidebar with 'Gather Essentials: Money', 'Owner: Money Editor', 'Created: Jan 23, 2007', 'Members: 10,083', and a list of tags like 'personal finance', 'real estate', 'retirement', 'taxes', 'stocks', and 'savings'. The main content area has a 'Featured Articles' section with a transcript of a live author chat by Michele Feiner. Below that are two more articles: 'Common Cents: Meet the Correspondent' by Austin Cushing and 'WEEKEND WISE: Looking for Frugal Fun for Under \$50' by Money Editor. On the right, there's a large animated skyscraper banner with the text 'Nicked and dined? I feel like I'm being quartered.' and 'Invest more of your money in you.' with a 'GO' button. At the bottom of the banner is a 'TALK TO CHUCK' logo and 'charles SCHWAB' text. A red arrow points from the 'money.gather.com' logo to the 'Gather Essentials: Money' sidebar. Another red arrow points from the 'Featured Articles' section to the skyscraper banner. A text box on the right says 'Schwab sponsors Gather's Money channel at <money.gather.com>'.

home.gather.com search articles help | sign in

money.gather.com sponsored by charles SCHWAB MONEY

Groupspace My Gather Articles Images Comments Tags People Groups Invite

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**Transcript: Bruce Littlefield Live Author Chat: Tuesday May 29th, 1-3pm ET** by Michele Feiner, Team Gather

rating: 10 | comments: 135  
tags: live chat, garage sales, bruce littlefield, yard sales, tag sales

May 29, 2007 09:40 AM EDT -- Please come back, Today at 1pm ET for the Live Chat! If you can't make the live event, leave a question or comment on this article and Bruce will respond to you. Hello Gatherers, Bruce ... more

**Common Cents: Meet the Correspondent**  
by Austin Cushing  
tags: welcome, introduction, common cents  
rating: 10 | comments: 17

**WEEKEND WISE: Looking for Frugal Fun for Under \$50**  
by Money Editor  
tags: weekend wise, frugal, yard sale, weekend, bargains  
rating: 10 | comments: 5

**How to Sell on ebay**  
by Penny G.  
tags: extra income, selling tips, money, selling on ebay, ebay tips  
rating: 9.8 | comments: 25

**Nicked and dined?**  
I feel like I'm being quartered.

Invest more of your money in you.  
GO

**TALK TO CHUCK**  
charles SCHWAB

Schwab sponsors Gather's Money channel at <money.gather.com>

# ONLINE INVESTING COMMUNITIES

## 20 Ways to Put the “Social” into Your Investment Site

Table 19  
Social Investing Tactics by Budget Size

Social Finance Feature	Who Has It	Large \$500k+	Medium \$100k to \$250k	Small \$25 to \$100k	Minimal <\$25k
<b>Proven tactics</b>					
1. Forums: Online forums for customers to share questions and answers about individual stocks and/or basic investing planning	Motley Fool, StockPickr and others	✓	✓	✓	✓
2. Gaming: Virtual investing platform to test/compete investment ideas against other players	optionsXpress	✓	✓	✓	
3. Company blogs: Younger users, and anyone in the tech industry, has come to expect company blogs to keep them apprised of new features, events, and other product-related content	Many of the social investing communities such as Zecco and Cake	✓	✓	✓	✓
<b>Promising tactics with limited track records</b>					
4. Gifting: Allow friends & family to give the gift of investments	Sharebuilder (see p. 17)	✓	✓		
5. Investing for the social good: Provide tools for investing/lending/supporting causes the user believes in (e.g., solar energy, merchants in Peru, etc.).	Kiva	✓	✓		
6. Trading account integration: Allow users to show their trading activity (with you and/or other brokers) and relative positions within their profile.	Covestor, Zecco, TradeKing and others	✓			
7. User publishing: Allow users to create their own blog/newsletter/analysis on individual stocks and/or investing strategies. Professionals could choose to make their profiles public to publicize their investing services.	Most of the social investing communities including Motley Fool CAPS and Social Picks	✓	✓	✓	
8. Subscription tools: Users can follow their favorite investors/investments by subscribing to RSS feeds or email notifications.	Many of the social investing such as Vestopia, StockPickr	✓	✓	✓	
9. Voting: Drop a social layer on top of typical investor tools such as stock price lookups. Allow users to give a thumbs-up/thumbs-down on the tool, stock or investment strategy.	Social Picks and others	✓	✓		
10. Investment clubs: Allow users who do or do not know each other offline, to create investment clubs that pool funds for investment in favorite stocks or strategies.		✓	✓		



# ONLINE INVESTING COMMUNITIES

Social Finance Feature	Who Has It	Large \$500k+	Medium \$100k to \$250k	Small \$25 to \$100k	Minimal <\$25k
11. User-generated content: Allow users to post audio/video discussions of their investment analysis or theories; videos could be hosted elsewhere (i.e., YouTube) and imbedded within user profiles on your site.		✓	✓	✓	
12. Pay users for content: While most sites rely on voluntary content contributions, prolific posters could be paid for their work.	Covestor plans to offer user compensation	✓			
13. Facilitate communications with like-minded members (investor matchmaking): Help users find and communicate with like-minded members; could be moved off-line with sponsored meetups.		✓	✓		
14. Widgets: Provide user-defined widgets that can be posted privately (e.g., <i>user's iGoogle page</i> ) or publicly ( <i>Facebook, personal blogs, etc.</i> )	Covestor, NetworthIQ, Vestopia and others	✓			
15. Organize community events and meetups		✓	✓	✓	✓
16. Sharing financial goals, habits, and performance: Allow users to share their actual trading, investing, borrowing activity. Actual dollar amounts can be shown, or simply report of the without a quantified amount.	NetworthIQ	✓			
17. Contests for best investment idea	Advanta's Ideablob	✓	✓	✓	✓
<b>Uncharted waters</b>					
18. Peer margin lending: For the truly brave at heart, establish a peer-to-peer lending network targeted to investing and allow users to lend to one another with the proceeds targeted to specific investments or strategies potentially with returns tied to the results of the underlying investments—P2P mutual funds if you will.		✓			
19. Integrate person-to-person angel investing with your own commercial lending efforts. Allow customers to have their loan application put out for "public bid" to a pool of angel investors if desired.		✓			
20. Best brokerage and investment advisor recommendations: Facilitate member tips about products and services at other brokerages and financial institutions		✓	✓		

Source: Online Banking Report, April 2008

# ONLINE INVESTING COMMUNITIES

## Proven tactics

### 1. Online forums for customers to share questions and answers

Online forums are a proven method to engage the community and provide a simple place to post questions and receive answers. They were in active use even before the Internet at online services such as AOL, CompuServe, and dial-up bulletin board services (BBS).

#### Pros:

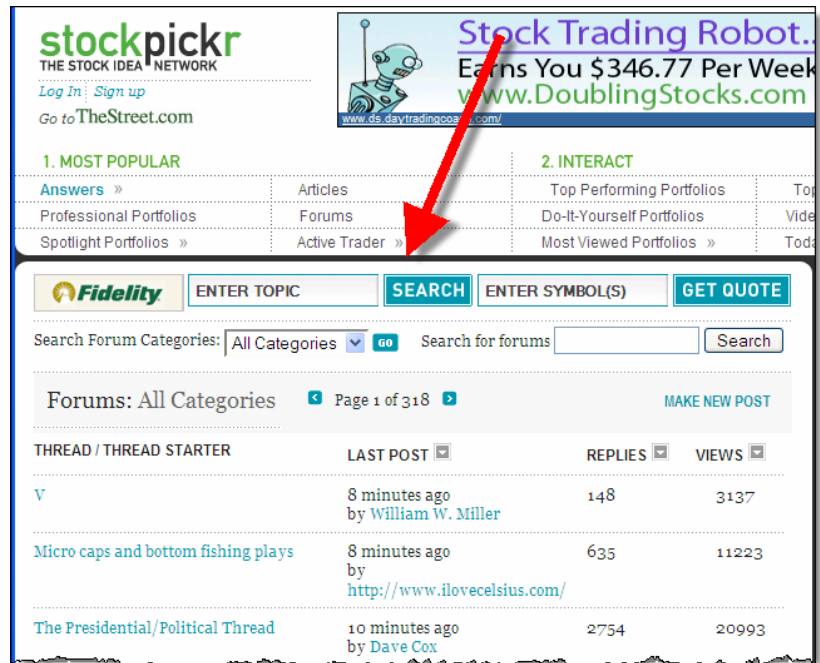
- Questions can be answered once and viewed by many, saving customer service costs
- Other users may help answer questions, saving you the cost of tech support
- Important questions and answers can be incorporated into FAQs and other self-service areas
- Demonstrates commitment to the customer
- Good, trendy feature to offer online
- Exposes users to financial services they may not have realized existed, or didn't know enough to ask about directly, e.g., Health Savings Accounts or SEP-IRAs
- Provides timely feedback on customer concerns and hot buttons

#### Cons:

- Negative posts: The expense of dealing with them and the potential for damaging your reputation (forum moderation can keep things in check)
- The resources necessary to moderate the forum and post good responses in a timely fashion
- Legal liability for improper posts and/or answers
- PR/brand problems when negative posts and/or financial institution responses are quoted in other media

#### Example:

- **StockPickr** (see screenshot above), **Motley Fool**



*TheStreet.com's StockPickr has an active forum.*

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## 2. Gaming: Virtual investing platforms

One relatively sure-fire way to gain usage and repeat traffic is to pit members against each other in a game or contest that requires some skill or at least repeat sessions in order to stay in front. Allow users to build stock portfolios and make trades using pretend money. Track the top performer in lists available to the general public. For much more interest in the game, offer cash prizes.

Pros:

- Relatively low cost
- Gain publicity and site traffic
- Allows new investors to learn about investing
- Allows investors to test their trading/investing ideas
- Can involve many areas of the bank
- Provides good material for blogs, videos, pictures
- Positions sponsor in a positive light, as caring about members
- At least for some, helps make the relationship more tangible

Cons:

- Liability if anything goes wrong
- May be sparsely used
- May be difficult to turn gamers into customers
- Rewards short-term and high-risk trading techniques

Examples: **OptionsXpress** virtual trading, *Fantasy Stock Exchange* at Facebook

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## 3. Company blog

Younger users, and anyone in the tech industry, have come to expect company blogs to keep them apprised of new features, events, and other product-related content. Blogs, with comments allowed, are one of the least expensive and most effective ways to communicate in a social way with users. You can increase the community-building aspect by allowing users to submit blog posts, encourage/incent comments, and elevate the visibility of comments.

Pros:

- Low cost, easy to set up and implement
- Can be managed by lower-level staff
- Can be used by many different people within your organization, e.g., posts by the CEO, CMO, customer service manager, etc.
- Users can subscribe to your posts via email or RSS
- Easy to navigate for users

# ONLINE INVESTING COMMUNITIES

Cons:

- Cannot be left empty for long periods; a minimum of one post per week and no more than three is recommended unless something extraordinary is occurring with your products or markets
- Someone needs to moderate the comments every day, but that should take only a few minutes unless you have an unusually active blog
- For public companies, extra cost of compliance/legal review of blog posts

Examples: **Zecco**, **Cake Financial**

For more info, see OBR 135/136.

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## Promising tactics with limited track records

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### 4. Gifting: Facilitate friends & family contributions to junior's investing/savings

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**SmartyPig** is one of our favorite new entries in 2008. The core of its appeal is the ability for family and friends to contribute to the account holder's savings goal, whether it be to buy a new bike, pay for college, or travel to Indonesia to work at the elephant preserve. SmartyPig stores the money in FDIC-insured savings accounts at Iowa's West Bank.

A similar concept could be used for family and friends to add money to junior's IRA or other investment account. The donator could specify the acceptable investment vehicles they supported, helping Grandpa teach junior about the value of no-load index funds, or international diversification, or whatever.

Pros:

- Unique offering would gain attention and PR
- Gain new accounts from young adults just beginning to invest
- Fee income from making trades, managing the accounts

Cons:

- Niche market, may be hard to recoup initial costs to set up
- Somewhat complicated, will take a robust website to operate the accounts and explain their ins and outs to account holders and potential givers
- Customer service costs incurred in complicated transactions

Examples: **Sharebuilder**, **SmartyPig**, **GreenNote** (*in alpha*), **FreshmanFunds** (*in alpha*)

## 5. Investing for the social good

Investing for the social good: Provide tools for investing/lending/supporting causes the user believes in (e.g., solar energy, merchants in Peru, etc.).

Pros:

- Good public relations and CRA value
- Helps cement banking relationships with non-profits and government agencies

Cons:

- Customer service
- Diverts attention to core services

Examples: **Kiva.org**, **eBay's MicroPlace**

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## 6. Trading account aggregation/integration

Trading account integration: Allow users to show their trading activity (with you and/or other brokers) and relative positions within their profile.

Examples: **Covestor**, **Cake**

Pros:

- Extremely sticky application, once someone hooks their accounts to yours and starts using it they are highly likely to stay there

Cons:

- Expensive to outsource and support

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## 7. User publishing tools

Allow users to create their own blog/newsletter/analysis on individual stocks and/or investing strategies. Professionals could choose to make their profiles public to publicize their investing services.

Pros:

- Cheap source of content
- Allows users to become more engaged in the community; incentive to return

Cons:

- Difficult to get a critical mass of users to contribute
- Must moderate content



## 8. Subscription tools to follow favorite subjects/authors/stocks

Users can follow their favorite investors/investments by subscribing to RSS feeds or email notifications.

Pros:

- Allows customers to stay abreast of new information on specific topics

Cons:

- RSS feeds are read by less than 10% of the online population, so expect these services to be lightly used

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## 9. Vote for investment ideas

Drop a social layer on top of typical investor tools such as stock price lookups. Allow users to give thumbs-up/ thumbs-down on the tool, stock or investment strategy.

Pros:

- Encourages engagement with the site
- Cheap source of content

Cons:

- System must be policed to avoid gaming
- Difficult to get a critical mass of users participating

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## 10. Investment clubs with shared investments

Allow users, who may or may not know each other offline, to create investment clubs that pool funds to investment in favorite stocks or strategies. Provide tools for the clubs to manage shared investments and expenses.

Pros:

- Appeals to younger consumers
- Great for referrals and word-of-mouth
- Sounds good in a press release, website, or brochure

Cons:

- Requires relatively robust account management capabilities
- Low usage

## 11. Posting user-generated audio/video content and enhancing profiles

One of the identifying characteristics of social networks is the ability to upload pictures, videos, songs, widgets, and various written material into the user's profile. It's not nearly as relevant for investors, but allowing users to upload a picture, logo, or some other graphic file to associate with their online profile, if desired, would be a good addition for a financial institution looking to make a name through social networking.

Pros:

- Engages customers with your website and brand
- Good for referrals and word-of-mouth
- Creates interest with customers and employees
- Good material for blogs, website content, and press releases

Cons:

- Some upfront programming expense, plus moderating and approving entrants
- Prize money and contest oversight if used in conjunction with a sweepstakes

Example: **National Australia Bank** (*see NetBanker, 19 June 2006*)

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## 12. Pay users for content

While most sites rely on voluntarily contributed content, prolific posters could be paid for their work.

Pros:

- Differentiates you from the competition leading to press/blogger mentions and good word-of-mouth
- Motivates users

Cons:

- Must police content for copyright violations

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## 13. Facilitate communications with like-minded members

The concept here is to allow like-minded customers to somehow contact each other in an anonymous fashion. Kind of like personal finance dating. For example, parents of high school seniors might want to share tips on financial aid. It would be left to the participants if they wanted to identify themselves outside of the anonymous environment provided by the network.

Pros:

- Relatively low start-up costs
- Could foster great feelings about the financial institution
- Excellent PR and word-of-mouth potential



# ONLINE INVESTING COMMUNITIES

## 15. Organize community events (meetups)

Allow customers to move their virtual relationships to the real world through periodic user gathering, sometimes referred to as “meetups.”

Pros:

- Relatively low cost
- Can involve many areas of the bank
- Provides good material for blogs, videos, pictures
- Positions sponsor in a positive light, as caring about members
- At least for some, helps make the relationship more tangible

Cons:

- Liability if anything goes wrong
- May be sparsely attended

## 16. Sharing financial activity, goals, and documented performance

This is similar to a customer forum, but in reverse. Instead of people asking questions and others answering them online in a forum thread, Wesabe (*see pp. 29-35*) provides a place where users post their goals and/or tips, and others can comment or act on the advice.

NetworthIQ even allows users to post their actual net worth, and progress towards increasing it.

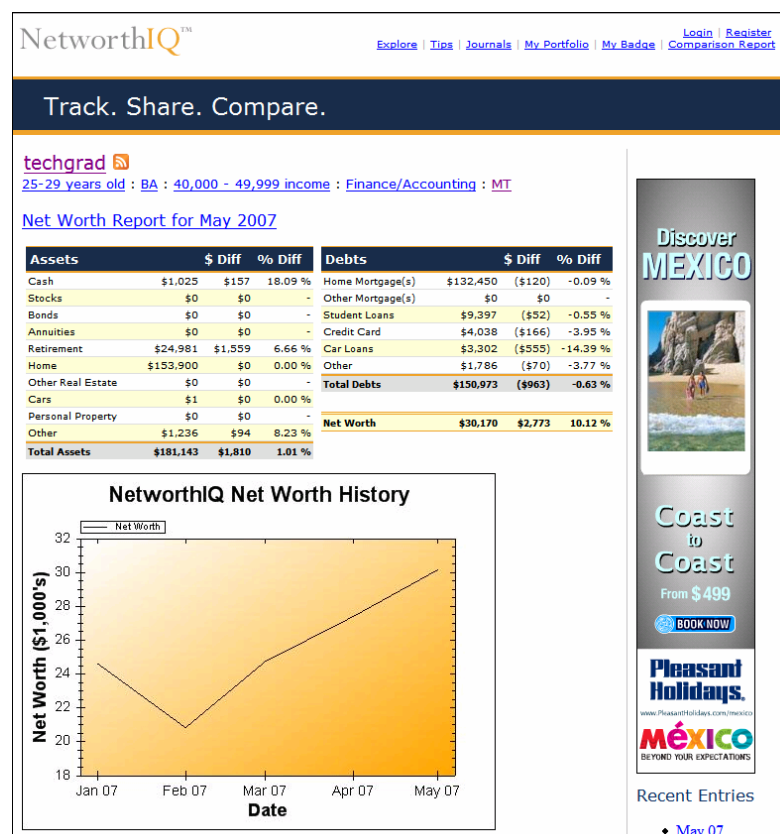
Pros:

- Relatively easy to establish
- Can use blog format (*see Vancity's Change Everything*)
- Could be good development for CRA
- Demonstrates great customer advocacy

Cons:

- May not get much usage as most people don't want to discuss finances in public forum
- Compliance and legal matters surrounding privacy

Example: **NetworthIQ** (*see screenshot above*)



NetworthIQ users make monthly updates to their assets and liabilities, creating a public or private record of the rise and fall of their net worth. Other users can subscribe to an RSS feed of the profile.

# ONLINE INVESTING COMMUNITIES

## 17. Contests for best investment ideas

Provide cash prizes for the best investment ideas as determined by community voting. To see how this might work, look at **Advanta's Ideablob** <ideablob.com>, an idea that won a prize at the 2007 Demo conference (see screenshot below). The contest could be run in parallel with a virtual investment game (see # 1, p. 42).

Pros:

- Users generate the content
- Great for word of mouth and publicity
- Cash prizes create incentive for creative idea generation
- Relatively low cost, depending on the size of the prize pool.

Cons:

- Will require some moderating of the content
- Users will attempt to game the voting, so it will take some monitoring to make sure that voting is fair and accurate



Advanta's Ideablob is a clever user-generated idea site <ideablob.com>



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## Uncharted waters

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### 18. Peer margin lending (*P2P lending*)

For something *really* different, establish a peer-to-peer lending network targeted to investing. Allow users to lend to one another with the proceeds targeted to specific investments or strategies potentially with returns tied to the results of the underlying investments, P2P mutual funds if you will. The loan portion could be run on a third-party platform such as Prosper by using its group structure.

Pros:

- Creates considerable press and blogger attention as a unique offering
- Can attract new customers to the bank
- Allows deposit customers to dramatically increase yields
- Allows loan customers to directly decrease interest paid
- Generates fee income for handling the loan (*Prosper and Lending Club collect about 1% to 2% of the loan amount*)
- Has potential to create new relationships with loan applicants
- Generates great PR and advertising opportunities
- Demonstrates great customer advocacy

Cons:

- May cannibalize checking, savings, and other deposit balances
- May cannibalize loan originations
- Requires considerable educational effort, both for customers and employees

Examples: **Prosper**, **Lending Club**, **Zopa**, **Vancity** (*microfinance*), **Virgin Money** (US)

## 19. Integrate P2P angel investing with commercial lending

Allow customers to have their loan application put out for “public bid” to a pool of angel investors if desired. The option could be offered at different points in the loan process. For example, applicants could either choose to apply for the regular financial institution loan product at a specified rate, or to solicit bids from the community, allowing their application to be put through a competitive bidding process to see if it would be funded at a lower rate. The financial institution could also enter the bidding to make sure all good loans were funded. Alternatively, customers could put their loan out for bid only after receiving a decline from the financial institution. (*For more on this concept, see OBR 127 & 124*).

Pros:

- Provides fee income
- Differentiates your financial institution
- Great PR and brand reinforcement
- Could increase total loan originations
- Could decrease the number of loan applicants rejected

Cons:

- Complicated, would require extensive educational efforts
- May cannibalize deposits and regular lending
- Potential regulatory/licensing issues

## 20. Brokerage and investment advisor recommendations/voting

Facilitate member tips about products and services at other brokerages and financial institutions. It would only work for a brokerage that positions itself as a price leader and doesn't mind losing a few deals in order to reinforce that positioning with customers and prospects. In addition, you know your customers are going to do it anyway, so wouldn't it be better to be done on your turf where you could monitor the truthfulness of the information posted, and add your own commentary as well.

Pros:

- Great brand position as true customer advocate
- Powerful PR, word of mouth

Cons:

- May cause lost sales, especially if you are not a price leader
- Could be discouraging for employees

Example: **Progressive Insurance** price-quote ticker



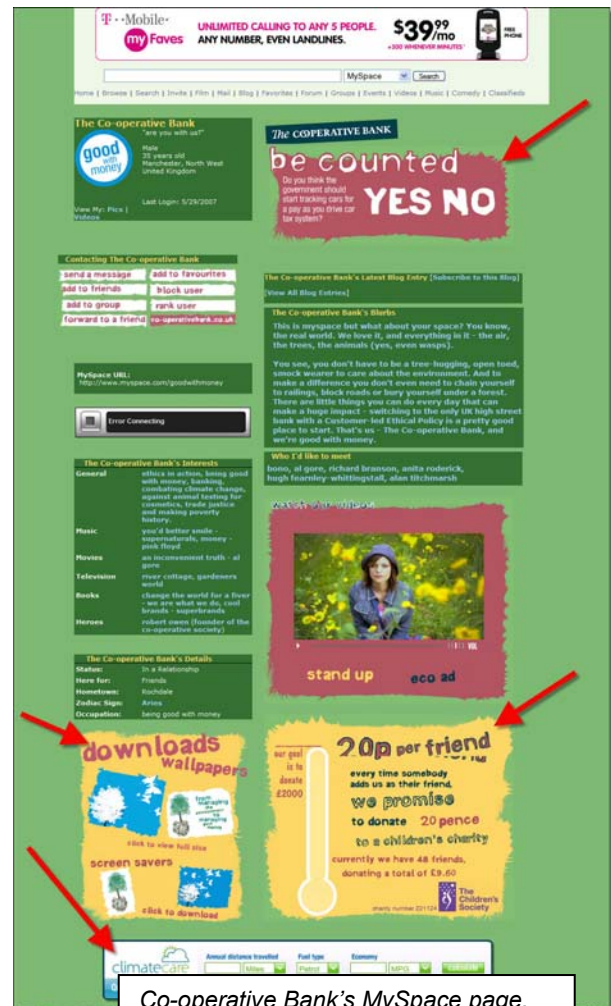
# ONLINE INVESTING COMMUNITIES

## Build a Facebook Presence for Less Than \$1,000

**Facebook** is the place to be, especially to get in front of the younger, college educated crowd. And with prices starting at zero, there is no reason not to create a corporate presence. Only a tiny sliver of Facebook's 35 million users will ever see your page, but integration with your website creates a solid business case.

Here's our seven-step plan:

1. Identify front-line employees with Facebook experience and invite them to a brainstorming meeting.
2. Find one or two who have the personality and aptitude to schmooze with customers online.
3. Create employee Facebook profiles that include a tasteful mix of personal info and financial institution details, making it abundantly clear that the nature of the page is to drum up business and service customers of your financial institution.
4. Create an area in your regular website to showcase these employees and link to their Facebook pages.
5. Develop a similar low-key corporate page on Facebook with basic company info (*see Wells Fargo, p. 11*) as well as links to the Facebook ambassadors.\*
6. Create an RSS feed that allows your "Facebook Officers" to syndicate their blog entries to the world outside Facebook. The blog entries can also be streamed to your website's Facebook area.
7. Create an awareness campaign to publicize your "social networking strategy" with press tour, online advertising, blogger outreach and so on.



Co-operative Bank's MySpace page, <myspace.com/goodwithmonney> reinforces its corporate citizenship with younger consumers.

The advantage of this strategy is four-fold:

1. *Low risk*: There's less chance of your brand being damaged, because misguided efforts appear more like an overly aggressive salesperson than a lame branding effort.
2. *Low cost*: The graphic standards and copywriting can be less polished, and potentially less expensive.
3. *Public relations value*: If desired, it also supplies you with blog content. So one simple page gives you PR material in both social networking and blogging.
4. *Good marketing copy*: Provides a ready source of content for your website, especially for products and services aimed at the youth market.

\*Whether or not you decide to post a "corporate page" on MySpace, you should claim your company name <myspace.com/yourbank> even if you leave it blank.

# ONLINE INVESTING COMMUNITIES

## Cake Financial Uses Facebook's Social Ads

The screenshot shows a Facebook search results page for the query 'etrade'. The search bar at the top contains 'etrade' and a search button. Below the search bar, the results are categorized under 'Pages (1)'. The only result displayed is for 'etrade', which is a page by MARKWORDER Ltd. The page details include: Page: E-commerce, e-trade, e-business, e-marketing; Type: Professional Service; Size: 2 fans. To the left of the search results, there is a sidebar with various Facebook navigation options. At the bottom of the sidebar, there is an advertisement for 'Cake' with the text 'Investing. Easy as:'. A green arrow points from the 'Cake' advertisement to the search results area. A text box on the right side of the screenshot contains the following text: 'Cake advertising was displayed when searching for "E\*Trade" with Facebook's search (16 April 2008).'

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